

FINANCE AND CREDIT OF THE USSR

**Compiled by the team of authors under
the direction of prof. V. P. DYACHENKO**

**Edited by
Doctor of Economics,
Professor G. A. KOZLOV**

2nd, revised, expanded edition

**The All-Union Committee for Higher
School Affairs of the PRC SNK of the
USSR approved as a textbook for
economic higher education institutions**

GOSFINIZDAT — 1940

MOSCOW — LENINGRAD

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FOREWORD TO THE 2nd EDITION

The course “*Finance and Credit of the USSR*” is aimed at acquainting students only with the basics of the theory and practice of Soviet finance, monetary treatment and credit. More detailed questions of organisation and technology, financial work should be presented in special courses for individual sectors of the budget and credit system or for individual sectors of the national economy.

The first edition of “*Finance and Credit of the USSR*” evoked a wide response from scientific and pedagogical workers of financial systems. A large number of reviews appeared in the periodicals, noting a number of shortcomings of this book as a teaching aid. These reviews, for which the authors and the publishing house are deeply grateful to the reviewers, were taken into account in the work on the second edition of the textbook. All remarks of any significance are taken into account.

The historic report of the great leader of the peoples, Comrade Stalin, at the XVIII Party Congress and the decisions of the Congress were of tremendous and invaluable importance for the work on the second edition of this textbook.

The Stalinist teaching about the socialist state, about the phases of its development, about its functions constitutes the basis on which the further development of the teachings of Marx-Engels-Lenin-Stalin is based on the content and role of finance, money and credit in the communist reconstruction of society.

The instructions of the XVIII Party Congress on the need to further improve budgetary and credit work in the third Stalinist five-year plan inspired all workers in the budgetary and redistribution system to fight for new achievements.

This manual was compiled by a team of workers of financial and economic institutions under the guidance of prof. V.P. Dyachenko.

Separate chapters of the book are written by the following authors: chapter 1—prof. VP Dyachenko, Head of P—Assoc. V. S. Gurvich, head of the SH MI prof. VP Dyachenko, chapters IX and X—Assoc. M. Ya. Zalesky, head of XE don. MM Rybakov, heads of XI and XIII—prof. N. N. Rovinsky, Chapter XIV—Assoc. V.S. Gurvich and prof. N. N. Rovinsky, chapters XV and XVI prod. NN Rovinsky, chapters XVII and XVIII—Assoc. V. S. Gerashchenko and chapters XIX and XX—Assoc. I. A. Dymshits.

The digital material on finance was verified by the Statistics Department of the Budget Department of the NKF USSR under the leadership of Comrade R. I. Ratner.

All critical comments and suggestions on this book, please send to the address: Moscow, St. Chernyshevoky, 7, Gosfinizdat.

CHAPTER I. THE ROLE OF MONEY, CREDIT, FINANCE IN THE COMMUNIST REBUILDING OF SOCIETY

1. Three Sides of the Dictatorship of the Proletariat and Tasks of the Financial Policy of the Soviet State

The USSR is a socialist state of workers and peasants. In our country, socialism, the first phase of communism, has been achieved in the main. On the basis of the successes of building socialism, the USSR entered the third five-year plan period in the phase of completing the construction of a classless socialist society and a gradual transition from Socialism to Communism.

The dictatorship of the working class is the main force guiding and directing the development of the USSR towards the attainment of the highest phase of communism. A correct definition of the essence and significance of Soviet money, credit and finance can be given only on the basis of the Leninist-Stalinist doctrine of the dictatorship of the working class, of the socialist state.

The socialist state is fundamentally different from the bourgeois state.

The bourgeois state is the apparatus for the suppression of the majority by the minority. It is an organ of violence by the exploiting classes against the exploited classes. Its task is to protect capitalist private property and keep submissive exploited classes and oppressed peoples, suppress by force all actions against the exploiting classes.

“Two main functions characterise the activity of the state: internal (main)—to keep the exploited majority in check and external (not the main) to expand the territory of

its own ruling class at the expense of the territory of other states, or to defend the territory of its state from attacks from other states. This was the case under the slave system and feudalism. This is the case with capitalism”¹.

The Great October Socialist Revolution smashed the state machine of the bourgeoisie and created a new, fundamentally different type of state—the Soviet Socialist state, the dictatorship of the proletariat.

The dictatorship of the proletariat differs from the dictatorship of other classes (landlords in the Middle Ages, the bourgeoisie in later eras in all capitalist countries) primarily in that “... the dictatorship of the landowners and the bourgeoisie was the violent suppression of the resistance of the vast majority of the population, namely the working people. On the contrary, the dictatorship of the proletariat is the violent suppression of the resistance of the exploiters, that is, an insignificant minority of the population, landlords and capitalists”¹.

This means that the dictatorship of the proletariat is the highest, most developed form of democracy. But this does not limit the fundamental difference between the dictatorship of the exploiting classes and the dictatorship of the proletariat.

The bourgeois state is a parasitic superstructure over the economic structure of society. Its content and purpose according to the essence of the matter is limited to violence, coercion, suppression.

A completely different role in relation to the economy is played by the Soviet Socialist state.

“The dictatorship of the proletariat is not only violence, but also the leadership of the working masses of non-proletarian classes, but also the construction of a socialist economy, of a higher type than a capitalist economy, with a

¹ J. V. Stalin, *Report at the XVIII Party Congress on the Work of the CC of the CPSU (B). Questions of Leninism*, ed. 11th, p. 604.

¹ V. I. Lenin, Vol. XXIV, p. 13.

higher labour productivity than a capitalist economy.”²

“In the capitalist countries, the economy is not in the hands of the state. On the contrary, in the USSR the economic life of the country is systematically guided by the socialist state, and its economic and organisational function is developing more and more.

The classical definition of the main aspects of the dictatorship of the proletariat was given by Comrade Stalin in his work *On Questions of Leninism*. There are three main aspects:

“1) Using the power of the proletariat to suppress the exploiters, to defend the country, to strengthen ties with the proletarians of other countries, for the development and victory of the revolution in all countries.

2) Using the power of the proletariat for the final separation of the working people and the exploited masses from the bourgeoisie, for strengthening the alliance of the proletariat with these masses, for drawing these masses into the work of socialist construction, for the state leadership of these masses by the proletariat.

3) Using the power of the proletariat to organise socialism, to abolish classes, to transition to a society without classes, to a society without a state.

The proletarian dictatorship is a combination of all these three sides. None of these aspects can be put forward as the only characteristic feature of the dictatorship of the proletariat, and, on the contrary, it is sufficient the absence of at least one of these signs, so that the dictatorship of the proletariat ceases to be a dictatorship in a capitalist environment. Therefore, none of these three sides can be excluded without danger of distorting the concept of the dictatorship of the proletariat.

Only all these three aspects, taken together, give us a complete and legitimate concept of the dictatorship of the

² J. V. Stalin, *Questions of Leninism*, ed. 9th, pp. 163-164.

proletariat”¹.

The three sides of the proletarian dictatorship daily determine the direction of socialist construction, including the entire policy of the Soviet socialist state in the field of finance.

The tasks of the socialist state in the field of finance are as follows:

a) in mobilising the funds necessary to finance the state apparatus of the dictatorship of the working class, to finance the defence of the socialist homeland;

b) in using the financial levers of the dictatorship of the proletariat to restrict and oust, and then completely eliminate the capitalist elements;

c) in using the financial levers of the dictatorship of the proletariat to strengthen the alliance between the working class and the peasantry, to strengthen the state leadership of the peasantry and the working class;

d) in mobilising the funds necessary to finance the construction of an advanced socialist industry, to provide financial assistance to the new collective farm system in the countryside, to create conditions conducive to raising the material and cultural standard of living of the working people, for building communism;

e) in ensuring the most correct, effective use of state funds, protection and strengthening of public socialist property; in stimulating the growth of the productivity of socialist labour; in helping to ensure that the interests of the social economy prevail over the interests of personal subsidiary farming.

All this is aimed at strengthening the socialist economic system and preparing the transition to the highest phase of communism.

The financial policy of the Soviet state differs fundamentally and radically from the financial policy of

¹ J. V. Stalin, *Questions of Leninism*, ed., 11th, p. 117.

other states in these tasks. The Soviet government, having taken possession of money, credit, and other instruments of the bourgeois economy, radically changed their content and purpose. It turned them into tools for the dictatorship of the working class, into tools for the construction of communism.

The financial policy of the bourgeois state has as its task the protection of private property, the strengthening and expansion of the system capitalist exploitation.

The financial policy of the Soviet state is aimed at the unification of classes, at building a classless communist society.

Money circulation, credit, and finance in capitalist countries are subject to the spontaneous laws of the development of capitalism. Although the bourgeois state and its financial system exert a great influence on the development and intensification of capitalist exploitation, they still cannot determine or change the basic content and direction of development of the capitalist economy. Like the bourgeois state itself, its financial system is a parasitic superstructure over the economic basis of bourgeois society.

The finances of the bourgeois state are used by the tycoons of capital to consolidate their economic and political domination. They serve as a tool for robbing the working people for the benefit of the bourgeoisie.

In contrast, the development of the Soviet economy is completely guided by the dictatorship of the proletariat, since the Soviet state exercises the unity of political and economic leadership. Our economy is developing on the basis of the national economic plan established by the socialist state. Money, credit, finance in the USSR are not an instrument of the elements, but an instrument of a plan in the hands of the Soviet state. (They are used by the Soviet government for the communist reorganisation of society.

At the XVIII Party Congress, Comrade Stalin summarised the experience of the development of our socialist state, enriched the treasury of Marxism-Leninism with a new and most valuable contribution, giving a detailed theory of the

socialist state, showing the two main phases of development socialist state and its future destiny.

In the first phase of the development of our socialist state, from the October Socialist Revolution to the elimination of the exploiting classes, its main functions were: 1) suppression of the overthrown classes within the country, 2) defence of the country from outside attack.

Along with this, our state even then performed its third function—economic-organisational—and cultural-educational work aimed at developing the elements of a new, socialist economy and at the socialist re-education of people. But this function had not yet received serious development at that time.

In the second phase of the development of the socialist state, after the elimination of the capitalist elements of town and country:

“The function of military suppression within the country has disappeared—the function of military suppression within the country has disappeared, for exploitation has been abolished, there are no exploiters, and there is no one to suppress. Instead of the function of suppression, the state acquired the function of protecting socialist property from thieves and plunderers, all the good. The function of military defence of the country from outside attack has been fully preserved, therefore, the Red Army and the Navy have also survived, as well as the punitive organs and intelligence needed to catch and punish spies, murderers, and saboteurs sent into our country by foreign intelligence. The function of economic-organisational and cultural-educational work of state bodies has been preserved and fully developed. Now the main task of our state within the country is peaceful economic, organisational and cultural and educational work. As for our army, punitive bodies and intelligence, their edge is no longer turned inside the country, but outside it, against external enemies¹.

¹ J. V. Stalin, *Questions of Leninism*, ed. 11th, p. 606.

In accordance with the change in the tasks and functions of the socialist state, the tasks of its financial policy also changed. With the elimination of the capitalist elements, the need to use the financial levers of the dictatorship of the proletariat to limit and oust the capitalist elements disappeared. At the same time, the task of providing financial resources for the growth of the country's harrowing capacity has been fully preserved. The tasks of using financial methods for the correct organisation of socialist production, ensuring the growth of productivity—labour and socialist accumulation, for protecting socialist property and for its strengthening, for the complete subordination of the interests of personal subsidiary farming to the interests of the social economy, for provision of resources for economic and socio-cultural activities of the Soviet state. Thus, the finances of the socialist states are helping to prepare the transition from the first to the second phase of communist society.

Soviet finance is an active tool in the hands of the socialist state. The doctrine of Soviet finance is inextricably linked with the doctrine about socialist society, about the dictatorship of the proletariat, the guiding force of social development after the overthrow of the power of the exploiters.

The science of Soviet finance is a branch of the political economy of socialism. It studies the nature and purpose of the Soviet finance, conditions and methods of their use in the struggle to build a communist society. It reveals the fundamental difference between Soviet finance and the finance of capitalist countries. The science of finance, money, credit should help to improve all financial work, to strengthen the entire financial system of the socialist state.

2. The Need for Money until the End of the First Phase of Communism—The Socialist Stage of Development. The Role of Soviet Money

The harmonious and complete teaching of Comrade Stalin on the ways and driving forces of the transition to communism precisely defines the necessity and significance of money up to the end of the first stage of communist society—the socialist stage of development.

Studying the laws of development of capitalist society, Marx and Engels revealed the content and role of money in the conditions of the capitalist economic system. They showed that money is a necessary instrument of spontaneous anarchist accounting. Marx and Engels showed that money is not an eternal category, that conditions will come when there will be no money. These brilliant instructions from Marx and Engels are of paramount importance. However, Marx and Engels did not yet have the opportunity to show how the transition would be made to conditions when money would no longer be needed, to direct labour accounting and direct product exchange. Marx and Engels did not show in what concrete forms of society would be implemented. They assumed accounting and distribution in the socialist that there will be no money under socialism.

Developing the Marx-Engels doctrine of money, Lenin deepened his elaboration of the question of the use of money by the dictatorship of the proletariat in socialist construction. Lenin, already in the first years of the revolution, repeatedly noted that it is impossible to destroy money immediately, that this requires "... very many technical and, which is much more difficult and much more important, organisational gains..."¹ "... money cannot be destroyed immediately. To destroy them, you need to organise the organisation of

¹ V. I. Lenin, Soch., Vol. XXIV, p. 293.

products for hundreds of millions of people, “it’s a matter of many years”².

Comrade Stalin developed these theses of Lenin. In a conversation with foreign workers’ delegations in 1927, he pointed out that in order to achieve conditions under which there would be no need for money, a number of prerequisites were necessary, including the creation of a distribution apparatus corresponding to direct product exchange. Comrade Stalin said:

“We need to establish such a transmission distribution apparatus between town and country, which would be able to take into account and satisfy the needs of towns and villages throughout the country, just as each person takes into account his own budget, his expenses and incomes. And when we achieve all this, we must assume that the time will come when there will be no need for money. But this is still a long way off”³.

V. I. Lenin and J. V. Stalin thus emphasised the need for a number of technical and organisational prerequisites, without the creation of which the transition to direct product exchange is impossible. To create such prerequisites, a high level of development of the productive forces is required, which would ensure the transition to the second phase of communism... Any “theories” of the “withering away” of money before the end of the first phase of communism are essentially counter-revolutionary, for they are aimed at weakening the monetary system as a tool dictatorship of the working class.

By exposing the real basis of the “leftist” anti-Soviet chatter about the abolition of money, Comrade Stalin showed at the XVII. Party Congress that Soviet money is a necessary tool for the development of Soviet trade.

“These people, who are as far from Marxism as heaven

² Ibid., p. 301.

³ 3. I. Stalin, Questions of Leninism, ed. 9th, p. 308.

are from earth, obviously, do not understand that money will remain with us for a long time, until the end of the first stage of communism—the socialist stage of development. They do not understand that money is the instrument of the bourgeois economy that the Soviet government took into its own hands and adapted to the interests of socialism in order to once again return to the full Soviet trade and thereby prepare the conditions for direct product exchange. They do not understand that product exchange can only come to replace and, as a result, perfectly adjusted. Soviet trade, which we do not have at all and what we will not soon have”⁴.

These Stalinist instructions are an ingenious development of the Marxist-Leninist doctrine of money, an example of the creative application of Marxism.

In the USSR, private ownership of the means of production has been abolished, and the exploiting classes have been liquidated. It means that our people work not for the enrichment of the exploiting class, but for themselves, for their class, for their Soviet society, for the common good.

Socialism is the first, lowest stage in the development of communist society. Labour here is already directly social labour. But in contrast to the highest phase of communism, there are still remnants of the old division of labour; the vestiges of capitalism in the economy and in the minds of people have not yet been completely eliminated. Under socialism, the distinction between town and country, between mental and physical labour has not yet been completely eliminated. Individual branches of labour still differ greatly in the degree of mechanisation and automation. Under the conditions of the initial stage of development of communist society, labour is only becoming, but has not yet become the primary natural need of man. Under socialism, given the specified conditions, the transition to distribution according to needs is still impossible.

⁴ J. V. Stalin, *Questions of Leninism*, ed. 11th, pp. 462-463.

In the USSR, there is a right to work and to be paid for it in accordance with the quantity and quality. In the USSR, the principle “who does not work, he does not eat” was implemented. The implementation of this principle of socialism requires the strictest accounting and control by the state over the production and distribution of products. This accounting and control must ensure the correct determination of the measure of labour expended by each member of society, and the remuneration corresponding to the labour.

The implementation of such strictest accounting and control is at the same time one of the most important conditions for the upbringing of a universal, passing into a habit of consciousness of the need for labour for the common good, the need to protect socialist property and increase labour productivity. The socialist principle of distribution according to work is at the same time a method of distributing labour itself, regulating it.

The preservation of qualitative differences in labour excludes the possibility of using directly working time as a form and method of universal labour accounting. The work of workers of different qualifications with the same duration is not the same in nature, efficiency, quality. Meanwhile, the use of direct working time to measure labour in different sectors of the economy assumes that labour in all sectors of the economy and for all the workers employed in them, it is quite homogeneous work. As long as this is not the case, the socialist state must use money as an instrument for measuring labour, an instrument of the socialist organisation of production and exchange. Its principles are implemented through the self-supporting organisation of the activities of enterprises of the socialist economy and through the development of Soviet trade. The need for money until the end of the socialist stage of development is associated with the self-supporting organisation of management of enterprises of a socialised economy, with the use of Soviet trade to strengthen economic ties between town and country,

to implement the socialist principle of distribution according to work. Consequently, the need for cost accounting, Soviet trade, money is connected with the nature of socialist labour, with that stage of development of direct social labour, which corresponds to socialism. The significance of cost accounting and expanded Soviet trade was fully explained by Comrade Stalin at a conference business executives in 1931, at the January (1938) Plenum of the Central Committee of the All-Union Communist Party of Bolsheviks and at the XVII Party Congress.

At the conference of business executives, Comrade Stalin pointed out, among six historical conditions of victory, the need to introduce and strengthen cost accounting. Comrade Stalin pointed out the need to strengthen the old and search for new sources of accumulation, the need for not only light but also heavy industry to provide accumulation. This requires the elimination of mismanagement, the mobilisation of the internal resources of industry, the introduction and strengthening of cost accounting in all enterprises, a systematic reduction in production costs, and the strengthening of intra-industrial accumulation in all branches of industry without exception.

“So, to introduce and strengthen cost accounting, to raise intra-industrial accumulation—this is the task”¹.

Under the leadership and instructions of Comrade Stalin, the Party carried out during the years of the first and second five-year plans a number of major measures aimed at the all-round introduction and strengthening of cost accounting.

Cost accounting establishes a direct relationship between the implementation of the plan and the financial and economic situation of the enterprise. Cost accounting presupposes the material interest of each enterprise, each economic organisation in fulfilling and overfulfilling the plan. Household accounting stimulates the economical, careful use

¹ J. V. Stalin, *Questions of Leninism*, ed. 11th, p. 347.

of public resources, the struggle for the growth of labour productivity, for the rationalisation of the activities of each enterprise, for the protection and strengthening of public socialist property. Self-financing stimulates socialist accumulation. Cost accounting is a method of organising the work of enterprises, socialist economy and their management. It combines the operational independence of individual enterprises and economic organisations with their full responsibility for the fulfillment of state planning targets and stimulates, on the basis of the strictest accounting and control, the correct organisation of production and circulation of goods, the most efficient use of all resources in the interests of expanded socialist reproduction.

Self-financing requires the correct organisation of accounting for the production of products and the accounting of production results. Without this it is impossible to identify the efficiency of resource use, establish the relationship between the implementation of the plan and finances—the economic situation of the enterprise. Soviet money is a necessary tool for such accounting. They are used as a tool for planned accounting of economic activity in all sectors and in all sectors of the national economy. They find their own in money expression of the cost of labour and material values for the production of goods. The value of the finished product of enterprises and economic organisations of the socialist economy is carried out in money. In money, balances are drawn up, on the basis of which incomes are compared and the costs of each individual enterprise, the results of economic activity are revealed, the achievements and breakthroughs in the course of the implementation of the national economic plan are revealed. Money is a universal instrument of planned accounting.

At the XVII. Party Congress, Comrade Stalin emphasised that “The development of Soviet trade is the most urgent task, without the resolution of which it is impossible to move

forward further”¹.

The significance of Soviet trade lies in the fact that it is the most important method of stimulating socialist production, one of the conditions for the implementation of the socialist principle of distribution according to work, the implementation of cost accounting and the strengthening of ties between town and country.

For economic life to be in full swing Comrade Stalin pointed out, it is not enough to have an increase in the output of industry and agriculture, an increase in the needs and demand for goods on the part of the working people of town and country.

One can imagine, said Comrade Stalin, that all these conditions exist, but if the goods do not reach the consumer, economic life not only cannot fill with a key, but on the contrary, it will upset and disorganised to the core. Finally, we must understand that goods are produced in the last analysis, not for production, but for consumption. We have had cases when there were a lot of goods and products, but they not only did not reach the consumer, but continued for years to walk in the bureaucratic corners of the so-called commodity distribution network—away from the consumer. It is clear that under these conditions, industry and agriculture lost any incentive to expand production, the distribution network was overstocked, and the workers and peasants were left without goods and products. As a result, the economic life of the country is upset, despite the availability of goods and products. So that the country’s economic life can score key, and industry and agriculture had an incentive to further increase their production, one must have one more condition and namely, the developed trade turnover between town and country, between regions and regions of the country, between various branches of the national

¹ Stalin, *Questions of Leninism*, ed., 11th, p. 461.

economy”².

In order for an enterprise to be interested in expanding production, it is necessary that its products do not stale in warehouses, but reach the consumer as soon as possible. Only under this condition does the enterprise’s funds turn over quickly, give the greatest effect, and the consumer can quickly, in a timely manner assess the goods of the enterprise in terms of the extent to which these goods meet his needs. Insufficient development of Soviet trade and its substitution by direct distribution reduce the responsibility of enterprises for the quality of products, for the result of their work, and undermine cost accounting.

“The industrial link between town and country,” said Comrade Stalin at the joint plenum of the Central Committee and Central Control Commission of the All-Russian Committee of the Bolsheviks) In January 1933, in the report on the results of the first five-year plan, there is the basic form of the bond. But a production link alone is not enough. It must be supplemented with a commodity bow in order to the connection between town and country has become strong and unbreakable. This can be achieved only through the development of Soviet trade”¹.

Comrade Stalin pointed out at the same time that all channels must be used to develop Soviet trade and state, co-operative trade network, and collective farm trade.

In order for the products of the collective farms to quickly reach their consumers, so that the collective farms and collective farmers can buy the industrial goods they need in shops and stores, Soviet trade is needed. Direct product exchange at this stage of development cannot solve these problems. An apparatus has not yet been created that could, in a centralised manner, take into account the needs of nearly two hundred million of the population in the same way

² Ibid.

¹ J. V. Stalin, *Questions of Leninism*, ed. 11th, p. 389.

that every citizen takes into account his own income and expenses. The expansion of Soviet trade is a necessary condition for strengthening the economic ties between the city and the countryside and improving the material conditions of the working people.

The expansion of Soviet trade is of tremendous importance in the implementation of the socialist principle of distribution according to labour. The implementation of this principle presupposes a correct, corresponding to the achieved level of development of the productive forces, a combination of the personal interests of each worker with the public interest, the complete elimination of the petty bourgeois egalitarianism. Comrade Stalin pointed out at the XVII. Party Congress that

“... equalisation in the area of needs and personal life is a reactionary petty-bourgeois absurdity, worthy of some primordial sect of ascetics, but not a socialist society organised in a Marxist way, for it is impossible demand that all people have the same needs and tastes, that all people in their personal life live according to the same model...”².

“... Marxism proceeds from the fact that the tastes and needs of people are not and cannot be the same and equal in quality, or in terms of quantity, neither during the period of socialism, nor during the period of communism”³.

Equalisation in the supply of goods and products is the strongest brake on the growth of labour productivity. It means, that the matter is not only in determining the amount of products and goods, which corresponds to a certain amount and to the quality of labour expended by each individual member of society, but also in careful consideration of the specific needs and tastes of each rubbing. Only a combination of these two points leads to the best implementation of the principle “from each according to

² Ibid., pp. 469-470.

³ Ibid., p. 470.

his abilities, to each according to his work.”

At this stage of socialist construction, right up to the end of the first phase of communism—the socialist stage of development—the only correct form of such a combination is the expanded Soviet trade, which makes it possible for every worker, within the limits of the remuneration received by him, to acquire goods that satisfy his needs....

Soviet money is an essential tool of Soviet trade. They have played and continue to play an enormous role in the quality of an intermediary in the circulation of goods between town and country, between separate branches of the national economy, between separate regions of our country. By differentiating the monetary wages, remuneration for labour is established in accordance with its quantity and quality. Money is a tool through which payment of labour is carried out.

Soviet money, therefore, by its class nature is completely different from the money of the capitalist countries.

At the XIV. Party Congress, Comrade Stalin, revealing the counter-revolutionary restorationist essence of the statements of the Trotskyist-Bukharin gang about the “state capitalist” nature of Soviet money and trade, said: goods that satisfy his needs.

“The point is not at all that trade and the monetary system are methods of ‘capitalist economy’. The fact is that the socialist elements of our economy, fighting against the capitalist elements, master these methods and weapons of the bourgeoisie to overcome the capitalist elements, that they successfully use them against capitalism, use them successfully to build the socialist foundation of our economy. The point is, therefore, that, thanks to the dialectics of our development, the functions and purpose of these instruments of the bourgeoisie change fundamentally, radically, change in favour of socialism, to the detriment of capitalism”¹.

¹ Lenin and Stalin, *Collection of works for the study of the history of the CPSU (B)*, Vol. III, p. 36.

In a capitalist economy, each individual enterprise is outwardly independent in relation to others. But it produces products not for itself, but for others, produces it for exchange. In the process of market exchange, the actual dependence between individual farms and enterprises is revealed; the labour expended on the production of goods is recognised as a certain share of total social labour. Money is a spontaneous form of accounting for the production and distribution of the products of capitalist society. Only through comparison with money are private works expressed as shares of total social labour.

“The product of an individual manufacturer intended for someone else’s consumption can reach the consumer and give the right to produce to receive another social product only by taking the form of money, that is, having undergone preliminary public accounting both in qualitative and quantitative terms.

And this accounting is carried out behind the back of the producer, by means of market fluctuations”¹.

The development of commodity production and exchange transforms money into capital.

“The penetration of commodity production makes the wealth of an individual household dependent on the market, thus creating inequality through market fluctuations and exacerbating it, concentrating free money in the hands of some and ruining others. This money serves, of course, for the exploitation of the poor, “turns into capital”².

Under capitalism, money is evidence for exploitation. Anyone who has the necessary amount of money can acquire instruments and means of production, hire labour power, organise the exploitation of labour power. This role of money as a “certificate for exploitation” is especially vividly manifested in the functioning of money capital.

¹ V. I. Lenin, *Soch.*, Vol. 1, p. 28.

² *Ibid*, cf. 343.

The Great October Socialist Revolution took away the means of production from the landlords and capitalists and transferred them into the ownership of the Soviet state. The state of the dictatorship of the working class, having nationalised the banks and seized other commanding heights, took into its own hands such an important instrument as money.

While the capitalist elements still existed, money could be used to a certain extent for exploitation, for the appropriation of the products of someone else's labour. However, the dictatorship of the proletariat immediately limited this use of money to narrow limits, which more and more narrowed but as the socialist elements of the economy were strengthened. The money was successfully used during that period by the Soviet government to limit and oust capitalist elements, to strengthen the economic commanding heights in the hands of the Soviet government, to organise the correct exchange of goods between town and country.

The victory of socialism in the city and the countryside, achieved as a result of the implementation of the plans of the first and second five-year plans, the elimination of exploits in the countryside completely eliminated the possibility of the peasant classes in the city of capitalist use of money in the USSR. The socialist system has become the supreme and sole commanding force in the entire national economy. The victory of the socialist system changed the nature of trade. As Comrade Stalin pointed out:

“...Soviet trade cannot be put on a par with trade at the first stage of the NEP, even if it is regulated by the state. If trade at the first stage of the NEP allowed for the revival of capitalism and the functioning of the private-capitalist sector in the turnover of goods, then Soviet trade proceeds from the denial of both.

What is Soviet Trade? Soviet trade is trade without capitalists, small and large, trade without speculators, small and large. This is a special kind of trade that I didn't know until now, history and which is practiced only by us, the

Bolsheviks, in the conditions of Soviet development”¹.

From all that has been said, it is clear that Soviet money is an instrument of the socialist state used for planned accounting and regulation of labour and consumption, for developing Soviet trade, for exercising control over the economic activities of socialist enterprises, for strengthening ties between town and country. Soviet money is also one of the instruments for strengthening socialist society and the struggle for communism.

3. Functions of Soviet Money

The radical, fundamental difference between Soviet money and capitalist money determines the same fundamental difference between the functions of Soviet money and the functions of money in the capitalist economy.

Soviet money fulfills the following functions: a means of planned accounting, a medium of circulation, a means of payment and a means of social accumulation and savings of the population.

Money as a means of planned accounting is the most important function of the Soviet money system. In this function, money is used to measure the cost of production, to determine planned sales, procurement, and retail prices, and to determine the amount of monetary wages. In money, the labour costs for the production of goods are expressed, and the finished products of enterprises and economic organisations of the socialist economy are evaluated. Money is being used to account for the implementation of planned tasks and to identify the results of economic activity (comparison of planned and actual cost, to measure the costs incurred and the results obtained). Money is an instrument of planned accounting.

¹ J. V. Stalin, *Questions of Leninism*, ed. 11th, pp. 389-390.

In-kind accounting (accounting in units of weight, volume, length, etc.) cannot serve the purposes of the general accounting of social labour. Through natural accounting, it is impossible to give a single expression to the entire social product, to uniformly express labour embodied in products of various consumer properties that satisfy the most diverse needs of a production and personal nature. An immanent measure of social labour is work time. However, as already indicated above, the organisation of accounting social labour and its distribution directly in units working time until the end of the first stage of communism—the socialist stage of development—is impossible. Directly labour accounting presupposes a higher level of organisation of social labour (complete elimination of the remnants of the difference between the city and the countryside, between mental and physical labour, the development of labour as a natural human need). At the same level of organisation of social labour, which characterises the first phase of communist society, socialism, Soviet money serves as a tool for the general accounting of social labour and its distribution.

The use of money as a tool for planned accounting does not at all mean eliminating the need for in-kind accounting. The interests of socialist cost accounting, the interests of the struggle for the strict fulfillment of quantitative and qualitative planning targets by each enterprise require a combination of monetary accounting with natural accounting.

Socialist production develops in the interests of the fullest; full satisfaction of the needs of the working people.

In accordance with the growth and differentiation of these needs, the assortment of goods produced and sold by socialist enterprises changes. Strict fulfillment of planned targets for the assortment of goods is one of the main indicators of the quality of work of each enterprise. But monetary accounting alone is not enough to establish how the plan for the assortment of goods is fulfilled. The monetary value of the output produced can mask dramatic deviation of the actual assortment of products from the

planned assortment. To account for the fulfillment of the plan for the range of products, it is necessary to supplement monetary accounting with natural accounting.

In-kind accounting is also used when determining the costs of objects of labour for the production of individual products (rates of consumption of raw materials; materials, fuel, etc.) and when taking into account labour productivity (production rates). In addition, natural accounting is used to compile balances of production and consumption of the most important products of labour (fuel balance, metal balance, etc.). It would be a profound mistake to assume, however, that natural accounting can replace cash accounting.

Under capitalism, money fulfills the function of a measure of value. This means that through money a spontaneous accounting of the costs of social labour is carried out; through money, the private labour of individual producers is recognised as part of the aggregate social labour. As a spontaneous measure of labour costs, a form of expression of value, money must be a commodity, must have value, and the value of a monetary commodity is formed spontaneously—on the basis of the spontaneous action of the law of value.

In the Soviet economy, labour is organised in a planned manner as non-directly social labour. Money serves as a means of planned accounting of social labour, and the purchasing power of money is determined mainly by the planned prices set by the state.

The next function of Soviet money is money as a medium of circulation. The money is used by the Soviet government in order to stimulate the non-stop movement of goods from production to the consumer, to stimulate the deployment of Soviet trade. The role of money in this function is determined by the enormous importance of the developed Soviet trade. As a means of circulation, money realises the planned prices of goods.

Consequently, the functioning of money as a medium of circulation presupposes the use of money as a means of

planned accounting.

The functioning of money as a means of circulation in the conditions of commodity-capitalist production contains an abstract possibility of crises arising from a possible gap between the first) (TD) and the second (D—T) phases of commodity metamorphosis. Capitalism turns this possibility into reality. Money functions quite differently as a medium of circulation under the conditions of the Soviet economy, since under the conditions of the Soviet economy is Soviet money, which is fundamentally different from capitalist money.

Soviet trade has a planned character. In a secular economy, commodity masses entering the circulation are created in the process planned-organised production and are sent through the planned channels of the distribution system.

There is no unemployment in the Soviet economy. The working class is growing in numbers. The people's income is used for expanded reproduction and for improving the material conditions of workers and collective farmers. We do not have the same situation as in capitalist countries where part of the national income goes to the maintenance of the exploiting classes and their servants. All this ensures a steady "... growth capacity of the domestic market, increased demand for industrial products from workers and peasants. This means that the growth of the domestic market will overtake the growth of industry and push it forward to continuous expansion"¹.

In a socialist economy, in the economy of the USSR, crises are impossible. Under the dictatorship of the working class, production is subordinated the tasks of a steady rise in the well-being of the working people. This determines the special stability of Soviet money, unattainable under capitalism.

The functioning of money as a means of payment is conditioned by the existence of wages in money (wages, pay

¹ J. V. Stalin, *Questions of Leninism*, ed. 10th, p. 879.

for workdays) and the deployment of the financial and credit system of the socialist state. As a means of payment, money is: a) a means of remuneration for labour in accordance with its quantity and quality; b) a means of repayment of credit obligations (repayment of a loan received from credit institutions; payments on government loans—payment of winnings, interest, repayment of bonds upon the expiration of the loan term); c) a means of fulfilling obligations to the state on taxes, fees and other payments. Consequently, as a means of payment, Soviet money expresses the planned organised relations between the socialist state, individual socialist enterprises and individual citizens of the socialist state.

Under capitalism, money also serves as a means of payment. However, in this function, money is there a means of repayment of spontaneously arising obligations, and the possibility of timely and full repayment of these obligations is also determined by the spontaneous course of production and circulation of goods. Hence—the specific contradiction of this function of money under capitalism, which develops along with the development of the capitalist economy. It creates the possibility of broad development of debt offsetting, non-cash payments, which makes it possible to expand the production of goods beyond the limits determined by the narrow gold basis of money circulation. But this reciprocal chain of obligations is torn apart by the onset of a crisis; all only require cash. This contradiction manifests itself in the form of specific monetary crises.

Under the conditions of the Soviet economy, money as a means of payment is a means of repayment of obligations established and arising on the basis of and in the course of fulfilling the national economic plan. This creates the possibility of a broad planned organisation of settlements and savings in cash.

The next function of Soviet money is to use it as a means of socialist accumulation and savings of the population. Money plays in this function an important role in socialist

reproduction.

Under the conditions of a socialist economy, expanded reproduction finds its expression both in an increase in the aggregate social product (means of production and consumer goods) as a whole, and in the growth of money accumulations of the socialist state and its individual enterprises. Exceeding the price of the company's products over the monetary expenditures produced for the production of these products expresses socialist accumulation. The monetary form of accumulation is a necessary stage of expanded socialist reproduction under the conditions of building socialism and the gradual transition from socialism to communism.

The use of money as a means of socialist accumulation ensures broad manoeuvrability of self-supporting enterprises and organisations in the use of their resources. The enterprise is not bound by definite consumer properties of individual products of labour—it has money, that is, a means of acquiring, within the limits and on the basis of a plan, all the goods it needs. At the same time, the use of money as a means of accumulation provides a high concentration of resources, promotes the acceleration of the turnover of the social product. This is achieved by reducing the stocks of inventories, reducing them to the minimum stocks sufficient for the current needs of the enterprise. The savings of self-supporting enterprises, which remain at their disposal after fulfilling their obligations to the state, are concentrated in credit institutions; therefore, they can be used to meet the temporary needs of other enterprises and economic organisations. An enterprise that has fulfilled the plan of accumulations, but directed them to a super-lane increase in various reserves, undermines cost accounting and planning financial discipline, and slows down the turnover of the social product.

Money as a means of socialist accumulation is an indicator of the socialist profitability of enterprises. However, not all money accumulation is an expression of real socialist profitability of the enterprise. Comrade Stalin gave a

profound definition of socialist profitability, which cannot be confused in any way with the capitalist; commercial profitability.

Capitalist profitability means getting the maximum profit by any means and methods; it is based on the exploitation working people, robbing the masses.

Socialist profitability, on the contrary, is based on the liberation of workers from all exploitation, is based on growth of the productivity of socialist labour and the systematic growth of the well-being of the working masses. An indicator of the socialist profitability of enterprises is and can be only those accumulations that are obtained as a result of fulfilling and overfulfilling the planned assignments in terms of quantity, quality, cost reduction, planned product range. The savings received in the event of an unauthorised violation of these planning targets or an unauthorised increase in prices is an indicator of perversions of cost accounting, an anti-state offense.

One of the indicators of the growth in the well-being of the working people of the USSR is the steady growth of their monetary incomes. These incomes more than cover the necessary expenditures of the working people for the current money. Part of the workers' cash income, which exceeds their current costs, forms their cash savings. Savings in cash provide the population with maximum convenience in terms of their preservation and use. The monetary form of savings also makes it possible—through savings banks and state loans—to temporarily switch them into a national fund of monetary resources for the purpose of expanded socialist reproduction.

The use of money as a means of accumulation and savings does not exclude the possibility and necessity for the state of the formation of natural reserves, just as the use of money as a means of planned accounting does not exclude the possibility and necessity of using natural accounting. Such reserves are very necessary, especially in an environment of capitalist encirclement, but they are

necessary precisely as targeted reserves.

Under capitalism, money performs the function of a treasure, acting as frozen wealth, crystallised social labour. The accumulation of treasure means the withdrawal of wealth from social circulation; it is an indicator of the power of the collector of the treasure over society. Thus, the treasure is opposed to society as the power of individuals. Under capitalism, the treasure plays a major role in the mechanism of spontaneous regulation of monetary circulation, being a reservoir where money is drawn during periods of reduced demand for them and from where they are poured into circulation during periods of expansion of demand for them.

Under the conditions of the Soviet economy, money is not a treasure; in the function of a means of accumulation and savings, it does not oppose public wealth. The growth of savings and savings is not an indicator of the growth of the power of individuals over society, but an expression of the growth of the socialist profitability of enterprises, the growth of the material well-being of the working people. Savings and savings are included (through banks, savings banks, etc.) in public circulation and thereby contribute to the growth of the wealth and power of our great homeland. On the other hand, the planned regulation of commodity circulation and money circulation excludes, under the conditions of the Soviet economy, the need for treasures as a reservoir for the inflow and outflow of money from circulation.

Under capitalism, the maintenance of the stability of money is the dead weight of the reserves of gold. The spontaneous nature of the capitalist reproduction eliminates the possibility of other security and determines the fragility of this basis for the stability of money.

The socialisation of the means of production, the transformation of money into an instrument of national accounting and control, the development of socialised trade and the concentration in the hands of the Soviet state of huge masses of commodities created in the conditions of the

Soviet economy new foundations for the stability of money.

At the first stage of the NEP, when the small-scale commodity structure prevailed in agriculture, and played a significant role in trade a private trader, the Soviet state, possessing large commodity funds and concentrating gold reserves in its hands, used them to combat the market element, for the planned regulation of trade and money circulation in the interests of building socialism. Gold, in contrast to the spontaneous commodity-capitalist economy, was not the universal embodiment of social labour. In general, the law of value had no place in the Soviet economy. The entire system of measures of the economic policy of the Soviet state prevented the concentration of gold in the hands of the capitalist elements, was aimed at limiting and the displacement of these elements, to strengthen the position of the socialist sector in the production and circulation of goods.

Gold reserves, concentrated in the hands of the state, were used with success, along with the mass of commodities, to introduce into circulation a hard Soviet currency to replace depreciating Soviet notes and to maintain the stability of the new, Soviet currency during the period of monetary reform. Thus, gold played an important role as one of the tools of the socialist economy, ensuring the stability of the Soviet currency.

With the success of socialist construction, the ousting of the capitalist elements, and the socialist reworking of the small-scale commodity structure, the role of gold in securing the Soviet currency changed. The growing mass of commodities became more and more important, concentrated in the hands of the state.

In a report on the results of the first five-year plan at the joint January plenum of the Central Committee and the Central Control Commission of the CPSU (B) in 1933, Comrade Stalin pointed out:

“How is the stability of the Soviet currency ensured, if we mean, of course, the organised market, which is of

decisive importance in the country's trade turnover, and not the unorganised market, which has only subordinate importance? Of course, not only gold reserves. The stability of the Soviet currency is ensured, first of all, by the enormous amount of commodity masses in the hands of the state, which are put into circulation at stable prices."¹

The economic relations between capitalist countries are the same as the internal economic relations of each capitalist country; are determined by the blind, spontaneous law of value. In these relationships, the money of individual capitalist states throws off their "national uniforms" and become world money. World money functions as a universal means of purchase, a universal means of payment and as an absolute commodity, the absolute embodiment of the wealth of bourgeois society.

Soviet money does not fulfill the functions of "world money". The Soviet economic system is the opposite of the capitalist economic system; it is the socialist economic system. The relationship between the USSR and the capitalist countries is a struggle between two systems. On the basis of a monopoly of foreign trade, the Soviet state resorts to trade relations with capitalist countries insofar as this leads to the strengthening of the socialist economic system in the USSR.

Economic relations between the USSR and the capitalist countries require the use of capitalist instruments and methods of calculation. Gold reserves of the USSR are necessary as a reserve of purchasing and means of payment in foreign trade with capitalist countries. This reserve is important because the capitalist encirclement remains. Along with this, gold is also used as an export item, since gold production in our country exceeds the needs of the USSR.

¹ J. V Stalin, *Questions of Leninism*, ed. 11th, p. 391.

4. Distribution of the National Income in the USSR

The use of money and the self-supporting organisation of the activities of enterprises and organisations of the socialist economy require the existence and strengthening of a special apparatus of Soviet power, the task of which is to organise and maintain the distribution of funds based on the introduction of financial control and control by the ruble. This apparatus is the financial system of the USSR. Its main links are the state budget, banks, savings registries, insurance organisations. Each of these links has special forms and methods of work, has a strictly defined range of tasks and functions determined by the socialist organisation of the distribution of the national income of the USSR.

Marx noted that "... distribution relations are essentially identical with production relations, they represent only the reverse side of the latter..."¹. They are determined by the class structure of society.

The distribution relations in the countries of capital are antagonistic in nature. The newly created value—the material basis of the national income—falls apart under capitalism into two parts: for the part at the expense of which the value of labour power is reimbursed and for the other part appropriated by the exploiters. These two parts refer to each other as paid and unpaid work time. The larger the part of the national income that is appropriated by the exploiters, the less remains for the share of the exploited.

"The question of the distribution of the national income by class is a fundamental question from the point of view of the material and cultural situation of workers and peasants."²

¹ K. Marx, *Capital*, vol. III, ed. 1938, p. 774.

² J. V. Stalin, *Questions of Leninism*, ed. 10th, p. 380.

The antagonistic character of the distribution of the national income under capitalism is expressed in a systematic decrease in the share of the working class, the share of all working people in the national income (as a result of increased exploitation), in an acute antagonistic contradiction between consumption and accumulation. The capitalist mode of production strives, in order to increase surplus value, to reduce the consumption of workers to an extreme, marginal minimum. The growth of capitalist accumulation means the impoverishment of the broad working people. On the other hand, the narrowness of consumption by the broad masses limits the growth of production.

The main forms of distribution of surplus value under capitalism are entrepreneurial income, trade profit, interest and rent. The struggle between individual groups of exploiters for a share of the surplus value leads to the concentration of the overwhelming share of the surplus value in the hands of a small group of capitalists, in the hands of capital tycoons. In the competitive struggle, small capitalists are devoured in the process of concentration and centralisation of capital. The concentration of wealth in the hands of a handful of capitalists leads to an increase in the parasitic plundering of the national income.

The distribution of the national income of our country is based on the socialist mode of production, characterised by the abolition of private ownership of instruments and means of production, the abolition of capitalist elements and exploiting classes in general. In the USSR "... the distribution of the national income takes place not in the interests of enriching the exploiting classes and their numerous parasitic servants, but in the interests of a systematic increase the material position of workers and peasants and the expansion of socialist production in the city and countryside"³.

³ Ibid., P. 397.

In the old, pre-revolutionary Russia, 15.9 percent of the entire population consisted of such classes as landowners, large and small urban bourgeoisie, merchants and kulaks. Now these classes are not available in our country. The population of the U.S.S.R. consists only of working people—the working class, the peasantry, and the working intelligentsia.

In old, pre-revolutionary Russia, 10-80 percent of the national income was appropriated by the exploiting classes. In 1921-1928, by the beginning of the first five-year plan, the share of the capitalist elements in the national income of our country was 8.1 percent. By the end of the first five-year plan, this share was reduced to half a percent. At the present time, the entire national income of the country is exclusively at the disposal of the working people. This means the complete elimination of the parasitic appropriation and embezzlement of the national income.

In the USSR, accumulations are growing not due to a decrease in the consumption of the working people, but due to an increase in labour productivity, a strict regime of economy in the spending of people's funds. The growth of savings in our country does not narrow it down, but, on the contrary, contributes to the steady growth of the well-being of the working people and promotes in every possible way expanding the consumption of the working people, because the growth of accumulation ensures the creation of an expanded material and technical base for increasing the production of consumer goods. The growth of consumption in our country is one of the most important goals of social production.

As a result of the elimination of the parasitic embezzlement of the national income, as a result of the elimination of antagonistic contradictions between accumulation and consumption, we have enormous, unprecedented in the history of mankind, rates of growth of

national income¹. In old, pre-revolutionary Russia, the average annual increase in the national income was calculated at 2-3 percent. In our Soviet economy, over the years of the first five-year plan, the national income increased by 86.1 percent, which gives 16 percent. average annual growth of the national income. During the years of the second five-year plan (1983-1937), the national income of our country increased by 111.6 percent, which means over 17 percent average annual growth of the national income. In 1936 alone, the national income of the USSR increased by 30.9 percent, and in absolute terms the increase in the national income of the USSR for 1936 amounted to 20.3 billion rubles, that is, almost the same as the entire national income of old Russia in 1913. The USSR in 1939 exceeds 118 billion rubles, which is 5.6 times higher than the national income of pre-revolutionary Russia. By the end of the third five-year plan, it should amount to 174 billion rubles. (all data on the national income are in constant prices of 1926-27).

This tremendous increase in the national income was due to the victory of the Stalinist plan for the socialist industrialisation of the country and the collectivisation of agriculture, the victory of socialism in our country.

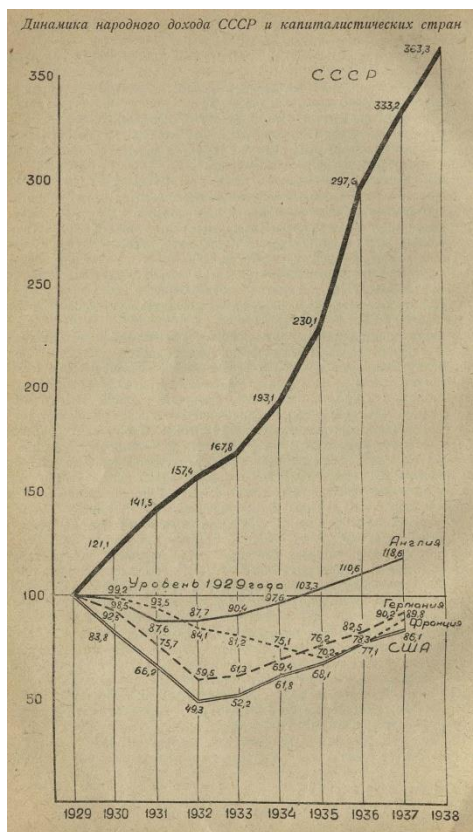
The share of industry in the national income has grown from 25.5 percent in 1913 and 34.8 percent, in 1926 up to 53.7 percent in 1936. In 1928 the share of the socialist economy in the national income was 44 percent, while in 1938 it was 99.3 percent.

In the Soviet economy, the distribution of the national income is carried out on the basis of a single state national economic plan in the interests of a steady rise in the well-being of the working people. The unified state national economic plan determines: 1) the size production, 2) the division of the entire social product into the consumption

¹ See diagram on page 26.

fund and the accumulation fund, 3) the distribution and use of accumulation funds and consumption funds:

Dynamics of the national income of the USSR and the capitalist countries



The basic principle of the organisation of labour and the distribution of the products of labour under socialism is the principle: “from each according to his ability, to each according to his work.” This principle has nothing to do with Lassal’s “uncut income of labour.” Breaking down the

reactionary Lassallean slogan, Marx in his "*Critique of the Gotha Program*" (1875) gave a detailed scheme for the distribution of the social product under socialism."¹

This ingenious scheme, given by Marx almost half a century before the victory of the socialist revolution in the USSR, was further developed and refined in the practice of socialist construction in the USSR on the basis of the Leninist-Stalinist doctrine of the possibility of the victory of the socialist revolution and the building of communism in one separate country under conditions capitalist environment.

The total social product created during this period of time in the U.S.S.R. is the gross product mainly of the enterprises and economic organisations of the socialist economy, and forms their gross revenue. From this gross product, or gross proceeds, the means of production consumed in the process of production are reimbursed. The rest of the gross social product (that is, gross receipts minus the cost of replacing the consumed means of production) is the national income.

The people's income forms the resource fund from which all the needs of the expanded socialist reproduction and consumption. The distribution of the national income is of paramount importance in determining the rate of expanded socialist reproduction and the growth of consumption of Soviet citizens.

Before the national income is distributed among the citizens of the socialist state, a fund for the expansion of production (accumulation fund) and a reserve fund or an insurance fund must be allocated from it. The remaining part of the national income forms the consumption fund. It covers: a) the costs of the defence of the socialist homeland, b) general management costs not directly related to production, c) the costs of meeting the cultural and everyday needs of the working people (education, health care, etc.), d) the

¹ See K. Marx and F. Engels, *Works*, vol. XV, pp. 272-273.

costs of maintaining the disabled. The production of all these costs constitutes the same economic necessity as the formation of a fund for the expansion of production and a reserve or insurance fund. The rest (overwhelming) part of the consumption fund is distributed among producers according to labour. A characteristic feature of the Soviet economy is that the consumption fund is growing rapidly, while the accumulation fund is growing rapidly.

The formation of all these funds is carried out by the socialist state through production planning and distribution of material resources using money, Soviet trade, self-supporting organisation, and finance. This determines the organisation distribution of the national income of the USSR.

In the USSR, there is no capitalist private property, there are no exploiting classes and their incomes. The economic basis of the USSR is formed by the socialist economic system and the socialist - ownership of instruments and means of production. Socialist property exists in two forms: state property, which is a national property, and collective farm-cooperative property-the property of individual collective farms and co-operatives¹.

These two forms of socialist property determine the differences in the forms of distribution of gross proceeds,

¹ In 1936, the share of the socialist economy in the production funds of the entire national economy of our country was 98.7 percent, of which 90 percent accounted for the share of state (national) property and 8.7 percent—for the share of cooperative-collective farm property 1.1 percent of all production assets of our country in 1986 constituted the personal property of collective farmers, which is an auxiliary element to socialist collective farm property, and only 0.2 percent is allowed by law, small private property of individual peasants and handicraftsmen, based on personal labour and which is the main source of subsistence for these peasants and handicraftsmen. Capitalist private property based on the exploitation of someone else's labour has been completely abolished in the USSR.

and therefore, and differences in the forms of income of socialist enterprises. At the same time, this also determines the differences in the forms of distribution of the people income.

State-owned enterprises from their gross proceeds:

1) pay wages and salaries to employees employed in enterprises. Salary is a form of individual income of workers employed in state-owned enterprises (workers, engineering and technical personnel, office workers). Payroll accruals form part of the fund for the temporarily disabled and for recreational activities;

2) fulfill obligations to the state, established in advance as a certain part of the price of goods;

3) reimburse the consumed means of production (pay for goods received in the order of supply, produce depreciation deductions).

The rest of the gross proceeds of state-owned enterprises is formed by their profits. It is aimed at expanding production; the surplus profit in excess of the requirements of the planned expansion of production is transferred to the national fund of resources. In enterprises based on collective farm property, from the gross proceeds: 1) obligations to the state are fulfilled; 2) the consumed means of production are reimbursed and the management costs are covered; 3) collective farm indivisible funds are allocated. The rest of the gross income is distributed among collective farm members according to the quantity and quality of labour—according to workdays. The priority in the distribution of income is the fulfillment by the collective farms of their obligations to the state (supplies, payment in kind).

Thus, the main forms of distribution of the national income in our economy are: 1) *wages*, 2) *income for workdays*, 3) *payments to the state, set in advance as part of the price of goods*, 4) *profits of state and cooperative enterprises*, and 5) *income not distributed by workdays of collective farms (accumulation of collective farms)*. The first two forms of distribution determine the two main forms of

personal income of workers, and the last three forms of distribution determine three main forms of socialist accumulation, 5) the income of collective farms not distributed by workdays (the accumulation of collective farms). The first two forms of distribution determine the two main forms of personal income of the workers, and the last three forms of distribution determine the three main forms of socialist accumulation.

5. The Role of Finance in the Distribution of the National Income of the USSR. Ruble Control

Thus, the national income, created in the process of arbitrariness, is distributed between enterprises and organisations of the socialist economy and various groups of the population. The budgetary and credit levers of the Soviet state play a major role in this distribution.

The need to use the budgetary and credit system for the distribution of the social product is caused by the fact that the socialist economy needs money; there is cost accounting, price, and money wages. Socialist state; carrying out its functions, concentrates at its disposal a part of the social product intended for the maintenance of management and defence bodies, for supplying the disabled, for meeting the social needs of the working people, for the unrestrained reproduction of social wealth. This is achieved along with other methods through the use of money. To carry out the distribution of the social product (and its part—the national income) in the interests of socialist construction in the conditions of the existence of money, it is necessary to distribute and redistribute monetary resources.

The redistribution of funds is the process of accumulating funds by the financial system and directing them to the needs of the socialist economy in the manner of financing

and lending. The correct organisation of this redistribution is of the greatest importance in expanded socialist reproduction. The redistribution of funds is used to achieve the distribution of the social product established by the national economic plan between the individual sectors of the national economy and between production and personal consumption, the distribution of the national income between the accumulation fund and the consumption fund. With the help of the budgetary and credit levers of the Soviet state, funds are collected and used to finance and credit the national economy, culture, administration, and defence.

The use of budgetary and credit levers is closely connected with the self-supporting organisation of the work of enterprises of the socialist economy.

In the conditions of self-financing, each enterprise or institution must have funds in order to acquire the necessary goods and pay wages to workers and employees. The sources of obtaining the necessary funds are primarily the sale of goods produced by the enterprise or the receipt of payment for services rendered by the enterprise. In the same cases, if these sources are not available or they do not cover all planned needs of the enterprises, it becomes necessary to provide funds to enterprises and institutions from outside, from the savings of other enterprises and institutions (on the basis of the plan).

The development of the Soviet socialist economy is characterised by a large scale of capital construction. In an unprecedentedly short time, the working class of our country, in alliance with the peasantry, created an advanced heavy industry, technically re-equipped agriculture, and transformed the country from a backward agrarian into an advanced, powerful industrial power.

The plan for the third five-year plan outlines a new scale of capital construction, corresponding to the grandiose historical task of catching up with and overtaking the advanced capitalist countries also economically within the next 19-15 years.

It is obvious that the enterprises under construction will be able to produce goods only after the completion of construction and the start-up of enterprises. Meanwhile, for their construction, building materials, mechanisms, etc. are needed. In addition, it is necessary to pay salaries to construction workers, maintain the construction apparatus, purchase equipment (machines, machine tools) for an enterprise under construction, etc. in the funds necessary for all this is satisfied by the state through the financial system.

Depending on who carries out the construction, the financial system releases the necessary funds either in the form of financing, that is, the non-refundable provision of funds, or in the form of long-term lending, that is, it provides funds with the obligation to return them. In order to finance, funds are released from the budget to state-owned enterprises. As for long-term lending, funds are released from the free resources of the credit system and from the budget—to cooperative organisations, collective farms and collective farmers (earlier, before the victory of the collective farm system in the countryside, funds were also allocated to individual individuals: to farms—the poor and middle peasants).

Without the organisation of such financing and long-term lending for construction, it would have been impossible to ensure the creation of giants of heavy industry, many thousands of state farms and machine and tractor stations, the construction of collective farms, new cities, schools, hospitals, theatres, clubs, etc.

All that has been said above also applies to those operating enterprises that are undergoing radical reconstruction, that is, re-equipment and expansion. Such enterprises also cannot cover the reconstruction costs necessary for them solely from the funds received from the sale of their goods, since the proceeds from the goods sold by them are mainly used for current production costs. Without the organisation of financing and long-term lending for the reconstruction of enterprises it is impossible it would

be to ensure the re-equipment of our industry, transport and communications, to introduce machines into agriculture, to mechanise tens of thousands of collective farms, thousands of state farms and machine and tractor stations.

In their total mass, these funds, released by the financial system in the form of financing and long-term lending of capital investments, are enormous. They are directed to the national economy through a system of special banks for long-term investments, subordinate to the People's Commissariat of Finance.

To provide the uninterrupted course of its activities, each enterprise must have the required minimum working capital. These funds are spent on the purchase of raw materials, fuel, materials, on the payment of wages, etc. and are returned back to the enterprise through the sale of goods. The size of the working capital required by the enterprise increases along with the increase in the work of the enterprise. Usually, the necessary replenishment of enterprises' own circulating assets, caused by a planned change in the volume of work of enterprises, is carried out at the expense of their own savings of enterprises. In the same cases, when the size of own savings is insufficient to cover the entire required increase in working capital, there is a need to finance the increase in working capital. This function in relation to state-owned enterprises is performed by the budget system and partly (in relation to trading organisations) by the State Bank system. The budget system is also charged with the obligation to supply the new state-owned enterprises put into operation with the necessary (in accordance with the plan) working capital.

In addition to the above cases, the enterprise may have a need for additional funds under the following two circumstances: 1) when the planned selling price is set below the planned cost; 2) when the enterprise needs temporary additional funds for its uninterrupted operation.

In the first case, the gap between the selling price and the prime cost is covered from the budget, but only within

the limits set by the plan, i.e. if this gap is not a consequence of the poor performance of the enterprise, the consequence of its failure to fulfill its production program and tasks to reduce the cost...

The need of enterprises for additional funds for temporary needs usually arises, firstly, from the fact that before receiving money from the buyer for the goods sent, the enterprise has a temporary lack of funds for its current expenses. Secondly, a number of enterprises operate on seasonal raw materials or produce such goods that can be produced only for several months a year, but must be sold throughout the year. In these cases, the enterprise may need to immediately spend large sums of money on the purchase of raw materials, which will be spent during this year (seasonal stocks of raw materials), or on the production of goods that will be sold only after some time (seasonal stocks of finished products). Examples include the textile industry or the sugar industry, where raw materials are procured for the whole year in the fall.

These temporary needs of enterprises for additional funds are covered by the State Bank in the form of short-term lending, that is, by providing funds for a relatively short period (several days or months) and with their obligatory return after this period. On a large scale, the State Bank carries out short-term lending to trading organisations in order to expand and accelerate trade.

In addition to business organisations that have income from the sale of their goods and services, there is a large circle of institutions and organisations that do not have such income. This includes the entire administration, defence and social and cultural institutions. For the maintenance of this apparatus and for the costs of social and cultural events (construction and maintenance of schools, hospitals, resorts, rest homes, payment of pensions to disabled people, etc.) directs through its financial system the necessary funds in the order of financing. Defence and administrative and management expenditures (that is, the costs of maintaining

the government apparatus) are covered by the budgetary system. Expenditures on social and cultural events are mainly provided by the budgetary system and the social insurance system.

One of the major tasks of the financial system is the formation of reserve and insurance funds for insurance against accidents and natural disasters. The formation and use of such funds helps to ensure the continuity of the production process. Compensation for losses caused by all kinds of natural disasters and accidents is carried out by the state insurance system and, in relation to the majority of state enterprises and institutions, by the budgetary system:

Thus, the financial system must ensure: a) the creation of a centralised fund of funds to finance the construction of new and reconstruction of old enterprises, to replenish the working capital of enterprises (in cases where the required increase in the working capital of enterprises is not covered by the own savings of these enterprises), as well as to cover development costs; b) meeting the temporary needs of enterprises and organisations in cash; c) the formation of a fund of funds for financing expenditures on social and cultural events, administration and defence of the country; d) creation of reserve or insurance funds.

The sources for the formation of these funds are: a) incomes of enterprises and organisations of the socialist economy; b) temporarily free funds of enterprises and organisations of the socialist economy; c) part of the monetary income of the population.

The difference in the forms of ownership and the variety of tasks of redistribution determine the variety of forms and methods of redistribution of funds. The forms and methods of redistribution of funds should be different depending on the source and nature of the accumulated funds (income of state and cooperative enterprises, collective farms, small private farms; temporarily free funds) and on the purposes of redistribution (financing of the national economy, culture, management, defence).

The main forms and methods of accumulating funds of enterprises and organisations of the socialist economy are: turnover tax, deductions from profits, income tax; current accounts and deposits, insurance payments.

The income and savings of enterprises and organisations of the socialist economy, accumulated in the form of turnover tax, deductions from profits and income tax, are the decisive source of budget resources.

Temporarily free funds of enterprises and economic organisations (unused profits, temporarily free working capital, free funds of insurance organisations, etc.) are redistributed by credit institutions (mainly the State Bank) by attracting these temporarily free funds to current and settlement accounts and contributions. At the expense of these funds (as well as at the expense of their own funds and emission resources) banks carry out lending to economic organisations. Consequently, such a credit mechanism makes it possible to involve all the free resources of the socialised economy. Temporarily free funds of some organisations are transferred through banks in a temporary use of other economic organisations that feel a lack of funds. This transfer of funds in the form of a loan is carried out in a planned manner, secured for a specific purpose and with the obligation to return the loan to the bank within a specified period. Without these conditions, economic organisations could cover breakthroughs in the implementation of their plans with loans, and banks would not be able to return funds to those organisations that own these funds.

It should be emphasised that as a result of the credit reform of 1930, the role of banks (especially the State Bank) in such a redistribution of funds greatly increased. Before the credit reform, economic organisations could transfer part of their free funds to others, to economic organisations in the order of commercial (mutual) lending, bypassing banks. Credit reform eliminated such mutual lending to economic organisations and established the receipt of loans only from the bank (direct bank lending). The main role in the short-

term loan belongs to the State Bank.

Large funds of enterprises and organisations of the socialist economy are also redistributed by insurance organisations. Facilities of state insurance are made up of payments from collective farms and cooperative enterprises for property insured against natural disasters and accidents and are directed to reimburse the perished insured property or to prevent and combat natural disasters. The funds of the social insurance system are formed from special contributions of economic organisations and institutions (payroll) and are spent in part on social and cultural events.

The main forms and methods of redistributing part of the population's income are: attracting savings from the population through loans, deposits in savings banks, then insurance payments, taxes and fees from the population (agricultural tax, cultural collection, income tax). Through state loans and savings banks, the population voluntarily provides the state with part of their incomes, their savings, which the state uses in the interests of the socialist construction. Taxes are a form of mandatory participation of the population in the creation of financial resources of the state.

The redistribution of funds in the USSR is carried out in a planned manner on the basis of financial planning.

Financial planning is an organic, inseparable part of a single economic planning. The task of financial planning is to use all financial and credit levers and methods to ensure the fulfillment of the national economic plan. Financial planning is not reducible only to the tasks of simply providing resources for the tasks of the national economic plan.

Financial planning must play an active role in the struggle to fulfill the national economic plan. The attempts of the right-wing and "left-wing" restorers of capitalism, together with bourgeois economists, to present financial planning as a passive reflection and passive result of national economic planning were sabotage attacks that contradict the real objectives of financial planning. These enemies of the

people tried to present the matter as if the financial plan could be guided only by those resources that were “ready” by the time the national economic plan was drawn up. The defence of these provisions was a form of counterrevolutionary struggle against the Stalinist plan for the socialist industrialisation of the country, against self-financing, against control by the ruble. In fact, correct financial planning stimulates the growth of resources, stimulates the best use of all means of the economy, the redistribution of funds is closely related to the work of the financial system in the field of organisation and implementation of cash settlements. Deployment of this case is of great importance to strengthen cost accounting, the correct organisation of credit, to accelerate the circulation of money, and thus to strengthen the Soviet monetary systems.

As already mentioned, credit institutions concentrate free funds through current accounts and deposits.

Thus, they are the cashier of enterprises and organisations of the socialist economy and, to a lesser extent, of the population. Accumulating money in this way, credit institutions accept orders from economic agencies, institutions and individual citizens to pay their expenses by transferring funds from their accounts in credit institutions to the accounts of the recipients of funds. The decisive importance here belongs to the State Bank as the settlement centre of the country.

For institutions and enterprises of the socialised economy, the law establishes the procedure under which all payments are made to each other for the amount over 1000 rubles. (for a number of cases, over 500 and 800 rubles) in one payment should be made not in cash, but by transferring funds from the account of one economic organisation (institution) to the account of another economic organisation. This payment procedure is easy to implement, since all economic organisations are required to keep their free funds in bank accounts. It is clear how important this payment order is in

reducing the amount of cash required. Cash is needed only for payments to the population (salary, procurement, etc.) and for paying small bills of economic organisations, and the money comes back in the order of selling goods in retail or making payments of the population. The State Bank acts as the organiser of settlements on the farm. The correct organisation of settlements leads to an acceleration of the circulation of money, to savings in cash and circulating assets, to strengthening control over the ruble.

Comrade Stalin at the XVI Congress of the CPSU (B), setting out the immediate tasks of the party, pointed out:

“Rational organisation of credit and correct manoeuvring of cash reserves are of great importance for the development of national economy. The Party’s measures to resolve this problem are going along two lines: along the line of concentrating the entire case of a short-term loan in the State Bank and along the line of organising cashless payments in the socialised sector. Thus, firstly, the State Bank turns ‘into a nationwide apparatus for accounting for production and distribution of products, secondly, whole masses of money are freed from circulation. There can be no doubt that these measures will lead (they are already leading) to the ordering of the entire lending business and the strengthening of our chervonets¹.

Realising the redistribution of funds and cash and settlement functions, the financial system has a powerful impact on the entire national economy. This impact lies not only in the redistribution of funds or servicing settlements, but also in the fact that through the redistribution of monetary resources and through payments are controlled by the ruble.

As indicated above, the movement of various goods from one enterprises or farms to others, as well as from enterprises and farms to the population, the receipt of

¹ J. V. Stalin, *Questions of Leninism*, ed. 10th, p. 403.

various services—all this is carried out through the circulation of money or non-cash payments. This means that, in addition to the production side, the activity of an enterprise or economy has its own financial side, since the enterprise buys and sells for money, expresses all its operations in money, and maintains its financial economy, each enterprise or household has its own financial side, so how an enterprise buys and sells for money, expresses all its operations in money, runs its financial economy.

Cost accounting requires the correct organisation of finance both for the sector of the national economy as a whole and for individual enterprises and organisations. Correctly organising the financial economy means: 1) it is good to establish accounting and reporting at every enterprise, in every economic organisation; 2) strictly observe the financial and payment discipline; 3) to minimise overhead costs, to comply with the strictest economy regime; 4) ensure the maximum acceleration of the turnover of funds; 5) in general, to ensure a reduction in production costs, an increase in socialist profitability.

The importance of the correct organisation of finance, mastering them was especially noted by Comrade Stalin at the All-Union Conference of Workers socialist industry in February 1931. Comrade Stalin said:

“We have doubled industrial production compared to with the pre-war. We have created the world’s largest agricultural production. But we could have done even more if we tried during this time to truly master production, its technology, its financial and economic side”¹.

The state of the finances of an enterprise or industry is one of the most striking indicators of the quality of their work, success in performing them of their plans.

Each enterprise spends on the production of goods raw materials and fuel, pays workers’ wages, reimburses the

¹ J. V. Stalin, *Questions of Leninism*, ed. 11th, p. 329.

depreciation of machines and tools (depreciation), general labour costs, etc. All these costs associated with the production of goods are the cost of the latter. The less raw materials and fuel consumed and auxiliary materials, the higher the labour productivity, the better the salary system ensures payment in accordance with the quantity and quality of labour expended, the lower the cost of production of goods, the lower, therefore, the cost of this product. The enterprise should receive for its products such an amount of money that would not only be not lower than the cost, but would also slightly exceed the cost, would give the enterprise some profit, which would provide the possibility of expanding its work.

It is clear that an enterprise cannot set any prices for its goods. Under capitalism, commodity prices are formed on the basis of the law of value, which acts spontaneously, regardless of the producers. In our Soviet economy, spontaneity has been eliminated. Prices of goods are established by the state in a planned manner and are mandatory for every enterprise. If, for some reason, the actual cost of the production of goods at a given enterprise exceeds the planned cost, then this still does not give the enterprise the right to increase selling prices. The planned selling prices established by the state are strictly obligatory; exceeding them is a crime, which is punishable by law.

On the contrary, the enterprise that has achieved a lower cost compared to the planned one will have a surplus increase in savings, some of which will go to improve working and living conditions of workers of this enterprise. The financial economy of such an enterprise will become even stronger; it will be in a flourishing state.

Comrade Stalin's instruction—to master the financial and economic aspects of the enterprise—signifies such a formulation of work at the enterprise in which strict compliance with and would be ensured re-fulfillment of planned targets for cost reduction, strict adherence to planned selling prices, establishment of a strict

correspondence between expenses and revenues of the enterprise, good organisation of accounting for all components of income and expenses, and an increase in the company's accumulations.

The first duty and task of the financial system is to promote, through ruble control, a better organisation, a better organising the work of enterprises of the socialist economy on the basis of introducing cost accounting and strengthening planning and financial discipline.

V. I. Lenin in 1921 pointed out that the task of transferring enterprises to self-financing is, first of all, to: break-even: the activity of each enterprise.

"This should be monitored by the V. S. N. H., but even more so by the People's Commissariat of Finance, through the State Bank and through special inspectors, because it is the People's Commissariat of Finance, not being directly interested, that is obliged to establish real, real control and verification"¹.

The peculiarity of the activity of the financial system lies in the fact that it acts directly in the sphere of monetary circulation, monetary economy, organises and carries out the distribution and redistribution of funds, directs and regulates cash flows, by numerous threads is directly connected with finance socialist with and with monetary incomes and expenditures of the population.

Control tasks carried out by financial and credit authorities are reduced to that; to stimulate the strengthening of cost accounting and the introduction of the strictest planning discipline. Thus, control over the ruble should contribute to the growth of the productivity of social labour, the protection and strengthening of socialist property.

¹ V. I. Lenin, Soch., Vol. XXIX, p. 420. VSNH—the Supreme Council of the National Economy, which then managed the state industry. Subsequently, the Supreme Council of the National Economy was reorganised into a number of industrial people's commissariats.

By releasing funds to economic organisations only for the needs strictly established by the plan, the financial system must check how the allocated funds are spent and not allow funds to be used not for their planned purpose (for example, to cover breakthroughs in the implementation of plans, etc.).

By establishing as indisputably mandatory payments deductions from profits and taxes, the financial system should stimulate to conduct the struggle of economic organisations for the growth of planned accumulations, to check the expediency of spending these accumulations, the state of funds economic agency, to monitor the implementation of plans to reduce the cost and distribution costs, to deal with violations of the planned price policy for strengthening planning and financial discipline.

Banks in the process of lending and making settlements control the financial economy of economic organisations, the implementation of plans production and accumulation, contribute to the acceleration of trade, fight against exceeding the planned wage fund, for strengthening contractual relations between economic organisations, for strengthening payment discipline.

Soviet finance is a system of forms and methods of systematic use of money by the socialist state in order to control the ruble for the production and circulation of goods, to stimulate socialist accumulation and the distribution of national income. By means of finance on the basis of cost accounting, the socialist state distributes and redistributes funds in the interests of increasing social wealth, systematic growth in the well-being of the citizens of the USSR, strengthening the socialist state, strengthening independence and strengthening the defence capability of the socialist homeland.

The main financial levers of the Soviet state are the budgetary system and the State Bank. The budget of the USSR accumulates part of the savings of various sectors of the economy and part of the income of the population and directs them either directly or through a system of special

banks for the needs of socialist construction.

The state bank (and to some extent special banks) accumulates temporarily free funds of economic agencies and the state budget, providing them to other organisations in need of temporary increase in working capital.

6. The Struggle of the Party against Counter-Revolutionary Perversions and Sabotage in the Field of Finance, Money Circulation, Credit

In order to successfully apply finance, money and credit in socialist construction, the party needed to develop a theory of finance, money and credit in relation to the conditions of the dictatorship of the working class, it was necessary to wage an irreconcilable struggle with all kinds of hostile theories in this area. It was necessary to wage an irreconcilable struggle against all kinds of counter-revolutionary elements that were trying to undermine the monetary, credit, budget system in order to destroy the socialist economy and restore capitalism. It was necessary to expose their anti-Marxist content behind the “left” phrases with which the enemies of the people were disguised, to show that opportunism consists not only in outright denial Marxism, but also in attempts to cling to certain outdated provisions and turn them into dogmas that hinder the revolutionary struggle.

In order to use finances in the service of socialism, the Party had to crush all the capitulators in this sector of socialist construction, who ultimately turned into hirelings of foreign intelligence services, into an unscrupulous gang of spies and saboteurs.

In this defeat of the enemies of socialism and their enemy “theories” the role of Lenin and Stalin is exceptionally great.

On the basis of Lenin's propositions, developing them brilliantly, Comrade Stalin created a coherent theory of Soviet money, credit, and finance.

Comrade Stalin has completely defeated all the attempts of the restorers of capitalism to present our finances, money, and credit only as a kind of capitalist finance, money, and credit. He showed how these tools and methods of the capitalist economy were transformed into the tools and methods of socialism.

Comrade Stalin created a coherent doctrine about the sources and rates of the country's socialist industrialisation, about the role and significance in this matter of the Soviet budget, Soviet banks, credit, taxes and loans. He gave the deepest coverage of the content and role of cost accounting, the struggle for the strictest economy, for the correct organisation of the finances of enterprises and various sectors of the national economy.

Comrade Stalin showed the greatest role of finance, money, credit in organising correct relations between the working class and the peasantry, between town and country, in remaking the peasant economy along the lines of the Leninist-Stalinist cooperative plan, in the fight against the kulaks. He showed the great importance of finance in the struggle for the victory of the new, collective-farm system in the countryside, for the organisational economic and economic strengthening of collective farms, for the growth of the cultural and prosperous life of the Soviet people.

Comrade Stalin created the doctrine of the need for money up to the end of the first stage of communism—the socialist stage of development, revealed the special laws of Soviet money circulation, the special foundations of the stability of the Soviet currency.

All sorts of Trotskyist and "leftist" elements tried to portray the matter as if it were money and the financial system; generally "die off" immediately after the establishment of Soviet power. The trotskyist Preobrazhensky developed a "theory" according to which it turned out that

Soviet money is “real money” in the case when it serves the relationship between the socialist and private sectors of the national economy and within the private sector, and here they seem to be no different from money capitalist economy. As for the socialist sector of the national economy, within it money had already ceased to be money, and had become only simple “calculation signs.” From this it followed that there was no need to take care of the stability of Soviet money, that one could consciously go to the destruction of the monetary system and use emission for the transfer of funds from peasant farms, for the “expropriation” of the peasantry.

It is not difficult to understand that this counter-revolutionary ‘theory’ meant to break the alliance of the working class and the peasantry, to disrupt the socialist construction.

The trotskyist and hiring foreign intelligence services Sokolnikov “made a statement that our entire monetary and credit systems are state capitalist, since they are allegedly imbued with the principles of the capitalist economy.

On the basis of the Leninist-Stalinist teaching about the victory of socialism in one country, on the basis of Stalin’s instructions about the leading and decisive importance of the socialist structure of the economy, the party defeated. Counter-revolutionary theories, representing the Soviet economy as a mechanical combination of various structures, as an arena of hostile clashes between the working class and the peasantry.

Comrade Stalin defended, developed the doctrine of the victory of socialism in one country, showed the difference between internal and external contradictions, showed the independent nature of the development of the USSR and thus illuminated with the utmost clarity the real essence of all categories of the Soviet economy.

Comrade Stalin left no stone unturned from all these pseudo-scientific “theories” of the Trotskyists and Zinovievites, showing a radical change in the content and

purpose of money, credit, finance in the hands of the Soviet state. The 14th Party Congress indignantly rejected the Trotskyist-Zinoviev proposals and enthusiastically adopted the Stalinist plan for the socialist industrialisation of the country.

Comrade Stalin showed the enormous importance of the struggle to strengthen the Soviet ruble for the implementation of socialist industrialisation countries to strengthen the alliance of workers and peasants.

With the same treacherous aims as the Trotskyists, the right-wing restorers of capitalism—the Bukharinites—concocted the theory of the “decay of the class struggle”, the theory of “peaceful “growth of the kulak into socialism. According to this “theory”, it turned out that there was no need to fear the growth of savings in kulak farms, there was no need to limit these savings, since the kulaks allegedly had nowhere to go anyway, and they were gradually “growing” into the socialist economic system. Bukharin’s counter-revolutionary slogan “enrich yourself!” was also connected with this. At the same time, right-wing opportunist elements came out with articles in which they “proved” that our Soviet money, credit and finance are only a variety of bourgeois categories, which, therefore, should use the same techniques and methods in their use as are used by bourgeois states, and what needs to be limited “interference” of the state in the economic to unleash the elements market.

Comrade Stalin, developing the theory of building socialism in one country, showed that the possibility of building socialism is not yet a reality. “In order to turn this opportunity into reality, it was necessary to ensure the implementation of industrialisation country and the collectivisation of agriculture, it was necessary to launch a decisive offensive against the capitalist elements, to create conditions for the elimination of the kulaks as a class, for the elimination of capitalist classes in general. And for this it was necessary to smash the kulak Rykov-Bukharin group, it was necessary to smash its “theories” about the drift in the

development of the Soviet economy, about NEP as “freedom of the market”, about the “fading” of the class struggle, and similar anti-Leninist propositions. Comrade Stalin showed the ways of using money, credit, and finance in the fight against the capitalist elements of town and country, revealed the role and significance of money, credit, finance in the struggle for socialism, in the unfolded Bolshevik offensive.

The counter-revolutionary financial “theories” have played a significant role in veiling the direct sabotage activities of the enemies of the people. It is known that sabotage in the practice of carrying out the credit reform in 1930 was covered by the “leftists” theories that asserted that under socialism money allegedly “withers away”, and demanded on this basis, the transition to direct product exchange, jumping over a whole stage and ignoring the task of further strengthening the ruble.

The exposure and defeat, under the leadership of Comrade Stalin, of the counterrevolutionary plans of the worst enemies of the people—the Trotskyists, Zinovievites, Bukharinites, bourgeois nationalists, all kinds of “left” opportunists—and their “theories” were a necessary condition for the victories of the Stalinist five-year plans, the use of money and finance in the service of socialism.

Enemies of the people constantly tried to push through practical measures aimed at undermining Soviet finances. They brought deceitful satisfaction, trying to hide their betrayal. From the first days of the revolution, they demanded the immediate abolition of money. Distorting the party directives, the Trotskyite-Bukharin counter-revolutionary gang tried all the time to direct practice in such a way as to weaken the socialist elements of the economy. Direct sabotage was, to one degree or another, a constant element of the enemy’s work.

In the first months of the existence of Soviet power, counter-revolutionary elements, who had settled in the financial apparatus, carried out sabotage at the behest of the former. the capitalist masters in the expectation that the

Soviet power would not be able to master such methods and instruments of the bourgeois economy as money, credit, banks, etc. The plans of the enemies failed, sabotage was broken, despite their support from the traitors to the revolution, Pyatakov and others. The dictatorship of the proletariat began to create its own financial apparatus, its own financial system.

During the transition to peaceful work to restore the national economy, when V. I. Lenin and J. V. Stalin recognised the stabilisation of the Soviet ruble as the most important task, the enemies of the Soviet government, in the interests of the restoration of capitalism, demanded a further devaluation of paper money, a postponement of monetary reform, the unleashing market elements. Admiring the “might” of capitalism, not believing in the possibility of socialist development of our country, they demanded large concessions to private capital. Bukharin and Sokolnikov proposed to eliminate the monopoly of foreign trade, thereby seeking to establish the complete dependence of the economy and financial the position of our country from the imperialist states. Trotsky and his supporters—Radek and others—demanded recognition of the tsarist government’s debts cancelled by the Soviet government, offered to concession industries that were vital for the Soviet state, and to develop industry by exploiting the peasantry. Hiding behind arguments about self-financing, the Trotskyists demanded the closure, “because of the unprofitability”, of the largest heavy industry enterprises, for example, the B. Putilov plant in Leningrad, now the Kirov plant. In the future, Sokolnikov and others demanded the introduction of gold circulation, quotations of the Soviet currency on foreign exchanges, seeking to undermine the Soviet currency and plunder the gold reserves of the Soviet state in favour of capitalism. The Party exposed the hostile nature of these proposals and stopped the attempts of the counter-revolutionaries to direct the country to the path of submission to capitalism.

Defeated in open battle, the Trotskyists and Bukharinites took the path of deception and double-dealing. Their double-dealing, provocative activities especially intensified during the struggle for the collectivisation of agriculture. With the transfer of the peasant masses to collective farms and the pursuit of the policy of liquidating the merchant class as a class, the last hope of the counter-revolutionary elements, who had lost all support within the country, collapsed. The Trotskyite-Bukharin gang tried in every possible way to delay the victorious march of socialism, and was engaged in organising sabotage, espionage, sabotage, and murder. In the field of finance, this was expressed in the desire to slow down the restructuring of forms and methods of financial work in accordance with new tasks, to distort the implementation of financial reforms carried out by the party and the Soviet government. The sabotage of enemies of the people in the field of finance was one of the methods of their subversive activities aimed at restoring capitalism in the USSR with the help of foreign capital.

Comrade Stalin showed in a timely manner that the Trotskyists and Bukharinites who penetrated the ranks of the Communist Party, disguising their counter-revolutionary activities with “ideological”, “principled” disagreements with the party line, had long turned into direct agents of the foreign intelligence services, seeking by any means to blow up the party from within, weaken the proletarian dictatorship, undermine the Soviet economy and thereby restore capitalism in our country.

The Soviet intelligence agencies, with the support of the entire people, defeated gangs of saboteurs and murderers, spies and saboteurs, cleared the way for new victories of socialism, for better use of all levers of the dictatorship of the working class, including budgetary and credit ones, in the interests of socialist construction, in the interests of strengthening the might of our socialist homeland.

The XVIII Party Congress adopted a magnificent programme of economic and cultural development for the

third Stalinist five-year plan, which opened a new phase in the development of the Soviet economy, the phase of completion of the construction of socialist society and a gradual transition from socialism to communism. Executing this program will mean a tremendous step forward in solving the main economic task of the USSR—to overtake and overtake, economically, the advanced capitalist countries.

Approving the Third Five-Year plan for the development of the national economy of the USSR, the XVIII Party Congress pointed to the need to improve budgetary and credit work, further introduce cost accounting, strengthen the fight against mismanagement, and strengthen the Soviet ruble. The fulfillment of these instructions will contribute to the implementation of the great tasks of the third Five-Year plan under the brilliant leadership of the leader J. V. Comrade Stalin.

CHAPTER II. FINANCE, CASH CIRCULATION AND THE CREDIT SYSTEM OF RUSSIA BEFORE THE BOURGEOIS-DEMOCRATIC REVOLUTION OF 1917

1. Finance, Money Circulation and the Credit System of Russia after the Abolition of Serfdom

From the second half of the XIX Century, after the unsuccessful Crimean War of 1853-1856 and the abolition of serfdom (1861), Russia finally entered a period of accelerated capitalist development.

In the 1860s, an intensive growth of the railway network and the mining industry began in Russia. In the 1870s, a large machine textile industry appeared (and developed rapidly). The industrial proletariat is growing rapidly; cities and factory settlements are growing rapidly.

“And after the 1861, the development of capitalism in Russia proceeded with such rapidity that in several decades transformations took place, which took whole centuries in some old European countries”¹.

Changes in the country’s economy could not but entail changes in the political superstructure.

If we cast a general glance at the change in the entire structure of the Russian state in 1861, it must be admitted that this change was a step towards the transformation of the feudal monarchy into a bourgeois monarchy. This is true not only from the economic, but also from a political point of

¹ V. I. Lenin, *Works*, vol. XV, p. 143.

view. Suffice it to recall the nature of the reform in the field of court, administration, local self-government, etc. of the reforms that followed the peasant reform of 1861, so that those in the correctness of this position”².

These reforms should have affected the area of public finance directly related to the economy, especially since the financial policy of the autocracy brought Russia to the brink of state bankruptcy by the beginning of the second half of the XIX Century.

The military defeat of tsarism in the Crimean War of 1858-1856 reduced to zero the very dubious financial achievements of the second quarter of the nineteenth century, which are usually associated with the name of Count Kankrin, Minister of Finance under Nicholas I. “Well-being” achieved through the brutal exploitation of the population did not stand the first serious test.

By the time of the reforms of the 1860s and 1870s, the country had arrived with a completely disordered monetary circulation, with huge budget deficits, with an archaic (and, moreover, completely looted by incessant raids from the state treasury) credit system, with a huge, mainly external, public debt. Taxation was based on the poll tax, established in the Petrine era, and on indirect taxation, most of it in the form of pay-offs. The whole burden of the tax burden lay almost entirely on the completely ruined, starving peasantry. The second” draft”, taxable class was the urban philistinism. The ruling class (the nobility, clergy, bureaucracy, and other “higher” classes) was completely free from all taxation. Embezzlement, illegal extortion, and extortion have built a strong nest in the financial apparatus. The budget work and in general all the financial operations of the state were shrouded in deep secrecy. State control existed only on paper, but in fact the activities of the financial apparatus were completely uncontrolled.

² Ibid., p. 96.

In the midst of an impending financial collapse, the autocracy takes the path of partial reforms in the field of finance, avoiding fundamental transformations in every possible way. They strove with great perseverance feudalists to preserve the rotten through and through the financial system of Russia. They yielded out of necessity, moved at a snail's pace, but each of these steps inevitably represented a step towards a bourgeois monarchy.

The bourgeois character of the financial measures of post-reform Russia is most clearly manifested in the reform of the credit system. Until the 1860s, there were no private banks in Russia. Their organisation was prohibited by law. Credit functions were carried out by a system of state credit institutions, most of them created in the second half of the eighteenth century. By the middle of the XIX` century, the resources of these banks were partly frozen in the mortgage debts of the landlords, and partly plundered by the state, which looked at the funds of the banks as a source of covering the deficit. The emerging capitalist turnover demanded new forms of credit services. In 1860, the outdated and bankrupt network of old state credit institutions, designed exclusively for p landowners, was liquidated. To revive trade turnover and simplify the monetary credit system, the State Bank was established. The construction of a private credit network begins. In 1863, the first mutual credit society was founded in St. Petersburg. In 1864, with the direct financial support of the State Bank, the first joint-stock commercial bank with a capital of 5 million rubles was established. At the beginning of the 1870s, the first small credit institutions savings and loan partnerships appeared. Within a decade, the number of joint-stock commercial banks risen to 31; there were already dozens of mutual credit societies; the number of urban public banks reached 181, and savings and loan associations—up to 729. The turnover of the entire system of short-term credit was growing rapidly.

Simultaneously with the development of the short-term

loan system, a network of mortgage lending institutions appeared and developed. In 1861 the St. Petersburg City Credit Society was established to issue loans secured by urban real estate. This form of lending institutions quickly took root and was spreading rapidly.

In 1866, the first mutual land credit society was organised, issuing mortgages, clearly designed to attract foreign capital. Since the 1870s, the development of a mortgage loan in a joint-stock form (joint-stock land banks) begun.

Finally, in the 1880s, the mortgage credit system was crowned with the organisation of two state estate mortgage institutions: in 1882 the State Peasant Land Bank was established and in 1885—the State Noble Land Bank.

Like the entire process of Russia's economic development during this period, the development of the credit system is dual and contradictory. The estate character of state mortgage institutions, an abundance of land banks, the credit policy of the State Bank, aimed at supporting the noble land tenure, testify to the still significant pressure of the old order. However, the rapid growth joint-stock commercial and city banks, the development of savings and loan partnerships, a large increase in the turnover of the entire system of short-term credit, the joint-stock form of organisation of banks—all this undoubtedly confirms the bourgeois nature of the events that took place changes in the credit system.

The process of adaptation to the new conditions of monetary circulation was much more complicated: Constant fluctuations in the exchange rate of paper money slowed down the development of capitalist relations. Growth of industry, domestic market, money economy in the countryside demanded stabilisation of the currency. The same was insistently demanded by the interests of the state external credit, the desire to attract foreign capital to the country: In 1862, the government made an attempt to restore the exchange of "credit notes" for metal. The

opening of the exchange is being prepared by measures to increase the exchange rate of the ruble. To replenish the State's meagre metal exchange fund, an external loan of £15 million is being made. However, the exchange, which began in 1862, was terminated a year later due to the almost complete exhaustion of the exchange fund, which dropped to 8.7 percent the money supply circulating in the country. The attempt to stabilise the currency, undertaken in the interests of the emerging bourgeoisie, failed. The reasons for the failure of the reform lay primarily in the country's economic backwardness, in the weakness of its economy, in the disorder of its financial system. Along with this, a significant role in the failure of stabilisation was played by the resistance shown to the reform to the landowners—serfs. Noble landowners—exporters of agricultural raw materials and large debtors on mortgages—were interested in preserving depreciated currency. They met the reform with hostility and in many ways contributed to its failure.

The state budget underwent significant organisational restructuring in the 1860s of the twentieth century.

Until 1862, the state budget of tsarist Russia was a strictest state secret. The autocracy diligently protected the content of the state list of income and expenses from any publicity.

Only in 1862 the tsarist government was forced to start publishing the budget: the state list for this year was first published in the official press¹. However, such a publication was not genuinely public, since there was no control over the preparation (as well as over the execution) of the budget... The published data were falsified in every possible way in

¹ In fact, this was not the first time the Russian budget was published. Two years earlier, the contents of the state budget had been published in the illegal foreign press, namely in Herzen's *Bell*, but this was done, of course, contrary to the intentions of the tsarist government.

order to conceal the exploitative essence of the tsarist financial policy.

Simultaneously with the publication of the budget, a number of measures were started aimed at achieving formal unity of the budget and the unity of the budgetary fund. Individual ministries and main departments were deprived of the right to have at their disposal extra-budgetary funds, funds and capital. All these funds and funds were included in the budget. The validity of the budget estimates was established, a new, uniform budget classification was introduced, a certain procedure for the movement of loans and the production of oversized expenses was established. State control has also been partially reorganised. He is entrusted with a preliminary check of departmental estimates.

This whole budget reform, which received (by the name of its author) the name of Tatarinov's reform, however, did not in the least touch the internal content of the budget. It was a direct consequence of the 'development of capitalism in Russia and meant a partial penetration into the budget of the basic principles of bourgeois budgetary rights: publicity, the unity of the budget and the unity of the cash.

Among the reasons that forced the autocracy to reform the budgetary system, the pressure of foreign capital was of the greatest importance. The autocracy could not do without external loans, while the creditors demanded clarity and at least an external order in the budget.

Changes in budget law, the restructuring of budget technology, the introduction of bureaucratic control and revisions of budget documents could not, of course, eliminate the budget deficits that had become chronic. For 30 years (from 1860 to 1890) the Russian budget was reduced without a deficit only once. The budget grew incessantly, despite all the efforts of the financial department to squeeze government spending. In 1860, the amount of budget expenditures was 438.2 million rubles; in 1892 it was already 1,125.5 million rubles, that is, it increased almost 2.6 times.

The burden of an enormous political debt, the incessant policy of wars and colonial conquests, endless handouts to the nobility, and growing spending on the fight against the revolutionary movement drove the amount of budget spending upwards as before. But to these old reasons for the growth of expenses, new ones are added under the conditions of the development of capitalism. The budget becomes a source of financing for individual, most powerful groups of the emerging bourgeoisie. This process manifested itself most clearly in the railway policy of the autocracy.

Among other reasons that caused the defeat of Russia in the Crimean War of 1853-1856, impassable roads, and most importantly, the economic and military weakness of the state, played an important role. In the mid-60s, a period of intensive railway construction began. The autocracy encourages this construction in every possible way, seeing in it, first of all, one of the means of strengthening its shaken military might¹.

The government encourages the inflow of private, especially foreign, capital into the railway business; generously distributes government guarantees for private railway loans, providing private capital with a large return on the operation of the built lines, provides it with all sorts of benefits and privileges. Joint-stock railway companies are growing like mushrooms; there is a frenzied excitement, grunderism, and speculation around railway construction. Receiving state guarantees and profits, railway companies

¹ The military-strategic nature of the Russian railway construction of this period and its extreme burden for the budget of Russia repeatedly Engels emphasized, In a letter to K. Marx (April 14, 1869), Engels says: ...will start wars before they are not, two railway lines are ready—to the Black Sea and Prut. Russians are building now like madmen, and borrowing money like madmen—in three years about 47,000,000 (!) pounds; this is mostly a cost future war “(K. Marx and F. Engels, Soch., vol. XXIV, p. 189):

are predatory in their construction and even more predatory they operate the built lines. All losses plus a guaranteed minimum profit (usually 5 percent). share capital) are covered by the state budget. Millions of dollars are being pumped into the pockets of capitalists.

The economic crisis of the mid-'70s and the Russo-Turkish War of 1877-1878, which cost Russia more than 1 billion rubles, somewhat suspended the railway fever. The government, forced to save, e turns to the state-owned railway building and involuntarily leads it to a smaller size. But the weight of old obligations to joint-stock companies still weighs on the state budget. A new railway policy is emerging and developing—the policy of buying out private railways to the treasury, motivated by considerations of economy, but actually dictated by the interests of the bourgeoisie, which seeks to free up the money invested in railway construction, “the construction of capital to direct them to other, more profitable sectors of the economy. During the decade (1881-1891), the treasury more than 7,2 thousand versts of private railways were purchased. During the same period, more than 7 thousand versts of state-owned railways were built. However, neither the state construction, nor the purchase, nor the strengthening of the “control” of the state over private railway companies did not reduce the budget expenditures to cover the losses from the exploitation of the railway network. The railways continued to be a gigantic pump, pumping budget funds into the bottomless pockets of Russian and foreign grunders and speculators, while the state-owned exploitation of railways, ransom payments, bureaucratic “control” over private roads, and state “regulation” of railway tariffs themselves became the scene for the flourishing of bribery, embezzlement, and all sorts of other dark machinations.

An even more painful influence on the growth of budgetary expenditures was exerted by military expenditures and expenditures on repayment of the state debt. The growth of these costs can be judged by the following data:

Budget expenditures	1860	1887
1. Its total volume budget (in million rubles).	438.2	931.0
2. Naval expenses (in million rubles)	128.8	251.2
3. Public debt expenditures (in million rubles)	112.1	280.9
4. The share of military expenditures and expenditures on the state debt in the budget (percent) ...	55.0	57.1

With the enormous and ever-increasing share of military expenditures, as well as expenditures for the maintenance of the clergy and the main stronghold of despotism—the Ministry of Internal Affairs, that is, the gendarmerie, police and prisons—expenditures on public education, in full accordance with the policy of obscurantism pursued by the autocracy,—remained at an insignificant level—less than 2.5 percent of the total budget.

Under the pressure of the new economic situation, in the conditions of forced growth of budget expenditures, the system of state revenues of the autocracy, primarily the tax system, begins to undergo changes.

The serf-owners tenaciously held on to the feudal tax system, seeing in it one of the foundations of their power. They defended their rights and privileges to the last opportunity, yielding only where it least of all hit their immediate interests. That is why the most radical shifts ‘most likely occurred in the system of indirect taxation. In 1863, the ransom¹ in the drinking business was liquidated, the state salt regalia was destroyed. The excise form of taxation is developing rapidly and widely. With an almost continuous increase in the size of the previous excise taxes in

¹ Buy-offs were the transfer by the state to a private person of the right to levy a particular tax. They were a source of enormous profit for tax farmers, representatives of commercial capital. Payoffs were one of the primary capitalist accumulations in the period of the disintegration of feudalism.

the range of excisable goods more and more new objects (matches, oil products, etc.) of mass, mainly peasant consumption, are involved. In only 12 years, from 1881 to 1892, the amount of excise receipts (excluding excise tax on drinks) rose from 16.5 million rubles up to 75.3 million rubles, i.e. 4½ times. The excise tax from drinking was the largest source of income, the mainstay of the entire state budget.

In the area of customs taxation, after the abolition of the preferential customs tariff that had been in effect for a very short time, post-reform Russia “is firmly taking the path of the most ardent protectionism. State serf owners, in every possible way supporting the landlord’s export of grain and agricultural raw materials, at the same time embark on the path of customs protection of the “domestic” industry, and create favourable conditions for its development. Import customs tariffs on manufactured goods are revised almost annually and upward each time. The culmination point of Russian protectionism during this period, the customs tariff was introduced in 1891.

The key question in the restructuring of direct taxes was the question of the fate of the poll tax, a crude collapsible regressive tax that bound the population with mutual responsibility. The abolition of the poll tax would mean not only the destruction of the obsolete tax institution, the loss of several tens of millions of rubles a year, but it would inevitably turn into the “beginning of the end” of the entire system of estate taxation. That is why the serf-owners fought against its abolition. Yielding, however, to the pressure of the new force, the autocracy goes to a partial solution of the problem. In 1868, the capitation tax and the associated mutual guarantee in cities from the bourgeois class were cancelled). The nascent urban bourgeoisie is freed from the oppression of feudal duty; in the village, the poll tax was not only preserved, but even increased twice. Only in 1886 was the abolition of the poll tax from peasants on the territory of European Russia followed, while in Siberia and the Caucasus, which were colonies of the autocracy, this legacy of the

military-feudal system lasted until the beginning of the XX. Century.

The abolition of the poll tax led to a reduction of state revenues by about 55-57 million rubles a year. This reduction was more than offset by the same peasantry by raising indirect taxes and quitrent taxes.

Abolition of serfdom in 1861 was carried out, as is known, not by the rebellious people, but by the government.

“The peasants were ‘liberated’ in Russia,” wrote Lenin, “by the landowners themselves, and by the government of the autocratic tsar and his officials. And these “liberators” conducted the matter in such a way that the peasants went “to freedom” stripped to the point of poverty, came out of slavery to the landlords in bondage to the same landlords and their henchmen. The noble landowners “liberated” the Russian peasants in such a way that over a fifth of the peasant land was cut off their own, sweat and blood-watered peasant land in favour of the landlords. For that, there is a tribute to yesterday, the land the peasants were required to pay a ransom, him slave owners”¹.

The peasants were forced to buy out their own land, forced to pay exorbitant prices for it against the real price. The redemption operation was organised by the state. The state paid the landlords the value of the land that went to the “liberated” peasantry by issuing bonds to the landowners that brought in 5 percent income. The peasants of the age of 49 were paid by the debtors of the state, who were obliged to pay redemption payments during the treasury, which significantly exceeded the amount of the state’s obligations to the landlords.

“It’s not a secret for anyone,” wrote V. I. Lenin, “that the” blessing “of the state redemption consisted in the fact that the treasury ripped off more money from the peasants for land (in the form of redemption payments) than it gave to

¹ V. I., Lenin, Works, vol. XV, p. 109.

the landowners!”¹.

“Benefit” of the state in relation to the “liberated” peasants, it will become even more evident if we add that, in settlements with the landlords, the treasury withdrew from them (that is, included in the redemption payments of the peasants) all the old, it seemed, would be already hopeless, their debt to liquidated state banks. Thus, the peasants were forced to pay exorbitant prices for the land, pay off the lord’s mortgage debts and take on a new burden of state taxes—this was the real essence of the redemption operation.

As a result, the landlord peasants were forced to pay about two billion for the land, which at the time of the redemption was highly valued at 650 million rubles.

The ransom payments were a genuine tax, enormous in size, extremely onerous in structure. They were squeezed out of the starving peasantry in accordance with all the rules of the tax practice of the Russian police state: redemption payments were fixed. In the countryside, the system of estate taxation, which continued to function even after the abolition of the poll tax in 1886.

Restructuring was also imbued with “class” and class interests. In 1875, the state land tax was transferred to the state land tax. The apportionment nature of this tax, when the apportionment was concentrated in the hands of the noble zemstvos, meant that the entire burden of the land tax was transferred to the peasant lands. Large landowners paid pennies.

Characterising the influence of the tax system of autocracy on the peasant economy, V. I. Lenin wrote:

“It is known that taxes and duties from a Russian peasant retained on themselves huge traces of the Middle Ages. We cannot go into details here that relate to the financial history of Russia. Suffice it to point out the ransom—this is a direct

¹ V. I. Lenin, Works, vol. XI, p. 98.

continuation of the medieval quitrent, this tribute to the feudal landlords, exacted with the help of the police state. Suffice it to remind uneven taxation of noble and peasant lands, in-kind duties, etc. We give only the total amount of taxes and duties (according to Voronezh statistics of peasant budgets. The average gross income of a peasant family according to 66 typical budgets) is determined at 491 rubles 44 k., gross consumption 443 p. Net income 48 p. 44 k. The sum of taxes and duties falling on the “average” yard is 34 rubles 35 k. Thus, taxes and duties make up 70% of net income. Of course, this is only in the form of the tax, but in reality it is the former serf exploitation of the “draft estate”. The monetary net income of an average family is only 17 rubles. 83 k., i.e. “Taxes” from a Russian peasant are twice as high as his monetary net income—this is according to the data of 1889, not 1849!”².

As for taxes on the urban population, in the 1860s and 1880s the trade tax was revised, the taxation of inheritances and income from monetary capital was introduced, and the taxation of real estate in cities was established. However, these measures did not in any way affect the foundations of the tax system of the autocracy.

Despite the enormous tax burden, the revenue of the taxes was not sufficient to cover the constantly growing government expenditures. As a consequence, government loans continue to play the role of a significant source of replenishment of government revenues. Moreover, after the peasant reform, the growth of the state debt acquired a particularly rapid pace. Before the reform of 1861, the state debt of Russia amounted to 807 million rubles, in 1861 it reached 1,264 million rubles, by 1876 it increased to 2,949 million rubles, and in 1892 it was already 4,905 million rubles. But the size of its national debt, Russia quickly left behind itself almost. all the advanced capitalist countries of the

² V. I. Lenin, *Soch.*, Vol. XII, pp. 245-246.

world and came into second place (first occupied by France). Characteristic, however, is not only the growth of the state debt itself, 4-5 times higher than the annual budget of the country, but also the reasons for this growth. The state debt of pre-reform Russia was almost entirely a military debt. The military expenditures of tsarism had a significant impact on the growth of public debt after the reform. Suffice it to recall that the Crimean and Russian-Turkish wars, taken together, cost Russia over 1,500 million rubles. However, along with military spending, the state-owned railway construction, the purchase of private roads by the state, and the government's credit and currency measures also had a huge impact on the value of the Russian state debt. The post-reform development of Russian state credit fully confirms Marx's position on the role of state loans in the initial accumulation of capital.

The enormous growth of the state debt made the country more and more a tributary of the foreign and Russian bourgeoisie. The Government debt payments increased from 112.1 million rubles in 1860 to 195.6 million rubles in 1881 and up to 980.9 million rubles in 1887. In the late 1880s, the government began to convert a significant portion of the public debt. This conversion, having somewhat lowered the level of interest on loans, led, however, to a new increase in the capital amount of debt; it became the basis for the widespread development of speculation in bonds of Russian government loans and the enrichment of the banks that carried out this operation.

2. Financial Reforms of the 1890s of the XIX Century

1890s of the XIX Century, after a rather long depression of the late 1870-80s caused by the agrarian crisis, a number of difficult crop failures and the economic consequences of

the Turkish war, an industrial boom begins in the country, associated primarily with increased railway construction. The main features of this upsurge were: the accelerated growth of the heavy mining industry, the intensified process of concentration of production in all branches of industry, the development of new branches of production, new industrial regions and an increased inflow of foreign capital to Russia, not only in the form of government loans, but mainly in the form of investments in the coal, oil and metallurgical industries.

However, despite all this, Russia continued to remain economically backward, an agrarian, petty-bourgeois country.

The country's backwardness was especially great in agriculture, which was going through a severe and prolonged crisis. The reform of 1861 undermined the roots of serfdom. Capitalism developed in the countryside as well. But the development of capitalism was hampered by the preservation of many feudal remnants in the village. The medieval community, the labour system, stretches, enslaving rent, the severity of taxes and redemption payments. hindered the penetration of capitalist relations into the countryside.

"Elimination of these remnants of serfdom, long ago became an economic necessity, and the crisis of agriculture by the end of the XIX. Century became incredibly aggravated precisely because the process of liberating Russia from the Middle Ages was too long, that labour and bondage took too long to "heal". They died out after 1861 to the fact that slowly that the new organism required violent methods of rapid cleansing from serfdom"¹.

The concentration of production, the growth of the proletariat, the incessant intensification of exploitation on the part of "domestic" and foreign capital, political lawlessness—all this awakened the class consciousness of the working people.

¹ V. I. Lenin, *Works*, vol. XII., p. 266.

In the 1890s, the political movement of the working class strengthened and a struggle unfolded for the creation of a Marxist Social Democratic Labour Party in Russia. At the dawn of the twentieth century, Lenin and Stalin created a new type of proletarian party in a bitter struggle.

This was the political and economic situation in which the financial and credit system of Russia developed in the period 1890-1904. The lagging behind of the financial system from the rapid development of capitalist relations turned the financial and credit superstructure into a factor that more and more inhibits the development of the economy. The pressure of the bourgeoisie on the government apparatus intensified and forced the autocracy to a number of significant concessions.

The measures that resulted in these concessions have received in the history of Russian finance the general name of the financial reform of the 1890s. The autocracy's tactics in matters of financial reform was to find a middle line, a common platform on which, at the expense of the working class and the peasantry, the two exploiting classes—the landowners and the bourgeoisie—could agree. This conspiracy was in every possible way supported from outside by the Western European bourgeoisie, whose interest in the Russian economy grew along with the growth of foreign capital invested in the Russian national economy. The implementation of the financial reform was entrusted to S. Yu. Witte, who was appointed Minister of Finance in 1892.

The largest and most important part of the financial reform of the 1890s was the stabilisation of the currency and the establishment of gold monometallism in Russia. The chronic disorder of monetary circulation was increasingly reflected on the country's economy and on its finances. Foreign capital, in the influx of which the bourgeoisie, the landlords, and the government were interested, went to Russia with caution, on extremely difficult conditions for it. Russian funds in a number of countries were not allowed to circulate at all. Conclusion of external government loans—

and the need for them was inexhaustible—it was extremely difficult and very expensive. Settlements on previously concluded loans denominated in gold were extremely burdensome to the country's already passive settlement balance. All this made monetary reform urgently necessary. And although the reform was actually carried out only in 1895-1897, but the preparation for it was carried out gradually, from the late 1870s—early 1880s.

This preparation consisted primarily in the intensified accumulation of gold by the state. The accumulation of gold was achieved by various measures, among which the active policy settlement and trade balance and customs protectionism played a major role.

The trade surplus has already been reached in the late 1870s. The 1880s were characterised by a further incessant increase in the activity of the trade balance, as can be seen from the following average annual data (in million rubles):

	Years	Export	Import	Balance sheet balance (+ active, – passive)
3a	1871–1875	470,6	565,8	– 95.2
“	1876–1880	527,3	517.8	+ 9.5
“	1881–1885	549.9	494.3	+ 55.6
“	1886–1890	630.9	392.3	– 238.6

The trade balance asset grew due to the compression of imports, due to the forced export of grain, due to the starvation of the peasant masses. The formula: “we’re undernourished, but we’ll take it out” was the slogan of the entire foreign trade policy of the autocracy. The bread was exported to ever increasing levels of prices for bread on the world and in fruitful and hungry years. The expansion of the market not only did not stop, but forced the export of grain from Russia to be even more accelerated. For the five years between 1881-1885, on average 301.7 million poods of grain per year in the amount of 300.1 million rubles were exported, and over the next five years of 1886-1890, on average 413.7 million poods per year in the amount of 332 million rubles

were exported. The revenue for 1 pood of exported bread was about 1 ruble in the first half of the 1880s and no more than 80 kopecks—in the second half, and in the early 1890s it was only 67 kopecks for a pood. The government took the most extreme measures to induce the starving peasantry to throw grain on the market. This was facilitated by the system of knocking out arrears and the soldering of the peasantry, which was widely practiced by tsarism.

The industrial upsurge of the 1890s sharply exacerbated the issue of currency stabilisation. The fluctuations of the ruble had an extremely negative effect on the interests of the industrial bourgeoisie. The volatility of the currency hampered external relations, increased the cost of imports of equipment, complicated calculations, and reduced profits.

The monetary reform was carried out by means of and on the basis of the transition to gold monometallism. The introduction of gold monometallism was dictated by the growing ties and increasing dependence of the Russian economy on international capital. Gold monometallism by the end of the nineteenth century was already the dominant system in the capitalist world. Devaluation was also the most acceptable, from the point of view of the ruling classes, method of monetary reform in Russia. It served the interests of the industrial bourgeoisie, as it lowered production costs and, above all, wages. It was carried out in such a way as to satisfy the interests of large landowners, more than 1/3 of the huge mortgage debt of landlords. They were also on the hands of the tsarist government, since the colossal national debt was also significantly reduced as a result of devaluation. Thus, both the ruling classes and their state benefited from devaluation. Only the working people of Russia—the workers and peasants—lost, suffered from the monetary reform. For the working class, the monetary reform, devaluation, brought a new decline in the already low standard of living, a new rise in the prices of basic necessities. For the peasantry, the monetary reform, which strengthened the position of capital, meant an intensification of the decomposition of the

natural peasant economy, the further growth of the kulaks, and the further pauperisation and proletarianisation of the masses.

The working people of Russia suffered from the monetary reform as producers, consumers and taxpayers. They were entrusted with all the burdens of preparing and carrying out the monetary reform; they the huge burden of costs associated with maintaining a stabilised currency were not borne in the future.

Preparing for the devaluation of the ruble and the introduction of gold monometallism, the government, by influencing the money market, achieves stabilisation of the exchange rate of the paper ruble. The current ratio on the market is 1 paper ruble = $66 \frac{2}{3}$ kopecks gold is carefully supported by the state. In the spring of 1895, the government allows the execution of transactions in the gold ruble, and after this the State Bank is obliged to accept payments in gold at the prevailing rate, which is thus fixed by the government and becomes the official course. In January 1897, the minting of 15-ruble imperials, equal in weight and gold content to the previous 10-ruble imperials, was established. The State Bank is obliged to exchange tickets for gold at the rate indicated above.

In August 1897, the State Bank was declared an issuing bank. The Issue Act, basically copying Robert Peel's English Banking Act, established a low-elasticity system of high gold plating up to 600 million rubles. Coating should have been 50 percent of the issued amount; the issue is in excess of 600 million rubles subject to one hundred percent gold plating. The formal completion of the monetary reform was the establishment in November 1897 of a new monetary unit—the gold ruble, containing 17,424 shares of pure gold.

The development of Russia's credit system at this stage was fully determined by the general economic situation in the country. During the industrial boom in 1894-1899, there is a rapid process of concentration of bank capital, an increased interweaving of various links of the credit system

among themselves, the absorption of weak provincial banks by large “capital” banks, the transformation of sole banking enterprises into joint-stock banks, the formation of banking syndicates and consortia. The nature of the relationship between banks and industry is also beginning to change. Despite the prohibition included in the statutes of joint-stock banks, they are strenuously buying up shares in industrial enterprises, speculating with them. Banks’ ties to industry are clearly beginning to expand beyond conventional banking lending and organising settlements, taking on the nature of direct financing of individual large enterprises, “participation” in them.

During this period, the connection between joint-stock banks increased significantly. Russia with foreign capital; the inflow of capital into Russian banks from abroad, mainly from France and Germany, is sharply increasing. A significant part of the shares of the largest banks is concentrated in the hands of the largest bankers in France and Germany. Foreign capital is taking the path of organising new joint-stock banks, wholly based on imported capital (the Northern Bank, organised in 1901 with French capital).

The credit system of Russia, its joint stock banks are made during this period the conductors of the colonial imperialist policy of the autocracy. One of the clearest manifestations of this was the institution in 1895, with solid support from the government, the Russian-Chinese Bank. This semi-state bank, endowed with the right to issue, build roads and ports in China, was organised with extensive involvement of French capital. His board included 4 French capitalist, including the director of the largest Paris-Netherlands bank. The autocracy sought to use the Russian-Chinese bank as an instrument of the aggressive policy in China. In the comment to the charter of this bank it was directly stated that “one of the bank’s tasks should be to strengthen Russian economic influence in China, as opposed to the importance that the British had acquired here”.

The capitalist development of the Russian credit system

has invariably been stimulated by the government. The state bank, which became the central bank of issue, was widely used for this purpose. It was transferred to a new charter, its capital was increased. Having embarked on the path of extensive lending to large private banks, the State Bank launched large rediscounting operations, more and more associated with joint-stock banks; commodity loans, especially for grain (the policy of forcing grain exports), accounting for solo bills and on-call transactions are introduced. The debt on loans issued by the State Bank increased from 259 million rubles at the beginning of 1890 to 406 million rubles at the beginning of 1900. In the interests of strengthening the resources of the State Bank and strengthening its connection with the state treasury, a partial reform of the cash services of the budget (1896) was carried out by merging the cash of the treasury offices and the cash offices of the State Bank.

The state bank was also an instrument in the hands of the autocracy, support for large landownership and the kulaks. This support was expressed in concessional lending for the acquisition of complex agricultural implements, in the large-scale development of loans against grain and in the provision of landlords of a solo bill of exchange.

The “feeding” of large landholdings and the planting of kulak farms were carried out even more intensively with the support of state mortgage banks. Noble Land Bank, established in 1885 for the “issuance of loans to hereditary nobility under pledged land ownership”, enjoyed the special patronage of the autocracy. Paying itself on government loans $4\frac{1}{2}$ –5 percent per year, the government reduces the interest on mortgage loans for landlords to $3\frac{1}{2}$ percent, guarantees bond loans of the Noble Bank, writes off for income account of the State Bank—losses from the issue of mortgage sheets of the Noble Bank. The debt of large landholdings to the Lvoryansky bank increased in 1902 to 778 million rubles.

Developing in the 1890s, the years and the activity of the

Peasant Land Bank: peasant, by name, noble and kulak—by suite. The bank is given the right to purchase at its own expense large estates with their subsequent sale on credit in small plots. The interest on loans is reduced to 4. The size of loans is increased to 90 percent of the cost of the acquired land. The bank, which had a miserable existence for the previous decade, is going up sharply. The debt to the bank from 49.1 million rubles in 1898 grew up to 374.8 million rubles by 1902 the Noble and Peasant banks promoted the development of capitalism in agriculture on the Prussian type.

The economic crisis of the late 19th and early 20th centuries, with a special clearly revealed links between banks and industry, led by the State Bank, joint-stock banks are rushing to help the bankrupt large capitalist enterprises; indebtedness of the banks are growing rapidly; the losses of banks caused by the crisis reorganisation are also growing, especially the losses of the State Bank, which distributed loans with a generous hand.

During the crisis, the State Bank bought up shares of bankrupt joint-stock banks to support them (for example, the Russian Commercial and Industrial Bank), assumed the satisfaction of claims of depositors of collapsed banks, opened a special loan for joint-stock banks for securities (in a total amount of up to 160 million rubles), stopped calculating interest on the current accounts of its clients in order to send deposits to joint-stock banks.

The policy of the State Bank during the crisis led to the fact that people's funds on an even larger than usual scale flowed through the country's central issuing and credit institution into the pockets of "domestic" and foreign capitalists.

The restructuring of the financial system has extended to the area of taxes. However, the changes made in the tax system, with all the significance of individual measures, did not in the least touch the previous foundations of this system. Indirect taxes remained the core of the tax system; their significance is even increasing. The rate on the development

of the system of indirect taxation was the official course of the government. In 1897, this course was openly formulated by Witte, who pointed out that “indirect taxation, which has very precious properties, should be of paramount importance in our tax system.” In the period from 1892 to 1904, all existing excise taxes were significantly increased; for some goods, the increase in excise was made twice and even three times in this short period. The excise tax on matches was increased in 1892 by 100 percent, the excise tax on sugar in 1893—by 75 percent and the excise tax on petroleum products—by 50-63 percent. How much it cost the population can be judged by the following data on the growth of excise receipts (in million rubles):

	1892	1904	Percentage of growth
All excise taxes, except for drinking	75.3	169.91	125.6
Including:			
for sugar	27.5	78.8	186.5
tobacco	27.0	48.7	80.0
petroleum products	12.9	34.8	170.0

However, the centre of gravity of the excise tax did not lie in the taxation of sugar, tobacco or petroleum products. The main source of excise taxes was the taxation of alcoholic beverages. In the mid-1890s, the autocracy embarked on the path of organising a state wine monopoly, gradually concentrating in its hands the entire sale of alcohol and vodka throughout the country. The number of state-owned wine shops in 1904 reached 28.5 thousand, and the number of products sold—69.7 million buckets. The state wine monopoly, created to increase state revenues, did not hesitate to turn into a new way of “fabricating manufacturers” and feeding them from the state budget. Having monopolised the sale of alcohol, the state left the smoking entirely in the hands of the breeders. Buying up the mass of alcohol from the breeders was produced at the so-called “levy” prices. The missing amount was bought from

the auction. The “rake-out” prices set by the Ministry of Finance were just a treasure for the landowners-distillers. So, for example, in 1895 the allotment price for 1 bucket of alcohol (40°) was 68 kopecks, while at the auction only 50 kopecks were paid for it, and in 1903 the price for a bucket was 71 kopecks, respectively and 64.2 kopecks. The concessions to the distillers-breeders were not limited only to the high “appropriation” prices; they were very varied and more than compensated the breeders for the “invasion” of the state in the right of private property in connection with the introduction of the state wine monopoly.

But in some places this was not enough. So, for example, introducing a wine monopoly in the western and Baltic provinces, the government bought from the landowners for 40 million rubles of their “propinational” right, that is, the ancient feudal right to solder the population.

Raising the allotment prices for alcohol, the treasury systematically raised the prices for vodka sold to the population.

The state wine monopoly was a drinking system organised on an all-Russian scale of population, a new source of enrichment for breeders, new opportunities for embezzlement and bribery.

An outrageous mockery of the working people sounds Witte’s report to the tsar that “according to the report of the provincial authorities, the local population... is filled with feelings of unlimited devotion to the throne, seeing in the state wine monopoly a new manifestation of the monarchs concern for the welfare of the population.” In 1905, revenues from the state wine monopoly amounted to 609.3 million rubles (over 30% of all state budget revenues), and expenses—only 167.4 million rubles; thus, the net income from the wine monopoly amounted to 442 million rubles.

The period of the 1890s-1900s is also characterised by a continuous increase in customs taxation. The increase in customs taxes was dictated not only for fiscal reasons. Russian protectionism acquired a number of substantially

new features in this period. Changes in the customs policy of Russia bear rather obvious traces here of incipient imperialist decay. Keeping in mind the fiscal challenges, using customs taxation as a means of protecting the newly created gold currency, the government is shifting the centre of gravity of customs policy towards supporting the emerging monopolies. It widely takes the path of export premiums (sugar, alcohol, matches, textiles), wages customs wars, promotes capital in its external aspirations (to Persia, Turkey, China).

The growth of excise taxes, customs taxes, and revenues from the wine monopoly led to a sharp increase not only in absolute amounts, but also in the share of revenues from indirect taxation in budget revenues. This increase is characterised by the following data:

Years	Total budget revenues (excluding railway revenues)	Including indirect taxation	excise taxes	From these wine monopoly	customs taxes
1890 (in millions of rubles)	959,4	475	64,7	268,4	141,9
1890 (in %)	100	49,5	13,6	56,5	29,9
1904 (in millions of rubles)	1563,7	962,1	170,0	573,3	218,8
1904 (in %)	100	61,6	17,6	59,9	22,5

In the area of direct taxation, the autocracy was limited to only insignificant measures. In 1894, the apartment tax was introduced (taxation of tenants depending on the amount of rent paid), which was a rather crude consumption tax. It fell with its main burden, on the labour income of the poor strata of the urban population, since for the urban bourgeoisie its rates were negligible, and it did not concern the landowners at all. In 1898, a restructuring of the trade tax was carried out, expressed in attracting the profits of

industrial and commercial enterprises to a slightly progressive additional tax levied on top of the basic salary of the industrial tax. The introduction of both of these taxes was purely ostentatious.

A much greater role was played by the cleaning of the direct tax system from its most obsolete, clearly feudal elements, carried out during the period of the financial reform. It was already noted above that at the end of the 1880s, the poll tax was abolished (with the exception of Siberia and the Transcaucasia). By the beginning of the twentieth century, the varieties of the poll tax on the outskirts—"podymny" and other taxes—were cancelled. In 1903, the mutual responsibility of taxpayers in rural areas was cancelled. Mutual responsibility not only tied all members of the rural community with joint responsibility to the fiscal: it attached, tied them to the place, hindered freedom of movement, delayed the ebb surplus labour to the city, to the factory, which was not in the interests of the manufacturers and factory owners. She forcibly restrained the decay of the rural community.

Destruction of leftovers from tax, cancellation of mutual guarantee was a direct concession to the economic situation, dictated by the course of economic development. These were measures not in favour of the peasantry, but in the interests of capital. The conducted during the 1890s, the postponement and rescheduling of peasant redemption payments, which was forced by the huge accumulation of arrears, systematic hunger strikes in the countryside and the growth of the peasant movement. Postponement of the arrears and, in particular, the rescheduling of the capital amount of the peasants' debt for the new 28, 41 and even 56 years meant nothing more than the final transformation of redemption payments into an ordinary estate tax. Tax "benefits" to the peasantry were fictitious—they tightened the tax loop even tighter. At the same time, in the interests of large landowners in 1895, the government exempted the transfer of private land by inheritance from taxation. In 1896,

the state land tax was halved. In 1900, to please the landowners, a law was issued on the limit of local zemstvo taxation of landowners' lands (which allowed for an increase in their taxation by no more than 3 percent per year).

The fiscal results of direct taxation are characterised by the following data:

Years	Total budget revenues (excluding railway revenues)	Including indirect taxation	taxes and fees	From these redemption payments	industrial tax
1890 (in millions of rubles)	959,4	177,3	54,8	88,2	34,3
1890 (in %)	100	18,4	30,9	49,8	19,3
1904 (in millions of rubles)	1563,7	216,4	67,8	81,6	67,0
1904 (in %)	100	13,8	31,3	37,7	31,0

The broad policy of supporting capitalist enterprises, large-scale state-owned railway construction, the purchase of railways for the treasury, and the organisation of a state-owned wine monopoly pushed the government into more and more loans. No loans. the implementation of the monetary reform was not enough; loans were also demanded by the colonial policy of tsarism in China.

In 1892, the state debt of Russia amounted to 4905.4 million rubles... and in 1904—already 6697 million rubles, with most of the increase of the public debt (about 1 billion rubles) falls on external loans. In addition, the debt on loans guaranteed by the government (on loans from private railway companies, obligations of estate mortgage banks) was constantly increasing. By 1904, the amount of government obligations on guaranteed loans amounted to 2,218 million rubles, while the total amount of Russian government debt

was 8,975 million rubles. A significant part of this enormous amount (almost all domestic debt) underwent conversion during the 1890s and the beginning of the 20th century, the main purpose of which was to convert urgent loans into indefinite ones, that is, to free the budget from the obligatory costs of repaying the capital amount of debt. The conversion product was a 4% Russian government rent—the most common type of government loans in the subsequent period. Conversion has somewhat slowed down the growth of public debt payments; with an increase in debt of the states from 1892 to 1904 by 36 percent. public debt expenditures increased by 14%.

The treasury has benefited in some places from the conversion; the joint-stock banks that conducted it, as well as countless Russian and foreign intermediaries, have benefited even more. The endless courtage, commissions, and other methods of placing loans peculiar to the bourgeois state credit clearly showed that the state credit of tsarist Russia had finally entered the broad road of capitalist credit.

Foreign loans of the autocracy increased the country's dependence on foreign capital. The predatory policy of tsarism, the enormous growth of the parasitic expenditures of the state, and the exploiting interests of the ruling classes pushed the government of the landowners and the bourgeoisie into more and more foreign loans. Humiliating themselves before bankers-usurers, various Rothschilds, Bleichroeders and Mendelssohn us, tsarist ministers and diplomats pounded the doorsteps of the London, Paris and Berlin stock exchanges in search of new loans. Tsarism sought to obtain external loans by any means, to the point of bribery of the bourgeois press and the use of shady business intermediaries to play on the money market. There is no need to explain how foreign financiers warmed their hands on loans to tsarism, for which the working people of Russia had to pay the foreign bourgeoisie an ever-growing tribute.

The sources of the state credit in Russia were both domestic and foreign loan capital. In the 1890s, a new, very

significant source appeared—the free funds of the savings banks. {During the five-year period from 1894 to 1899 the number of the box office increased by 89 pr. (to 4,181 units), the number of depositors increased from 1,664 to 3,145 thousand people, the amount of the balance of deposits increased from 330 to 658 million rubles (by 184 percent).

The autocracy made extensive use of the growth in the capital of the savings banks. The tsarist government, “... disposes of these capitals as uncontrollably as everything else that falls into its hands of the property of the people. It quietly “borrows” hundreds of millions of these capitals to pay for its Chinese expeditions, for handouts to the capitalists, etc. landowners, to re-equip troops, expand the fleet, etc.¹.

In an effort to use the capital of the savings banks as widely as possible, the government obliges the savings banks to invest their entire stable balance in government or government-guaranteed loans. Lenin’s data on the use of the stable balance of savings banks in 1899 fully confirm this fact. Of 619 million rubles free funds of savings banks 613 million rubles. were in interest-bearing securities, namely: 230 million rubles in government loans, 215 million rubles in mortgages of land banks, 168 million rubles in railway loans. Savings banks of Russia more and more became an instrument of capital and despotism.

The essence of the financial policy of tsarism and the nature of the reforms carried out in the 1890s are revealed with the greatest vividness when considering the development of the Russian budget. First of all, attention is drawn to the huge growth in the volume of the budget. Between 1898 and 1900, the budget grew by 114 percent. (from 965 to 2,071 million rubles). In fact (if we exclude the huge circulating sums in the railway sector and the wine monopoly), this growth was much less, but nevertheless it

¹ V. I. Lenin, *Works*, vol. V, p. 62.

reached about 60 percent in the indicated period. Neither earlier, until the beginning of the 1890s, nor later did the budget of tsarist Russia know of such growth rates, based on the enormous strain of the country's economic potential, on the huge overburdening of the people with taxes and other payments.

The growth of the budget clearly manifested the predatory policy of tsarism. The state budget was used by the autocracy to nudge industrial growth, to satisfy: the growing appetites of the 'bourgeoisie, for endless handouts to large landowners, for military and colonial adventures. Forcing budget growth: was also associated with the monetary reform and the policy of attracting foreign capital to the country. It was necessary at all costs to demonstrate the "might" and "prosperity" of the tsarist financial system. The growth of the budget and the absence of a budget deficit, this chronic disease of the Russian budget during the entire previous period, should have become an indicator of "prosperity". The autocracy seeks this outwardly. The budget deficit gives way to annual budget surpluses, the so-called "free cash" of the state treasury.

In his analysis of the Russian budget for 1902, V. I. Lenin showed with exhaustive persuasiveness what this "free cash" cost and consisted of, due to which it was achieved. The source of "free cash" was new loans, a new enslavement of the population to tribute to the domestic and foreign bourgeoisie. The systematic "overfulfillment" of the budget in comparison with the preliminary estimates was achieved in a very simple way: the estimates of income were deliberately underestimated. This "financial trick" (Lenin) was needed for both external and internal use. It covered up an extremely unsightly picture of the real state of affairs.

Composition and dynamics of budget expenditures of Russia for 1893 and 1902 are characterised by the following figures (in million rubles):

In total

Goals	Repay ment of public debt	Military expend itures	Marine expenses	Ministr y of Financ e	Ministry of Internal cases	Communica tion routes	obknov costs	Extraor dinary expens es	Total expens es
1893	266,9	236,7	50,8	124,4	83,2	75,6	947,0	113,6	1060,6
1902	286,5	325,6	98,3	335,2	93,2	435,5	1775,9	170,7	1946,6

Expenses for repayment of the state debt, naval and the Ministry of Internal Affairs (police, gendarmerie, prisons) in 1902 amounted to more than 803 million rubles out of 1,763.9 million rubles: the total amount of ordinary expenses shown separately in the table for the Ministry of Justice (41.4 million rubles), Ministry of the Court (15.7 million rubles) and for the maintenance of higher state institutions (3 million rubles), the total amount of direct expenditures directly on the apparatus of class oppression will amount to about 1,870 million rubles, i.e., almost 50 percent the entire budget. The rest of the expenses of the Russian budget differed little from this group of expenses. Suffice it, for example, to point out the 28 million expenditure on the spiritual department (i.e., the ideological indoctrination of the masses in order to keep them submissive to tsarism and the ruling classes), which stands out especially clearly against the background of an insignificant (36 million rubles) expenditure by the Ministry of Education. While the cost of the spiritual department has increased since 1889 almost three times, the cost of the Ministry of Education increased by only half. Only about 25 kopecks, in 1902, the autocracy spent a year per capita according to the estimate of the Ministry of Education. A large amount of expenses for the Ministry of Finance consisted mainly of expenses for the device and maintenance of the state wine monopoly.

The largest consumer of budgetary funds was the ministry, ways of communication; its expenses have increased almost sevenfold over the decade. The state railway economy was an inexhaustible source of enrichment for the bourgeoisie. The scale of this economy grew rapidly.

During the 1890s, the government bought over 14,000 versts of railway tracks from private companies; besides,

about 11 thousand versts were built by the treasury. Along with government construction, private capitalist construction was strongly discouraged. By providing huge benefits for private capital in the railway in fact, the government encouraged the concentration and centralisation of the capital of private railway companies. The number of these companies has decreased threefold, while their capital has increased significantly. Thus, with the direct support of the government at the expense of the state budget, the small Rybinsko-Bologovskaya railway (215 versts) turned into the Moscow-Vindavskaya railway (2446 versts), the Ryazan-Kozlovskaya branch (199 versts)—into the Ryazan-Uralskaya railway (1600 versts). Railway construction was used by the treasury for direct financing metallurgy tycoons, equipment suppliers. By means of customs barriers and outright prohibitions on the import of materials, prices for equipment were inflated to extreme limits. So, during the construction of the Siberian track, the treasury preferred to pay for the rails of the “domestic” production for 2 rubles per pood with full opportunity to get them from the United States for 175 kopecks for a pood. For the railway network of the European part of Russia, the treasury set the price of a rail at 1 ruble 25 kopecks per pood at a market price of 65 kopecks. Favourite suppliers were mainly those metallurgical enterprises in which the participation of foreign capital was especially high.

Strategic considerations were of central importance among the motives that guided the autocracy in speeding up railway construction. The largest strategic construction site and, in general, the largest construction site in pre-revolutionary Russia was the construction in 1892-1901 of the Great Siberian Way. The construction of the Chinese-Eastern Railway in the 1900s, carried out for tactical reasons by the Russian-Chinese Bank, but at the expense of the treasury, also had clearly imperialist, predatory, plundering goals.

3. Finance, Money Circulation and the Credit System of Russia during the Revolution of 1905–07 and During the Reaction Period. Financial Preparation for the Imperialist War

At the very end of the twentieth century, in 1899, the industrial upsurge in Russia was replaced by a severe economic crisis, which lasted until 1904. The class struggle was intensifying. The strike movement in the cities is growing rapidly, and peasant unrest in the countryside is multiplying. The defeat of tsarism in the Russo-Japanese War gives a new impetus to the revolutionary movement of the masses. Under the leadership of the Leninist party of the Bolsheviks, the working class, in alliance with the peasantry, is carrying out the revolution of 1905—the dress rehearsal of the October Revolution.

At the beginning of the twentieth century, capitalism in Russia has entered the monopoly stage of development, the stage of imperialism. The crisis of 1899-1904 accelerated the formation of monopolies. During the first decade of XX. century, the main monopoly associations are formed in metallurgy, coal, oil industries, syndicates appear and rapidly strengthen in the textile, food, rubber industries, monopolistic associations are created in water transport, etc. A fast, much more intense process of concentration is underway production, creation of large enterprises. At the same time and this was especially revealed during the period characteristic of financial capital. As a country of import of capital itself, Russia begins to export capital to China, Manchuria and the countries of the Middle East; it is also involved in the struggle for the re-division of the world, for the spheres of influence (in Persia, in China).

Russia has entered the stage of imperialism, despite the significant backwardness in many respects in a number of

branches of the economy. She was a country "... in which modern capitalist imperialism is entwined, so to speak, with a particularly dense network of relations pre-capitalist"¹.

The development of relations of monopoly capital is accompanied by a rapid stratification of the countryside. After the suppression of the first Russian revolution, the autocracy forced this stratification with the Stolypin reform, pushing the development of capitalism in agriculture on the path painful and slow evolution according to the Prussian type, planting "strong" kulak farms.

The Russian Russian-Japanese war of 1904-1905 and the first Russian revolution of 1905-07 shattered to the ground the entire financial system of the autocracy. According to official, not less than twice downplayed data, the direct costs of waging war exceeded 8000 million rubles. The "free cash" of the Treasury, which by the beginning of 1904 amounted to more than 381 million rubles, melted away in the first months of the war. In the budget of 1904, a huge deficit was formed in the amount of 719.4 million rubles.

Already in 1904, it was necessary to resort to an external loan in France for 300 million rubles at par. This loan was placed through a syndicate of the largest French banks on very difficult conditions for Russia. The real proceeds from the loan were great below par; the loan was short-term—for 5 years. The Russian government had to spend over a million francs in connection with the issue of this loan for the bribery of the French sale of the press alone. The overwhelming part of the funds from the loan had to be left in France in the form of orders from French industry. It had to make concessions in other areas as well:

"France, giving loans to Russia, "pressed" it in a trade agreement on September 16, 1905, having made certain concessions before 1917."¹.

Along with an external loan, in 1904, an internal short-

¹ V. I. Lenin, Op. vol. XIX, p. 136.

¹ V. I. Lenin, *Works*, Vol. XIX, p. 123.

term loan for 150 million rubles was issued. (series of the state treasury). The issue right of the State Bank was exceeded by the issue of 150 million rubles unsecured credit tickets. Country banking system, savings banks were on the edge bankruptcy due to the ebb of deposits, the growth of non-payments. The entire financial and credit system of the country was in a state of extreme stress.

In 1905, internal and external loans were repeated on an expanded scale—in the amount of 630 million rubles. The conditions of external credit under the influence of defeats on the fronts and especially the internal situation of the country deteriorated sharply. The financial oligarchy of France completely refused at this moment in a loan to the tsarist government. It had to place a loan in Germany, losing about 10 percent at par. In the same 1905 the autocracy managed to conclude another external loan from the Berlin bankers, taking into account the short-term liabilities of the Treasury for 9 months in the amount of 250 million francs.

In the fall of 1905, tsarism was forced to agree to the shameful peace of Portsmouth with Japan. The conclusion of peace freed the autocracy's hands to fight the revolutionary movement. To suppress the revolution, to support the gold currency, to avoid bankruptcy, tsarism again resorted to foreign loans.

In April 1906, after lengthy diplomatic negotiations, trips of Russian ministers to France, ingratiating themselves with bankers, a deal with the leaders of the French and international markets took place, resulting in the largest foreign loan ever made by Russia in the nominal amount of about 850 million rubles. This loan was placed through an international banking syndicate, which united for this purpose the largest banks in France, England, Holland and Austria. The terms of this loan were clearly indentured. The loan was issued at 83.5 percent for 100. International capital, receiving, thus, a discount from the nominal value of almost 17 percent, immediately earned about 140 million rubles on the loan. The autocracy undertook not to issue new loans on

the foreign market for two years. It assumed the largest political obligations to France, finally joining the orbit of the policy of French imperialism.

The granting of loans to the autocracy was profitable for the foreign bourgeoisie. But not only had these benefits prompted the world bourgeoisie with a generous hand to provide huge loans to the tsar.

Loans were provided primarily to suppress the revolution.

“And the bourgeoisie of the whole world gives billions of dollars in loans to an obvious bankruptcy, to the tsar,” Lenin wrote, “not only because it is seduced, like any usurer, with a high profit, but also because the bourgeoisie is aware of its interest in the victory of the old order over the revolution in Russia, because at the head of this revolution is the proletariat”¹.

Before the Russo-Japanese war, the state’s debt was about 6.6 billion rubles, by 1907 it had grown to 8512.1 million rubles. (other than government guaranteed loans). A significant part of the growth in public debt fell on foreign loans.

The rise in government debt caused an increase in government debt spending. In 1913, government debt expenditures reached 424.3 million rubles against 288 million rubles. in 1903, that is, increased by 47 percent. The severity of the cost of borrowing against the interests of the people to maintain, staggered during the revolution of 1905, the tsarist throne, was shouldered on the shoulders of the working masses.

The central place in the tax system was still occupied by indirect taxes. Their value in the budget continued to grow, and the payments increased. In 1905, the excise taxes on beer, yeast, oil products and matches were greatly increased (100 percent), in 1909 the excise tax was increased tobacco; at the same time, an excise tax was imposed on cartridges

¹ V. I. Lenin, Works, vol. XII, p. 130.

and smoking paper. As a result, with a relatively small increase in the consumption of excisable products, receipts from excise taxes increased over the decade (1908-1912) by 62 percent.

In the area of customs taxation, the autocracy continued the previous line of protectionist tariffs, export bonuses, and refunds, excise taxes, etc. This policy in the pre-war years more and more clearly revealed the imperialist character of the newest Russian protectionism. Customs receipts increased (both under the influence of import growth and tariff increases) from 218 million rubles in 1904 up to 353 million rubles in 1913, that is, by 60 percent.

The growth of revenues from indirect taxation, as before, depended primarily on the operations of the state wine monopoly and amounted to 8238.9 million rubles.

Since 1904, the revenues from the state wine monopoly have increased almost by 50 percent, mainly due to a two-fold (in 1905 and 1908) price increases.

The total amount of proceeds from indirect taxation increased from 990.2 million rubles in 1905 to 1601 million rubles in 1913, the dependence of the “prosperity” of the Russian budget on indirect taxes, and especially on the wine monopoly, grew more and more. The budget finally becomes a “drunken budget”: income from the wine monopoly and drinking excise taxes in 1913 amounted to 953 million rubles, or 28% of the entire amount of gross budget revenues.

The system of direct taxes, with the exception of the increase in the rates of certain secondary taxes, made during the war, has undergone almost no changes. The ruling classes were quite satisfied with the structure and operation of the existing tax system. It did not affect their interests.

The only thing worth noting was the cancellation of the redemption payments on November 3, 1905. The date on which this cancellation was made, with complete clarity, talks about the reasons for the elimination of this enslaving medieval tax. This was by no means a voluntary act of the autocracy. The abolition of redemption payments was

wrested from the autocracy by the insurgent peasantry. The peasants actually stopped payments, and the autocracy was forced to legalise this circumstance. The abolition of redemption payments was a conquest of the 1905 revolution. It reduced direct tax receipts by about 85-90 million rubles. in year; which was more than offset by higher indirect taxes, especially higher vodka prices. After the abolition of redemption payments, the role of receipts from direct taxes to the budget became absolutely insignificant: in 1913 they amounted to 272.5 million rubles, or 1.9 percent the entire budget.

The Revolution of 1905-07 forced the autocracy to take a further step towards the bourgeois monarchy. On the basis of the “constitution” of 1905, a pitiful surrogate for the bourgeois parliament was created—the State Duma, which was a “crude forgery of the people’s representation”, “a powerless appendage of the autocratic bureaucracy”¹. The budgetary rights conferred on the Duma were as limited as the constitution itself, which gave rise to them. Since 1906, the Russian budget was subject to approval by both “chambers” of the Russian “parliament”—the State Duma and the State Council. The appearance of public control, the ability to influence financial policy, and the appearance of public participation in governance were created. In fact, the Duma’s insignificant budgetary rights were granted to it to deceive the people, to strengthen the autocracy, to facilitate the government’s financial frauds, to strengthen the external credit of the tsarist government.

The pitiful budgetary rights of the State Duma were completely reduced to zero by the later issued “Rules” on March 8, 1906. On the basis of these rules, a number of budget items were absolutely not subject to discussion and change in the State Duma. This included: payments on loans, expenses of the royal court, as well as all expenses that were made “on the basis of existing laws, states and timetables”

¹ V. I. Lenin, *Works*, Vol. IX, p. 48.

and “parish orders”. In addition, a secret armoured fund of 10 million was created in the budget, which was not considered by the Duma. Article 87 of the “Basic Laws” of 1906 gave the government the opportunity to carry out any financial measure without the participation of the Duma, with its subsequent notification, which in fact meant almost liquidation of budgetary rights.

The insignificance of the Duma’s budgetary rights, combined with the reactionary Black-Hundred composition of the Duma majority, completely freed the government’s hands on the budget. The Bolsheviks in the State Duma, on Lenin’s instructions, decisively rejected the budget during its voting and used the Duma rostrum to expose the exploitative nature of the tsarist budget.

During the period from 1904 to 1913, the volume of the state budget (in terms of expenditures) increased from 1906.0 million rubles up to 8,094.2 million rubles, tonnes by 62.3 percent. Its structure has changed... The following table characterises the composition and dynamics of ordinary budget expenditures (in million rubles):

	1904	1913		1904	1913
National debt	299	424	Ministry of Justice	50	91
Military expenditures	377	581	Ministry of Education	42	143
Marine	113	245	Spiritual department	29	46
Ministry of Finance	341	482	Managed farming	30	136
Ministry of Railways	449	641			
Ministry of the Interior	106	185	Total	1,906	3,094

If more than 600 million rubles are excluded from the budget expenses on railways and about 200 million rubles on the wine monopoly (as circulating items), the total budget will be reduced to 2,200 million rubles. Of these, debt payments and direct military expenditures amount to 1,250 million rubles, that is, about 60 percent. Here, it is necessary to add the expenditure part of the emergency budget, in which the expenses for the military department exceeded 126 million rubles.

V. I. Lenin wrote about the real significance of the figures characterising the growth of expenditures for the Ministry of Public Education in his article *"On the Question of the Policy of the Ministry of Public Education"*.

"It is in vain that only our official praises of the police" order "or disorder in Russia forgets that the ridiculously small numbers in percentage terms of their increase always grow with a "tremendous" speed. If you give a penny to a beggar who has three kopecks, the increase in his "property" will immediately be "enormous" by as much as 167% !" ¹

The growth of spending on education, insignificant in its absolute size, did not in the least bring public education in the country out of the stage of beggarly stagnation. The large increase in expenses for the management of agriculture and land management reflects the increase in the costs of the autocracy for the implementation of the Stolypin agrarian program in order to create a support in the kulaks for tsarism, a barrier against the revolutionary aspirations of the overwhelming mass of the peasantry.

Nothing in the budget was intended for workers. For the bourgeoisie, for the landowners, the budget was an ever-increasing source of enrichment. Budget funds were squandered by countless contractors and suppliers of the treasury, an incredibly expanded bureaucracy, members of the "imperial family", railway tycoons, and the "impoverished" nobility. The autocracy issued from the budget means direct benefits to manufacturers and landowners "suffered from the riots." In 1906 alone, 15 million rubles of such allowances were received by the Baku oil capitalists and over 8 million rubles to the large landowners.

The growth of the budget was accompanied by the growth of "free cash", which was already considered almost openly as a military reserve. From 1.8 million rubles on January 1, 1909, it increased to 433.3 million rubles on

¹ V. I. Lenin, Works, vol. XVI, p. 409.

January 1, 1913, at the beginning of the war of 1914-1918 has already exceeded half a billion rubles.

It has already been pointed out above that “Free Cash” was not at all a result and an indicator of budgetary well-being. Its source was external loans. The actual budget deficit was hidden behind it.

Activities of the State Bank in the period 1905-1914 is also characterised by broad and versatile support of large monopoly capital. During the war and revolution, the bank rehabilitated bankrupt enterprises. During the post-war depression, reducing the accounting interest to 4.5, he expands the accounting and loan operations, which increased from 481 million rubles in 1904 to 1,065.4 million rubles in 1918, loans to private banks increased especially rapidly. The State Bank aspired to become a “bank of banks”, the leading and connecting link of the entire credit system. In the interests of large landowners and merchants, grain loans from the State Bank, which organised the construction of a whole network of elevators and grain storage facilities, increased greatly.

With the support of the State Bank, the rapidly recovering from the turmoil of 1905-1907 developed more strongly the system of private credit institutions. The turnover of the entire credit network from 1904 to 1914 tripled, the influx of deposits during this time amounted to almost 2.5 billion rubles, the balance of joint-stock commercial banks rose from 2.1 to 5.8 billion rubles, the number of branches. joint-stock commercial banks increased to 769 (against 286 in 1904); the number of mutual credit societies—from 192 to 932; the number of small credit institutions exceeded 6 thousand units

The development of the credit system in Russia during this period—the period of Russia’s entry into the imperialist stage of its development—is characterised by significant qualitative changes. In its embryonic form, the process of transformation of large Russian banks from modest intermediaries into omnipotent monopolists took place

already at the end 1890s. At the beginning of the twentieth century, and especially after the war and revolution of 1905, this process began to proceed at an accelerated pace. Before the imperialist war of 1914, Russian joint-stock commercial banks were already emerging as monopoly enterprises of finance capital.

During the depression of 1904-1909, and especially in the conditions that began in 1909-1910 rise, the concentration of capital in banking is sharply increasing. There is a process of merging of separate joint-stock banks. Thus, through the merger of three joint-stock banks, the United Bank appears in 1908. The merger of the Russian-Chinese Bank with the North leads in 1910 to the emergence of a powerful Russian-Asian Bank with a capital of over 50 million rubles. Large joint-stock banks significantly increase their fixed capital, issuing more and more new shares almost every year. Thus, the St. Petersburg International Bank increased its capital in 1909 by 6 million rubles, in 1911—by another 6 million rubles, in 1913—by 12 million rubles. The Azovsko-Donskoy Commercial Bank, which until 1903 was a provincial bank with a board in Taganrog, quickly became one of the largest banks in the country. From 1908 to 1913 this bank, which had already become a capital, increased its capital from 15 million rubles. up to 50 million rubles. At the beginning of the twentieth century, there was not a single private bank in Russia with a capital of 25 million rubles. By 1914, the seven largest banks had a capital of 308 million rubles. The share of the capital of these seven banks in the total capital of all 46 joint-stock banks was over 52 percent.

The increased concentration of banking capital helped to strengthen ties between large banks and industry. These ties are increasingly acquiring the character of a merger, a merger of monopoly banking capital with industrial capital, and the formation of finance capital. Commercial banks concentrate on themselves the whole business of issuing industrial shares; they contribute to the emergence of new joint-stock enterprises in industry, they buy up, reorganise

and merge enterprises, finance the development of industrial monopolies. Banks' investments in industry are growing rapidly. For example, by 1912 the St. Petersburg Accounting and Loan Bank had invested about 10 million rubles in industry, and in 1914 the funds invested by the bank in industry amounted to 24 million rubles. The Accounting and Loan Bank was at that time closely associated with more than 50 industrial enterprises. Among them there were 15 metallurgical and metal-working, 3 coal and 4 oil enterprises. The connections of the largest Azov-Don commercial bank were even more significant. In 1913, this bank invested 35 million rubles in the shares of enterprises "close" to it. In addition, the bank's loans to the same enterprises against solo promissory notes amounted to over 10 million rubles. The objects of financing were mainly large syndicated enterprises of heavy industry—metallurgy, coal, cement. Having started its activity in the South, this bank is gradually extending its tentacles to the Urals. Proudly calling itself a "pioneer of the Urals revival", the bank takes over the largest Ural enterprises: Bogoslovskie Zavody, Lysva, Verkhletskie and Alapaevskie Zavody. The bank also finances the cement industry, uniting and reorganising it in 1912, as well as the glass industry (where the bank was almost the complete owner of the largest Livengof factories in Russia), the sugar industry of Ukraine, water transport in the South and Far East and grain export operations.

In relation to the merger with industry, Uchetny and the Azov-Donskoy banks were by no means exceptions. A similar policy of widespread introduction into industry was carried out during this period by other banks of Russia. The financing of industry by banks was primarily the financing of monopoly syndicates. Lenin in his work "Imperialism as the Highest Stage of Capitalism" pointed out that over 40 percent of the entire functioning capital of St. Petersburg's largest banks was placed in financing syndicates: Produgl, Prodamet, syndicates in the oil, metallurgical, coal and non-metal industries.

“...The merger of banks and industrial capital, in connection with the formation of capitalist monopolies,” says Lenin, “made tremendous strides forward in Russia as well”¹.

The development of the Russian credit system, and especially its main core—joint-stock banks, took place under the strongest influence of foreign capital. The penetration of foreign capital into Russian banks began in the 1880s—1890s of the XIX. Century. In the XX. Century, during the years of depression and especially during the economic upsurge before the imperialist war of 1914-1918, this process intensified significantly. Over the course of several years, Western European financial capital has made major strides in subjugating its influence to the Russian credit system.

The increased penetration of foreign capital into Russian commercial banks was carried out in many ways. The most important of them were the purchase of bank shares and participation in their new issues, in the expansion of the banks' fixed capital. Through the purchase of significant stakes in the largest banks, foreign (mainly French and German) capital secured, with the benevolent support of the Paris government, command positions in the Russian credit system. By 1914, over 42 percent of the total was concentrated in the hands of foreign capital. fixed capital in the 18 most significant n value of this fact is necessary for joint-stock banks. For clarification, emphasise that the aggregate fixed capital of these 18 banks amounted to about 8/4 of the total fixed capital of joint-stock commercial banks in Russia. In addition, these were the banks most closely associated with industry, with Russian monopoly capital in general. The participation of foreign capital in the largest commercial banks in Russia was especially great. So, for example, foreign, predominantly French, capital has concentrated about 72 percent shares of the most powerful Russian-Asian Bank. In the Siberian Commercial Bank, the participation of foreign capital was up to 60%, in the Azov-

¹ V. I. Lenin, Works, Vol. XIX, pp. 112-113.

Donskoy—about 45-50%. Some of the Russian joint-stock banks were the direct estates of foreign capital, where he dominated almost completely.

Another, no less important way of strengthening the power of foreign capital over Russian banks was to provide them with short-term foreign loans. The debt of Russian banks to their foreign “correspondents” grew from year to year (in 1913 it amounted to about 350 million rubles), and at the same time their dependence on foreign capital for a long time grew and intensified.

Taking possession of more and more powerful positions in the Russian banking system, foreign capital was least of all inclined to limit its role to a simple shearing of coupons on Russian banking shares. He had the strongest impact on the direction and the development of the entire credit system of Russia. The reorganisation of Russian banks, their mergers, and the opening of new ones were usually resolved at the behest of Paris and Berlin. For example, the creation in 1908 of the powerful United Bank of three minor joint-stock banks took place under the direct pressure of French capital. The same capital was the initiator of the merger in 1910 of the Russian-Chinese Bank with the North into the largest Russian-Asian Bank. On the initiative and with the support of the French and partly German capital, the Azovsko-Donskoy Bank over the course of several years absorbed a number of provincial joint-stock banks (Minsk, Kiev, etc.). Foreigners, representatives of the largest French and German banks, sat on the boards, councils, and supervisory committees of most Russian joint-stock banks. For example, the board and council of the Russo-Asian Bank included 8 of the largest French capitalists, directors and shareholders of many French banks. The boards of the St. Petersburg International Bank and the Russian for Foreign Trade Bank included a number of major representatives of German finance capital. Before the 1914 war, the board of the Russo-English Bank included Austin Chamberlin, one of the most controversial figures in British imperialism. The tenure of large, Russian capitalist

capitalists in many Russian banks, connected with foreign capital, does not change the essence of the matter. The financial dependence of these banks on overseas is easy. turned their Russian directors (Davydov, Putilov, Vyshnegradsky, Utin, Manus, Soloveichik, etc.) into obedient executors of the orders of Paris, Berlin and London.

Before the war of 1914, the shares of most large Russian banks were quoted on the Paris, Berlin and London stock exchanges. Many of the large Russian banks by this time had their branches in Paris and Berlin. The appearance of shares of Russian banks on foreign exchanges, the opening of branches abroad by these banks was by no means a testament to their increased independence: both were done for the sake and order of foreign capital.

Seeing in the influx of foreign gold almost the only material means of preserving and strengthening its dominance in the country, tsarism sold Russia to foreign capital, turning the country more and more into a tributary of foreign imperialism, into a semi-colony.

The commercial credit system served the bourgeoisie. State mortgage banks were fully placed in the service of implementing the autocracy's agrarian program. Until 1905, with the rapid growth of the Noble Bank's operations, the Peasant Bank's operations developed slightly. After 1905, the situation changed: during 1905-1914. operations of the Peasant Bank are growing at a tremendous pace, while the volume of operations of the Noble Bank is decreasing. The reason was that the Peasant Bank was entrusted with the sale of noble estates to the kulaks, registration of the transfer of land from the "noble landlords" to the "grimy", which was part of the Stolypin programme; the amount of land pledged in the Peasant Bank increased from 6.9 million dessiatines in 1904 to 15.4 million dessiatines in 1913.

Furnishings 1904-1905 almost led to the abandonment of the gold currency in Russia. After the suppression of the revolution, the autocracy was forced to take measures to strengthen the currency. In 1906, the surplus of issued

banknotes was withdrawn from circulation with the help of resources obtained by foreign loans in France. Further measures in the field of monetary circulation were reduced to an increased accumulation of gold reserves. Increasing gold reserves was one of the methods of preparing for the imperialist war. In 1914, by the beginning of the imperialist war, the gold reserve was about 1,630 million rubles. and covered issued into circulation credit notes by more than 100 percent. The source of the large increase in gold reserves was mainly external loans. The rise in gold reserves meant growing dependence of Russia on foreign capital.

The monetary, credit and financial system of tsarism on the eve of the imperialist war of 1914 was a concentrated expression of the exploiting essence of the police bourgeois-landlord state. It combined in the most bizarre way and the most negative methods of refined exploitation of financial capital coexisted with the most backward, most barbaric feudal methods of non-economic coercion. In the hands of the ruling elite, the financial system of Russia was an instrument of class and national oppression, a means of economic and political enslavement of the country's multimillion population by a handful parasites—capitalists and landlords. It provided the necessary resources for the existence of the political system of tsarism—autocracy, was the source of the maintenance of its state machine, a large army of officials and priests, who opened up for them legal opportunities to rob workers and peasants with impunity. Finally, it served as the channel through which, with the direct support of tsarism, the imperialist bourgeoisie of the West gained wide access to the exploitation of the working masses of Russia.

On the eve of the imperialist war 1914-1918, the position of finances, money circulation and the credit system in Russia seemed outwardly safe. However, behind this external prosperity, behind heaps of gold, there was the precariousness, instability and rottenness of Russian finances, the country's dependence on foreign capital, caused by the

backwardness of the economy and the state system of Russia. The imaginary strength of tsarist finance was based on the hunger of the peasant masses, on the soldering of the broad masses of the working people, on the robbery of the workers, on the dependence on Western imperialism. The imperialist war tore off the cover of external prosperity from Russian finances, and quickly exposed the rottenness and fragility of the financial system of Paris.

4. Finance, Money Circulation and the Credit System of Russia during the Imperialist War

In July 1914, tsarism, an unpaid debtor to the foreign bourgeoisie, entered the imperialist war, first of all, as a hired party, while at the same time participating in the battle for Anglo-French capital, the redistribution of the world also met the direct interests of the Russian imperialist bourgeoisie, its aspirations for colonial conquests, for profit from military orders and supplies. The ruling classes deliberately got involved in this war, hoping to drown the growing revolutionary upsurge in it.

The very first days of the war clearly revealed the actual unpreparedness of tsarism to wage it. The further course of military operations finally revealed the country's military, economic and financial weakness, the stupidity and mediocrity of the high command, the marauding aspirations of the bourgeoisie and the bureaucracy, helplessness, surrender and outright betrayal on the part of the rotten apparatus, the heroism of the soldiers' power. Military operations, despite the spontaneous masses, were extremely unfavourable for Russia. Failures and outright defeats followed each other. More and more new parts of the territory. countries were captured by the enemy. The difficult situation at the fronts was aggravated by the

growing disorganisation of the rear, the country's economy, which turned out to be even less prepared for war than the army. The technically weak military industry could not cope with the increasing demands of the front. The work of the railway transport, loaded with military traffic, deteriorated from month to month, labour productivity fell under the influence of the diversion of the most skilled labour force to the front. There was a shortage of coal, oil and metal. In the second year of the war, food difficulties also arose. The marketability of the peasant economy, exsanguinated by endless mobilisations and the reduction of the horse population, sharply declined. Food pressures, compounded by transport paralysis, quickly turned into a food crisis. Having begun in the rear, the food crisis spread to the front. The almost unarmed masses of soldiers were malnourished at the fronts. In the rear, in the cities, workers and their families were starving.

The government tried to fight the collapse. economy by means of administrative pressure, police measures. It took the path of "regulating" the economy, fixing rates, tariffs, organising a grain monopoly, it introduced a rationing system, militarised labour in industry and transport. These measures, creating a military hard labour for the workers, became a paradise for the rich. Speculators, military suppliers, and owners of enterprises that worked "for defence" became enormously rich. The devastation was growing, covering all regions of the country, all branches of the economy.

The economic collapse intensified under the influence of the financial crisis that began from the very first days of the war. Despite the official optimism, the country's financial system was completely unprepared for the military situation. All hopes were pinned on the strength of the currency, on a huge gold reserve, on "free cash". However, the "free cash" (514 million rubles as of July 16, 1914) was barely enough to mobilise the army. The costs of waging the war immediately assumed enormous and ever-increasing proportions. During the first five months of the war of 1914, military

expenditures reached 2,290 million rubles, in the next 1915 the war already demanded more than 8,300 million rubles, and in 1916 direct military expenditures amounted to 14,600 million rubles. In 1914, each day of hostilities cost an average of 12 million rubles; by the end of 1915 the daily consumption already exceeded 31 million rubles, and by the end of 1916 it was 50 million rubles. (2 million rubles per hour). On the whole, including the expenses of 1917, the war cost the peoples of Russia, according to the obviously underestimated official estimates, over 50 billion rubles.

The autocracy turned to the well-tried methods of financing the war—to emission and loans. A week after the declaration of war, the exchange of credit notes for gold was discontinued. At the end of July, the state bank was offered to issue and transfer to the state 1200 million rubles under the “security” of short-term liabilities of the state treasury new credit tickets; this operation almost doubled the amount of paper money in circulation. During 1915, the issuing right of the State Bank increased three times, for a total of 4 billion rubles, and the obligations of the state treasury served as “security”. Inflation was already in full swing. In 1916, the bank was again “allowed” to increase the issue by 2 billion rubles. By March 1, 1917, virtually unsecured paper money, of an unprecedented size, circulated in the country—11,786 million rubles.

A huge amount of paper money flooded the country, extracting it from the disordered national economy and throwing it into an insatiable maw. war more and more material values. Inflation exacerbated and exacerbated economic disruption. Prices rose by leaps and bounds; the profits of the capitalists increased in ever-increasing proportions, and speculation intensified. Real wages were systematically falling, the proletariat was impoverished, the position of the peasant masses, employees and the army of disabled pensioners generated by the war, worsened. Class contradictions intensified.

The size and rate of inflation was enormous, and yet

there was a shortage of issued paper money. The growth in military spending outpaced the pace of emissions. The government resorted to loans, both domestic and foreign. During 1914, domestic loans increased the state's debt by 466 million rubles; in 1915 three internal loans were issued for the amount of about 2,400 million rubles, and in 1916—two new colossal internal loans for a total amount (at par) of 5,000 million rubles.

The implementation of internal war loans proceeded with great difficulties, increasing with each new issue. War loans of the autocracy were not popular even among the ruling classes. The government failed to interest the bourgeoisie and landlords in the terms of these loans. Placement of loans was of a purely bureaucratic nature. Fearing any manifestation of the public, tsarism prohibited even the well-intentioned bourgeois agitation in favour of loans, which the various “social” organisations of the bourgeoisie that had arisen during the war tried to carry out. The chairman of the IV. State Duma, V. M. Rodzianko, a hardened reactionary monarchist, complained about this with bitterness in his memo submitted to Nicholas II. in February 1917.

The working people did not acquire war loans at all. The expatriate, imperialist character of the autocracy's loan policy was clear to the working people. The sharply negative attitude of the working people to the tsarist war loans sometimes took open forms. This can be seen from the following striking fact. In November 1916, one of the leaders of the Cadet Party, Shingarev, overwhelmed by a desire to help the autocracy in placing a loan, made an attempt to speak at a meeting of workers of the Putilov plant in Petrograd with agitation in favour of a war loan in 1916. But the workers did not give Shingarev the opportunity to speak, meeting him with stormy exclamations: “No!”, “And where are our deputies?”¹

¹ At the very beginning of the war, the tsarist government arrested and exiled to Siberia five Bolsheviks, deputies of the 4th State

A significant part of government internal loans were placed by the government through a syndicate of banks on extremely favourable terms for this syndicate. The banking tycoons, representatives of financial capital, the policy of internal loans brought fabulous profits. They profited both from the issuance of loans and from military supplies, paid for by the proceeds from the same loans for the government, for the state treasury, the mediation of a syndicate of banks meant only a further decrease in the already deplorable real results of home loans. This can be easily traced in the history of the placement of the last internal loan of the autocracy, issued in 1916. On this loan, a syndicate of banks undertook to place 1,800 million rubles. As a result, the government received from the syndicate: 1281 million rubles in bonds of previously issued loans, 176 million rubles money borrowed from the State Bank on the security of bonds, and only 225 million rubles in cash.

Along with long-term loans, the government also launched domestic short-term loans—various kinds of “tickets”, “series” and “liabilities of the state treasury”. This type of loans quickly developed very rapidly. The amount of these liabilities in circulation (and they circulated along with paper money, further increasing inflation) by the beginning of 1917 exceeded 12,350 million rubles.

The proceeds from the issuance and internal loans were suitable only for internal consumption. Huge foreign military orders had to be paid for in gold. Meanwhile, the state’s gold reserves, despite the cessation of exchange, were rapidly declining, and the settlement balance, which was passive in peacetime, became worse and worse. Turning to external loans has become inevitable. Since the fall of 1915, amid a critical situation at the fronts and the growing disorganisation of the rear, the “allies” (England and France) came to the aid of their hireling, the Russian autocracy, and

opened external loans for him totalling 5.5 billion gold rubles, thus advancing new deliveries of cannon fodder from Russia.

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In 1916 the loan was repeated. The "allies" turned the provision of foreign and military loans to tsarism into a new way of exploiting the peoples of Russia. Ammunition and military equipment sold by the "allies" to the Russian government on account of the "inter-allied loans" opened to it were released at clearly inflated and ever-increasing prices. In Russia, any blockage, marriage was sold on credit—everything that did not find application in the creditor countries. The loans provided were charged with high, usurious interest. Moreover, the lenders demanded "real" collateral for the loans; they insisted that these loans be partially backed by gold. They succeeded in sending a significant part of the Russian gold reserves to England. Hundreds of millions of gold rubles, predatory squeezed by tsarism from the pockets of the working people of Russia, flowed to England to strengthen the gold reserves of the English imperialism¹. By the end of 1916, Russia's external debt increased to 11 billion rubles, of which 6.4 billion rubles of long-term debt.

¹ During the war, exported was only over 643 million rubles from the gold reserve.

The beginning of the war was marked by a sharp outflow of deposits from credit institutions. During the period from July 1 to August 1, 1914, according to the balance sheets of 1,754 credit institutions, the amount of deposits decreased from 3,607 million rubles up to 3255 million rubles. Deposits began to be poured from savings banks as well. They needed credit assistance from the State Bank and the establishment of promissory notes and general moratoriums throughout the entire front-line zone of the country.

From the end of 1914, the reduction in the balance of deposits was replaced by an intensified tide; the amount of deposits in all banks of the country increased by January 1, 1916 to 9580 million rubles.

This new influx of deposits was inflationary paper money, pushed out of economic circulation by a fall in production, devastation, was deposited in banks in current accounts; banking resources were placed in government bonds. Operations with government loans displace all other types of operations from the balance sheet of banks; promissory notes, as collateral for bank loans, give way to bonds. Banks are turning into a direct source of financing for the war, the profits of the bank tycoons are growing steadily.

Inflation and loans barely covered the military, expenses incurred under the emergency budget (the so-called “war fund”). The emergency budget was completely uncontrolled by the government. The Black Hundred Cadet State Duma on July 26, 1914 authorised the military loans and then was disbanded. Only a handful of Bolshevik deputies sharply and openly protested at that moment in the State Duma against the war, against war credits and the entire imperialist policy of tsarism.

Along with the emergency military budget, during the war, there was also an ordinary budget intended to cover “ordinary”, “peaceful” expenses. The autocracy, for internal political reasons, carefully concealed the deficit of the ordinary budget, transferring many expenses not directly related to the war to the secret military budget. The war

immediately cut income of the ordinary budget, since on the day of the announcement of the mobilisation, the government stopped the official sale of vodka.

In connection with the termination of the sale of vodka, the main, the largest, fell out of the budget income source. Deterioration of economic revenues: excise taxes, the situation of the country caused a decrease in other customs revenues, direct taxes, from railways, etc. The autocracy tried to take the path of a “economy regime,” but, as always, it “saved” only on schools, while the rest of the expenses “could not be cut down,” and some (financing of the direct administration of affairs) demanded increased violence—the expenses of the Ministry of Internal Affairs.

The autocracy, seeking to make ends meet, from the very first days of the war embarked on the path of raising old taxes and introducing new ones. However, almost all of the government’s measures in this regard were limited only to an increase in indirect taxation. During 1914-1916, more than 40 laws were issued on the increase of excise rates and the establishment of new excise taxes. The excise tax on tobacco, increased in 1914 by 26-161 percent, in 1916 was again increased by 34-100 percent; the excise tax on matches was raised twice: in 1914, by 20-100 percent, in 1915, by 80-140 percent; the excise tax on oil, raised in 1914 by 50 percent, was increased in 1916 by another 100 percent; excise tax on beer in 1915 it was increased immediately by 341 percent. In 1914 they were introduced a railroad tax (essentially a universal excise tax) and a cotton tax (actually an excise tax on textiles). Introduced in November 1915, the excise tax on grape wines in January 1916 was increased by 200 percent. In 1916, a new excise tax on tea was introduced.

In general, the increase in existing taxes and the introduction of new taxes yielded over 500 million rubles in 1915 and about 125 million rubles in 1916.

By raising excise taxes and other indirect taxes, the autocracy in every possible way protected the super-profits of the exploiting classes. Only in 1916 were laws passed on

the introduction of an income tax and taxation of war profits; however, they were in no hurry to collect them: it was postponed until 1917.

To characterise the significance of these two new taxes, introduced for clearly demagogic purposes, it suffices to mention that, according to the calculations of the Ministry of Finance, the income tax should have given in 1911 only 139 million rubles of receipts, and the tax on excess profits—55 million rubles. The war profits of the capitalists were not in the least affected by these taxes. The rates of newly introduced taxes for high incomes were scanty. So, in the income tax the maximum rate was 12 percent (with an income of 400,000 rubles and above). The non-taxable minimum was at the same time set at a very low level. All persons with an income of more than 850 rubles were to be subject to tax in a year. Likewise, the excess profits tax was constructed in such a way as to minimally affect the incomes of the capitalists. Only those enterprises with a net profit of more than 8 percent were subject to tax. for fixed capital. In this case, the object of taxation was only the difference between actual profit and profit, equal to 8 percent for capital. In order to “alleviate” the position of capitalist payers, the law allowed them to write off depreciation deductions increased by 3 times from profit.

The growth of indirect taxes, ‘by additionally’ raising the commodity prices rising from inflation, immeasurably, systematically worsened the position of the working people, workers and peasants, constantly increasing the economic devastation.

The growth of economic and financial devastation and the impoverishment of the masses exacerbated class contradictions. While the bourgeoisie profited from the war, all the hardships and suffering caused by the war fell on the shoulders of the working people. The revolutionary mood among the masses grew more and more widespread and stronger. The February Revolution of 1917 broke out, overthrowing tsarism. But the revolutionary movement could

not stop at the stage of the bourgeois-democratic revolution. The revolution in Russia could not but become proletarian, having an international character. Russia was the focal point of the contradictions of imperialism. The contradictions of imperialism were most easily revealed in Russia because of their especially intolerant nature. Russia was a hotbed of capitalist, national, colonial and military oppression in its most blatant and barbaric form.

Tsarist Russia served as the largest economic and military reserve for Western imperialism, supplying the Western imperialists with millions of its soldiers. Tsarism was the agent of imperialism for beating hundreds of millions of rubles a year from the population of Russia in favour of Western European capital. Tsarism was also an ally of Western imperialism in dividing and plundering Turkey, Persia and China. The interests of tsarism and Western imperialism were intertwined into a single ball. Comrade Stalin characterised tsarist Russia as the gendarme of Europe and the executioner of Asia¹. That is why the revolution that swept away tsarism inevitably had to develop into a revolution against imperialism.

At the same time, there existed in Russia a real force that could and did accomplish this revolution—the most revolutionary proletariat in the world, led by the Bolshevik Party, which had such a serious ally as the revolutionary peasantry, and relied on the support of the world proletariat.

¹ 1 J. V. Stalin, *Marxism and the Nation-Colonial Question*, 1939, p. 127.

CHAPTER III. FINANCIAL ACTIONS IN THE ECONOMIC PLATFORM OF BOLSHEVIKS ON THE WAYS TO OCTOBER. FINANCIAL POLICY OF THE SOVIET STATE DURING THE PERIOD OF THE GREAT OCTOBER SOCIALIST REVOLUTION

1. Deepening of the Economic and Financial Crisis after February Revolution of 1917. Financial Policy of the Provisional Bourgeois Government

In February 1917, the autocracy was overthrown by the armed struggle of the revolutionary workers and the peasants who joined them under the leadership of the Bolshevik Party. The power of the feudal landlords ceased to exist. In Petrograd and in the localities, Soviets of Workers' and Soldiers' Deputies arose—organs in the revolutionary-democratic dictatorship of the proletariat and peasantry. But this dictatorship was intertwined with the rule of the bourgeoisie. Relying on the petty-bourgeois element, the compromising parties of the Mensheviks and Socialist-Revolutionaries seized the majority of the deputy seats in the Soviets in Petrograd, Moscow and a number of other cities. The traitors to the revolution, the Socialist-Revolutionary Menshevik leaders of the executive committee of the Petrograd Soviet, surrendered power to the bourgeoisie and to the bourgeois landowners represented by the Provisional Government. A dual power was created.

The broad masses of the people, who in the first months of the revolution were held captive by the compromising

parties, voluntarily agreed to cede state power to the bourgeoisie. Looking at the Soviets as organs of people's power, the broad masses at that time still naively believed that "bourgeois power would not prevent the Soviets from carrying out their work."

The provisional bourgeois government used state power to combat the revolutionary movement of the workers. and peasants. It sought to weaken the Soviets, to establish the autocracy of the bourgeoisie. Hiding behind false phrases and declarations, in practice pursued a policy of continuing the war and strangling the revolution. This imperialist policy inevitably led to the further collapse of the country's economy.

The financial policy of the Provisional Government contributed to this collapse. In its declaration of March 8, 1917, the Provisional Government announced that it "accepted for indispensable execution all monetary obligations imposed on the state treasury under the previous government," including payments of interest on bonded loans. The government spent huge sums of money to continue the imperialist war. Daily military expenditures were 50 million rubles in February-March 1917 and 66.6 million rubles in July-August 1917. The state budget deficit increased in 1917 to 25.6 billion rubles and exceeded 5/6 of the entire amount of budgetary expenditures. The Provisional Government, in every possible way protecting the growing super-profits of the capitalists and landlords, continued to shift the entire burden of the enormous military expenditures and loan payments onto the shoulders of the working people by increasing the emission of banknotes and increasing indirect taxation.

The monthly issue of paper money increased from 476 million rubles in April 1917 to 1,993.5 million rubles in October 1917. In March-June 1917, paper money worth 3213 million rubles was put into circulation and for July-October 1917—6,321 million rubles.

As a result of the continuous issue of paper money and

the collapse of the country's economy, the depreciation of money increased. From the beginning of the war until March 1, 1917, the ruble depreciated 3 times, and during the 8 months of the existence of the Provisional Government—4 times. By the end of October 1917, the purchasing power of the ruble fell to 6-7 pre-war kopecks. This meant a huge decline in the real wages of workers and a general deterioration in the situation of the working masses.

At the same time, the Provisional Government weakened the effect of direct taxes on the bourgeoisie and landlords. Under the onslaught of the revolutionary masses in June 1917, the Provisional Government announced the introduction of an additional one-time income tax in 1917 to the income tax and a slight increase in the income tax rates. However, this was done only to deceive the masses. No control was established over the calculation of the income of the bourgeoisie and landowners and over the correctness of the determination of the amount of tax. The 1917 Lump-sum Income Tax Act provided an installment plan for 3 years. Already in September 1917, the government approved a project to transfer the one-time tax to 1918 and reduce income tax payments.

By weakening the effect of direct taxes, the government raised indirect taxes, which fell mainly on the broad masses of the working people. A sugar monopoly was introduced, railway tariffs were increased several times. In October 1917, the Ministry of Finance developed a project for the introduction of match, tobacco, coffee and tea monopolies. Under this project, the government hoped to receive 90 million rubles only on tea and matches the income by further reducing the standard of living of workers. Under the guise of "democratising" the urban economy, the local bodies of the Provisional Bourgeois Government planned to increase utility bills.

Not content with this, the government tried to additionally rob the workers by issuing the "Freedom Loan". However, despite the support of this loan from the

compromising Executive Committee of the Soviet of Workers' and Soldiers' Deputies, the loan was not successful. The workers led by the Bolsheviks branded it as a loan intended to "continue the fratricidal war, beneficial only to the imperialist bourgeoisie," as a betrayal of the International on the part of the compromising Executive Committee that supported the loan. The workers demanded that the necessary to supply the army the money was taken from the pocket of the bourgeoisie, who started this carnage and amassed millions in profits.

Theft and embezzlement have reached unprecedented proportions. The government generously distributed advances to manufacturers and breeders on account of military orders, a significant part of which was underfulfilled or not at all. Huge sums were pumped into the pockets of the capitalists also through overpayments on prices. The prices of private breeders were 1½ to 2 times higher than those of state-owned factories. As V. I. Lenin pointed out in September 1917:

"The war now costs Russia 50 million rubles a day. These 50 million a day goes mostly to military suppliers. Of these 50 million, at least 5 million daily, and more likely 10 million and more, are the "sinless incomes" of the capitalists and officials who are in one or another strike with them. Especially large firms and banks that lend money for operations with military supplies make unheard-of profits here, they make money from the embezzlement of the state, because there is no other name for this cheating and ripping off of the people "on the occasion" of the disasters of war, "on the occasion of" the death of hundreds of thousands and millions of people.¹

The growth of speculation, unprecedented profits of the bourgeoisie, hopes for an even greater increase in these profits after the suppression of the revolution and the complete unleashing of the forces of reaction are reflected,

¹ V. I. Lenin, Works, Vol. XXI, p. 173.

as in a mirror, in the unprecedented increase in the number of joint-stock companies and their capital. For 9 months of 1917, the old joint-stock companies were allowed to issue shares for 1.5 billion rubles. (6 times more than in 1913) and establish new companies with a fixed capital of 469 million rubles and with the release shares for 1.9 billion rubles (61 times more than in 1913). In August 1917, 62 companies with a capital of 205 million rubles arose, and in September 303 companies with a capital of 800 million rubles.

While the supply of food to the cities was deteriorating every day, the Provisional Government not only did not take measures against the frenzied speculation of the capitalists and landowners who concealed stocks of grain and other goods and sold them at inflated prices, but itself actually broke the grain monopoly, raising grain prices by half. ... This doubling of prices, having undermined the procurement and freeing the hands of speculators, further upset public finances, increased hunger and devastation in the country.

The policy of the Provisional Government in all areas of political and economic life fully reflected its bourgeois class nature.

The Bolshevik Party mobilised the masses to fight against the bourgeoisie, for the transfer of all power into the hands of the Soviets, for the transition from the bourgeois democratic revolution to the socialist revolution. An ingenious plan for this struggle was given in the April theses of the leader of the revolution V. I. Lenin and adopted by the April conference of the Bolshevik Party. As transitional measures to the socialist revolution, V. I. Lenin proposed the nationalisation of all lands in the country with the confiscation of the landowners' lands, the merger of all banks into one national bank and the introduction of control over it by the Council of Workers' Deputies, the introduction of control over social production and distribution of products. ... In the political sphere, a demand was put forward for a transition from a parliamentary republic to a republic of Soviets. The Bolshevik Party was tasked with

exposing the imperialist character of the Provisional Government and the betrayal of the Socialist-Revolutionaries and Mensheviks, winning the majority in the Soviets and thus changing not only the policy of the Soviets, but through the Soviets—the composition and policy of the government. This was the orientation towards the peaceful development of the revolution.

After the July days, the Soviets, led by the compromising parties of Socialist-Revolutionaries and Mensheviks, finally betrayed the cause of the revolution, fully supporting the military dictatorship of the Kerensky people. The dual power ended in favour of the bourgeoisie. The opportunity of the peaceful development of the revolution disappeared. The Bolshevik Party went underground, began to prepare for the armed overthrow of the power of the bourgeoisie and for the establishment of the dictatorship of the proletariat. “The VI Congress directed the party towards an armed uprising, towards a socialist revolution”¹.

The congress approved the economic platform of the Bolsheviks, designed to concentrate the economic commanding heights in the hands of the dictatorship of the proletariat and to use them correctly in the struggle for socialism. The main points of this platform were; confiscation of landlords and nationalisation of all land in the country, nationalisation of banks, nationalisation of large-scale industry, workers’ control over production and distribution.

Having concentrated all power in their hands, the bourgeoisie, together with the Mensheviks and Socialist-Revolutionaries, intensified the offensive against the working class and the revolutionary peasantry. She rejected “the revolutionary phrases with which she had previously tried to cover up her imperialist policy, and began to prepare for the

¹ “History of the CPSU (B)—Short Course”, Gospolitizdat, 1938, p. 191.

creation of her overt counter-revolutionary dictatorship. Even before that, having embarked on the path of deliberate destruction of industry, agriculture, transport, on the path of concealing and destroying the products of industry and agriculture, the bourgeoisie and landowners brazenly threatened to increase the people's poverty, with the "bony hand of hunger" to break the growing political importance of the working class and its party, smash the revolutionary organisations of the working class and peasantry, strangle the revolution. It was this goal that guided the economic and financial policies of the Provisional Government.

The imperialists of other countries helped the Russian bourgeoisie to fulfill this goal at the cost of further enslaving our country to foreign capital. Comrade Stalin wrote 'concerning the negotiations of the Provisional Government with the American capitalists on the loan:

"At the moment when the Russian revolution is straining its forces to defend its gains, and imperialism is trying to finish it off, American capital is supplying the Kerensky-Milyukovo-Tsereteli coalition with billions in order to finally curb the Russian revolution and undermine the growing revolutionary movement in the West"¹.

The uprising of General Kornilov, organised and financed by the bourgeoisie, showed the people with their own eyes that the bourgeoisie betrays its homeland and goes to any crimes, just to defend its power over the people and its income. The masses of the working people became more and more convinced that no peace, no bread, no freedom could be expected from a bourgeois government. The working class and the poorest peasantry followed the Bolsheviks.

In August-September, the Bolsheviks win the majority in the Soviets of Petrograd, Moscow and other cities.

¹ Lenin and Stalin, *Selected Works*, 1917, p. 347.

2. Financial Activities in The Economic Platform of the Bolshevik Party on the Road to October

The only means of fighting the impending economic and financial catastrophe was the proletarian revolution. The Bolshevik Party built its economic program proceeding from the tasks of the struggle for the development of the bourgeois-democratic revolution into a socialist revolution; it organised the working class and the poorest peasantry to fight for the socialist revolution.

In the economic platform of the Bolshevik Party on the way to October, the following main financial measures were outlined: 1) the unification of all banks into one central bank, the nationalisation of banks, 2) the abolition of commercial secrets, 3) the immediate termination of the further issue of paper money, 4) the refusal to pay state debts, external and internal (respecting the interests of small subscribers), 5) transformation of the entire tax system by introducing progressive income and property taxes and high indirect taxes on luxury goods. These measures were deployed in the resolution of the VI. Congress of the RSDLP (B) on the economic situation.

All these demands were inextricably linked with the main, most important requirement of the economic program of the Bolsheviks on the road to October—the establishment of workers' control over the production and distribution of products.

Workers' control was directed against sabotage, lockouts, and disruption of production by the bourgeoisie. Workers' control was to become a form of regulation of production and distribution by the working class, one of the decisive means of preventing an economic catastrophe.

The demand for workers' control led to the destruction of the power of the bourgeoisie, for without this there could be no question of any real control.

“The organs of workers’ control after the victory of the proletariat could be expanded into the organs of management of enterprises. The wide-spread workers’ control prepared the workers for managing the economy, brought forth thousands of excellent organisers and leaders from the depths of the masses of the workers”¹.

The nationalisation of banks, undermining the foundations of the domination of capital, being a blow to the entire capitalist system, was supposed to transfer into the hands of the working class a powerful accounting and control apparatus created by capitalism itself, to create one of the foundations for the transition to a socialist planned economy.

“To talk about “regulation of economic life” and to bypass the question of nationalising banks means either to reveal the most complete ignorance or to deceive the “common people” with magnificent words and grandiose promises, with a premeditated decision to fulfill these promises”² wrote V. I. Lenin...

The nationalisation of banks,—V. I. Lenin further pointed out, would make credit more accessible to the peasantry. “For the first time, the state would be able to first review all the main monetary transactions, without hiding them, then control them, then regulate economic life, and finally, receive millions and billions for large government operations, without paying “for the service” frantic “commission” to the gentlemen capitalists³.

The establishment of effective workers’ control presupposed the abolition of trade secrets that covered up the capitalists’ speculation and fraud. Under the cover of commercial secrecy, the capitalists deceived the people, engaged in embezzlement, concealed their real profits, organised and carried out sabotage, destroyed the productive

¹ “*History of the Civil War In The USSR*”, vol. 1, ed. 2nd, p. 209.

² V. I. Lenin, *The Impending Catastrophe And How To Deal With It*, Works, Vol. XXI, p. 164.

³ *Ibid*, p. 166.

forces, the Party of Lenin—Stalin demanded the introduction of mandatory public reporting, unhindered access for workers and other workers to the accounting books of enterprises, to the records of entrepreneurs; the party demanded the introduction of confiscation of property and execution for withholding information and for deceiving the people.

To combat speculation and economic ruin, the Bolsheviks demanded an immediate cessation of the further issue of paper money. Paper-money inflation encouraged speculators, made it possible for the capitalists to make millions on it, destroyed the country's economy, and served as one of the obstacles to expanding the production of goods necessary for the population. In order to control the movement of funds of the bourgeoisie, the Bolsheviks proposed to develop a check circulation. But real control through check circulation could be carried out only in connection with the nationalisation of banks and with the abolition of commercial secrets.

Seeking the transformation of the entire tax system in the sense of increasing taxation of the bourgeoisie and landlords, the Lenin-Stalin party emphasised the impracticability of this demand without carrying out the strictest working control, nationalising banks, abolishing commercial secrets, stopping inflation:

“It is possible,” Lenin pointed out, “to introduce an income tax with progressive and very high rates for large and large incomes. Our government, following other imperialist governments, introduced it. But it remains to a large extent—a fiction, a dead letter, because, firstly, the value of money is falling faster and faster, and, secondly, the more secret income is. Most of them are the source of speculation and the more reliably protected trade secrets.

To make the tax valid and not fictitious, you need a valid, not remaining on paper control”¹.

Exposing the real meaning of the proposal of the

¹ V. I. Lenin, *The Impending Catastrophe And How To Deal With It*, Op. vol. XXI p. 183.

Menshevik Minister Skobelev—to increase the taxation rates for the propertied classes to 100 per cent of all profits, V. I. Lenin pointed out that this proposal, which is not really feasible under the rule of the bourgeoisie, pursues the only goal - to defend the absolute power of the capitalists, sacrificing profit for a short time. Lenin clearly showed the tremendous growth of the profits of the capitalists and the complete failure of the promises to withdraw these profits by taxes until the trade secret was abolished and real workers' control was exercised².

Only a proletarian revolution could save the country from financial collapse and from an economic catastrophe, only the transfer of power into the hands of the Soviets. Only the Soviet government could carry out a revolutionary way out of the war, nationalisation of the land, banks and large enterprises and proceed in this way to the revolutionary transformation of capitalist society into a communist society.

3. Financial Measures of the Great October Socialist Revolution. Nationalisation of Banks. Cancellation of Government Loans

November 7, 1917, the Great October Socialist Revolution ushered in a new era in history—the era of proletarian revolutions. The rule of the capitalists and landlords in our country was overthrown and the dictatorship of the proletariat was established. All power passed into the

² See V. I. Lenin, *Inevitable Catastrophe and Immeasurable Promises* (Works, Vol. XX, pp. 376-380); *Why Control Over Production Is Needed?* (Works, Vol. XX, pp. 564-567); *How Gentlemen Capitalists Hide The Profits?* (Works, Vol. XX, pp. 572-573)

hands of the Soviets of Workers', Peasants' and Soldiers' Deputies. The most important tasks of the party and the working class after the conquest of power were: the destruction of the old, bourgeois state apparatus, the creation of a new, Soviet state apparatus, the destruction of the remnants of the estate system and the regime of national oppression, the expropriation of the ex-priors and the mastery of the commanding heights of the national economy. Among the first measures taken by the Soviet government to resolve these problems, the nationalisation of banks played a major role.

"One of the first measures," said V. I. Lenin, "directed to ensure that not only the Russian landowners disappear from the face of the earth, but also to undermine at the root the rule of the bourgeoisie and the possibility of capital oppression over millions and tens of millions of working people — there was a transition to the nationalisation of banks. Banks are large centres of the modern capitalist economy. Unheard of wealth is gathered here and distributed throughout the vast country, here—the nerves of all capitalist life. These are delicate and complex organs, they have grown over the centuries, and the first blows of the Soviet regime were directed at them."¹

In carrying out the nationalisation of the banks, the party fully took into account the lessons of the Paris Commune. Not daring to seize the banks, the Commune left in the hands of the bourgeoisie a powerful weapon in the struggle against revolutionary Paris. As Engels pointed out, a bank in the hands of the Commune would be more important than 10,000 hostages.

"The proletariat," wrote V. I. Lenin back in 1908, stopped halfway through: instead of embarking on the "expropriation of the expropriators," he got carried away with dreams of establishing supreme justice in a country united by a national task; such, for example, institutions as a

¹ V. I. Lenin, *Soch.*, Vol. XXII, p. 214.

bank were not taken...”².

The French bank, which possessed large amounts of cash and other valuables, acting on the instructions of the Versailles, was in fact in their hands. Not taking the bank into its own hands, not knocking out such a powerful weapon from the enemy’s hands, the Commune made a major mistake.

Marx pointed to the possibility of using banks for the communist reorganisation of society:

“Finally, there is no doubt that the credit system will serve as a powerful lever during the transition from the capitalist mode of production to the mode of production of associated labour,” however, only as one of the elements in connection with other great organic upheavals in the mode of production itself”³.

This instruction was directed against the petty-bourgeois utopias, which proposed eliminating inequality of property through the “abolition” of money, the creation of “workers’ banks”, the organisation of a “fair exchange” without forcibly overthrowing the rule of the exploiters. “The instruction of Marx was directed against the opportunist” theories “according to which it is supposedly possible to use banks for the” socialisation “of the economy without a violent proletarian revolution. Marx showed that banks and credit under capitalism contribute to a colossal expansion of the volume of production, the creation of enterprises that are impossible for separate capital; give capital through the organisation of joint-stock companies directly the form of social capital, which means “... the abolition of capital as private property within the boundaries of the capitalist mode of production”⁴. However, “This is the abolition of the capitalist mode of production within the limits of the capitalist mode of production and therefore a self-

² V. I. Lenin, Soch., Vol. XII, p. 163.

³ K. Marx, Capital, vol. III, part II, ed. 1936, p. 537.

⁴ K. Marx, Capital, vol. III, part I, ed. 1936, p. 388.

annihilating contradiction, which, according to Tame, is simply a transitional point to a new form of production”⁵.

By creating only a form of transition to a new mode of production, this “abolition of capital as private property” not only does not eliminate, but, on the contrary, strengthens the domination of capital tycoons, expanding and deepening their ability to manage all social capital and thus all social labour. Only the proletarian socialist revolution, having carried out nationalisation in connection with other organic transformations banks, turns them into an instrument of the communist reorganisation of society.

Marx’s instructions on the role of the credit system in the period of transition from capitalism to communism were deepened and developed by Lenin and Stalin on the basis of Lenin’s doctrine of imperialism and Lenin’s theory of the socialist revolution.

Lenin revealed the new role of banks in the era of imperialism, showed their transformation from modest intermediaries into omnipotent monopolists.

The significance of the nationalisation of banks lies primarily in the fact that by this measure the party and the Soviet government undermined the economic might of the bourgeoisie and struck a blow at international capital. At the same time, through the nationalisation of banks, the party and the Soviet. the authorities take over the accounting and control apparatus created by capitalism. Even before the October Socialist Revolution, V. I. Lenin wrote:

“Without big banks, socialism would not exist.

Big banks are the “state apparatus” that we need to implement socialism and which we take ready-made from capitalism, and our task here is only to cut off what capitalistically disfigures this excellent apparatus, to make it even larger, more democratic, and still all-embracing. The quantity will turn into quality. The single largest of the

⁵ Ibid., p. 390.

largest state banks, with branches in each volost, at each factory, is already nine-tenths of the socialist apparatus. This is a nationwide bookkeeping, nationwide accounting of production and distribution of products; it is, so to speak, something like the skeleton of a socialist society.”¹

The nationalisation of banks facilitated the implementation of workers’ control over the production and distribution of products, and then the nationalisation of industry.

The nationalisation of banks was one of the main prerequisites, one of the main conditions for the seizure of Soviet power by leverage, regulation of money circulation and trade, for the use of money in the interests of socialist construction.

The implementation of the nationalisation of banks required a series of successive measures that were supposed to ensure the complete transfer of the banking apparatus into the hands of the Soviet government and the state monopoly of banking. These included:

1) seizure of the State Bank, restructuring of its apparatus, suppression of sabotage by bank officials;

2) the liquidation of credit institutions that have lost their significance in connection with the nationalisation of the land, the establishment of a monopoly of foreign trade, etc.;

3) the establishment of workers’ control over private banks;

4) nationalisation of private banks, their merger with the State Bank.

The State Bank was occupied by the Red Guard on the very first day of the Great October Socialist Revolution—November 7, 1917. However, the task of taking over the State Bank had not yet been solved. Top officials of the Ministry of Finance and the State Bank refused to obey the

¹ V. I. Lenin, *Works*, Vol. XXI, p. 260.

Soviet regime, sabotaged the orders of the Council of People's Commissars, tried to arbitrarily dispose of the funds of the Treasury and the State Bank, and staged strikes. Strict revolutionary measures were taken to suppress the sabotage of the counter-revolutionary bureaucracy. At the head of the State Bank, the Chief Commissioner was appointed as the manager of the State Bank. A number of senior counterrevolutionary officials were dismissed.

In order to strengthen the influence of the revolutionary workers and peasants on the work of banks, by a decree of December 25, 1917, the composition of the accounting and loan committees at the offices and branches of the State Bank was changed. They include commissioners of offices and branches of the State Bank and delegates of the Councils of Deputies; the number of delegates to the Soviets was to be twice as large as the number of representatives from traders, industrialists, and farmers. For the same purposes, in January 1918, the composition of the Council of the State Bank was changed. In February 1918, to strengthen control over the issuance of loans and for centralising this business, the Central Accounting and Loan Committee is established. The decree stated that "all financing of enterprises can be made only through the Central Accounting and Loan Committee, and no other institution or department has the right to issue advances and loans other than the Central Accounting and Loan Committee." In addition to the State Bank, the pre-revolutionary credit system of Russia had two more large state credit institutions—the Dvoryansky Land and the Peasant Land Banks. The nationalisation of the land by the Soviet government and the destruction of estates and estate organisations predetermined the elimination of mortgage credit institutions. Noble Land and Peasant Land Banks were abolished by decree of December 8 (November 25) 1917.

The seizure of the State Bank signified a major step towards transforming the credit system from an instrument of domination of finance capital into an instrument of socialist construction, towards the creation of a new, Soviet

credit system, fundamentally different from the capitalist one. The second step here should have been the subordination of private banks to state control, then - the nationalisation of private banks and their merger with the State Bank, thereby creating a powerful, ramified apparatus of monetary accounting and control.

At first, commercial banks remained in the hands of their old owners. The bourgeoisie and its bank employees tried to use banks to disorganise the production and circulation of goods. The resolution of the Council of People's Commissars dated November 12 (October 30) 1917 stated: "Private banks are closed. The clerks and directors gather, but the doors are not opened to the public. The workers are deprived of the opportunity to receive wages, since the banks do not pay money on the checks of plants and factories. "The decree obliged the banks to open on November 13 at regular hours, warning that "if the banks are not opened and the checks are not issued, all directors and board members of banks will be arrested, commissioners will be appointed to all banks... order, sufficient military guards will be introduced into all banks."

The first measures of the Soviet government in relation to private 'banks were aimed at breaking the sabotage of the capitalists and their bank employees, and establishing control over the banks. This control was greatly facilitated by the seizure of the State Banking Bank of the country.

In November 1917, trade secrets were abolished and workers' control over credit institutions simultaneously with the introduction of workers' control in all enterprises.

All these measures were taken to eliminate the sabotage of private banks. At the same time, the establishment of workers' control was to prepare the nationalisation of private banks; thereby, they were introduced to the course of all banking affairs and operations.

Workers' control was supposed to suppress and prevent the use of banks by the bourgeoisie for counterrevolutionary purposes. One of the most important tasks of workers'

control was to ensure the strict implementation of the decisions of the Soviet government that limited the right of disposition of current accounts and deposits. These restrictions were intended to prevent the withdrawal of funds from credit institutions by the capitalist elements prior to their nationalisation and to ensure the most productive use of funds in the interests of consolidating Soviet power. According to an agreement concluded between the State Bank and private banks, the latter were obliged to submit to the State Bank a daily report on who, from what accounts and for what needs they were giving funds, and the union of private banks was allowed to receive funds from their current accounts in the State Bank up to \$50 million rubles in a week.

Workers' control met with fierce resistance from the capitalists, who tried by all means to break or bypass it. The private banks refused to lend to those enterprises in which workers' control had been established, while at the same time they reliably financed enterprises that resisted workers' control. It was necessary to accelerate the transition from workers' control to the nationalisation of banks.

Lenin pointed out the need for decisive and immediate nationalisation of banks in a speech at a meeting of the All-Russian Central Executive Committee on December 27 (14), 1917.

"To carry out control," said V. I. Lenin, "we called them, bank dealers, and together with them worked out the measures to which they agreed to receive loans with full control and accountability. But there were people among the bank employees who the interests of the people are close, and they said: 'they are deceiving you, hurry up to suppress their criminal activities aimed directly at your detriment...'

We wanted to follow the path of agreements with banks, we gave them loans to finance enterprises, but they started sabotage of an unprecedented scale, and practice led us to

control by other measures.”¹.

On December 27, in the morning, all private banks in Petrograd were occupied by detachments of armed Red Guards, and in the evening the All-Russian Central Executive Committee received decree “On the Nationalisation of Banks”. Banking was declared a state monopoly, all private banks were to be merged with the State Bank into a single People’s Bank (with full provision for the interests of small depositors).

Simultaneously with the decree on the nationalisation of banks on December 21, 1917, the Central Executive Committee adopted a decree on the audit of safes (steel boxes) in banks; the cash found in them was to be credited to a current account in the People’s (formerly State) Bank, and gold in coins and ingots was to be confiscated. On December 29, 1917, payments on coupons and dividends were stopped and circulation of shares and securities was prohibited. Finally, by a decree of January 26, 1918, all the share capital of the former private banks was subject to confiscation and transfer to the People’s Bank, and all bank shares were cancelled and the payment of dividends on them was completely stopped.

These three decrees should be regarded as the first practical measures of the Soviet government to nationalise banks.

The implementation of the decree on the nationalisation of banks was in every possible way sabotaged and hindered by enemies of the people who had entrenched themselves in credit institutions and crept into the Soviet financial authorities. Liquidation and technical commissions, created at private banks for the most organised nationalisation of the latter, sought to confuse and delay this matter, secretly hoping for a speedy overthrow of Soviet power. The Council of Experts, created in April 1918 at the People’s (formerly

¹ V. I. Lenin, Works, vol. . XXII, p. 143.

State) Bank to unite the work of the liquidation and technical commissions, was dissolved in May 1918, as it was caught in counter-revolutionary activities. To force the People's Commissariat of Finance to accelerate the implementation of the decree on the nationalisation of banks, a special resolution of the Council of People's Commissars of September 20, 1918 ("On the Unswerving Conduct of Monopolisation of Banking") was needed, which suggested that the Narkomfin urgently nationalise the banks. Only after the publication of this resolution did things move forward. In October-December 1918, mutual credit societies, city public banks, private land banks (with the cancellation of their shares, mortgages and bonds) and foreign banks operating within the RSFSR (the rules for the liquidation of foreign banks were adopted by the People's Commissariat for Finance in April 1919).

When nationalising banks, the party and the Soviet government had to overcome not only the sabotage of officials and former owners of private banks, but also demagoguery from various kinds of compromise Mensheviks, the so-called internationalists, Left Socialist-Revolutionaries, etc. These traitors to the revolution, acting illegally in the role of direct organisers of sabotage and sabotage in banks, in every possible way intimidated workers and peasants, "warning" against carrying out nationalisation of banks. They argued that banks are too fragile, that it is necessary not to nationalise them, but to come to an agreement with their owners and managers that nationalisation would have no effect, confuse the affairs of banks, etc. Together with the bourgeois economists, they argued that the nationalisation of banks was supposedly a disastrous undertaking.

The Party led by Lenin exposed the true content of these "warnings". The top of the bank clerk is not only organised sabotage, but together with other counter-revolutionary groups prepared an armed uprising against Soviet power.

One of the most difficult issues in the nationalisation of banks was the issue of cooperative credit institutions. The

policy of the party and the Soviet government in relation to cooperation was to suppress the counterrevolutionary inclinations of a significant part of the leaders of the cooperatives, to use it as much as possible to create a Soviet trading apparatus. This use of cooperation was very important, since the cooperation had a ramified trading apparatus and united some part of the middle peasantry. Following the path of an agreement with the cooperatives, the All-Russian Central Executive Committee, by a decree of December 21, 1911, limited the scope of nationalisation of banks to pour private credit institutions. Simultaneously the Soviet government took measures to strengthen credit assistance to cooperatives, subject to its subordination to workers' control, as well as to strengthen the role of the State Bank in the management of the activities of credit cooperatives. However, it soon became clear that the capitalist elements, relying on counter-revolutionaries from among the co-operators, used the central cooperative credit institution, the Moscow Narodny Bank, to circumvent the laws of Soviet power. It turned out that the Moscow Narodny Bank was engaged in lending to private industrialists and merchants, under the guise of a cooperative sign. This was a direct violation of the basic principles of the decree on the nationalisation of banks. Therefore, by a decree of the Council of People's Commissars of December 2, 1918, the Moscow Narodny Bank was nationalised and merged with the Narodny (formerly State) Bank of the RSFSR, the board of the Moscow Narodny Bank was transformed into the Cooperative Department of the Central Administration of the Narodny Bank of the RSFSR, and the local branches of the Moscow Narodny Bank—to the local cooperative departments of the People's Bank of the RSFSR.

Already on the road to October, VI Lenin pointed out that the nationalisation of the banks would facilitate the nationalisation of the insurance business. By lowering insurance premiums, the nationalisation of the insurance business would give a lot of convenience and relief to all

insurers, would make it possible to expand their circle, and would significantly improve the position of the working people. This instruction of V. I. Lenin was carried out by the Soviet government in 1918.

The nationalisation of the insurance business was preceded by the establishment of state control over all types of insurance, and at the end of 1918, insurance in all its types and forms was declared a state monopoly. All private insurance companies were liquidated. State property insurance, as well as fire-fighting measures were assigned to the fire-insurance department of the Supreme Economic Council and its local bodies—the fire-insurance departments of the provincial and district economic councils, and state personal insurance—to the savings banks. Insurance of state enterprises and the property was terminated. Cooperative organisations were allowed, as an exemption from the state insurance monopoly, to carry out mutual insurance of movable property and goods.

The nationalisation of banks, transferring the accounting and control apparatus into the hands of the Soviet government, dealt a strong blow to the exploiting classes. At the same time, the party and the Soviet government, under the leadership of Lenin and Stalin, outlined and implemented a number of measures that limited the capitalist elements in their disposal of money and precious metals.

The capitalist mode of production is characterised by the concentration of wealth in the hands of the exploiting class. One of the forms of this concentration is the concentration of funds in the hands of the exploiters. Under capitalism, money is capital in the hands of the bourgeoisie, an instrument of exploitation. It was necessary to snatch this instrument from the hands of the capitalists and landlords, to limit the use of money by the capitalist elements, to direct the money against the capitalist elements, to turn money into an instrument of socialist construction.

In December 1917, V. I. Lenin, outlining the necessary measures related to the nationalisation of banks, in the draft

decree on the socialisation of the national economy, pointed out:

“Individuals of the wealthy classes are obliged to keep in the State Bank and its branches, as well as savings banks, all their sums of money, receiving no more than 10-125 rubles per week (as determined by local councils) for consumer needs, and for production and trade only on written certificates from the institutions of workers’ control.

To supervise the actual implementation of this legalisation, rules will be introduced for the exchange of current banknotes for others, and those guilty of deceiving the state and the people will be subject to confiscation of all property”¹.

The first part of this instruction of V. I. Lenin was fully implemented with the nationalisation of the banks. Already in December 1917, the mandatory storage of funds exceeding the subsistence minimum was established in credit institutions (State Bank, its branches, savings banks). The issuance of money from current accounts and deposits for personal needs was first suspended, and then limited to the subsistence minimum (for example, in April 1918, the amount did not exceed 1,500 rubles per family per month). This restriction applied only to current accounts and deposits made before January 1, 1918. Amounts received on current accounts and deposits after January 1, 1918 were issued without restrictions.

Following the revision of safes, accompanied by the forced crediting of the money found in them to the current accounts in the State Bank and the confiscation of the gold stored in them, the Soviet state established a state monopoly of the gold trade, which helped to concentrate gold reserves in the hands of the state and deprived the capitalist elements of the opportunity to use gold as a means of accumulation for the fight against Soviet power.

¹ V. I. Lenin, *Works*, Vol. XXII, pp. 140-141.

Along with this, the party and the Soviet government took a number of measures to regulate trade and prices. and to combat speculation, a grain monopoly is established, foreign trade is nationalised. In January 1918, a Price Committee was created, whose tasks were to determine the distribution costs, to establish normal prices for goods and to distribute profits from the sale of goods between the individual links of the commodity distribution system.

In order to strengthen control over monetary transactions and save cash, an order was established according to which all cash: state and cooperative enterprises and institutions should be concentrated in the current accounts of the People's Bank. State enterprises and institutions were obliged to carry out settlements in the form of non-cash payments, that is, without the participation of cash.

Following the nationalisation of banks, the largest financial measure to undermine the financial and economic strength of capitalist elements is the cancellation of government loans.

The state debt of Russia over the years of preparation and management of the imperialist war has grown rapidly. By the time the power of the landowners and the bourgeoisie was overthrown, the state debt exceeded 60 billion rubles, including the internal debt of 44 billion rubles. (of which 25 billion rubles—for long-term loans, 19 billion rubles—for short-term liabilities of the state treasury) and external debt—16 billion rubles. Rubles of which 7.4 billion rubles were long-term debt).

During the first Russian revolution (in 1906), the bourgeoisie of the West helped the tsarist reaction to recover by lending it 2 billion rubles. And tsarism, at the cost of a new financial enslavement of Russia, really got stronger then. During the imperialist war, the Entente states gave

I borrowed money for the military expenditures of tsarist Russia—to her ally, who supplied them with cannon fodder. The provisional bourgeois government in 1917, continuing the war, also sought loans from the imperialist states at the cost

of enslaving Russia, tried to rely on American billions to suppress the revolution.

The loans placed an enormous burden on the shoulders of the working people: 3 billion rubles had to be paid on the state debt alone per year, in addition to the amounts spent on loan repayment. Hence the enormous political and economic significance of loan cancellation is evident.

The significance of this revolutionary act lies primarily in the complete, principled break of Soviet power with the policy of the government of the bourgeoisie and landowners.

The decree on the cancellation of loans dealt a strong blow to the economic positions of the Russian bourgeoisie, while at the same time sensitively hurting the interests of foreign capital. It was not for nothing that the bourgeois states, having failed in their intervention, long and stubbornly, but to no avail, sought in their negotiations with the Soviet government the resumption of payments on cancelled loans.

The decree cancelling state loans freed the working people of the Soviet Union from paying a huge tribute to the bourgeoisie and landlords. Cancellation of debts “enabled the Soviet government to use” for socialist construction, for raising the well-being of the working people, funds that, without this act, would have been used to pay off loans.

A decree on the cancellation of all state loans concluded by the governments of the Russian landowners and the Russian bourgeoisie, as well as all guarantees given by these governments for loans to various enterprises and institutions, was adopted by the All-Russian Central Executive Committee on January 21, 1918.

Poor holders of bonds of cancelled loans (up to 10 thousand rubles) were compensated by crediting the value of bonds of cancelled loans (within the specified limits) to their current accounts with savings banks. The funds acquired without labour, even if they did not exceed the amount of 5,000 rubles, were cancelled.

To determine which citizens belonged to the poor,

special commissions were created by local councils.

Somewhat later (July 22, 1918), the branches of the People's Bank were allowed to issue sums secured by securities to low-income owners of these securities, as well as to purchase securities from them.

By decree of April 18, 1918, all owners of shares, bonds and other interest-bearing securities were required to register them. The purpose of this decree was to prevent the transfer of securities from hand to hand, which was prohibited in December 1917. This transfer of securities could be used by capitalist elements to obtain compensation for bonds of cancelled loans by fictitious transfers to smallholders.

By the decree of January 21, 1918, only state and state-guaranteed loans were cancelled. Later, in December 1919, the bonds of the former zemstvo and city governments were also cancelled.

The cancellation of loans by no means meant the cancellation of loans previously issued by banks against the security of loan bonds. Large holders of bonds of capitalist loans, as a rule, do not hold them in their hands, but pledge them in credit institutions and receive loans against them. Only smaller owners' bonds, less knowledgeable about the activities of credit institutions and not enjoying any kind of privileges from banks, keep bonds with themselves. It is clear that under these conditions, the cancellation of loans received secured by loan bonds (which is intensified the capitalists sought and that the economists tried in every possible way to theoretically substantiate them), would mean a weakening of the blow on the capitalist elements.

4. Lenin's Programme of Financial Construction and Measures for its Implementation

“Lenin called the period from November 1917 to February 1918 the period of the “Red Guard attack on capital”. During the first half of 1918, the Soviet power succeeded in breaking the economic might of the bourgeoisie, concentrating in its hands the commanding heights of the national economy (factories, plants, banks, railways, foreign trade, merchant fleet, etc.), breaking the bourgeois apparatus of state power, and victoriously liquidate the first attempts of the counter-revolution to overthrow Soviet power”¹.

However, this was not enough. It was necessary to organisationally consolidate the victory, start building the foundation of the socialist economy, and wage a decisive struggle against the petty-bourgeois element, representing a particular danger at this difficult moment, disrupting labour and national discipline. It was necessary to wage a struggle against the attempts of the petty bourgeois to cash in on the people's poverty.

In March–April 1918, V. I. Lenin, in his brilliant work *“The Immediate Tasks of the Soviet Power”*, pointed out that the main attention should now be paid to organising the strictest accounting and control, to increasing labour productivity. The implementation of these decisive tasks of the moment required the correct organisation managing the economy, strengthening the fight against all kinds of mismanagement, idleness, theft; the introduction of the strictest labour discipline, the organisation of socialist competition; strengthening workers' control over the capitalists still in the hands of enterprises and the use of

¹ History of the All-Union Communist Party (Bolsheviks), Short Course, p. 210.

bourgeois specialists.

The methods of simply expropriating the bourgeoisie were no longer sufficient.

“The bourgeoisie,” wrote V. I. Lenin, “has been defeated in our country, but it has not yet been uprooted, not destroyed, and has not even been completely broken down. Therefore, a new, higher form of struggle against the bourgeoisie, the transition from the simplest task of further expropriating the capitalists to a much more complex and difficult task, is coming to the fore creating conditions under which the bourgeoisie could neither exist nor arise again. It is clear that this task is not. higher and that without the permission of its socialism does not yet exist”².

“The centre of gravity in the struggle against the bourgeoisie is shifting towards organising such accounting and control. Only on this basis, it is possible to correctly determine the immediate tasks of economic and financial policy in the field of nationalisation of banks, monopolisation of foreign trade, state control over money circulation, the introduction of a satisfactory, from a proletarian point of view, property and income taxes, the introduction of labour service”³.

Thus, financial policy had to be subordinated to the tasks of strengthening accounting and control throughout the economy.

In the first period of its existence, the Soviet government widely used indemnities along with use to obtain the necessary funds in the centre and in the localities, the old tax system and paper money. The method of indemnity, used to expropriate the expropriators and suppress the malicious sabotage of the capitalist elements, did not, however, ensure the necessary regularity of the flow of funds. The tasks of organising the strictest accounting and control, developing

² V. I. Lenin, Works, V. XXIII, p. 443.

³ Ibid, p. 449.

the productive forces, overcoming the economic devastation caused by the imperialist war required strengthening the monetary system, that is, reducing the issue of paper money and withdrawing excess banknotes.

“... operating with a printing press like this practiced up to the present time, “said V. I. Lenin in May 1918, “can only be justified as a temporary measure.”¹.

That is why V. I. Lenin proposed: a) to switch from indemnities to systematically collected taxes, b) to replace old banknotes with new ones.

The introduction of a highly progressive—income—property tax with frequent timing of its collection was associated with the systematic accounting of income and property, stimulated the strictest control over the activities of the capitalist elements. A highly progressive income tax and indirect taxes on luxury goods were to become a serious instrument for regulating income and savings in the hands of the Soviet government. At the same time, the transition from contributes to systematically levied taxes should have contributed to the strengthening of the ruble.

Lenin proposed to carry out a monetary reform by replacing old banknotes with new ones, and the exchange had to be carried out in such a way as to deal a crushing blow to the bourgeois elements.

“We will appoint,” said V. I. Lenin, “the shortest time possible, during which everyone must make a declaration on the amount of money they have and receive new ones in return. If this amount is too small, he will receive a ruble for a ruble heightens the norm—he will receive only a part. This measure will undoubtedly meet with the strongest opposition not only from the bourgeoisie, but also on the side of our peasantry, who got rich in the war and buried bottles filled with paper money in the ground. We will meet chest to chest with the class enemy”².

¹ V. I. Lenin, *Works*, vol. XXIII, p. 19.

² *Ibid.*, pp. 20-21.

Lenin's draft monetary reform expressed the Party's policy, immediately after the victory, calculated not to destroy the money of the socialist revolution, but to master this instrument of the bourgeois economy and use it to fight the capitalist elements, to build a communist society. The implementation of Lenin's project of monetary reform, which in itself was already dealing a mighty blow to the capitalist elements, was to strengthen money as a weapon of struggle with these elements.

Measures for mastering the credit system, for its restructuring and use in accordance with the tasks of socialist construction were outlined by V. I. Lenin in his "Theses of Banking Policy". In order to strengthen banking accounting and control, V. I. Lenin proposed to increase the number of branches of the People's Bank, it would be most expedient to place these branches in the interests of greater convenience for the public, to develop a check circulation, to increase the attraction of free funds from the population to credit institutions and steadily to carry out the transformation of banks"... into a single apparatus for accounting and regulation of the socialistically organised economic life of the whole country as a whole"¹.

It was a whole programme of using the banking apparatus for socialist construction.

Lenin attached great importance to the implementation of these measures in the field of financial construction. At the All-Russian Congress of Representatives of the Financial Departments of the Soviets in May 1918, V. I. Lenin said:

"We must not forget that all our radical reforms are doomed to failure if we do not succeed in financial policy. The success of the enormous undertaking of the socialist transformation of society, which we have conceived, depends on this last task."².

¹ V. I. Lenin, Works, vol. XXX, p. 379.

² V. I. Lenin, Works, vol. XXIII, p. 18.

Measures were taken to reduce emissions, streamline bank loans, cut costs, and draw up a budget. All these measures were in connection with the task of creating a firm Soviet currency, outlined by Lenin.

The Party and the Soviet government, in the implementation of the planned V. I. Lenin's measures in the economic and financial fields had to overcome desperate resistance from the counter-revolutionary 'Bukharin group, the so-called "left communists". As it is now known, the "left", in order to disrupt the domestic and foreign policy of the Soviet regime and restore capitalism in Russia, even prepared, together with the SRs, terrorist acts against Lenin, Stalin and Sverdlov. Hence the fierce resistance which the counterrevolutionary Bukharin group offered to all the measures planned by Lenin and Stalin is understandable.

The "leftists" opposed all measures to strengthen accounting and control, against strengthening labour discipline and piecework, against using bourgeois specialists, against introducing taxes and strengthening finances, against carrying out cost accounting. The "leftists" demanded the abolition of the money. Lenin's plans for monetary reform, directed against the kulaks and the bourgeoisie, various anti-Soviet restoration elements (Sokolnikov) tried to oppose demands for redemption, by means of a loan, of banknotes hidden by the bourgeoisie—in the hope of restoring capitalism. Both the "left communists" and all sorts of other bourgeois elements, trying to disrupt the measures taken by the party to restrict the capitalists, thereby sought to retain in the hands of the bourgeoisie the economic strength to fight against Soviet power.

The Party, fighting for the consolidation of Soviet power, for strengthening accounting and control, for the use of money and finance by the dictatorship of the working class, defeated the Bukharin espionage-terrorist group and other counter-revolutionary organisations.

When studying practical measures related to the implementation of Lenin's program of financial construction, one should bear in mind the fragility and short duration of a respite after imprisonment, peace with Germany and the enormous difficulties that resulted from the lack of a well-functioning financial apparatus. The Party and the Soviet government had to create anew the financial apparatus, overcoming the sabotage and sabotage of bourgeois specialists. The circumstances of the unfolding civil war soon demanded emergency measures in all branches of economic work. As a result, the measures planned by the party to strengthen the monetary system and finances were not fully implemented.

The transition from indemnities to regular taxes was expressed at first and at the time in the increased collection of old taxes with an increase in class differentiation of their rates. At the beginning of December 1917, the obligatory payment of the old taxes by the bourgeoisie was established under the threat of confiscation of all property and imprisonment. The bourgeoisie had to pay: a) an income tax, b) a one-time tax, c) a tax on the growth of profits. In 1918, a one-time levy was introduced for the needs of the families of the Red Army soldiers, levied from private enterprises in the amount of the June wages of workers employed at these enterprises. Then it was extended for 1918 the effect of the tax on the growth of profits, introduced the taxation of income tax. the aggregate income of taxpayers, the system of rates of income and trade taxes was rebuilt. All these measures were built on the basis of a highly progressive income taxation of the bourgeoisie.

In the area of budgetary work, let us first of all note the streamlining of the budget case. The first budgetary estimates—the rules approved on January 28, 1918, contained brief instructions on the preparation of estimates. The estimates were supposed to contain only general calculations without their detailed justification. This was to help speed up the preparation of the budget for the first half

of 1918.

In order to reduce budget expenditures, by a resolution of the Council of People's Commissars (published on February 20, 1918), a Special Committee was established to reduce government spending. Measures were taken to strengthen budget discipline.

In May 1918, in order to prevent the expenditure of funds for oversized needs, the unity of the cash desks of state institutions was established. All funds and all incomes were subject to depositing in the treasury offices without the right to spend them directly (except for minor expenses). Based on the experience in drawing up the budget for the first half of 1918, the SNK on June 3, 1918 approved the rules for drawing up and executing the budget for the second half of 1918. According to these rules, no new expenditure not provided for in the estimates can be made without requesting an oversized one. loan through the Council of People's Commissars. Any expenditure of funds must strictly correspond to the estimated purpose and must be carried out with particular economy and thrift.

Measures in the field of food policy of the Soviet government were of great importance for strengthening the financial position of the Soviet Republic and for using finances in the interests of the workers and the poor. The difficult food situation in the country led to the need for a number of emergency measures. VI Lenin instructed his closest colleague, Comrade Stalin, to save the situation, to organise the supply of food to the proletarian centres of the country and the Red Army.

"The fight for bread is the fight for socialism," said Lenin. The fight for bread dealt a powerful blow to the fist. In addition to the general importance of the struggle for grain, supplying the workers with grain not at speculative prices meant that the brunt of the devaluation of paper money was shifted to the kulak and speculative elements.

Exercising a grain monopoly, the Soviet state declared a merciless struggle against the kulaks, who were trying to

hide their grain reserves in order to deepen the food crisis. By a decree of the Council of People's Commissars in April 1918, a commodity exchange was organised to strengthen grain procurements. At the disposal of the People's Commissariat for Food, the necessary commodity funds were concentrated for exchange for bread and other food products procured at state prices. The exchange itself had to be carried out in such a way that the village poor were involved in organising the exchange of goods. The goods intended for exchange for bread were allocated to the volost or district associations for further distribution.

In order to strengthen the grain monopoly, on May 9, 1918, the All-Russian Central Executive Committee and the Council of People's Commissars gave the People's Commissariat extraordinary powers to fight the village bourgeoisie, which was hiding grain reserves and speculating in them. All grain owners were offered "the entire surplus, in excess of the amount required for seeding fields and personal consumption according to established norms before the new harvest, to declare for delivery within a week" from the day this decree was announced in each rural municipality. In June 1918, committees of the village poor were created, which played a huge role in the development of the socialist revolution in the countryside, in undermining the economic power of the kulaks, in resolving the food issue, in the preparation of an alliance between the working class and the middle peasant masses of the peasantry. In August 1918, with the participation of the committees of the poor in rural grain areas, a compulsory exchange of goods was established, that is, a compulsory exchange of manufactured goods exclusively for agricultural products. Sale of manufactured goods at money was allowed in these localities only to the rural poor, workers, small artisans and employees. The food situation in the republic, aggravated in connection with the civil war, caused in the future, the need to move to surplus appropriation (see Chapter IV).

The results of the construction of the apparatus of the

proletarian dictatorship, the governing bodies of the state and the national economy, the results of the socialist gains achieved by the working class of our country under the leadership of the Communist Party, were recorded in the Constitution of the RSFSR, adopted in July 1918 by the All-Russian Congress of Soviets. The Constitution had a special section "Budgetary Law", where the content and main tasks of the financial policy of the Soviet state, the foundations of its budgetary devices.

The Constitution established the national budget of the RSFSR, established the division of income and expenses into national and local ones.

The constitution prohibited the production of expenditures from the state treasury without a loan or a special decree of the central government.

A strict targeting of funds allocated from the centre to localities was also established. The local councils were charged with the obligation to draw up estimates. The Constitution stated that financial policy at that time was supposed to contribute to the main goal—the expropriation of the bourgeoisie and the preparation of conditions for socialism. To achieve these goals, financial policy must provide the necessary funds to the Soviet government, "not hesitating to invade the right of private property."

CHAPTER IV. FINANCIAL POLICY OF THE SOVIET STATE DURING FOREIGN MILITARY INTERVENTION AND CIVIL WAR (1918-1920)

1. Organisation of Production and Distribution

The unfolding civil war and the imperialist intervention against the Soviet Republic for 2-3 years turned it into a besieged camp, surrounded by a ring of fronts and blockades. Only by the very end of 1920, the Soviet country under the leadership of Lenin and Stalin finally defended itself from the onslaught of the united forces of the interventionists and the White Guards.

All the forces and means of the Soviet Republic were thrown on, then, to deal a crushing blow to the internal and external enemies of the proletarian revolution. The entire economy, extremely destroyed by the imperialist war, continued to be destroyed by the civil war and intervention. Two-thirds of the factories and factories were idle, there was a shortage of grain. A number of regions rich in grain, raw materials and fuel were occupied (or cut off from the RSFSR) by interventionists and White Guards. The transport was badly damaged. There was no sufficient experience in the organisation of the economy; there was also no Soviet trading apparatus capable of organising trade between town and country.

The class-hostile elements that penetrated the state apparatus continued to sabotage and tried in every possible way to disrupt the measures of the Soviet government.

All this created especially great difficulties. It was necessary to collect and centralise in the hands of the state the material resources of the country, especially food, and,

above all, to supply the heroic Red Army; the rest should be distributed in such a way as to ensure, first of all, the shock sectors of work and to preserve the main productive force of society – the working class. It was necessary to wage a struggle against the petty-bourgeois element, using devastation for speculation and bagging. In his article “On Free Trade in Bread” V. I. Lenin wrote:

“To collect all the surplus grain in the hands of the central Soviet government, to distribute them correctly, this means making our Red Army invincible, this means finally crushing Kolchak and Denikin, this means restoring industry and ensuring correct socialist production and distribution, ensuring complete socialist order.”¹

It was impossible to achieve this through “free trade”. With an extreme shortage of goods, free trade in practice would mean nothing more than freedom of speculation and the enrichment of the capitalist elements and the kulaks by robbing the working people. On the basis of freedom of trade in these conditions, it was impossible to ensure such a distribution of the country’s resources, in which, first of all, the needs of the Red Army and workers employed in the most important sectors of economic and defence work would be satisfied; with free sale and purchase, the goods would go to those who had more money (and the bourgeoisie had significant reserves of money hidden by it). Free trade would mean, under these conditions, the rule of the elements in the economy, freedom of profit for the kulak and the speculator.

In a speech at the First All-Russian Congress on Out-of-School Education, V. I. Lenin said that:

“... At the moment when the revolution of the proletariat against the bourgeoisie is taking place, when landlord and capitalist property is overthrown, when a country ravaged by a four-year imperialist war is starving,

¹ V. I. Lenin, *Works*, vol. XXIX; p. 443.

the freedom to trade in grain is the freedom of the capitalist, the freedom to restore the power of capital. This is Kolchak's economic programme"²....

The basis of economic relations of that period was the military-political alliance of the working class and the peasantry. In accordance with the instructions of the VIII Party Congress, the basis of the policy of the Party and the Soviet government in the countryside was laid on a firm alliance with the middle peasant, while maintaining the leading role of the proletariat in this alliance. During this period, the Soviet government took surplus from the peasant for the surplus grain (and sometimes the supply of grain necessary for him) and organised the struggle against the enemy common to the workers and peasants—the landowners, capitalists and interventionists.

The economic policy of the Civil War period was the policy of "War Communism". It was a temporary measure caused by extreme poverty, ruin and war.

"The Soviet government put under its control, in addition to large-scale industry, medium and small industry, in order to accumulate consumer goods and supply them to the army and the countryside. It introduced a monopoly in the grain trade, banned the private trade in grain and established a surplus appropriation system in order to take into account all surpluses: food from the peasants, to accumulate grain reserves and to supply food to the army and workers. Finally, it introduced universal labour service for all classes. By involving the bourgeoisie in compulsory physical labour and thus freeing workers for other, more important for the front, work, the party implemented the principle: "He who does not work, he does not eat."

This whole system of measures, caused by the extremely difficult conditions of the country's defence and of a

² Ibid., p. 295.

temporary nature, was called war communism¹.

All production management was centralised in the so-called “glavkas” and “centres” (glavkist system). All procurement ‘operations were monopolised by the People’s Commissariat for Food with the involvement of cooperatives as an auxiliary body. All ‘produced at state enterprises and all the products procured by the People’s Commissariat for Food and the cooperatives were concentrated for distribution in a strictly centralised manner. Workers, professional and cooperative organisations were allowed to make procurements only for non-monopolised by the state non-standardised products, that is, a comparatively small amount of secondary products. The products were distributed by cards. Consumer supply is differentiated depending on their belonging to a particular social group of the population and the impact of the enterprise.

This nature of the organisation of production and distribution and determined all the measures of the Soviet government in the field of money, credit, finance.

2. The Role of Money During the Civil War

The aggravation of the civil war prevented the stabilisation of the Soviet ruble, which was outlined by V. I. Lenin at the beginning of 1918. The Soviet government was forced to take the path of increasing the emission of paper money in order to mobilise additional resources. Money was a kind of evidence of a loan provided the peasantry to the Soviet state. At the same time, the huge issue of paper money undermined the strength that the capitalist elements still had, which concentrated large amounts of banknotes.

In 1919, the People’s Bank was granted the right to issue

¹ “*History of the CPSU (B)—Short Course*”, Gospolitizdat, 1938, p. 219.

banknotes “within the limits of the actual needs of the national economy”.

The following figures give an idea of the growth of the money supply in circulation:

Years	Money supply in circulation (in billion rubles) as of January 1	Growth of the money supply in circulation for the year (in percentage)
1918	27.6	122.1
1919	61.3	267.0
1920	225.0	419.8
1921	1,168.6	—

The tremendous growth of the money supply was accompanied by a change in its structure. In 1918, the circulation was filled with banknotes of pre-revolutionary samples and monetary surrogates. Bonds and coupons of pre-revolutionary domestic government loans, series and short-term obligations of the State Treasury were circulated as surrogates for banknotes. Since 1919 begins: the issue of Soviet-style banknotes.

The main reasons for the increase in the emission of money were: 1) the enormous need of the state for resources and 2) the rapid decline in the efficiency of emission as the banknotes depreciated.

As already indicated above, the decisive method of concentrating food resources in the hands of the state was the surplus appropriation. Products seized by the state in the order of food appropriation were paid for at fixed prices. Lenin said that the peasant, giving the state surplus grain at a fixed price, for paper money, and not for goods (which did not exist at that time), gives the state a loan, and that with the restoration of industry “... we will repay that loan a

hundredfold in bread, which we take from the peasants”¹

The working class fulfilled its obligation by providing the most advanced and perfect equipment to agriculture, creating the material basis for strengthening the collective farm system, for eliminating the kulaks. The loan received from the peasants, as Vladimir Ilyich pointed out, was a hundredfold returned to the peasants with the victory of the Leninist-Stalinist plan for the socialist industrialisation of the country, with the implementation of the collectivisation of agriculture. It was returned by tens and hundreds of thousands of tractors, combines, automobiles, and was created to increase the prosperity of collective farmers.

Thus, during the period of the civil war, a certain part of the money was needed to pay for the products received through the surplus appropriation. However, the amount of money required for this purpose was only a small amount in comparison with the actual size of the money issue. The main purpose of the latter was in addition (in relation to the surplus appropriation) mobilisation of resources to meet the needs of the urban population. This was partly done by the procurement apparatus of the cooperation (procurement products non-monopolised by the state). The state supplied the cooperation with the necessary money for these purposes. In addition, despite the prohibition of private trade and severe anti-speculation measures, the private market has not yet been completely eliminated.

The struggle of the petty-bourgeois element and the kulaks against the state proletarian control was expressed in the desire of the kulaks and the wealthy elite of the peasantry to hide grain from the surplus appropriation system, to sell it under the counter at speculative prices. A certain amount of goods and products trickled into the illegal or semi-legal market from the centralised state fund due to the sabotage work of enemies of the people who had crept into the Soviet apparatus and the lack of accounting and control.

¹ V. I. Lenin, *Works*, vol. XXV, p. 62.

On the other hand, the state, due to the extreme economic devastation, could not fully satisfy the needs of workers and employees by directly supplying them with food and manufactured goods from the state fund. It was necessary to provide a certain opportunity to workers and employees to purchase products on the market, providing them for this purpose with demographic signs. Hence, the preservation of money wages along with supply in kind.

As a result of the naturalisation of the economy and the lack of a well-functioning financial apparatus, the state’s monetary incomes were small and were increasingly declining (see below). Therefore, the main source of resources for supplying cooperation, workers and employees with banknotes were the issue of money.

In the food budgets of the workers, the products received on the cards were the decisive value. If we take the entire urban population, then the supply of cards covered about only half of the food budget. In the work *“Economy and Politics in the Era of the Dictatorship of the Proletariat”* V. I. Lenin gave the following data describing the role of state supply (Comprod) and the market (meshechnism) in the consumption of the population of 26 provinces of Soviet Russia:

26 provinces of Soviet Russia	Population (millions)		Production of bread (without seeds and feed) (millions of poods)	Bread delivered		The whole number of Cheb, with whom the population was spread (millions of Jews)	Consumption of bread per capita (poods)
				Comprod	Bagels		
				millions of poods			
Producing provinces	towns and villages	4.4	—	20.9	20.6	41.5	9.5
		28.6	625.4	—	—	481.8	16.9
Consuming provinces	towns and villages	5.9	—	20.0	20.0	40.0	6.8
		13.8	114.0	12.1	27.8	151.4	11.0
Total (26 provinces)		52.7	739.4	53.0	68.4	714.7	13.6

So,—wrote V. I. Lenin—approximately half of the grain is given to the cities by the Komprol, the other half are the sackers. An accurate survey of the nutrition of urban workers in 1918 yielded precisely this proportion. At the same time, the worker pays nine times less for the grain delivered by the state than the sackers. The speculative price of bread is ten times higher than the state price. This is what an accurate study of working budgets says”¹.

Some of the products were purchased by the urban population through direct commodity exchange, that is, the exchange of all kinds of household items for bread, as well as manufactured goods received from the state in the order of supply. The rest of the products were bought on the semi-legal market for money received by workers and employees from the state as wages. The money wages in the worker’s budget at the beginning of 1919 in real terms amounted to 42 percent. Subsequently, with the increase in the supply of goods in kind and the increasing depreciation of banknotes, the role of money wages declines, but even at the end of 1920 it was still 13 percent. Thus, money played an important role in the additional mobilisation of food for the working population of cities.

The growth of the money supply in circulation was accompanied by an even more rapid depreciation of the ruble, as a result of which the real value of the money supply in circulation and the efficiency of emission decreased. The following table characterises the changes in money circulation during the years of the civil war:

¹ V. I. Lenin, *Works*, vol. XXIV, p. 510.

	1919			1920		1921	
	2nd half of 1918	1st semes ter	2nd semes ter	1st semes ter	2nd semes ter	1st semes ter	2nd semes ter
Money supply in circulation at the beginning of the period (in billion rubles)	43.7	61.3	101.0	225.0	511.8	1168.6	2347.2
Price index according to the budgetary index of labour statistics at the beginning of the period (1918 = 1)	89	164	256	2420	8140	16,800	80700
Money supply in circulation at the beginning of the period (in million rubles in gold)	493.6	373.9	154.0	93.0	62.9	69.6	29.1
Average monthly issue of banknotes (in billion rubles)	2.9	6.6	20.7	43.5	109.4	196.4	—
Average monthly real income from the issue (in million rubles. gold)	27.1	19.3	18.1	10.1	10.2	5.6	—

In three years (from July 1918 to July 1921), with the growth of the money supply in circulation, the purchasing power of the ruble fell 54 times by 967 times, and the real value of the entire circulating money supply decreased by almost 17 times. The average monthly real income from the issue decreased from 21.1 million rubles. in the second half of 1918 to 5.6 million rubles in the first half of 1921,

although the average monthly issue of banknotes increased from 2.9 billion rubles up to 196.4 billion rubles.

The rapid fall in the value of money also quickly depreciated those stocks of paper money that had accumulated in the hands of the urban bourgeoisie, the kulaks, the upper strata of the peasantry, or were invested by them in credit institutions. As already indicated, the Soviet government established mandatory for all citizens to keep funds in current accounts with banks or savings banks and limited the issuance of money from current accounts and deposits. These measures prevented the capitalist elements from taking all funds from their current accounts and deposits; the depreciation of money led to the actual liquidation of the balances of these current accounts and deposits. Measures were also taken to prevent the capitalist elements from saving their cash from devaluation by purchasing gold. In addition to the previously established state monopoly of the gold trade in 1919 and 1920, private persons were prohibited from storing gold, silver (in coins and ingots), platinum, precious stones and foreign currency. All stocks of these valuables exceeding the established norms were subject to confiscation and transfer to the State Depository of Values of the RSFSR formed in 1920.

The faster rate of depreciation of money in comparison with the growth rate of the number of banknotes in circulation is explained by the contraction of the market turnover (the sphere of purchase and sale), and the reduction in the need for economic turnover in money.

The reduction in the need for economic turnover in money was determined by: a) a general drop in the output of industry, transport and agriculture destroyed by the imperialist war and intervention; b) naturalisation of economic relations between town and country; c) the development of non-cash payments (and in some cases there was no need for non-cash payments, since the products were transferred without any monetary value); d) an increase in the share of products distributed either at fixed prices (not

dependent on the depreciation of the ruble) or free of charge.

The imperialist war and intervention have caused incalculable damage to the economy of our country. Factories and plants, transport were destroyed; crops were reduced; food stocks and goods were destroyed or taken out by thieves abroad by interventionists and White Guards; the main productive force of society—labour power—was depleted. In 1920, all industrial products accounted for only 15 percent pre-war level, and agricultural production: decreased by more than two times. The lack of fuel and the destruction of transport were so great that it was not possible to fully ensure the transportation of even this greatly reduced product. It is clear that under these conditions, when the number of banknotes in circulation grew, and the number of products and goods in the country decreased, the depreciation of money could not but outstrip the growth of the money supply in circulation.

The naturalisation of economic relations between town and country was the second main factor in the contraction of the need for economic turnover in money. This naturalisation was expressed primarily in the fact that the state produced procurements of agricultural products are not in the order of purchase and sale, but on the basis of surplus appropriation. The state paid for the grain received from the peasants for the surplus appropriation at fixed prices and, in turn, released industrial goods to the peasants also at firm, very low prices, and later even free of charge. The system of fixed prices ensured greater stability of the purchasing power of the ruble in this, the most planned sphere of economic ties between town and country. But this system of relations between the city and the 'village limited within strictly defined limits the need for money in the planned turnover, while the size of the money supply increased with all new money issues.

The second significant point in which the naturalisation of economic relations between town and country was expressed was the development of direct commodity

exchange. This was based on the aforementioned huge shortage of goods. The peasant could buy almost nothing for money, since there were no goods or almost no goods.

The development of non-cash payments under the conditions of growing trade turnover, under conditions when the emission of money is carried out on the basis of and in accordance with the growth of the demand for money in trade turnover, is one of the ways to strengthen the stability of Soviet money. It makes it easier to control money turnover and reduces the amount of required emission. A different influence is exerted by the development of non-cash payments in the context of a decreasing turnover and at the same time a growing money supply in circulation, as was the case in the period under review. Under these conditions, the growth of non-cash payments (with all their positive value) leads to an acceleration of their depreciation, since this further compresses the sphere of circulation of the growing money supply.

The widespread development of non-cash payments during the civil war followed from the entire system of established relations was inextricably linked with the centralisation of production and distribution, with the organisation of direct supply.

The beginning of the wide development of non-cash payments was laid in 1918. At first, the task of developing non-cash settlements was also closely associated with the tasks of strengthening the ruble (see chapter III.) Later, when the possibility of implementing Lenin's plan to stabilise the ruble disappeared, the development of cashless payments continued in connection with the tasks of strengthening control over the movement of goods and products, based on strict centralisation of industrial management, centralisation of distribution and prohibition of private trade.

In August 1918, a procedure was established for all nationalised enterprises to submit the products of their production to the corresponding centres and to receive from these centres and central administrations all the necessary

materials and raw materials. Payments for the products delivered and for the received raw materials and materials were made using accounting records, without the participation of banknotes. This procedure for settlements without the participation of cash was then extended to all Soviet institutions and nationalised enterprises. By the SNK decree of July 15, 1920 "On settlement operations" it was established that all Soviet and public institutions, enterprises and organisations in need of any kind of items must apply to the appropriate distribution Soviet institutions to obtain them. Any purchase of goods, materials, products, etc. directly on the free market by the above institutions, enterprises and organisations, as a rule, was prohibited. The decree further stated that all settlements between Soviet institutions or enterprises were made circulating transfers from the account of the consumer institution to the Treasury income, and settlements with cooperative organisations and cooperative organisations among themselves by transferring the corresponding amounts to their current accounts. For the presentation of demands for payment in cash, a check or a direct appropriation, the heads of institutions, enterprises and cooperative organisations were prosecuted as for a crime *ex officio*.

The need for economic turnover in money also decreased due to the abolition of payment for goods sold by the state and services pre-provided by the state. At the end of the period of war communism, free distribution of food products and consumer goods to the population was established; the payment for postal and telegraph services, for all kinds of fuel, for utilities, living quarters, etc.

In addition to these reasons, under the influence of which the needs of economic circulation in money decreased, the rapid depreciation of banknotes was also facilitated by the local emission of banknotes and the reduction (in certain periods of the civil war) of the territory; on which Soviet banknotes were circulated. Emissions on the ground, they were made due to difficulties in the timely and sufficient

delivery of banknotes from the centre, as well as due to the fact that certain areas were cut off from the centre of the Soviet Republic by White Guard uprisings and fronts. In such cases, local authorities had to issue “their” money or money surrogates. The White Guard “governments” flooded the territories they had seized with their banknotes, which were cancelled when Soviet power was restored in the localities.

The party exposed and dismissed these “theories” as anti-Soviet, counter-revolutionary. Even during the period of foreign military intervention and civil war, when the Soviet state was to use emission for additional mobilisation of funds, the party emphasised the need for money until the end of the first phase of communism—the socialist stage of development. The party program, adopted by the UP party congress in March 1919, said:

“In the first period of the transition from capitalism to communism, while the fully communist production and distribution of products has not yet been organised, the destruction of money seems to be impossible”¹.

Lenin spoke about the same in May 1919 at the First All-Russian Congress on Out-of-School Education:

“Even before the socialist revolution, the socialists wrote that money cannot be cancelled immediately, and we can confirm this with our experience. It takes a lot of technical and, what is much more difficult and much more important, organisational gains to destroy money...”².

Strengthening the Soviet currency, carrying out monetary reform was set by V. I. Lenin as one of the most important tasks of the economic policy of the party and the Soviet government after the victory of the October Socialist Revolution. During the civil war, the Soviet government was forced to make extensive use of emissions. However, this use did not and could not. have nothing in common with the

¹ “CPSU (B) in Resolutions and Decisions”, Part I, p. 293.

² V. I. Lenin, *Works*, Vol. XXIV, p. 293.

Trotskyist counterrevolutionary installation directed against the Soviet regime, against the alliance of the working class and the peasantry.

During the civil war, in conditions of extreme devastation, V. I. Lenin showed great concern for the fate of Soviet money circulation, and pursued a course towards building a solid commodity base for it. In relations with the peasantry, money was “evidence of a loan,” therefore, one of the expressions of organised and the alliance of the working class and the peasantry strengthened by the party. The money was used to fight counter-revolution, for the further expropriation of the capitalist elements.

3. Taxes and Allocation

The most important among the tax measures of the Soviet state during the civil war was the one-time emergency ten-billion-dollar revolutionary tax established by decree of the All-Russian Central Executive Committee and the Council of People’s Commissars of October 30, 1918. The need to introduce this tax was motivated in the decree as follows:

“The international situation that has developed in connection with the latest events in the theatre of the world imperialist war and the emerging united international front of the proletarian army made:

to exert all forces in the struggle to defend not only the Russian, but also the world revolution, and the Russian Socialist Federative Soviet Republic is creating a powerful Red Army. To organise, equip and maintain this army, colossal funds are needed, which ordinary state revenues cannot provide. Meanwhile, during the years of the imperialist war, the urban bourgeoisie and the village kulaks were able to acquire, and still continue to acquire—mainly through predatory speculation in basic necessities and especially bread— huge amounts of money. This wealth must be taken immediately and entirely from the parasitic and

counter-revolutionary elements of the population and turned to the urgent needs of revolutionary construction and struggle. As a result, the All-Russian Central Executive Committee decides to impose a lump-sum tax on the possessing groups of the urban and rural population in the amount of 10,000,000,000 (ten billion) rubles.”

The decree on the extraordinary revolutionary tax was intended to “drive a wedge in the countryside” and raise the poor to fight for Soviet power. Only the possessing groups of the urban and rural population were taxed. As stated in the decree, “this layout should be done in such a way that the urban and rural poor are completely exempt from a one-time emergency tax, the middle strata were imposed only at small rates, and with all its weight the tax would fall on the rich part of the urban population and rich peasants.” ... All workers whose salary or pension did not exceed 1,500 rubles were exempted from the tax. a month, as well as all the village poor.

The VIII. Party Congress specifically pointed out that the law of the Soviet government on emergency tax, in contrast to all the laws of all bourgeois governments in the world, insists that the burden of the tax falls on the kulak, on the numerous representatives of the exploiting peasantry, who amassed wealth during the war: feasible and not burdensome for him. The party demanded that the collection of the emergency tax should be mitigated in relation to the middle peasantry, in any case, without even stopping at a reduction in the total amount of the tax.

Only the state of the dictatorship of the proletariat could build a tax in this way. The tax helped to strengthen the military-political alliance between the working class and the bulk of the peasantry and to intensify the struggle of the rural poor against the kulaks.

A one-off emergency 10 billion dollar revolutionary tax supplemented the direct tax system. By the middle of 1919, about 1.5 billion rubles were collected through these tax banknotes. In addition, several billion rubles to cover the tax

were written off from the current accounts of wealthy groups of the population in credit institutions and confiscated in cash and other valuables in safes and loan offices.

On October 31, 1918, the Council of People's Commissars adopted a decree "On one-time extraordinary revolutionary taxes established by local councils to meet needs. local councils". The decree stated that local emergency taxes could be introduced to cover budget deficits or to finance certain expenses under additional estimates and should be levied mainly on a daily basis. Simultaneously with the collection of these extraordinary taxes, current salaries and arrears on all state and local taxes, including the national emergency revolutionary tax, were to be levied.

Extraordinary revolutionary taxes played a major role in the first civil war. They were a sharp weapon directed against the capitalist elements, an instrument for the deployment of the class fight. The extraordinary revolutionary ones were of no small importance, taxes to mobilise the resources needed to fund the Red Army and to meet the needs of local councils. To note that these taxes were also introduced in order to maximise the size of the issue of banknotes (indication of the decree of October 31, 1918 on the preferential collection of local emergency taxes in cash).

The second group of payments during the Civil War is regular cash taxes. These include: tax on gains in profits from commercial and industrial enterprises and profits from personal fishing activities; income tax; trade tax; a special 5% tax to the fund for the families of the Red Army from private traders, etc. commercial and industrial enterprises with hired workers and employees; 5% collection to the baby food fund from private trade enterprises, theatres, cinemas and from persons who are not in the service, but receive income from other sources; excise taxes.

By a decree of the Council of People's Commissars of March 27, 1919, a sharp progression was introduced into the income tax: incomes exceeding a certain one. the norm (in

Moscow—172,000 rubles per year in paper money), were subject to complete withdrawal. In the field of fishing tax, the patent levy (which was of an equalising nature) with its replacement by a registration levy and taxation was introduced according to the size of the turnover. However, all these taxes, due to the almost complete cessation of open private trade and the nationalisation of enterprises, even of small industry, were of very little importance. The reduction of the excisable industry and the implementation of the direct distribution of the vast majority of products within the socialised economy, without the mediation of money, led to the fact that excise taxes ‘lost their importance and in January 1920 were abolished.

It should be noted that in a number of cases (especially in areas engulfed in hostilities) the taxation of the bourgeoisie by means of indemnity continued to be used.

The naturalisation of economic relations, the enormous depreciation of money, major successes in the expropriation of money income and accumulations of capitalist elements — all this led to a sharp reduction in the role and significance of monetary taxes in general. On February 3, 1921, a session of the All-Russian Central Executive Committee decided to suspend the collection of monetary taxes.

In-kind taxes and duties played the leading role in the resources of the state during the civil war. Back in August 1918, V. I. Lenin pointed out that it was necessary

“To establish a tax in kind, in bread, on rich peasants, considering rich those whose amount of grain (including a new crop) exceeds twice and more than twice their own consumption (including feeding the family, livestock, seeding).

Call income and property taxes and make it progressive”¹.

On October 30, 1918, the All-Russian Central Executive Committee and the Council of People’s Commissars adopted

¹ V. I. Lenin, *Works*, vol. XXX, p. 392.

a decree on tax in kind in the form of a deduction in favour of the state of a part of agricultural products. The tax was to be levied on surplus agricultural products in excess of the needs of the peasant economy itself. All farms in which the amount of grain did not exceed their own needs on October 1, 1918 were exempted from the tax.

The tax in kind was supposed to increase the food resources at the disposal of the state by withdrawing with the help of tax a part of agricultural products, and on the other hand, to facilitate the implementation of state agricultural procurement, since the law exempted those peasants who donated their surplus products to the state from tax in kind. However, the conditions for the widespread use of this tax in kind 'didn't exist.

On January 11, 1919, the Council of People's Commissars adopted a decree "On appropriation between the producing provinces of grain crops and fodder, subject to alienation at the disposal of the state." Article 1 of this decree stated that "the entire amount of grain and grain fodder required to meet state needs is allocated to alienate the population between the producing provinces." In practice, this meant the seizure of all surplus peasant products, especially since, according to this decree, local councils had the right to add to the appropriation system established by the People's Commissariat of Food, the amount of grain and grain fodder necessary to meet the needs of the local (both urban and peasant, which did not have the necessary the amount of own bread) of the population.

Layout was one of the main, decisive methods of mobilising food resources. The success of the appropriation system was one of the striking indicators of the strength of the military-political alliance of the working class and the peasantry. In 1917-18, the state procured 47.5 million poods of grain and grain fodder, in 1918-19—107.9 million poods, in 1919-20—212.5 million poods and in 1920-21—367 million poods. For the current state of our agriculture, these figures are not large, since now we calculate the procurement of

agricultural products in billions of poods. But for the period of the civil war, especially considering that in 1919-20, a significant territory of the Union was occupied by the White Guards and the interventionists, and that agriculture was in great decline, it should be recognised that these figures are very significant. In 1920 the allocation of grain and grain fodder was supplemented by the allocation of a number of other agricultural products.

In 1918, universal labour service was introduced. By a decree of November 19, 1919, this duty was specified for a certain part of the population in the form of: a) natural wood wine; 6) labour service for the procurement, loading and unloading of all types of fuel; c) horse-drawn service for the supply of fuel, military, food and other government cargoes to cities, railways, marinas and other receiving points.

Food appropriation and labour consignment were not a tax. For grain, alienated from the peasantry in the form of appropriation, the state paid in money. fixed prices: here was the loan that Lenin spoke of. For the fulfillment of labour service, payment was made at the tariff of the trade unions, and payment for horse-drawn carriage was made at the rates approved by the provincial executive committees.

4. Financial Apparatus. The State Budget

The construction of the Soviet financial apparatus after the victory of the October Socialist Revolution was developed in close connection with the tasks of dismantling the old, pre-revolutionary financial apparatus, carrying out the expropriation of the expropriators, establishing state accounting and control, and strengthening the financial situation of the republic. The tasks of maximising the facilitation of accounting and control led to the creation of a single settlement and cash register. The creation of such a unified cash register corresponded to the centralisation in the production and distribution of products, which was

carried out in the future, already in connection with the aggravation of the civil war and foreign intervention, when the task of stabilising the ruble and strengthening finances could not stand on the order of the day. The development of centralised direct distribution, the elimination of cash settlements between enterprises, the insignificant role of monetary taxes and the huge depreciation of money—all this reduced and simplified the functions of the financial system, reduced its importance and encouraged simplification of the financial apparatus.

In October 1918, the State Treasury was merged with the institutions of the People's Bank. In April 1919, "in order to create a single settlement and cash register of the RSFSR," the savings banks merged with the People's Bank.

The system of centralised direct distribution of products produced or procured by state-owned enterprises and organisations eliminated trade relations between state-owned enterprises and organisations, and, consequently, the relationship of mutual crediting.

In March 1919, state enterprises were transferred exclusively to estimated funding. As stated in the SNK decree of March 4, 1919:

"1. The only source of funds for all state (nationalised, former state-owned, sequestered and other) enterprises are appropriations from loans according to the list of national income and expenses of the RSFSR.

2. Without exception, all cash receipts for products of their production handed over by enterprises and for all other kinds of income items (checks, transfer tickets, cash, etc.) are surrendered by the enterprise itself or by the institution regulating this industry as a treasury income for a given production enterprise or a given industry production.

3. Expenditures of all state enterprises are made exclusively according to estimates compiled by the enterprise itself according to the established form."

At the same time, by another decree of March 4, 1919, all obligations of state enterprises, including obligations

towards each other, were eliminated.

The transfer of enterprises exclusively to estimated financing meant, in fact, the elimination of cost accounting. All this excluded the need for lending to state-owned enterprises, since they received all the funds they needed from the budget in order to finance. In relation to state-owned enterprises, the Halyk Bank retains its significance only as a cash settlement authority.

Lending to cooperatives was also reduced. In the early days of the civil war, the cooperatives produced large procurements of products that were not monopolised by the state. As the appropriation system expands and increases, this procurement activity of the cooperatives is increasingly reduced, the cooperatives are increasingly turning into an auxiliary organ of the People's Commissariat for Food, and at the same time the need for crediting the cooperatives is reduced.

As a result, Halyk Bank's lending operations are terminated. During 1919, the local banking and financial bodies were unified. The activity of the People's Bank, which is turning into an apparatus for cash execution of the budget, is increasingly reduced to the distribution of banknotes. The logical conclusion of this process is the SNK decree of January 19, 1920 on the abolition of the People's Bank. This decree indicated that the nationalisation of industry united the most important branches of production and supply in the hands of the state and at the same time subordinated the entire state industry and trade to a general estimated order, but therefore there is no need for further use of the People's (formerly State) Bank as an institution of state credit in the former meaning of this word. The production of still retaining the strength and significance of banking operations (mainly the organisation of settlements and the issuance of money from current accounts and deposits) was entrusted to the Central Budgetary and Settlement Department.

At the same time, the unification of cooperation is being carried out. By the decree of the Council of People's

Commissars of January 27, 1920, all types of cooperative organisations are merged; credit and savings and loan associations are merged with consumer cooperatives.

The naturalisation of economic relations, the system of centralised direct distribution of products also led to the liquidation of the state insurance system. In December 1920, state property insurance was completely abolished; instead of it, free state aid (in kind or, in exceptional cases, in money) is established for labour farms affected by natural disasters.

Thus, in 1920, the unification of the financial system, which had been carried out throughout the entire period, was completed. The financial functions that still retain their importance are concentrated in the People's Commissariat for Finance and are carried out through the budget. At the same time, strict centralisation of the budgetary system is being carried out.

All the above processes and conditions of the economic life of the country during the civil war did not justify the independent existence of local budgets. The decline in the role and significance of monetary taxes under a strictly centralised system of distribution of products made local budgets more and more dependent on the centre, eliminating independent sources of their income.

In July 1920, by a resolution of the session of the All-Russian Central Executive Committee, the system of local budgets was abolished. All revenues and expenditures of both central and local authorities were included in the list of national revenues and expenditures.

For 1918-19, four semi-annual budgets were drawn up and one annual budget for 1920. The characteristic features of these budgets are as follows:

First, the budgets did not cover all resources and all state expenditures by far. This incompleteness of budgets was explained by the naturalisation of economic relations, the lack of an established financial apparatus, the impossibility in the conditions of an acute civil war and the

rapid depreciation of money to fully budget for all future income and expenses; budgets mattered only as estimates; hence the wide practice of oversized allocations.

The second characteristic feature of the budgets for this period is their huge deficit. The deficit according to the approved “lists of state revenues and expenditures was calculated for the two semi-annual budgets of 1918 at 66.6 percent. of the total expenditures, for the two semi-annual budgets of 1919—17.3 percent and for the 1920 budget, 86.9 percent. In other words, tax and other revenues (except for emission) were sufficient to cover only $1/3$ — $1/5$ of the budget expenditures.

Hence follows the third characteristic feature of the budgets of the period of the civil war—the enormous importance of revenues from the emission of banknotes, the transformation of emission into the main source of monetary revenues for the budgets.

The actual course of budget execution was very different from the approved plans. Reports on the execution of paintings and individual estimates were not drawn up or approved. The most of the paintings were drawn up and approved with a great delay; in fact, they had only registration value. Of great importance was the very process of drawing up and discussing estimates in various meetings with the participation of departments: the People’s Commissariat of Finance, the Supreme Council of the National Economy, the State Control Committee, and the RCI. During the discussion, the work of the institutions was subjected to comprehensive criticism, their estimates were revised, brought in line with the available possibilities.

To have an idea of the growth in the volume of budgets for this period, we present the following data:

According to two
paintings for 1919

On painting for 1920

	For two semi- annual deeds for 1918 (million rubles)	million rubles	In % to 1918	million rubles	In % to 1919
Income	15580	48959	314,8	159604	319,5
Costs	46706	215402	461,2	1215159	564,1
Defoe	31126	166443	534,7	1055555	634,2

It is enough to compare these figures with the data on the decline in the purchasing power of the ruble given earlier in order to come to the conclusion that with a large increase in budgets in nominal terms, their real value not only did not increase, but fell.

The following table describes the composition of income and expenses of the budgets 1918-20:

	(million rubles)			(as a percentage of the total)		
	1918	1919	1920	1918	1919	1920
Total income (excluding money issue)	15580	48959	159604	100.0	100.0	100.0
Including:						
	11834	7165	471	76.0	14.6	0.2
Taxes and fees	12	14676	52631	0.1	30.0	33.1
Industry	1627	3019	21721	10.4	6.2	13.5
Transport	—	696	8175	—	1.4	5.1
Agriculture						
Other assets and enterprises	1997	4090	17200	12.8	8.3	10.7
Supply	—	18105	51104	—	37.0	32.1
International trade	—	—	4800	—	—	3.0
Total expenses	46706	215402	1215159	100.0	100.00	100.0
Including:						
Industry	7663	55117	368212	16.4	25.5	30.3

Transport and communication	8402	18584	105638	18.0	9.0	8.8
Agriculture	657	3000	63011	1.4	1.3	5.1
Food and supply	4680	33733	181315	10.0	15.7	14.8
Education, health care, social security, labour protection	4378	42366	270716	9.3	19.6	22.5
Defence	15695	40842	135847	33.6	19.4	11.1
Control	4304	14269	90420	9.3	6.1	7.4

A general description of the financial policy of the period of the civil war was given by XI. party congress in the resolution “On and Politics”. This resolution stated:

“Under the conditions of the old economic policy, the economic resources of the Soviet state were at the same time directly its financial resources: both the supply of workers, employees and the army, and the provision of state industry with raw materials, semi-finished products and other materials occurred in natural form; Accordingly, the financial policy was confined to the issues of distribution of banknotes, the completely secondary importance of which was determined by the extremely narrow limits of the market turnover”¹.

Bourgeois economists tried to present the economic policy of the Soviet state during the civil war, including the financial policy of this period, as a simple continuation of the policy of the tsarist and Provisional bourgeois governments. Such a statement pursued, on the one hand, the task of distorting, concealing. the historical significance of the Great October Socialist Revolution; on the other hand, the same bourgeois economists-Trotskyists tried to present the economic policy of the proletariat during the civil war as the normal policy of the victorious proletariat in general. This was done on the basis of “proving” the impracticability of the Marxist-Leninist teaching on the communist reorganisation of society, presenting the transition to NEP as

¹ “CPSU (B) in Resolutions and Decisions”, vol. I, 6th ed., p. 425.

a rejection of socialism, as a “braking down” back to capitalism.

The financial policy of the Soviet state (as well as its policy in all areas of economic life) during the civil war, which was an organic part of its economic policy during this period, clearly shows the falsity of these statements.

The financial policy of the Soviet government during the civil war was the policy of a merciless struggle against the capitalist elements—this is its fundamental difference from the financial policy of the bourgeois states. At the same time, the financial policy of the period of the civil war “was, in its methods, a policy forced in connection with the civil war and economic devastation—this is its peculiarity in comparison with the subsequent stages of the socialist revolution.

The transition to peaceful construction, the continuation of the struggle against the capitalist elements in the new situation led to a change in the forms and methods of using financial weapons by the working class. This did not in the least change the class content of the financial policy of the Soviet state as a policy of the dictatorship of the working class.

During the civil war, the working class defeated the domestic and international counter-revolution, strengthened and steeled the militant alliance with the working peasantry, destroyed the class of nobles, landowners and the big bourgeoisie, concentrated all the economic commanding heights in its hands, dealt a crushing blow to the kulaks. After the end of the civil war and the transition to NEP, financial policy served as the most important lever for the victory of socialism in our country.

CHAPTER V. FINANCIAL POLICY OF THE SOVIET STATE DURING THE PERIOD OF TRANSITION TO PEACEFUL WORK ON RESTORING THE NATIONAL'S ECONOMY (1921- 1925)

1. The Transition to NEP and the Tasks of the Financial Policy of the Soviet State

The defeat of the interventionists and White Guards by the heroic Red Army under the leadership of the Communist Party, under the leadership of Lenin and Stalin, opened the way for the country's transition to peaceful economic development. The policy of war communism, as mentioned above, was forced by the conditions of civil war and intervention. It was carried out on the basis of a military-political alliance of the working class with the working peasantry. The end of the civil war and the transition to peaceful work to restore the national economy required a change in the methods of economic construction. It was necessary to develop a new directive in questions of economic policy, which would ensure the economic link between the working class and the working peasantry and the growth of labour productivity in town and country.

The restoration and development of socialist industry required the restoration of the peasant economy, which is a supplier of grain and raw materials for industry and a market for manufactured goods. Lenin pointed out that the surplus appropriation did not correspond to the tasks of establishing correct economic relations between town and country in conditions of peaceful construction. A transition to a trade link was necessary, which alone could ensure the further

construction of socialism.

The Central Committee of the Party worked out a new directive, proceeding from the fact that the need for surplus appropriation has disappeared and it is necessary to replace it with a tax in kind in order to enable the peasants to use most of the surplus at their own discretion. This new attitude was developed in spite of the opposition of the Trotskyists and other anti-Party elements. Some of them wanted to continue the policy of War Communism, while the other part sought to remove the party and the state from the leadership of the national economy. Having defeated these hostile elements, the party introduced a new economic policy and strengthened the alliance between the working class and the peasantry.

In the resolution of the 10th Party Congress on replacing the surplus appropriation system with a tax in kind, adopted on the basis of a report by the creator and inspirer of the new economic policy, V. I. Lenin, it was stated:

“1. To ensure the correct and calm management of the economy on the basis of a more free disposal by the farmer of his economic resources, to strengthen the peasant economy and raise its productivity, as well as in order to accurately establish the state obligations that fall on farmers, appropriation, like the method of state procurement of food, raw materials and fodder, is replaced by a tax in kind”.

Further, the resolution emphasised that “2. This tax should be less than the tax imposed up to now by means of appropriation. The amount of the tax must be calculated to cover the minimum necessary needs of the army, urban workers and the non-agricultural population. The total amount of the tax should be constantly reduced as the restoration of transport and industry will allow the Soviet government to receive agricultural products in a normal way, that is, in exchange for factory and handicraft products”¹.

¹ “CPSU In Resolutions and Decisions”, Part I, p. 388.

This decision of the Congress also meant the transition to the New Economic Policy (NEP).

In accordance with the resolution of the X Congress of the Party, the All-Russian Central Executive Committee on March 21, 1921 adopted a decree replacing the appropriation in kind with a tax in kind. A subsequent decree of the Council of People's Commissars set the food tax for 1921-22 at 240 million poods (against the 423 million poods that the peasantry would have had to pay for appropriation in 1920-21).

By a resolution of the Council of People's Commissars of May 24, 1921, individual citizens and cooperatives were allowed free trade in agricultural products remaining with the population after the in-kind tax was fulfilled, as well as trade in products and items of handicraft and small-scale industry. The SNK decree of June 30, 1921 also abolished any restrictions on the amount of Soviet banknotes that could be in the hands of individuals and organisations, and established the obligatory issuance of all amounts deposited to savings banks to the owners at their first request, as well as to current accounts. During 1921, the state establishes the collection of monetary payments for the goods it sells to enterprises and the population and for the services provided (SNK decree of August 5, 1921), transfers enterprises to 'cost accounting, grants them the right to act on the market as buyers (SNK decree of October 4, 1921) and sellers (SNK decree of October 27, 1921).

The transition to NEP meant a certain freedom of trade, which in the predominance of small-scale commodity economy meant the need to allow, within some framework, the development of private capital. However, V. I. Lenin pointed out, this capital is not terrible for us, because:

"The main economic power is in our hands. "All the decisive large enterprises, railways, etc., are all in our hands." "The economic power is in the hands of the proletarian state of Russia is quite enough to ensure the

transition to communism”².

The introduction of NEP strengthened the alliance of workers and peasants on a new basis: The hostile elements in every possible way resisted the implementation of NEP, the establishment of correct economic relationship between workers class and peasantry. Leading a line on the restoration of capitalism, they argued “that NEP is only a retreat. At the same time, if all kinds of “left” shouters fell into a panic before the possibility of some growth of capitalist elements, then the direct capitulators and counterrevolutionaries—Trotsky, Bukharin, Zinoviev, Rykov and others—demanded surrender to private capital, both domestic and foreign, of a number of decisive command heights of Soviet in the popular farm.

The party gave a resolute rebuff to all these counter-revolutionary troupes and exposed their restoration guidelines. The party showed that the retreat is not the result of defeat, but the result of the need to contact the rear base and prepare the offensive.

Already at the Eleventh Party Congress, that is, a year after the introduction of NEP, V. I. Lenin announced that the retreat was over and put forward the slogan: “Preparing an offensive on private economic capital.” In accordance with this, the XI. Party Congress, in its resolution on the report of the Central Committee of the RCP (b), noted that”... the last year of measures, the concessions to private-economic capitalism, recognised by the party as necessary, are exhausted, recognises in this sense the retreat is complete and considers the next task to be regrouping party forces, in order to ensure the fully practical implementation of the policy adopted by the party”¹.

The party launched a program of a socialist offensive in the context of a new economic policy, resolutely rebuffed all

² V. I. Lenin, *Works*, Vol. XXII, p. 244.

¹ “RCP (B) In Resolutions and Decisions”, Part I, p. 416.

attempts to present NEP as a retreat from socialist positions. The party branded the Trotskyists and Bukharinites as treacherous proposals: to surrender the industries vital for the Soviet state, to pay the cancelled debts of the tsarist government, to liquidate the monopoly of foreign trade, to build industry by exploiting the peasant economy.

To achieve victory in the struggle against the capitalist elements, it was necessary to master new techniques and methods of economic activity and economic management.

“We must understand,” said V. I. Lenin at the VII. Moskovskaya Gubernia conference in October 1921 that the current specific conditions require state regulation of trade and ‘monetary circulation and that it is in this area that we must prove ourselves².

On this, in particular, depended on the solution of the question “who-whom” posed by V. I. Lenin: either the capitalists would establish and strengthen ties with the peasantry, directing them against the Soviet regime, or state and cooperative enterprises would be able to organise the correct economic ties between town and country, (starting with commodity circulation) and on this basis will ensure the restriction and ousting of the capitalist elements, the strengthening of the proletarian leadership of the peasantry in order to subsequently eliminate the capitalist elements.

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This essence of the New Economic Policy was brilliantly

² V. I. Lenin, *Works*, Vol. XXVII, p. 71.

expressed by Comrade Stalin in his definition of NEP, given at the XU Party Congress:

“NEP is a special policy of the proletarian state, calculated on the admission of capitalism, in the presence of commanding heights in the hands of the proletarian state, calculated on the struggle of capitalist and socialist elements, calculated on increasing the role socialist elements to the detriment of the capitalist elements, calculated for the victory of the socialist elements over the capitalist elements, calculated for the destruction of classes, for the construction of the foundation of the socialist economy”¹.

Soviet finance played a role in perestroika economic relations, in strengthening the leading role of socialist industry, in implementing the Leninist-Stalinist cooperative plan, in strengthening the alliance of the working class with the peasantry. In his greeting to the All-Russian Financial Congress in 1922, V. I. Lenin wrote:

“The task of strengthening Soviet finances is one of the most difficult, but it is now in the first row and without its solution it is impossible to make significant steps forward either in protecting the independence of Soviet Russia from international capital, or in the economic and cultural development of the country.”²

A detailed program of measures to streamline Soviet finances and use them for building socialism was given by the XI. Party Congress in a resolution on financial policy.

The Eleventh Party Congress pointed out that the complete elimination of natural relations in the national economy is possible only if a reliable and stable supply of state industry, the army and institutions is ensured through the market, through the mechanism of monetary circulation. And this can be achieved only if prices stabilise and the

¹ Lenin-Stalin, *Collection of works for the study of the history of the CPSU (B)*, v. III, p. 33.

² V. I. Lenin, *Works*, Vol. XXVII, p. 307.

depreciation of banknotes stops.

The interests of socialist construction, the interests of strengthening the economic bond between town and country, the interests of strengthening cost accounting, the interests of the entire national economy demanded the most rapid implementation of the monetary reform. At the TU Congress of the Comintern, V. I. Lenin said:

“What is really important is the issue of stabilising the ruble. We are working on this issue, our best forces are working, and we will succeed in this, “we continue to ascribe decisive importance in the long term, and subsequently to stabilise the ruble forever—that means we won. Then all these astronomical figures, all these trillions and quadrillions are nothing. Then we will be able to put our economy on solid ground and further develop on solid ground”¹.

The solution to this fundamental task of the financial policy of the Soviet state in the first years of the NEP rested on the development of trade, the elimination of the budget deficit, the accumulation of the necessary foreign exchange and commodity funds to ensure the stability of money.

“The cessation of the depreciation of banknotes and the stabilisation of prices are possible only on the basis of streamlining the entire financial system of the state, in particular, establishing a real budget, reducing the latter without a deficit and increasing trade in the country.”²

The economic conditions in which the country found itself in 1921-22 did not make it possible to immediately carry out monetary reform. There was still a large deficit in the budget. In 1921 the country suffered a big crop failure. The trade turnover was underdeveloped, which was associated with the naturalisation of the peasant economy, with the lack of skills in trade work with state and cooperative organisations, with a shortage of goods in the

¹ V. I. Lenin, *Works*, Vol. XXVII, p. 346.

² “CPSU (B) in Resolutions and Decisions”, Part I, p. 425.

hands of the state.

Hence the immediate tasks of the economic and financial policy of the Soviet government, indicated by XI. by the Party Congress: increasing the volume of trade through the growth of internal state, cooperative and private trade and the development of the marketability of the peasant economy; expansion of foreign trade, reduction and then complete elimination of the budget deficit.

To combat the budget deficit, it was necessary to: a) cut the state budget expenditures and implements the strictest economy in the spending of budget funds; 0) increase budget revenues. All this was supposed to lead to a reduction and then completely eliminate the need to use emission as a budget resource. To achieve this, it was necessary to increase the receipts of revenues from state enterprises, which are on the state budget, revenues from state property, revenues from loan operations, etc. For this it was necessary to strengthen the business accounting and financial discipline in all business organisations and institutions. It was also necessary to increase tax revenues by switching from natural taxes exclusively to monetary taxes.

Despite the huge difficulties in the field of finance, reflected, in particular, in the large depreciation of the ruble, the Party and the Soviet state resolutely rejected the capitulatory proposals to attract foreign capital to the implementation of the monetary reform, because this would mean the subordination of our economic development to the world capitalist predators. The XI. Party Congress pointed out: "The issue of rights" cannot be granted under any circumstances to foreign banks.

The program of financial measures set out in the resolution of the X. Party Congress was based on Lenin's instructions that the retreat was over and that a regrouping of forces was necessary to launch a decisive offensive against the capitalist elements.

The firm and consistent implementation of the financial program adopted by the 11th Party Congress yielded

significant results already in 1922. Despite the fact that the budget remained in deficit, despite the huge emission of banknotes, forced by budget deficits, there was a clear improvement in the state of money circulation.

During the period from July 1, 1921 to January 1, 1923, the money supply in circulation increased 850 times—from 2347 billion rubles up to 1,994,464 billion rubles. It is clear that such an increase in the money supply could not but be accompanied by a depreciation of the ruble. However, in this process, the depreciation of the ruble for 1921-22, a number of completely new moments were observed in comparison with the period of the civil war: firstly, money depreciated much more slowly than the money supply in circulation grew. During the specified 1½ years, with an increase in the money supply in circulation by 850 times, prices increased by 298 times; secondly, the devaluation of the ruble occurred with an increase in the real value of the entire money supply in circulation: the real value of the money supply in circulation increased from 29.1 million rubles. gold on July 1, 1921 to 96.8 million rubles, on January 1, 1923 the expansion of commodity circulation and the associated increase in the need for economic turnover in money was the reason that, despite the huge emission, the depreciation of money proceeded more slowly, and the real value of the money supply in circulation increased. Moreover, in 1921 and 1922, there were separate periods when the value of Sovznaks stabilised. At the same time, if the first temporary stabilisation (July-September 1921) was due only to the expansion of the volume of trade, then the second temporary stabilisation of the Sovznak (May-August 1922) was already undoubtedly associated with successes in the area of reducing the budget deficit, so how at this time there was not only a new growth in trade turnover, but also a slowdown emission of Soviet banknotes.

The excess of budget expenditures over its revenues frustrated these temporary stabilisations; however, they are correct and successful deployment of the struggle for a hard

Soviet currency. Of no small importance as an indicator of the improvement in the state of monetary circulation was the success of the denominations carried out by the Soviet government.

The huge devaluation of the sovnak created them. At the end of 1922, the maximum denomination of banknotes was a sign of 100,000 rubles, which on October 1, 1922 was approximately one pre-war kopeck. In practice, this meant the need for any, even a small sale-purchase transaction, to transfer from hand to hand whole bundles of paper banknotes. In addition, great difficulties were caused by the need to keep count in “astronomical sums”. To eliminate these difficulties during 1921 and 1922, two denominations are carried out, that is, the issue of a model instead of the old new banknotes with the equalisation of one ruble in new banknotes to a larger number of rubles in old banknotes. Denominations played an important role in improving money circulation.

The first denomination was carried out at the end of 1921 and the beginning of 1922. As indicated in the decree of the Council of People’s Commissars of November 3, 1921, this denomination was carried out “in view of the transition to a new economic policy and the consequent need for a gradual reorganisation of the system of monetary circulation to provide the population and commercial and industrial turnover of more correct foundations of economic accounting, as well as in order to simplify monetary calculations. “Banknotes of the sample of 1922 were released into circulation one ruble of which was equal to 10,000 rubles banknotes of all previous designs. Assessing the conduct of the denomination, V. I. Lenin in November 1922 wrote:

“Yesterday there was a trillion, and now four zeros are crossed out, and it turns out to be ten million. The state does not get richer from this, but for it to “become weaker”, it is very strange to suppose, because a step forward towards improving money is obvious here, the Nepman begins to see

how the stabilisation of the ruble begins”¹.

At the end of 1922, “in order to further simplify and facilitate the account and bookkeeping”, a second (additional) denomination was carried out, namely: banknotes of the 1928 model were issued, one ruble of which was equal to 100 rubles in banknotes of the 1922 model, or a million rubles in banknotes of all previous (before 1922) samples. The recalculation for this ratio was easy: it was enough to discard millions to go over to the calculation in monetary terms, insignia of the sample of 1928.

Thus, already during the first 1½ years of NEP, serious prerequisites were created for the stabilisation of the Soviet currency. This was achieved on the basis of a general economic revival of the country, in the struggle against the capitalist elements and their Trotskyist-Bukharin agents.

2. Struggle for Tax Resources. Taxes as a Method of Regulation of Income and Savings

“Tax policy,—stated in the resolution of the XI Congress of the Party must have the task of regulating the processes of accumulation by direct taxation of property, income, etc. In this respect, taxation is the main instrument of the revolutionary policy of the proletariat in a transitional era.

At the same time, the tax policy sets itself the immediate—ensuring the greatest income from, purely fiscal tasks of taxes.”

The need to use taxes as one of the most important revolutionary weapons of the dictatorship of the proletariat was pointed out by the founders of Marxism long before the victory of the socialist revolution. In The Principles of

¹ V. I. Lenin, Op. v. XXVII, pp. 327-328.

Communism, Engels wrote:

“Democracy would be completely useless for the proletariat if it is not immediately used as a means for carrying out broad measures that directly encroach on private property and ensure the existence of the proletariat. These main measures, which necessarily follow from the existing conditions, are as follows:

1. Restriction of private property: progressive tax, high inheritance tax, abolition of inheritance in side lines (brothers, nephews, etc.), forced loans, etc.”¹.

In the Communist Manifesto, Marx and Engels also touch on this question:

“... the first step in the workers’ revolution is the transformation of the proletariat into the ruling class, the conquest of democracy.

The proletariat uses its political domination in order to wrest from the bourgeoisie, step by step, all capital, to centralise all the instruments of production in the hands of the state, that is, the proletariat, the class, and as quickly as possible overwhelmed the aggregate of productive forces as dominant.

This can, of course, happen at first only with the help of despotic intrusions into property rights and into bourgeois production relations...”². One of the measures in this regard is a high progressive tax. Marx wrote: “During the revolution, it is possible, by increasing the taxes in colossal amounts, to use them as a weapon of attack on private property...”³.

During the preparation of the October Socialist Revolution by the genius of the revolution, V. I. Lenin, the Bolshevik Party, led by its program of economic measures as one of the most important financial measures, the transformation of the tax system by introducing a progressive

¹ K. Marx and F. Engels, *Works*, vol. V, p. 475.

² K. Marx and F. Engels, *Manifesto of the Communist Party*, Partizdat, 1933, pp. 33-84.

³ K. Marx and F. Engels, *Op.* vol. VIII, p. 311.

income tax and high indirect taxes on luxury goods.

After the victory of the October Socialist Revolution, the party and the soviet government started this transformation and the use of taxes. During the period of the conquest of power by the proletariat and during the period of the Civil War, taxes were used, along with other revolutionary measures, to expropriate and suppress the exploiting classes. Extraordinary revolutionary taxes, highly progressive (up to the complete withdrawal of income exceeding the established norm) income tax served as an important tool in the struggle against the capitalist elements, were one of the sources of financing the revolutionary measures of the Soviet state, financing the civil war.

However, the economic and political situation during the period of foreign military intervention and civil war led to a decrease in the role of and the values of taxes, methods of direct suppression of the resistance of the capitalist elements, direct expropriation of the expropriators. Together with the nationalisation of the entire industry, the prohibition of free trade, and the implementation of food appropriation, the possibility of obtaining exploitative income was eliminated in a legal form. The task was not to restrict, regulate income, but in order to severely punish violators of the state monopoly on food, with a firm hand to stop sacking and speculation.

The transition to NEP, the admission within certain limits of free trade and private economic activity, and the associated revival of private capital radically changed the conditions and significance of the use of taxes. Taxes were supposed to serve as a powerful instrument of the Soviet state for limiting and ousting capitalist elements, for the development of the socialist sector, strengthening its leading role in the entire national economy of the country.

Allowing at the first stage of NEP some development of the activity of the capitalist elements in trade and agricultural economy and small industry, the Soviet state used the tax system as one of the main levers for regulating

the activities of these elements, limiting their accumulation. The tax policy of the Party and the Soviet government in the countryside contributed to the rise of the peasant economy, the growth of its marketability, the restriction of the kulaks and the strengthening of the positions of the poor and middle peasantry in the struggle against the kulaks. Developing economic competition between the socialist and capitalist elements, the Soviet state provided all-round assistance to the socialist elements, and one of the forms of this assistance was a system of tax incentives provided to state and cooperative enterprises and organisations.

Using taxes to limit and displace capitalist elements, to regulate the small-scale commodity structure, the Soviet state at the same time mobilised resources to strengthen the dictatorship of the working class, to provide financial assistance to the growing and strengthening socialist structure of the economy. The struggle for tax resources was of the greatest importance for solving the main task of financial policy in the first period of NEP: budget cuts deficit and paper money issue and preparation of replacement of depreciating Soviet money with hard currency.

The first years of NEP were characterised by extremely great difficulties in the creation and development of the Soviet tax system. It was necessary to reorganise the tax apparatus, which had been directly taxed in the previous period. The development of the system of direct taxation could be carried out only as a strong Soviet tax apparatus was built. The solution of this problem, the Party and the Soviet paid exceptionally great attention.

As indicated in the resolution of the XI. Party Congress, due to the lack of the necessary tax apparatus and the urgent need for funds from the state treasury, at first, the predominant role in the tax system should have been indirectly taxed. The main form of such taxation was excise. During 1921 and 1922, excise taxes are introduced on grape wines, tobacco products, cartridges, matches, salt, sugar, tea, as well as a number of duties and taxes.

Under capitalism, indirect taxes are most easily shifted onto the shoulders of the working class and the broad masses of the working people. They are included in the price of the goods and are paid, therefore, by each buyer of the goods to the extent of his actual purchases. It is clear that with this method of paying the tax, the exploitative relations between the bourgeois state and the working masses are veiled, obscured, while the bourgeois state taxes primarily consumer goods, which makes indirect taxation especially regressive.

The party took into account that, in the hands of the Soviet government, the functions and purpose of the instruments and methods of the capitalist economy change radically, that the Soviet government has at its disposal sufficient means to turn taxes into an instrument of the revolutionary policy of the dictatorship of the proletariat. Applying the method of indirect taxation, the Soviet government eliminated its negative aspects (regressiveness) by increasing the taxation of luxury goods, strict class differentiation of direct taxation and such a combination of taxes and politics, wages, so that the collection of taxes does not lead to a decrease in the real wages of workers. The resources obtained through indirect taxation, just like all other resources, were used by the Soviet state for the development of socialist productive forces, for raising the well-being of the working people. At the same time, the party developed the system of direct taxes in every possible way, proceeding from the fact that direct taxation is more consistent with the tasks of regulation of income and savings, since it establishes a direct, direct relationship between the amount of income of various taxpayers and the amount of tax payments of tax owners and the size of tax payments.

The first direct tax on the non-agricultural population was the trade tax, introduced by the decree of August 26, 1921, initially only for nationalised (private and cooperative) commercial and industrial enterprises and for personal trades. In 1922 this tax was also extended to state enterprises. ... Weakness of the financial apparatus, the need to use the tax

for purposes of the most complete registration of all enterprises and trades, the still insufficiently broad development of objects of taxation led to a special structure of the industrial tax. It consisted of two fees: patent and equalisation. The patent fee was levied at different rates depending on the category of the enterprise, and the levelling fee, depending on the size of the enterprise's turnover. The patent fee was of an advance nature, since it was subsequently deducted from the payment of the equalisation fee.

In 1922, the income and property tax is introduced at first also only with individuals and households as well. Then (since 1923) tax was levied not only on income, but also on property and from state enterprises. This is explained by the fact that in the first years of the new economic policy, transactions with the transfer of property from hand to hand were of rather large importance in connection with the process of denationalisation of small enterprises, as well as with the emergence of new trade and industrial enterprises. Limiting oneself to one income tax in such conditions would mean exempting from taxation a number of business transactions that could provide significant revenues to the state budget.

In addition to these taxes, a number of smaller payments were introduced. These include: a general civil monetary tax to help the hungry"; inheritance tax and donations (from January 1, 1923); target state apartment tax levied to strengthen worker housing; a special military tax imposed on persons who did not have the right to serve in the ranks of the Red Army; rental tax and a range of local taxes and fees.

It was said above that the beginning of the transition to NEP was laid by the replacement of the surplus appropriation system with a tax in kind. Features of the in-kind tax in comparison with the surplus consisted in the fact that during the surplus appropriation, the legal norm of the remnants of products from the peasants, corresponding to the needs of each peasant household, and everything else was confiscated

in favour of the state. With a tax in kind, only the amount of payment to the state is fixed, all the rest remains at the disposal of the peasant and can be used by him both for satisfying his personal and other needs, and for exchange.

The major drawback of the in-kind tax was its extreme complexity. A tax in kind was introduced by a decree of March 21, 1921, for grain products. It is quite obvious that the state needed not only grain products. Therefore, during 1921, the in-kind tax on grain products was supplemented by a number of other taxes in kind, namely: taxes on potatoes, oilseeds, flax and hemp fibre, tobacco, hay, gardening and melon-growing products, dairy products, meat, eggs, poultry, raw hides, furs, beekeeping products. As a result, by the end of 1921 there were 13 taxes in kind, levied by 18 products.

An immediate transition to cash taxes on the peasantry was impossible. This required a sufficient development of the sales market for the products of the peasant economy, since with the existence of monetary taxes; the peasant must sell the products of his farm for money in order to pay the tax. The falling currency was also the biggest obstacle to the transition to purely monetary taxes.

The complex system of taxes in kind was complemented by a number of other payments in kind and in cash. At the end of 1921 (decree of the Council of People's Commissars of November 22), a labour tax was introduced, which replaced the labour duty of the civil war period and had a natural character; in 1922— household-money tax (decree of the All-Russian Central Executive Committee of May 25, 1922), etc.

In addition to these national taxes, there were local taxes and fees imposed by the local government. Such a plurality of payments was caused by the circumstances of the transition from the period of the civil war to the period of peace of economic construction: However, this multiplicity of payments did not meet the tasks of further strengthening the alliance between the working class and the peasantry.

In 1922, "in order to provide the peasant population with greater freedom in the development of individual branches of

agriculture and in the full use of the results of their labour” (from the decree of the All-Russian Central Executive Committee and the Council of People’s Commissars of March 17, 1922), all previously existing taxes in kind, except for the labour tax, were combined into a single tax in kind. This tax was calculated in poods of rye or wheat and had to be paid with grain loaves, oilseeds, potatoes, butter and meat, and taxpayers were given the right to tax other agricultural products as well. The size of the tax was set according to the number of arable land and hayfields (in terms of arable land), according to the number of productive livestock, and according to the average grain yield per tithe.

During 1922, the preconditions were created for the transition from taxes in kind to monetary ones. On January 1, 1923, the Council of People’s Commissars authorised the collection of labour tax in money.

In April 1923, in the resolution “*On Tax Policy in the Countryside*” of the XI. Party Congress pointed out the need to accelerate the transition to a monetary form of tax collection and further unify payments in the countryside. Noting the tremendous importance of the transition to the collection of taxes in monetary form (a reduction in the costs of tax payments, a great opportunity for the peasantry to adapt to the market, expansion of trade), the congress pointed out that the party, in order to alleviate the situation of the peasantry, should unite all direct state taxes imposed on the peasantry (tax in kind, household money and labour tax), as well as all local taxes in a single direct agricultural tax.

In accordance with this decision of the CPSU of the Party Congress in 1923, a law on a single agricultural tax was passed. This tax combined the tax in kind, the labour tax, the household-money tax, the general civil tax to help the hungry (in the part that falls on the rural population) and some local taxes. The decree stated that the imposition of any additional taxes on agriculture, except for the single agricultural tax and rural and rural dues, is prohibited on

pain of criminal liability.

The unified agricultural tax was calculated and expressed in poods of rye or wheat (depending on the region where rye or wheat predominated) and was levied partly in kind, partly in money. The peasants were given the right to pay the in-kind part of the tax due from them in money. In those areas where the tax was collected only and mainly in money, the collection was entrusted to the People's Commissariat for Finance, in other areas it was collected by the People's Commissariat for Food. When determining the size of the tax, the following were taken into account: the amount of arable land and hayfields (in terms of arable land), the number of eaters on the farm, the number of adult livestock and the yield of bread and herbs. The total tax was reduced by 100 million rubles compared to the sum of all the 'taxes' unified in it.

The introductions of a single agricultural tax and the transition to its collection in part in money were of great importance in the preparation of the monetary reform. Showing the success of agricultural recovery and denaturalisation of the peasant economy, these measures contributed to the further development of monetary relations in the countryside, further growth of the marketability of peasant farms. At the same time, the restructuring of tax payments in the countryside greatly strengthened their role as a tool for regulating agricultural production and limiting the kulaks.

The Communist Party attached tremendous importance to the achievement of successes in the field of tax policy, which was emphasised in the resolution of the XI. Party Congress.

In his greeting letter to the All-Russian Congress of Financial Workers in October 1922, V. I. Lenin wrote:

"Our financial apparatus must exert all its strength in order to be able to collect taxes to provide the workers' and peasants' state with the funds necessary for the correct

operation of all state bodies”¹.

The successful solution of these problems is evidenced by the growth of tax revenues to the state budget. In 1922-23, taxes gave the budget 474.6 million rubles, or 32.5 percent. of all budget revenues, in the next year 1923-24—788.5 million rubles, which is 34.3 percent of all budget revenues. This increase in tax revenues was based on major successes in the restoration and development of the country’s national economy, in the development of industry and agriculture, the expansion of trade, the creation and strengthening of the Soviet tax apparatus.

3. Struggle to Cut the Government Spending and for an Increase in Non-Tax Revenues

“In the fight against the budget deficit,” the resolution of the XI. Party Congress stated, “it is necessary, first of all, to proceed from a clear awareness that the Soviet state does not have sufficient economic, and, in particular, financial resources to maintain everything that huge administrative and economic apparatus with which it left the previous one. period...”.

The struggle to cut budget expenditures was primarily aimed at reducing the administrative and economic apparatus.

The overwhelming majority of large enterprises that remained in the hands of the state were transferred to self-financing, while small enterprises were denationalised or leased. These measures not only reduced budgetary expenditures, but also contributed to the overall reduction of overhead costs, since the self-supporting organisation of the

¹ V. I. Lenin, *Works*, v. XXVII, p. 307.

activities of enterprises stimulated the struggle for the growth of savings.

In order to reduce administrative costs, a lot of work was done to revise and reduce the number of institutions, as well as to revise and reduce the staffing of state institutions and to remove employees of these institutions from state supply (transition exclusively to cash wages).

The expansion of the practice of issuing state goods for payment and paid services was of paramount importance in reducing budget expenditures, and at the same time in increasing non-tax revenues. The introduction of payments for goods and services, creating a source of monetary income for the state, stimulated a more careful, economical use of state resources.

The creation of a system of local finance also played an important role in the struggle to reduce government spending. Local budgets (see below) contributed to the rise of initiative and activity of local authorities in the struggle to cut costs and made it possible to transfer part of the expenditures from the state budget to local ones.

The struggle to cut government spending, to increase non-tax revenues, and to implement the strictest economy required a reorganisation of the state control bodies. This reorganisation was carried out on the instructions of V. I. Lenin.

The main body of state control at the time of the transition to NEP was the Workers' and Peasants' Inspection, organised in 1920. The transition to NEP entailed the complication of the country's economic life (the transfer of enterprises to self-financing, special forms of relationships between these enterprises, the creation of a number of new financial institutions) and, accordingly, the complication of the tasks of state control.

For control to be effective, for it to successfully cope with the enormous tasks assigned to it, it was necessary to strengthen the authority of the control apparatus. Strengthening control proposed by Lenin to the Twelfth Party

Congress in a number of articles (“Better change, but better”, “How we should reorganise the Rabkrin”), was associated with the tasks of strengthening the leadership of the working class of the peasantry. Lenin proposed to unite the apparatus of the RKI and the Central Control Commission of the RCP (6). Further, it was necessary to improve the apparatus of RCT and in a certain way change the forms and methods of the control work itself. From formal and complete verification of the correctness, legality of money and property, operations of government agencies RCT was supposed to move to a systematic study of the work of the state apparatus and the organisation of its work on a scientific basis. This program of restructuring the work of the RKI was adopted by the XII. Congress of the Party.

The struggle to reduce budget deficits, to relieve the budget from all sorts of unnecessary spending, to carry out monetary reform required the creation, in addition to the Workers’ and Peasants’ Inspection, that is, a general body of state control, and a special body for financial control. The need to create such a body was caused by the fact that the Workers’ and Peasants’ Inspection, engaged in studying the work of the state apparatus as a whole, could not pay sufficient attention to the daily issues of budgetary work, issues of financial control.

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To carry out special control in the field of finance, the Financial Control Department was created as part of the Narkomfin. At the same time, the RCT retained the functions of a general check of the organisation of drawing up and, especially, execution of the budget, a general check of the correctness of budget reporting.

The transfer of enterprises to self-financing stimulated the growth of savings of enterprises and organisations of the socialised economy and, in connection with this, the growth of non-tax budget revenues. In 1922-23, non-tax revenues amounted to 451.2 million rubles, in the next 1928-24—1040 million rubles. Revenues from transport respectively increased from 364 to 678 million rubles, forest income—from 18.8 to 53.5 million rubles.

The growth of non-tax revenues from state enterprises and property was especially important, since it testified to the success in strengthening cost accounting and more rational use of state resources. Staying on their absolute size is still insignificant, these receipts in one year increased more than 5 times: from 11.4 million rubles. in 1922-23 up to 60 million rubles in 1923-24.

The rise of the country's economy, the development of

monetary relations in it was accompanied by an increase in the monetary income of the population. The state was increasingly faced with the task of protecting the growing wages from losses caused by the depreciation of Soviet signs, and mobilising free money resources of the population for the needs of socialist construction. The mobilisation of these funds could constitute a large additional source of non-tax revenues for the state and reduce the amount of necessary allocations from the state budget.

The main methods of organising money savings of the population and accumulating free funds for the needs of socialist construction were to be: placement of state loans, raising funds in credit institutions and organising state insurance. Placing government loans and attracting funds to savings banks, providing the population with a profitable and reliable storage of free funds, increase the state's resources. The organisation of a part of the population's money in a special insurance fund and the rational use of this fund help to reduce losses caused by natural disasters and accidents to individual labour enterprises and the entire national economy as a whole. The creation of special insurance funds reduces budget costs and strengthens the budget revenue base, since the balance of the insurance fund is directed to increase the total resources of the state.¹

The first loan operation of the Soviet state was the grain loan of 1922, issued by a resolution of the All-Russian Central Executive Committee of May 20, 1922. The loan was in kind (issued for 10 million poods of grain in grain) and was short-term (repaid from November 1, 1922 to January 31 1923). The loan bonds were sold for cash. The government paid for the redeemed loan bonds either in kind (bread in grain) or in cash, at the request of the owner of the loan bond being redeemed. The bonds of the loan were accepted by the state

¹ On attracting funds from the population through credit cooperation, see below, p. 168 and following.

also in payment of tax in kind.

The grain loan of 1922 was of great and versatile significance. He contributed to an increase in the state's monetary income, stimulated the introduction of monetary relations into the peasant economy, since loan bonds were sold only for money. The grain loan also contributed to the transition from a tax in kind to a cash tax, since the peasant, purchasing bonds of a grain loan for money, had the right to pay tax with the bonds of the loan. In the part in which the bonds of the grain loan were used to pay the tax in kind, the latter essentially turned into a cash tax. Finally, the grain loan was supposed to show to what extent monetary relations developed in the first year of NEP, to what extent the ground was prepared for the issuance of internal loans, for the successful sale of loan bonds for money.

The second grain loan was also successfully implemented, released in March 1923. Its original size—30 million poods of grain (in grain)—was then increased to 100 million poods. In November 1923, another (last) natural loan was issued, namely, a sugar loan for 1 million poods of refined sugar.

The issuance of loans in kind was dictated by the insufficient development of monetary relations. In addition, the in-kind form of loans allowed the state to protect the interests of bondholders of loans from losses associated with the depreciation of banknotes. The introduction during 1923 of a stable currency—banknotes (chervontsev)—in circulation and then the successful completion of the monetary reform in 1924 eliminated the need to use a loan in kind.

The first monetary Soviet state domestic loan was a 6 percent state domestic loan in 1922, issued in the amount of 100 million rubles gold.

Unlike loans in kind, which were short-term, this first cash loan in 1922 was long-term—it was issued for 10 years. The loan was issued in gold terms; his bonds were sold for sovznaks at the rate for gold, and all incomes on the loan (winnings and interest) were paid with sovznaks at the rate for gold. The issue of a loan in gold terms was dictated by

the tasks of protecting the interests of the owners of the bonds of the loan from the depreciation of the sovnak, as well as by the tasks of ensuring real budgetary revenues of the state.

Insufficient development of monetary relations and the desire of the capitalist elements to get away from the purchase of loan bonds in order to channel all their capital into more “profitable” trading operations, forced the state to apply the methods of compulsory placement of bonds of this loan. By a series of decrees, the government forced the private capitalist elements (first of all, all kinds of private contractors, merchants, etc.) to acquire a certain amount of loan bonds while paying taxes.

State and cooperative enterprises were also involved in the compulsory purchase of loan bonds. The compulsory purchase of loan bonds in 1922 was applied until the full placement of the loan¹. Among workers and employees, the 1922 loan was placed in the form of a collective subscription, and the right to sell and pledge bonds was not limited by anything.

In December 1922, the Council of People’s Commissars decided to establish state savings banks and approved the first provision on them. The regulation stated that savings banks are created in order to provide workers with the possibility of safe and profitable storage of money savings and free funds.

Savings banks at that time accepted deposits and gave back funds in gold terms. Thus, they were used to prevent losses in wages from the depreciation of Soviet signs.

The beginning of the organisation and development of state insurance after the transition to NEP was laid by a decree of the Council of People’s Commissars of October 6,

¹ In order to prevent persons who received loan bonds without fail from selling these bonds, a special inscription was made on the latter: “Not subject to pledge and cannot be quoted on the stock exchange” ...

1921. The decree proposed to organise in all rural and urban areas state property insurance of private and collective farms against fires, against the loss of livestock, hail of crops, as well as against accidents on the routes of land and water transport. It was proposed to the Main Directorate of State Insurance, as voluntary property insurance was organised and the insurance apparatus was strengthened, to introduce compulsory insurance covering all private and collective farms, as well as agricultural, industrial and fishing enterprises. Cooperative organisations were given the right to organise, instead of compulsory insurance, mutual insurance of their own property under the control and supervision of the State Insurance Main Directorate.

In July 1922, Gosstrakh was granted the right to introduce personal insurance—life insurance and from accidents. The State Insurance [Gosstrakh] is transferred to the cost accounting, which meant strengthening its property and organisational and operational independence. Funds were released from the state budget for the formation of the reserve and main capital of the State Insurance Fund, the size of which was limited to the state's responsibility for the operations of the State Insurance Fund [Gosstrakt].

4. State and Local Budgets during the Preparation of the Monetary Reform

The transfer of enterprises to self-financing, a reduction in government spending and an increase in the state's monetary revenues contributed to the improvement of the state budget, and a reduction in the budget deficit. The restructuring of the budgetary system, forms and methods of budgetary work also exerted its influence in the same direction.

The main tasks of budget construction with the transition to NEP were: “to find ways to increase the income of the

national treasury in every possible way, to carry out the beginning of exceptional frugality and the strictest savings in spending money, to reduce emissions in every possible way, bringing it to a complete cessation” (from the Decree of the All-Russian Central Executive Committee of October 10, 1921 “On Measures to Streamline the Financial Economy”).

In the first place, we must put measures aimed at overcoming the underestimation of finances, at the elimination of “dependent sentiments”. By the indicated decree of October 10, 1921, the All-Russian Central Executive Committee presented “to all central and local bodies of Soviet power a categorical demand—to immediately put these sentiments down” and indicated that “the interests of the national treasury were elevated to the level of interests of the highest state order, that the all-round protection of these interests was every Soviet institution and enterprise and every official.” According to these instructions of the All-Russian Central Executive Committee, a number of measures were carried out aimed at streamlining the budget business and strengthening budgetary discipline (preventing credit-free spending, avoiding delays in the receipt of state revenues, etc.).

The second group of measures consisted in carrying out a significant decentralisation of budget expenditures in accordance with the decentralisation of management carried out during the transition to NEP.

Back on August 22, 1921, the Council of People’s Commissars by decree “On Local Money Funds “, in order to more successfully and quickly meet local administrative and economic needs, assigned to the provincial executive committees deductions from state direct taxes were still in the national budget, but the funds received from them had to be fully booked for local executive committees for the production of expenses to meet the needs of local importance.

The unification of the state and local budgets was abolished by the above-mentioned decree of the All-Russian

Central Executive Committee of October 10. 1921. At the same time, it was established that “special financial estimates should be drawn up on the basis of covering local costs by local means” for expenses of a local nature and for income covering these expenses, and these financial estimates should not be included in the list of income and expenses the national budget. The allocation of local budgets, their strengthening meant, on the one hand, the involvement of local authorities in work to increase state revenues and, consequently, to eliminate the budget deficit; on the other hand, it created and strengthened the material, financial base for the rise of the activity of the broad masses population.

The allocation of the system of local budgets was finally formalised by decrees of the All-Russian Central Executive Committee and the Council of People’s Commissars of December 10, 1921: a) on local budgets; b) on local funds and c) on the list of expenses to be attributed to local funds. According to these decrees, local budgets were built according to the principle: all local expenses should be covered by local funds. It was this principle, on the one hand, that provided a really solid financial base for local councils, and on the other hand, stimulated the struggle of local authorities to increase revenues and to reduce costs.

The IX. All-Russian Congress of Soviets in December 1921 approved “the transition to a system of local budgets, which are an absolutely necessary addition to the national budget, providing resources to places for Soviet construction and economic initiative.” The congress instructed the People’s Commissariat of Finance to develop and submit for approval to the All-Russian Central Executive Committee considerations aimed at regulating local budgets and introducing the necessary uniformity into them.

In 1922, a number of decrees carried out a further expansion of the revenue base of local budgets and an increase in expenditures transferred from the national budget to local ones. However, insufficiently clear

instructions on the procedure for introducing local taxes and fees led to the so-called local “tax creation,” that is, to the practice of introducing taxes and fees by local councils and executive committees that were not tied to the general objectives of the financial policy of the Soviet government. Therefore, the X. All-Russian Congress of Soviets in December 1922 ordered the People’s Commissariat of Finance to speed up the publication of the regulations on local finances based on the experience already available. The Congress drew attention both against the “tax creation” of local authorities, and against the arbitrary transfer of expenses from the higher budget for the subordinate.

During 1921-22, a number of measures were also taken to develop the federal foundations of the state budget—the unification of the financial policy of the Soviet republics. through the conclusion of agreements with them on financial issues, the allocation of income and expenses at the disposal of the union and autonomous republics. At the end of 1922, a transition was made from contractual relations between the RSFSR and other Soviet republics to their closer union into a single union state. In December of the same All-Union Congress of Soviets approved the declaration and treaty on the formation of the USSR, which later became the basis for the Constitution of the USSR, adopted on July 6, 1923 by the Second Session of the Central Executive Committee of the USSR and finally approved by the Second Congress of Soviets of the USSR in January 1924.

The Constitution of the USSR determined the fundamental foundations of the budgetary structure of the USSR. According to the Constitution of the USSR, the budget system of the USSR was made up of the all-union state budget, state budgets of the union republics of the USSR, state budgets of autonomous Soviet socialist republics and the budgets of local councils.

The Constitution established the general principles for the distribution of income and expenses between the links of the budgetary system and the basis for the budgetary rights

of the Union, Union republics and local councils. According to the Constitution of the USSR: the jurisdiction of the USSR, represented by its supreme bodies, were subject to: approval of a single state budget of the Union SSR, which included the all-union budget and the budgets of the union republics; the establishment of all-Union taxes and revenues, as well as deductions from them and surcharges to them, received for the formation of the budgets of the Union and autonomous republics and local budgets; permitting additional taxes and fees for the formation of republican and local budgets.

As a result, three basic principles of building the budgetary system of the USSR were predetermined: 1) the unity of the entire budgetary system, conditioned by the single class basis of the central and local bodies of state power, by the unity of the national economic plan; 2) the principle of democratic centralism; 3) consistent implementation of the Leninist-Stalinist nationality policy.

On the basis of the Constitution of the USSR, budget rules were adopted on August 21, 1923. To the all-union budget, but according to these rules, all income came and from it all expenses were made according to the financial estimates of the all-union departments and institutions, as well as part of the income and expenses according to the financial estimates of the united departments. Further, all tax revenues were included in the all-union budget, with the exception of those that were transferred to the budgets of the union republics by special resolutions of the Central Executive Committee of the USSR, as well as income from the sale of all-union funds, extraordinary revenues and amounts necessary to cover deficits in individual budgets of the union republics. To republican budgets included income and expenses on financial estimates of non-united departments and institutions, part of income and expenses on financial estimates of united 'departments and institutions, income from the sale of state funds of republican significance.

On November 12, 1923, the session of the Central Executive Committee of the Union adopted the "Provisional

regulation on local finances “and” Regulation on property rights of local councils”.

The “Temporary Regulation on Local Finance” brought clarified the scattered local finance regulations in force. According to this regulation, local funds were allocated. expenses for the maintenance of local Soviet institutions, for housing allowances for military units, for communal services, as well as part of the expenses for public education, public health, social security, agriculture, local transport, local industry and labour bodies. “Local revenues were made up of: a) revenues from local enterprises, property and activities, b) deductions from state revenues, c) surcharges to state taxes and fees, and d) local taxes and fees according to the established list (the regulations indicated the objects of taxation, maximum rates of taxes and fees, etc.). To cover the deficits in individual local budgets, the “Temporary Provision” provided for the formation of a special subsidised fund in the amount determined annually by the Council of People’s Commissars of the USSR, contributed to the list of national expenditures of the union republics. The “Temporary Provision” established the widespread compulsory introduction of rural municipality budgets from January 1, 1924.

The third group of measures aimed at restructuring the budgetary system and budgetary work was to strengthen the financial apparatus and expand the powers of the Narkomfin. During 1921-22, on the basis of a number of decrees, they returned to the financial system: to work in the specialty of tax, insurance and other specialist workers. In May 1922, a special government decree “On Strengthening the Financial Apparatus and On Expanding the Powers of the People’s Commissariat of Finance” was adopted. This decree stated that all local financial bodies are directly subordinate to the People’s Commissariat of Finance; the directives of the People’s Commissariat for Finance are absolutely binding on them; local financial authorities should guard the financial interests of the Soviet state as a whole; it was forbidden to

dismiss responsible employees of financial bodies without the consent of the People's Commissariat for Finance.

Finally, the fourth group of measures aimed at restructuring the budgetary system and budgetary work was to streamline the entire matter of drawing up and executing the state budget.

The IX. All-Russian Congress of Soviets in December 1921, 1) proposed to switch to a system of fixed budgets in gold terms. In accordance with this, the budget for January–September 1922 was drawn up in gold rubles. However, the practice of executing this nine-month budget of 1922 made it necessary to abandon the expression of budget revenues and expenditures in gold rubles. First, the budget was drawn up and executed with a huge deficit, which was covered by the emission of Soviet signs. Income calculated in gold rubles actually came in depreciating paper money. During the time from the moment the funds were received until the moment they were issued, there was a large depreciation of funds: the budget had to give out in real terms more than it received, that is, it took upon itself the reimbursement of losses from the depreciated money. Secondly; the very practice of converting Soviet signs into gold rubles was extremely imperfect. All this led to large losses of the state budget itself from the depreciation of banknotes. Therefore, already in March–April 1922¹, the compulsory calculation of budget revenues and expenditures in gold rubles was cancelled.

Thus, the attempt to build a firm budget in the face of the falling value of money was unsuccessful. The only possible way was to draw up indicative budgets. Quarterly budgeting was essential in meeting these indicative budgets. The 10th All-Russian Congress of Soviets in December 1922 issued a directive regarding the preparation of indicative

¹ In 1922, the transition from the calendar financial year to the financial year from October 1 to September 30 is carried out.

budgets, proposing to organise business in such a way that quarterly budgets were drawn up and approved before the beginning of the corresponding quarter. This was a major undertaking in streamlining budget work.

The next budget, the year 1922-23, was drawn up as an indicative budget. For the implementation of this budget, the introduction into circulation during 1923 of a stable currency, namely bank notes (chervontsy), was of paramount importance.

5. Organisation of the State Bank. The Beginning of the Monetary Reforms— Issuance of Banknotes

The creation and development of the credit system were of the greatest importance in the preparation and implementation of the monetary reform.

The development of purchase and sale, the introduction of cost accounting and, in this regard, the expansion of the manoeuvrability of economic organisations in the management of their resources provided all the necessary prerequisites for credit relations.

The state could not supply all the enterprises transferred to self-financing with sufficient working capital for their activities and provide financial assistance to the cooperatives and the low-power peasantry entirely at the expense of the budget. Some additional resources were needed. They could be obtained in the order of credit accumulation and redistribution of temporarily available funds of economic organisations and the population.

Temporarily free funds of economic organisations could be used to provide credit assistance to other economic organisations in two main ways: 1) by attracting these funds to accounts in credit institutions and organising bank lending

to economic entities, 2) through mutual lending by economic agencies to each other.

The admission of mutual lending by economic agencies to each other was caused at the first stage of NEP by an insufficient level development of national economic planning. Mutual lending by economic agencies to each other (the so-called commercial loan) was expressed in the fact that economic agencies released goods to each other not only in cash, but also on credit. We contrast such lending to direct bank lending, in which the bank provides funds directly to the economic agency that needs them for purchase of goods or to pay for household services.

Obviously, direct bank lending makes it possible to organise a deeper control of the ruble over the course of production and circulation of goods, because the bank, releasing funds for strictly defined needs and directly to the one who uses these funds for these needs, can carry out a genuine check of the correctness and efficiency of the use of banking funds. However, direct bank lending requires such conditions for its implementation that could not have been provided in the first period of NEP, at the level of planning achieved at that time.

Direct bank lending presupposes a fairly accurate accounting by the bank of the temporary needs of the economic agency in funds, a clear delineation of the needs of economic agencies, which are met at the expense of the agency's own funds and at the expense of borrowed funds, a fairly accurate correspondence between the needs of each economic agency in its own circulating capital and the availability of these funds. All this can be achieved only when the plan accurately defines the relationship between economic agencies, when the plan contains not only general directives on the development of the sector of the economy, but also a system of specific directives that determine the size, quality, product range, production cost, the size of allowable raw materials reserves, materials, fuel, etc., when goods are transferred from one economic agency to another

in quantities strictly determined by the plan in the order of implementation of economic contracts, etc.

Such conditions and preconditions did not exist at the first “stage of NEP, although even then the Soviet economy as a whole was guided according to a plan” established by the dictatorship of the working class. Therefore, the Soviet state, for the most complete use of all funds at the disposal of economic organisations in the interests of implementation, broad credit assistance to economic agencies in need of funds, organised mutual lending by economic agencies to each other. An economic agency that needed goods, but did not have sufficient funds to pay for these goods, received them from another economic agency on credit, with the obligation to pay for them after a specified period from the proceeds from the sale of their goods. Such mutual crediting of economic agencies was of great importance in accelerating the movement of goods from production to the place of their consumption.

In addition, commercial lending was caused by the fact that it was necessary to attract private trade to sell some of the goods, since state and cooperative ‘trade was not yet sufficiently developed. Although the main method of settlements with a private trader is cash, credit was also allowed to some extent.

Commercial credit served as a tool for the planned regulation of economic activity. The terms, the size of the credit, the size of the credit—and all this was put at the service of the accelerated circulation of goods and the development of trade in consumer goods.

Commercial loans were provided to state-owned enterprises and cooperatives on the most favourable terms in comparison with private companies. On the other hand, in those cases when a loan was granted to a private trader, government organisations used this to influence him: they made loans to lower prices, trade where needed; it was based on the interests of the state.

The main form of obligation issued by one economic

agency to another upon receipt of goods on credit was a bill of exchange. The bill was an indisputable obligation to pay in a certain place to a certain person (enterprise, firm) the amount indicated in the bill. The indisputable nature of the obligation to pay under a bill facilitated the circulation of bills, i.e., the transfer of the rights to receive the amount under a bill of exchange by one economic agency (person) to another. Such a transfer was carried out in the event that the economic agency that sold the goods on credit and received the bill of exchange needed funds earlier than the due date for the bill. By transferring a bill to another economic agency, the holder of the bill received from this economic body the amount indicated on the bill, less interest due from this amount until maturity of the bill.

Organising mutual lending to economic agencies, the state had to ensure the regulation of this lending and the related circulation of bills. The objectives of such regulation were: strengthening the payment discipline of economic agencies, channelling funds into industries and trade, the development of which was required by the priority needs of the state, preventing the overflow of funds in the form of a commercial loan from the state-cooperative sector to the private sector, etc. One of the most important methods and at the same time, the basis for the regulation of mutual lending by economic bodies of each other was the organisation of the accounting of bills. Credit institutions and banks were supposed to become the bodies of such regulation.

Not having the opportunity to widely carry out direct bank lending in those conditions, banks had to come to the aid of economic agencies in those cases when the need for money arose before the due date of the bill. The main form: the organisation of such assistance was the accounting of bills. It is clear that the banks are most facilitated credit relations between economic agencies, contributed to the expansion and strengthening of this at that time the basis of bank lending. At the same time, carrying out the selection of

bills accepted for accounting or as security for issued loans, applying credit sanctions to insufficiently accurate economic agencies, as well as to economic agencies that could not properly organise their activities, banks regulated and directed mutual lending of economic agencies and circulation of bills, strengthened payment discipline, helped to improve the financial situation of economic agencies.

The introduction of self-financing and the implementation of payment for goods and services, the expansion of trade and monetary circulation put forward as the most important tasks the promotion of rapid, uninterrupted implementation of monetary settlements between economic agencies and regulation of monetary circulation. These tasks could most fully be solved by credit institutions. They concentrated the funds intended for calculations. They were in direct connection with the process of production and circulation of goods.

Credit was to play a particularly important role in the development of state and cooperative trade and organisation financial assistance, agricultural and handicraft cooperatives and low-power peasant farms.

The XI. Party Congress indicated that state trade should mainly develop at the expense of funds provided to it by credit, and the receipt of such a loan can and should be organised through the State Bank. The enormous importance of the widespread use of credit for the all-round development of state and cooperative trade is especially emphasised by the large share of the private trader in the sphere of trade in the first years of the New Economic Policy.

Allowing private capital, the state strictly limited the scope of its activities. Access to large-scale industry was almost completely closed to private capital. The state retained all enterprises here in its hands. In agriculture, private capital ran into the prohibition of the sale and purchase of land and restrictions on the lease of land and the hiring of labour. The state channelled private capital into small industry, which occupied a subordinate position, and

into trade. The temporary admission of private capital in these spheres of economic activity was dictated by the tasks of the most rapid development of trade turnover. At the same time, here, too, the state limited private capital to laws on labour, taxes, etc. As for private capital itself, it strove primarily into the sphere of commodity circulation because it was the most liquid investment of capital and, in conditions of the rapid depreciation of the ruble; this promised it the greatest profits. In 1922-23, the share of private traders in retail turnover was more than 75 percent, in wholesale and retail trade—50 percent and in wholesale trade—about 15 percent. It was necessary to master trade, to oust the private trader from the turnover of goods. Credit was to play an important role in this matter.

The importance of credit in the relationship between the working class and the peasantry, in the provision of assistance from the Soviet state to the rural poor and middle peasants was noted by XI. Party Conference. In the resolution on the immediate tasks of the party in connection with the restoration of the economy, the party conference noted, as one of the foundations of the party's work in the countryside, support by all possible state funds at that time—by measures of low-power peasant farms (first of all, farms of demobilised Red Army soldiers) by providing preferential conditions credit, vacation of agricultural implements, etc. and tax relief. At the same time, the party conference pointed out the need to involve these farms in cooperation.

The XII. Party Conference in its resolution on cooperation noted the great importance of credit for the implementation of the Leninist-Stalinist cooperative plan. The conference pointed out the need for preferential terms of lending to consumer cooperatives. Conference, further, also pointed out the need, along with the organisation of state agricultural credit, to strengthen work on the creation of credit cooperatives. When lending, as well as when providing other types of material support to cooperatives, it is proposed to keep in mind, first of all, the interests of the

low-powered strata of the peasantry and handicraftsmen.

The first credit institution created after the transition to NEP is the State Bank, established by a resolution of the session of the All-Russian Central Executive Committee of October 7, 1921. As indicated in this resolution, the State Bank was established “in order to promote the development of industry, agriculture and trade, as well as to concentrate money turnover and other measures aimed at establishing the correct circulation of money.” The State Bank was entrusted with lending to large state industry, cooperative ‘and other organisations, private enterprises, farms, handicraftsmen; accepting and issuing monetary deposits; buying and selling foreign securities, drafts, motto and precious metals; cash execution of budgets; organisation and implementation of settlements between institutions, enterprises, cooperative organisations, etc.

Solving these problems in the face of a falling currency presented great difficulties. The falling currency impeded the attraction of funds to current accounts and depreciated the State Bank’s funds. The main source of the State Bank’s resources allocated for lending to the economy was budgetary funds. At the time of the establishment of the State Bank, 2000 billion rubles were allocated from the treasury to form the fixed capital Soviet signs. It was a large sum. It was at the beginning of October 1921 about 50 million rubles of gold. However, by the time the first branches of the State Bank were opened, its main capital, due to the depreciation of money, fell to 20 million rubles of gold.

The State Bank had to take measures to protect “its funds from impairment. To this end, the State Bank, expanding the purchase of gold, other precious metals and foreign currency, at the same time made transactions for the purchase and sale (on instructions and at its own expense) of easily traded goods, obliged exporters to repay received loans in foreign currency, set a high interest rate on loans, sought to participate in the profits received from the operations credited to it, etc. The State Bank widely

practiced the issuance of loans in accordance with the value of the goods for the purchase or production of which the loan was made, and the issuance of loans in gold terms. As an example, we can point to the practice of lending procurements. The sizes of loans were established here in accordance with the price of bread in gold terms at the time of repayment of the loan. This method, to a certain extent, ensured the preservation of the bank's funds from devaluation, but it forced the State Bank to collect extensive information about the state of the market and the movement of commodity prices, which method excessively complicated the work of the bank. It was more convenient to lazy loans in gold rubles; however, this method was also imperfect due to the imperfection of the calculation of the exchange rate of the gold ruble. Only in 1923, after the issuance of bank notes, the need for special measures to protect the funds of the State Bank from depreciation was eliminated.

By the end of 1922, the party and the Soviet government had made great strides in developing trade. In the second half of 1922 alone, retail trade increased by 38 percent, including state trade—2.2 times and cooperative trade—14 percent. This growth in trade created the preconditions for replacing money with a falling value with a hard Soviet currency. Along with the growth of “trade turnover, the financial economy of the country began to heal. However, there was still a large deficit in the budget. In the IV. quarter of 1922, 2/5 of all state budget expenditures were covered by the emission of sovznaks. The state could not yet refuse to use emission to cover budget expenditures. At the same time, it was necessary to satisfy the need for economic turnover in stable money, since the fall in the value of the ruble threatened the further development of trade turnover. Neither denominations, nor the introduction into the practice of economic and financial activity of calculus in conditional solid measures of price movements (pre-war rubles, “the exchange rate of the golden ruble”) satisfied this need.

The main difficulty that stood on this path was that,

having created a hard currency, in every possible way to protect it from fluctuations. For this, it was necessary to organise the matter so that the new hard currency was not directly related to the depreciating currency and that the return of the new money issued into circulation to the cash desks was ensured, state, as soon as this money turned out to be superfluous for trade. This was achieved by granting the right to issue new banknotes to the country's central credit institution, the State Bank. Issue of the State Bank as a credit institution is not intended to cover the budget deficit, and for lending sectors of the economy. Thus, a direct link was established between the issue and the growth in the demand for turnover in money. On the other hand, since the State Bank produces banknotes in the lending procedure, the return of bank notes to the cashier of the State Bank provided repay bank loans.

On October 11, 1922, by a decree of the Council of People's Commissars, the State Bank was granted the right to issue banknotes in circulation in chervonets (one chervonets = 10 rubles in gold). In order for these bank notes (chervontsy) to be accepted by the market as a stable currency, a number of measures were taken. The decree established a high 'security for banknotes issued into circulation: the State Bank received the right to issue banknotes into circulation, subject to obligatory provision of 25 percent. gold and foreign stable currency, and the remaining 15 percent—short-term bills, other short-term liabilities and easily traded goods.

Further, the decree of October 11, 1922 stated that bank notes are accepted at their face value in all cases when payments are expressed in gold; therefore, the expression of payments in gold was taken to be equivalent to the expression of payments in bank notes (chervontsy).

Finally, the State Bank was granted the right to demand the repayment of loans issued by bank notes, by bank notes. This indication of the law was of tremendous importance from the point of view of ensuring the return of bank notes to the State Bank.

The decree of October 11, 1922, at the same time, did not impose the circulation of bank notes as banknotes, but structured their issue in such a way that the very commodity circulation would recognise them as a stable currency. The decree did not establish the compulsory admission bank notes in payments. Bank notes were admitted to listing on the stock exchange as securities. Caution in introducing banknotes into circulation also explains the relatively slow rate of issue of banknotes in the first months after their issue.

A striking indicator of the gradual introduction of chervonets into circulation is the increase in their share in the total mass of money circulation. On January 1, 1923, the money supply in circulation was 97 pr. from Sovznak (translated into rubles) and only 3% from bank notes; consequently, the Soviet signs continued to play a decisive role in circulation. On July 1, 1923, the share of Soviet signs accounted for 63 percent. of the entire money supply in circulation, and the share of bank notes percents. On October 1, 1923, sovznaki (translated into rubles) accounted for only 26 percent. the entire money supply in circulation, and the remaining 74 percent belonged to bank notes. In other words, the gold coin played a decisive role in the circulation of money. Bank notes were accepted economic turnover as a hard currency.

The intensive introduction of bank notes into circulation and their ousting from circulation of sovznaks caused an increase in the depreciation of the latter. On October 1, 1923, one chervonets (i.e., 10 chervoni rubles) cost 175 rubles. Soviet signs of the sample of 1923, and on January 1, 1924—30,000 rubles of Soviet signs, and the rate of depreciation of Soviet signs was much faster than the rate of their issue, which was an expression of the narrowing of the sphere of circulation of Soviet signs. In 1923, the number of sovznaks in circulation increased 117 times, and the value of sovznaks decreased 172 times.

The issue of so-called transport certificates played a certain role in increasing the rate of depreciation of sovznaki.

Transport certificates were issued to increase the working capital of the NKIS in denominations of 5 rubles. in gold terms. In practice, they were perceived by the circulation as stable banknotes of less than a gold piece.

In connection with the introduction of bank notes and transport certificates into circulation, the sovznak was pushed into small retail circulation (for the implementation of which banknotes of lesser denominations were needed than bills and 10 rubles in gold terms). The rest of the turnover was almost entirely filled with bank notes and transport certificates. The main currency of the country was the chervonets—a banknote.

The successful introduction of chervonnas was the result of the fact that in this matter the Soviet state relied on the commanding heights in the economy, on the growing trade turnover, on the socialist sector of the economy. This introduction of bank notes into circulation and their transformation into the main currency of the country is one of the most striking indicators of the successful solution of the tasks set by Lenin and Stalin during the transition to NEP. As indicated in the resolution of the XIII. Party Conference.

“The introduction of the chervonets and its preservation as a stable currency was possible only due to the progressive course of development of our entire economy and testifies to the correctness of the path of economic revival along which we are going.

Chervonnoe circulation is currently one of the most important pillars for the further development of the economy. The above-mentioned growth of state industry over the past year would not have been possible without the chervonets. On the basis of the red circulation, loans to industry, trade and agriculture have been carried out and are still being carried out. Bank lending to industry and trade has achieved significant development. This loan was the manoeuvrable fund of the State, without which the planned development of industry and the entire national economy is impossible. Relying on this loan, the industry for the first time developed

production without interruptions and was able to accumulate large commodity funds by the time the harvest was realised.

Strict cost accounting, correct costing and correct organisation of bookkeeping in our factories and plants, in trusts, syndicates and trade organisations became possible only thanks to the hard currency of chervona and will be able to further consolidate and improve only on its basis”¹.

The second major achievement of 1923 in the field of monetary circulation is its unification, carried out by removing from circulation all the previous (before 1923) samples of soznak, as well as by introducing Soviet banknotes in those localities in which other banknotes were circulating before (for example, in the Far East, gold was used as money, in the Central Asian republics and the Transcaucasia, local banknotes were circulated, etc.).

The issue of bank notes made it possible to move to the calculation of all operations of the State Bank in hard currency and expanded the resources of the State Bank. The growth of the State Bank’s operations in the first two years of its activity is characterised by the following data (in million rubles):

No.	No. II/II	1922	On October 1 st 1923
	State Bank balance	154,8	836,5
	Including		
	By asset		
	Checkout, current accounts and amounts in transit.		
1	Credit and settlement operations	36,4	22,6
	Liabilities	69,1	412,1
2	Capital		
	Current accounts and deposits		
	Bank notes issued into circulation		
1		1,5	76,7
2		40,0	157,9
3		—	235,0

¹ “CPSU (B) in Resolutions and Decisions”, Part I, p. 552.

Before the issuance of banknotes into circulation, the State Bank, as already mentioned, was mainly the conductor of budgetary appropriations. By introducing banknotes into circulation, the State Bank expanded lending to industry, facilitating the necessary replenishment of its circulating capital and thereby expanding loans provided by industry to trade organisations. At the same time, the redistributive role of the State Bank was facilitated by an increase in the balance of funds on current accounts and deposits. This increase in current accounts and deposits was due to the growth of resources of state and cooperative organisations, the establishment of the obligation to keep funds in credit institutions and the production of large settlements through the State Bank, the protection of deposits from impairment by transferring them to the ruble denomination, the growth of the network of branches of the State Bank.

Strengthening the position of the State Bank, the growth of its operations was of great importance for socialist construction. The State Bank expanded lending to state and cooperative organisations, thereby helping them to win in economic competition with capitalist elements. An equally important role was played by the strengthening of its control functions associated with the growth of the State Bank's operations. The State Bank contributed to the introduction of self-financing, strengthening financial and payment discipline; he refused a loan or demanded early repayment of a loan in relation to those who poorly organised their financial economy or did not fulfill their obligations both to the bank and to other business organisations.

The introduction of bank notes ensured success in the fight against attempts by capitalist elements to introduce pre-revolutionary gold coins and foreign currency in some places in circulation.

Back in November 1921, V. I. Lenin pointed out the great significance of gold in our country under conditions of capitalist encirclement, on the need to accumulate gold reserves. "... It is necessary to take care of the R.S.F.S.R.

gold, sell it at a higher price, and buy goods for it at a lower price”¹.

With the transition to NEP, the prohibition on the storage and circulation of currency values was lifted. In 1922, the mandatory surrender of currency valuables by the population to the state was cancelled, while the State Bank retained its pre-emptive right to buy and sell gold and foreign currency within the country and in settlements with abroad. In February 1923, a mandatory procedure was established for the storage of foreign currency owned by state and cooperative organisations on current accounts with the State Bank. By the beginning of 1923, the State Bank’s monetary fund exceeded 30 million rubles. Concentration of gold and foreign currency in the State Bank, development of gold mining industry, the prohibition of payments within the country in foreign currency did not in the least contribute to the success of the monetary reform.

6. Completion of the Monetary Reform

The successful introduction of banknotes into circulation as a hard currency testified that the national economy of the country has grown stronger, that the socialist elements of the economy in the struggle against the capitalist elements are steadily developing and strengthening. But the introduction of banknotes into circulation solved only part of the problem. The circulation of goods in small retail trade was serviced by the still falling currency, which made it difficult for the planned regulation of prices, served as an obstacle to the further growth of the marketability of the peasant economy, to further strengthen the economic bond between town and country.

1923 is the year of the parallel circulation of stable bank

¹ V. I. Lenin, Works, vol. XXVII, p. 83.

notes and falling in value Soviet notes. This situation was tolerated only as a temporary, transitional one.

The depreciation of the sovznaks greatly reduced the purchasing power of the peasantry, hindered the development of 'commodity turnover, made it difficult to fight speculation, and contributed to the penetration of bourgeois-NEP perversions into the trading apparatus. Nepmen and Nepman elements in the trading apparatus, speculating on the difference in the exchange rates of chervonets and Sovznakov, imposed excessively high prices for manufactured goods on the country. As a result, trade developed intermittently, which was reflected in the supply of workers with goods and products.

The depreciation of the sovznak did not make it possible to establish stable wages. Recalculations according to conditional fixed coefficients and the payment of wages in chervonets did not completely protect wages from fluctuations.

The falling currency made it difficult to calculate, accurately establish of the cost, stimulated various insurance premiums against depreciation. All this made it difficult to carry out genuine cost accounting.

The falling currency did not make it possible to establish a firm budget, and at the same time to strengthen the planning in the economy.

All the negative aspects of the falling currency were especially clearly embodied in the difficulties in the sale of manufactured goods in 1923. "By the fall of 1928, economic difficulties had become somewhat aggravated due to the violation of the Soviet price policy by our industrial and trade bodies. There was a sharp discrepancy between the prices of manufactured goods and agricultural products. Bread prices were low and industrial goods prohibitively high. Overhead costs were high in industry, and this made goods more expensive. The money that the peasantry rescued from the sale of grain quickly depreciated. On top of that, the Trotskyist Pyatakov, who was then at the Supreme Council of

the National Economy, issued a criminal directive to the business executives—to knock out more profits from the sale of manufactured goods, to raise prices uncontrollably, ostensibly for the development of industry. In fact, this Nepman slogan could only lead to the narrowing of the industrial base production and undermining the industry. Under such conditions, it was not profitable for the peasantry to acquire urban goods, and they stopped buying them. A sales crisis began, which affected the industry”¹.

In order to eliminate these difficulties and liquidate the marketing crisis, the Party Central Committee under the leadership of Comrade Stalin outlined and carried out a number of measures, among which the most important was the completion of the monetary reform, the replacement of falling Soviet signs with a new, solid Soviet treasury currency. The struggle to complete the monetary reform was also a struggle to get out of the difficulties of 1923 by strengthening and expanding state and cooperative trade to the detriment of private trade, through a planned policy of lowering prices. This meant a way out of difficulties by strengthening the socialist elements of the economy.

XIII. Party Conference indicated:

“The further policy of the party should be to preserve the stability of the chervonets and to complete the monetary reform. The interests of the broad masses require the completion of the monetary reform, that is, the replacement of the falling Soviet sign with hard currency. Completion of the monetary reform should become one of the main tasks of the Soviet government for the coming period”¹.

The successful completion of the monetary reform required a whole system of measures. These measures were carried out in a struggle by the capitalist elements, who were trying to disrupt the reform. The success of the reform

¹ “History of the CPSU (B)—Short Course”, 1938, pp. 252-253.

¹ “CPSU (B) in Resolutions and Decisions”, part I, p. 552.

depended on the success of the fight against private capital.

The main measures indicated by the XIII. Party Conference were: 1) the intensification of agriculture, the correct organisation of grain trade, ensuring the stability of grain prices, the transition from the spring of 1924 to the calculation of agricultural tax in hard currency and to its collection exclusively in money; 2) rationalising production, increasing labour productivity, increasing the burden of enterprises, reducing overhead costs, reducing costs and selling prices, streamlining industrial costing; 3) further strengthening the monopoly of foreign trade, ensuring the activity of the trade balance, increasing the supply of Soviet industry with cheap raw materials, materials and semi-finished products; 4) expanding the grassroots trading network, improving the range of goods, strengthening price regulation, rationing the prices of a number of goods throughout trade, expanding trade capes; 5) the elimination of the budget deficit, the implementation of the strictest economy in all organisations and institutions, a relentless struggle with excesses, the transfer of all income and expenditures of the budget to hard currency, a decrease in the excise tax on consumer goods, and a cheapening of credit.

The instructions of the XIII Party Conference were expanded and detailed by the Central Committee of the RCP (b) in its letter to all party organisations. in March 1924 and in his decree "On Financial and Economic Measures in Connection with the Monetary Reform."

The monetary reform—the Central Committee of the RCP (b) pointed out—should be placed at the centre of all party and Soviet work, other interests should be subordinated to the interests of its success, for at that moment it personified the main task, to the solution of which the course of the development of the revolution brought the country close... The Central Committee pointed to the need to reduce retail prices for manufactured goods; exclusion of insurance premiums from all prices of government agencies and cooperatives, which were made for the purpose of insuring

against the depreciation of Soviet signs; declining food prices in cities; publicity of prices (price announcements in stores, newspaper publications) in hard currency; liquidation of settlements in commodity rubles; making the greatest savings in the local budget; reducing the rates of local taxes and fees, as well as utility tariffs and taxes when converting them into hard currency; strict enforcement of decrees on the mandatory storage of funds by institutions, government agencies and cooperation in banks; conducting a campaign to preserve and increase deposits in savings banks; unconditional prohibition of the issue of any monetary surrogates.

The firm implementation of these measures ensured the complete success of the monetary reform.

The challenge was to prevent fluctuations or declines in value by issuing stable money. This required a lot of effort and a strict sequence of measures. for the release and introduction into circulation of a new currency.

Back in July 1923, a session of the All-Russian Central Executive Committee decided to limit the issue of Soviet signs into circulation to the amount of up to 30 million rubles gold a month.

On February 5, 1924, the Central Executive Committee and the Council of People's Commissars of the USSR adopted a decree "On the Issue of State Treasury Notes" in denominations of 1, 3 and 65 rubles. gold. As stated in the decree, the issuance of treasury notes. was one of the measures aimed at creating stable money in denominations of less than one chervonets. The size of their output had to be consistent with the need for trade. Consequently, state treasury notes were issued as a supplement to the currency of chervona and were supposed to become bargaining chips in relation to bank notes. The decree established the compulsory acceptance of Treasury notes for all payments, and in cases where payments are denominated in gold, Treasury notes are accepted at their face value; in the same cases when payments are expressed in sovznak, treasury bills

are accepted at the rate of sovznak in gold. In order to strictly match the issue of Treasury notes to the needs of trade turnover, the size of the issue of Treasury notes was related to the number of bank notes in circulation. The total amount of treasury notes issued into circulation should not exceed 50 pr. the amount of bank notes in circulation.

The issuance of treasury bills began in February 1924, and the issue of Soviet signs ceased on February 15. The cessation of the issue of sovznak together with the growth of the need for circulation in small changeable banknotes led to the fact that sovznak was stabilised at the level of 50,000 rubles. Soviet signs of the sample of 1923 are equal to one treasury (or chervonny) ruble.

On February 22, 1924, the Central Executive Committee and the Council of People's Commissars of the USSR ordered the People's Commissariat of Finance to begin minting and issuing into circulation silver (in denominations of 10, 15, 20, 50 kopecks and 1 ruble) and copper (in denominations of 1, 2, 3 and 5 con.) Soviet-style coins. To meet the growing needs of circulation in small changeable banknotes, by a decree of February 22, 1924, the People's Commissariat of Finance was allowed to issue changeable paper bonds with their subsequent replacement with silver and copper coins (as the minting of the latter expanded).

On March 1, 1924, the government established the procedure for the redemption of Soviet signs. Acceptance of Soviet signs of the 1923 model for all payments was limited to a certain period (April-June 1924).

The process of replacing falling banknotes with hard Soviet currency is characterised by the following table:

Composition of the money supply in circulation in 1924
(as a percentage of the total)

Types of banknotes	On 1/II	On 1/III	On 1/IV	On 1/V	On 1/VI	On 1/VII	On 1/VIII	On 1/IX
All money supply	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0
Including bank notes	79,4	80,4	68,6	67,1	60,4	60,7	56,6	55,4
Transport certificates and treasury notes	3,8 —	10,9 1,1	19,2 3,3	24,2 5,3	32,3 7,3	31,0 8,3	32,5 10,9	32,9 11,7
Total hard currency Sovznaki	83,22 16,8	92,4 7,6	91,1 7,6	96,6 3,4	100,0 —	100,0 —	100,0 —	100,0 —

As the table shows, during the first half of 1924, the entire sphere of monetary circulation was filled with hard currency—banknotes, treasury bills, silver and copper change coins and temporary change bonds. Sovznak was completely withdrawn from the sphere of circulation.

As mentioned above, at the end of 1923 bank notes accounted for 3/4 of the total money supply in circulation, which did not correspond to the normal need for circulation in large-denominated and small-denominated banknotes. Since May 1924, after the minting of coins was established, the proportion of large-denominated banknotes in circulation has been decreasing, while small-denominated banknotes have been increasing. By the end of 1924, bank notes accounted for just over half of the total money supply in circulation. The other half fell to the share of treasury bills and bargaining chips. This ratio fully corresponded to the normal needs of circulation in banknotes of various banknotes.

In October 1924, the Central Executive Committee of

the USSR adopted a resolution approving the termination from July 1, 1924 of the issue of paper money to cover the budget deficit and prohibiting the further use of the treasury issue to cover the budget deficit. This ruling, on the one hand, reflected the fact liquidation of the budget deficit, and on the other hand, testified to the adamant determination of the party and the Soviet government to protect and further strengthen the stability of the Soviet currency in every possible way.

The balance sheet of the People's Commissariat of Finance of the USSR as of January 1, 1926, issued treasury currency worth 542.7 million rubles, of which 32.8 million rubles were spent on buying up Soviet signs, and 345 million rubles on changing banknotes to cover the budgetary expenditures of 1928-24—34.9 million rubles. Thus, only about 85 million rubles, hard treasury currency was used to cover the last deficit of the Soviet budget—the deficit of 1923-24.

After the completion of the monetary reform, the issue of money was made only in accordance with the growing needs of the turnover in money. For two years (from January 1, 1924 to January 1, 1926), the money supply increased 3.8 times (from 332 million rubles to 1,269. 3 million rubles). Such a large increase in the money supply in circulation was due to two main reasons: a) the successful course of the restoration of the national economy, which entailed a rapid expansion of commodity turnover; b) the slowing down of the speed of money circulation as a result of the replacement of falling banknotes (from which everyone tried to get rid of as soon as possible) with hard Soviet currency.

The Party and the Soviet government carried out the monetary reform in the struggle against the counterrevolutionaries, the restorers of capitalism, the Trotskyists and the Rights.

In an effort to disrupt the monetary reform, the Trotskyists tried to impose on the party and the Soviet government a policy of further using the emission of Soviet

signs to completely destroy the Soviet monetary system and break the alliance of the working class with the working peasantry. They performed against the issue of hard currency—bank notes, proposing to limit us to such measures as the introduction of an account in notional rubles. Later, after the bank card was introduced into circulation as a hard currency, the Trotskyists opposed the completion of the monetary reform. They proposed to preserve the parallel circulation of solid chervonets and Soviet bonds falling in their value, hoping that this would inevitably lead to a breakdown of the stability of the chervonets.

At the same time, the Trotskyists tried to upset the trade in order to hasten the breakdown of the stability of the chervonets. They instilled in industry the anti-state practice of raising prices in order to break the link between socialist industry and peasant farming. They tried to impose on the Soviet budget all the financial consequences of difficulties in marketing and growth in production costs.

Together with the right-wing restorers of capitalism, the Trotskyists sought to “establish the dependence of our monetary system on foreign countries, on foreign capital. At the same time, the Trotskyists proposed abolishing the monopoly of foreign trade, transferring the emission rights to foreign banks, or concluding a special stabilisation loan abroad. For this loan to be “successful”, they demanded recognition of cancelled royal debts. They demanded free exchange of Soviet money for gold inside countries and abroad, pushed on the path of squandering the gold resources of the Soviet state on foreign exchanges. They sought the abolition of the monopoly of foreign trade and the wide import of goods from abroad in order to curtail socialist industry. A vile gang of traitors and agents of capitalist intelligence agencies tried to present our monetary system as a kind of capitalist, subordinate element of the market. All these tricks were aimed at the tempering of our homeland with foreign capital, towards the restoration of capitalism.

The Party led by Comrade Stalin exposed and defeated

all these counter-revolutionary “theories” and provocative proposals. Comrade Stalin armed the party with a powerful weapon of ideological defeat of Trotskyism and all enemies of Leninism—the book *“On the Foundations of Leninism”*, published in 1924. At the XIV. Party Congress, Comrade Stalin showed the fundamental difference in the content, functions and purpose of Soviet money from the money of the capitalist economy.

The party achieved a successful completion of the monetary reform in the shortest possible time.

The monetary reform carried out by the party and the Soviet government is fundamentally different both in its methods and in its results from the monetary reforms of the bourgeois state.

The monetary reforms of the bourgeois states are based on the spontaneous law of value. Methods of monetary reforms and further maintenance of the relative stability of the currency (motto policy, discount policy, etc.) are only forms of adaptation to the elements of the market. Monetary reforms are carried out there without fail with the active participation of bankers and manufacturers, in their interests.

In carrying out the monetary reform, the Soviet state relied on its economic commanding heights. Having in its hands significant stocks of goods, strengthening the monopoly of foreign trade, the state carried out planned regulation of the yen, directly setting prices for a number of essential commodities. The state also mastered the rate of gold on the market and was able to mobilise significant gold resources at its disposal.

Bourgeois states, as a rule, found themselves unable to carry out monetary reform after the imperialist war without foreign aid, which often led to the creation of dependent currencies. So, after the world imperialist war of 1914-1918, the overwhelming majority of countries (Germany, Austria, Belgium, Czechoslovakia, etc.) achieved stabilisation of their currencies only at the cost of establishing their dependence on the major imperialist powers—the victors, at the behest of

international bankers. Even such large and powerful imperialists resorted to foreign aid (from the United States) of powers like England and France.

The Soviet monetary reform was carried out without any foreign aid. Its result was the creation of a completely independent Soviet currency. At the same time, the advantages of the Soviet economic system allowed the state to carry out the reform early and immeasurably stronger than the capitalist countries managed to achieve, despite the fact that the disruption of money circulation in our country due to the war and intervention was greater than in most capitalist states.

Under the rule of the bourgeoisie, any monetary reform is carried out at the expense of the working masses, reduces their standard of living, and strengthens the power of capital. The Soviet monetary reform led to a rise in the well-being of the working people, the strengthening of the socialist elements of the economy, limitation and displacement of capitalist elements. Its result was the strengthening of the role and importance of money as an instrument of the proletarian dictatorship, the creation of a solid Soviet monetary system. Its stability was based on the rise of the country's national economy on the basis of the development of the socialist sector of the national economy and the consolidation of the alliance between the working class and the peasantry.

The transition to hard currency was of tremendous importance for the entire national economy, for the entire cause of socialist construction.

"... The success of the monetary reform is a victory in the battle against the market element...", wrote the Central Committee of the RCP (B) in March 1924.

The completion of the monetary reform created a solid foundation for strengthening planning in the economy, for accounting and control, for strengthening state regulation of trade and prices, for combating speculation and for successfully ousting the private trader from trade. The

success of the monetary reform ensured an increase in the real wages of workers and the income of the working peasantry, strengthened the economic bond and the political alliance of the working class and the peasantry.

The success of the monetary reform was one of the striking indicators that the Soviet government took possession of money—this and the instrument of the bourgeois economy, radically changed its content and purpose, turned it into an instrument of the proletarian dictatorship.

Relying on the socialist sector, expanding and strengthening it in every possible way, the Soviet state, with a whole system of measures, provided daily assistance to the poor and middle peasants, limited and displaced the capitalist elements, and directed the development of the small-scale commodity structure along the channel of cooperation. In this system, the use of money was of the greatest importance.

7. Financial Construction after the Completion of the Monetary Reform. The Role of the Budgetary System in the Struggle for the Restoration of the National Economy

“The transition to hard currency and the successful consolidation of hard money circulation open a new page in the field of economic development of the USSR, creating a solid foundation for further economic progress,” read the decisions of the XIV. Conference of the All-Union Communist Party (Bolsheviks)¹.

The successful completion of the monetary reform made

¹ “CPSU (B) in Resolutions and Decisions”, ed. 1986, Part II, p. 14.

it possible to move forward faster the restoration of the economy of our country destroyed by the war and intervention. It created one of the most important foundations for strengthening the financial might of the Soviet state. The Party launched construction work in all sectors of economic life, overcoming the resistance of the remnants of the exploiting classes in the struggle against counter-revolutionary Trotskyism and the right-wing restorers of capitalism.

In the field of tax payments in the countryside, in 1924, a complete transition was made to the calculation and collection of agricultural tax in cash, with the simultaneous transfer of the collection of tax from the People's Commissariat of Education to the Narkomfin.

Regulations on the unified agricultural tax of 1924, adopted on the basis of the directives of the Second Congress of Soviets of the USSR, regional tables of tax calculation were introduced: a tithe of sowing or arable land with a translation was taken as a unit of taxation of livestock per unit of sowing or arable land according to the established coefficients; the progression of tax rates has been strengthened.

Introduced during 1924-25, a number of changes in the agricultural tax in order to more fully cover the income of the peasantry, bring this tax closer to income tax, and increase the number of peasant farms exempted from the tax. In 1923-24, 2 percent were exempted from the agricultural tax. of all peasant farms, in 1924-25, about 20 percent, in 1925-26, 25 percent. This clearly expressed the class essence of the tax policy pursued by the dictatorship of the working class.

In the regulation on the agricultural tax of 1925, adopted on the basis of the directives of the XIV Party Conference, the norms for the conversion of livestock to arable land are changed in order to stimulate the development of animal husbandry.

To carry out such a restructuring of the agricultural tax,

it was necessary to overcome the resistance of the Trotskyite-Bukharin gang, which had dragged their agents into the financial apparatus. At the 14th Party Congress, Comrade Stalin vividly showed the treacherous tactics of the enemies of the people Kamenev and Sokolnikov—in words who shouted about “protecting the interests” of the rural poor, but in fact resisted liberation from taxes of the poor and low-powered middle peasants. The Trotskyists hoped to break the alliance between the working class and the peasantry by increasing the taxation of the peasantry, pushing the middle peasant towards the kulak, which would mean the collapse of Soviet power. A party armed with the wisdom and perspicacity of a comrade. Stalin, timely revealed and exposed the vile intentions of the enemies of the people.

At the same time, the use of taxes is increasing as one of the instruments for limiting and ousting private capital in industry and trade. Since 1924 the income tax ³ has been converted into an income tax. This tax consisted of the main tax, which was levied at fixed rates depending on the profession and social status of the payer, and an additional (progressive) tax for payers with large incomes. An additional (progressive) tax was levied on the basis of mandatory tax returns (statements of payers' income). The overwhelming majority of the payers of this tax were the capitalist elements.

At the same time, a reduction in excise taxes on a number of consumer goods (sugar, kerosene) is being carried out, the excise tax on salt is cancelled, and excise taxes are introduced on non-essential items (bread wine, perfumery and cosmetics). As a result, the share of receipts from excise taxes on items of so-called sufficient consumption (not essential) rises from 43.2 percent in 1923-24, up to 58.2 percent in 1925-26, and the share of receipts from excise taxes on consumer goods, respectively, decreased from 56.8 to 41.8 percent.

The results of the restructuring of tax payments are

especially clearly visible from the following comparison of payments by the peasantry in 1925-26 with taxes on peasants in old, pre-revolutionary Russia.

On farms with an income per consumer of 30 rubles, the percentage of tax withdrawals in pre-revolutionary Russia was 13.1%, the percentage of withdrawals by a single agricultural tax in 1925-26 was 3.5%; in farms with an income per consumer of 120 rubles, the percentage of withdrawals in pre-revolutionary Russia—4.4%, in the USSR by the agricultural tax in 1925-26—10.3%.

As these data show, taxes on the peasantry in old, bourgeois-landlord Russia were sharply regressive: the higher the income, the lower the percentage of withdrawals. On the contrary, Soviet taxes were based on progressive taxation. The party strengthened the differentiation of tax payments, overcoming the resistance of the enemies of the people—the right-wing restorers of capitalism and saboteurs of all stripes—who covered up the counter-revolutionary content of their attitudes by arguing that the increased differentiation of tax payments, increased taxation of the kulaks and NEPmen allegedly hinders the development of productive forces in the country.

Soviet taxes were used to restrict and oust capitalist elements, to strengthen the position of state enterprises and cooperatives, to help the poor and middle peasant masses, to promote such an increase in the country's productive forces that would ensure the growth and decisive preponderance of the socialist sector of the economy.

In the area of government credit and savings, a number of new loans are being issued and the network of savings banks is rapidly developing. For 1924-25, the state issued 5 internal state loans, two of them for distribution within the socialised sector of the national economy and one for placement among the peasantry.

The movement of the state debt of the USSR for the period 1922-26 is characterised by the following data:

Loans	Loan amount at par (million rubles)	The remainder of the public debt is unclaimed. percent on coupons and prizes as of October 1 (in million rubles)				
		1922	1923	1924	1925	1926
Loans in kind	66,5	2,5	27,4	0,6	—	—
Market loans	350,0	—	51,9	170,1	219,8	241,2
Loans realised in socialised farms	410,0	—	—	27,1	79,2	350,1
Total	826,5	2,5	79,3	197,8	299,0	591,3

The completion of the monetary reform created favourable conditions for the development of the savings business. The number of savings banks in 1924-25 alone increased from 4.5 to 1.4 thousand, the number of depositors—from 360 to 660 thousand, the amount of deposits—from 9.7 to 23.5 million rubles

In the field of state insurance 1924-25, characterised by the strengthening of the insurance system and the expansion of the range of insurance objects, in 1924 life insurance was introduced in 1925—insurance against accidents and the so-called guarantee insurance (compensation for losses caused to enterprises and institutions by embezzlement, waste, neglect of property, etc.). In accordance with the directives of the XIII. Party Conference, compulsory forms of insurance are limited to those types in which the poor and low-power middle peasants are most interested (insurance against fire, insurance of crops against hail and cattle against mortality). The compulsory nature of insurance made it universal and made it possible to reduce insurance premiums. Insurance was getting better and cheaper. In addition, insurance premiums for the poor have been significantly reduced or even eliminated entirely. So, for example, in 1924-25, the following were exempted from insurance payments: by. fire insurance—10 per cent, the total number of peasant farms for insurance of cattle from death—5 per cent of all peasant farms, insurance of crops against hail—10% total: the number of peasant farms.

On September 18, 1925, the Central Executive Committee and the Council of People's Commissars of the

USSR approved the on the state insurance of the USSR. Confirming the principle of the state insurance monopoly, the “Regulations” emphasised the unity of the USSR insurance organisation. No other bodies of the USSR and the Union republics, except for the State Insurance, can carry out insurance operations. Insurance rules and rates are approved in an all-Union manner, being the same for the entire USSR.

The “Regulation” allowed two deviations from this principle of strict centralisation of the insurance business: first, it was allowed to insure export and import goods not only in the State Insurance, but—by agreement with the State Insurance—and in mixed companies formed abroad; secondly, the range of cooperative insurance operations expanded somewhat, the objects of which included not only the cooperatives’ own property, but also buildings belonging to them on the basis of building rights, as well as goods transferred to them on a commission, for storage or for transportation. Cooperative insurance was produced by special cooperative organisations.

Fundamental changes are also taking place in the field of budgetary affairs. From the indicative state budgets of the period of falling currency, the Soviet state is moving to a firm state budget. The deficit in the state budget of the USSR went into the realm of history, at the same time, the need to use emission to replenish budgetary resources has disappeared completely. All this made it possible to raise the question of a deficit-free accounting of all republican and local budgets.

“Regulations on the budgetary rights of the Union and the Union republics” of October 29, 1924 established that each the union republic must be provided with income in an amount that can ensure an independent balancing of the budgets of the given union republic within the limits allowed by the union’s budget. In cases where for individual union republics such balancing turns out to be impossible, the deficit is covered by the all-Union budget.

The income base of the republican budgets has been expanded. The all-union budget included: non-tax revenues from all-union departments and union bodies of united departments; all receipts from state direct taxes, dues and duties, with the exception of deductions from them and surcharges to them for the formation of funds from republican and local budgets; without exception, all receipts from indirect taxes (excise taxes, customs duties), income from the sale of all-union state funds, state loans, etc. The following were carried out according to the budgets of the union republics: non-tax incomes according to republican bodies of united departments and according to financial estimates non-consolidated departments; receipts from direct taxes and duties established for the given republic; deductions from state direct taxes and surcharges to them, established by the Central Executive Committee of the USSR; income from republican state trade; income from the sale of republican state funds, republican loans, deductions from all-union state loans, etc.

Major changes in the structure of the budgetary system of the USSR were also introduced by the "Temporary Regulation on Local Finance" of October 29, 1924. This provision: measures, that is, partly on the national budget, partly on local budgets; 2) the list of local taxes has been reduced; 3) increased deductions from state revenues and allowances to them; 4) the system of subsidies was replaced by a system of subventions, that is, targeted allowances, which represented a shared participation of the state budget in a number of local councils' expenses (first, in relation to the salaries of workers in the lower Soviet apparatus, then, since 1925, also in relation to. expenses for social, cultural and road construction, for agricultural activities, etc.).

In order to provide support to local budgets in case of emergency needs of these budgets in additional costs, the Union republics were given the right to form a special reserve fund to help localities; the union republics could be credited to this fund up to 15 per cent from receipts to

industrial tax.

The development of local finances in 1925-26 proceeded along the line of strengthening and strengthening the lower budgets, especially the volost budgets, which corresponded to the measures carried out by the party and the Soviet government to revitalise the work of the soviets.

Back in October 1924, the Central Committee of the RCP (b), in a resolution on local budgets, indicated that exclusive attention should be paid to the construction of volost budgets. In June 1925, the Central Committee of the RCP (b) adopted a special resolution "On the volost (district) budgets". The Central Committee of the RCP (b) pointed out that in connection with the task of revitalising the work of the soviets in the countryside, the local budget, especially the volost budget, should play an important role. In order to fully involve the ranks of the peasantry in the direct management of the state and expand the independence of the lower cells of the Soviet apparatus in the village, the Central Committee of the RCP (b) recognised it necessary to strive for the earliest possible formation of the volost as a financial and economic unit. The earliest possible transfer of volost income sources with a feasible amount of expenditure to the disposal of volost executive committees was, according to the decision of the Central Committee of the RCP (b), the primary task of the provincial and district bodies of Soviet power in the construction of volost budgets.

This decision of the Central Committee was of great political significance. In accordance with it, the Central Executive Committee and the Council of People's Commissars of the USSR, by their decree of August 14, 1925, significantly increased the revenues of the volost budgets and expanded the list of expenses attributed to the volost budgets. The most important socio-cultural, administrative institutions and communal enterprises of the volost importance were transferred to the volost budget; the rural municipality budgets were assigned full deductions from the agricultural tax, at least 25 percent. deductions from forest incomes not

less than 50 percent from the income of state land property, the overwhelming part of the proceeds from local taxes and fees, etc. The decree of the Central Executive Committee and the Council of People's Commissars of the USSR of August 14, 1925 also laid the foundation for the allocation of independent rural budgets (with special permission in each individual case from the executive committee) and provision of budgetary rights to village councils. (In the RSFSR, this event was held earlier by the regulation on village councils on October 16, 1924).

About its importance in the restoration of the country's productive forces destroyed by the war and intervention, as well as in the preparation and deployment of an offensive against the capitalist elements, the Soviet budget system occupied one of the first places in the system of levers proletarian dictatorship. By means of taxes and non-tax methods of budgetary accumulation of funds, the Soviet state created a centralised fund of resources, protected the accumulations of the socialist economy from dispersal, regulated the incomes and accumulations of capitalist elements, and mobilised funds that the working peasantry willingly provided for socialist industrialisation. The concentration of budgetary resources in the decisive sectors of socialist construction made it possible to ensure their most efficient use. Using the budget system, relying on the socialist sector of the national economy, the Soviet government created a solid financial order, which contributed to the establishment of the correct work of the Soviet state in all sectors. The consolidation of Soviet finances was achieved not only without any foreign aid, but, on the contrary, under the conditions of a financial blockade.

In the first period of NEP, the budget system was extremely important as a lever of socialist planning. The predominance of the small-scale commodity structure in agriculture excluded the possibility of widespread use of the direct planning method. The state directed the development of agriculture, regulated its development, widely using

methods of indirect planned impact, through the market, through the pricing mechanism, through regulation income and savings. Indirect methods of planned influence also played an important role in the development of industry, although here they were of a different nature, since large-scale industry consisted of consistently socialist enterprises. The state has not yet been able to directly determine as a firm planning target for each enterprise and each economic association the size of production and sales of goods, the cost of their production. The prerequisites necessary for all this accumulated only as progress was made in the restoration of the national economy and the attack on the capitalist elements. All this, of course, did not exclude the fact that the entire national economy was developing according to the plan of the proletarian dictatorship. The essence of the matter consisted only in the fact that this planned direction of the economy was carried out less by methods of direct planning and more by methods of indirect planned influence.

Budget planning played a major role in the planned management of the development of the national economy, which facilitated the coordination of individual sectors of the national economy. Budgetary methods of accumulating funds and budget financing were used as a powerful weapon of planned impact. In the process of drawing up and executing budget plans, the activities of economic organisations were checked; specific tasks were established for their obligations to the budget and their use of funds allocated by the budget.

The successful completion of the monetary reform was of great importance here.

The growth of state budget resources and their direction are characterised by the following data (in million rubles):

	1923/24	1924/25	1925/26
1. Financing of the national economy	1124,0	1635,6	230,2
Including:			
a) industry and electrification	161,1	187,6	272,2
b) agriculture	71,3	208,4	209,2
			256

c) transport and communications ¹	811,9	1065,8	1543,6
2. Social and cultural events.	119,0	172,9	249,4
3. Management and defence	667,9	678,3	938,4
4. Expenditures on government loans	75,1	69,6	122,6
5. Funds transferred to local budgets	128,8	262,9	390,7
6. Other: expenses	183,4	123,4	80,8
 Total expenses	 2298,2	 2942,7	 4,012,1
 Excess income over expenses.	 —	 32,7	 15,8
 Balance	 2298,2	 2975,4	 4027,9

In 1922-23, the expenditures of the unified state budget amounted to 1.5 billion rubles, revenues (without issue)—1.1 billion rubles. About 400 million rubles of the total cost was covered by the issue of paper money. In 1924-25, state budget revenues exceeded expenditures by 32.7 million rubles, and in 1925-26—by 15.8 million rubles. In 1925-26, the budgets of the Union republics were executed with an excess of revenues over expenditures in the amount of 120 million rubles. these budgets had a deficit of 115 million rubles, covered by subsidies from the all-Union budget.

For three years (1923/24—1925/26), the state budget has accumulated and channelled over 9.3 billion rubles for the needs of socialist construction. The bulk of these funds (58.6 percent) was used to finance the national economy, and the proportion of these costs in the total budget expenditures was constantly increasing from 48.9 percent to 48.9 percent, in 1923-24 it rose to 55.4 percent, in 1925-26 this direction of funds fully corresponded to the tasks of the struggle for the restoration of the national economy. In addition to the large expenditures on the maintenance and construction of transport and communications, which were then still on the estimated budget financing, the state budget allocated

¹ Transport and communications were carried out according to the budgets with full amounts of income and expenses.

significant sums for that time to finance industry and agriculture. These funds were used to create and replenish their own circulating assets of state-owned enterprises, finance the construction of electrification, and provide powerful support to the rebuilding peasant economy.

Despite the need to economise decisively on everything in order to “concentrate resources on financing the restoration process, the state nevertheless found significant funds to finance social and cultural activities. Total expenses for these goals for the three years under consideration (if we also take into account the funds transferred from the state budget to local budgets, which were mainly spent on cultural construction) exceed 1.4 billion rubles. A significant part of these costs went towards financing the universal compulsory primary education introduced by the Soviet government.

Consistent implementation of the directives of the Party and the Soviet government to reduce and reduce the cost of the administrative and economic apparatus was reflected in the decrease in the share of administrative expenses (from 29 to 23.4 percent) together with defence spending.

The above ratios in the composition of expenditures (a large share of expenditures on financing the national economy and on social and cultural expenditures) clearly characterise the fundamental differences between the Soviet state budget and capitalist states budgets.

The state budget of the USSR is the main financial plan and at the same time the centralised fund of the resources of the Soviet state, directed to the needs of expanded socialist reproduction. Through him, the state exerts a powerful influence on all areas of political, economic and cultural activity.

The data on page 166 show that the state budget has provided tremendous and increasing support to local budgets. For three years (1923/24–1925/26) more than 182 million rubles were transferred from the state budget to local budgets, not counting state revenues directly credited to local budgets. This contributed to the rapid growth of local

budgets, which fully corresponded to the tasks of developing the economic initiative of local councils. Local budget revenues increased from 290 million rubles in 1922-23 to 1285 million rubles in 1925-26.

The main direction of funds from local budgets is characterised by the following table (in million rubles):

	1922/23	1923/24	1924/25	1925/26
Financing of the national economy	823,2	103,5	166,8	262,3
Socio-cultural expenses	102,4	235,5	355,5	496,5
Control	54,4	143,0	258,6	360,8
Other expenses	40,5	40,9	70,8	92,6
Total expenses	279,5	522,9	851,5	1212,2

The decentralisation of the economy, carried out by the party and the Soviet government, in accordance with the tasks of socialist construction (the transfer of a number of enterprises and functions of organisational and economic leadership to local councils) and a large increase in the lower budgets, the development of which the party (as already indicated above) paid special attention to, determined a sharp change in the share of individual links in the local budget system. The share of city budgets increased from 81.4 percent in 1923-24, up to 43.7 percent. in 1925-26, and the proportion of volost and rural budgets, respectively, from 8.5 to 22.5 percent.

The budgetary system played a very large role in the creation of the credit system and the system of state insurance through the formation of the initial fixed capital of the State Bank, some other banks and State Insurance at the expense of the state budget.

8. Construction of the Credit System and Its Role in the Fight for the Restoration of the National Economy

The XI. Party Congress emphasised that the development of internal and external trade cannot be sufficiently successful without the assistance of credit, the regulation of which should be in the hands of the State Bank.

Along with the organisation of the State Bank, there was a need to create a number of other credit institutions. This was due to the need:

1) attracting to the fullest extent all free funds of cooperation and the population for lending to the economy; State Bank alone could not cope with this huge task; this task could be solved only by using various methods of attracting funds (deposits, current accounts, shares, the formation of share capital, etc.);

2) the most complete accumulation of temporarily free funds of state enterprises; this task could be successfully solved provided that the forms and methods of raising funds were differentiated in relation to different sectors of the economy, and the solution of this problem also required a good knowledge of the state of finances of enterprises in all sectors of the national economy;

3) Careful consideration of the peculiarities and conditions of activity of individual enterprises and branches of the economy, and thus forms and methods of lending.

The resolution of the XI Congress of the RCP (b) stated: "The creation of subsidiary credit institutions controlled by the State Bank and facilitating the concentration of free funds for productive use, as well as the creation of a network of small institutions (credit cooperatives) and local credit, should take place within the limits that do not violate the dominant the role of the State Bank"¹.

¹ "CPSU (B) in Resolutions and Decisions", Part 1, pp. 421-428.

The creation of a system of agricultural credit with its primary link, credit cooperation, should have been especially important. The agricultural credit system had to ensure the involvement of free funds of the peasantry in credit circulation. She was the conductor of financial assistance from the state to the poor and middle peasant masses of the peasantry, supported them in the fight against capitalist elements.

The organisation and development of credit cooperatives and the entire system of agricultural credit was one of the measures for the implementation of the Leninist-Stalinist cooperative plan.

As indicated earlier, in 1920 all types of cooperative organisations were merged with consumer cooperatives, which were entrusted with the production of operations that had not yet lost their significance, which were carried out earlier by credit and loan-saving partnerships.

According to the regulation "On the means of cooperation", approved by the Council of People's Commissars on June 26, 1921, the means of cooperation were to be formed: from the resources of the members of the cooperation and persons and organisations serviced by cooperatives (entrance fees, shares, advances, deposits), from the income of cooperatives (charges on the cost of operations performed, fees for commission operations), from benefits from the state and from amounts received through credit operations. Financial assistance from the state to cooperative organisations in accordance with the "Regulations" was provided by issuing them short-term and long-term loans from the cooperative department of the People's Commissariat of Finance and its local authorities. When issuing loans were to be taken in. attention, in a number of other indicators, "the strength and correctness of the organisation of financial affairs" and "the ratio between own and borrowed funds" of the cooperative.

Already in this “Regulation”, the dependence of the financial support of the state on the degree of attraction of funds from members of the cooperative was established in order to stimulate the involvement of free funds of the population in cooperative circulation.

In the order of the Council of People’s Commissars “On the implementation of the beginnings of a new economic policy” it was indicated that in a number of measures aimed at raising the stability of the ruble, it is necessary to pay attention to the opening of savings and loan banks and the expansion of credit cooperation.

The XI. All-Russian Congress of Soviets recognised the need to organise “long-term agricultural credit through state, cooperative and mixed credit institutions and partnerships with broad government support” and instructed the Council of People’s Commissars to “consider and approve the relevant regulations and the charter of the Central Bank for Long-Term Credit” within a month.

The beginning of the formation of the agricultural credit system was laid by the decree of the All-Russian Central Executive Committee and the Council of People’s Commissars dated January 24, 1922 “On credit cooperation”. By this decree, all citizens of the Soviet Republic were granted the right “... to form credit and savings and loan cooperative partnerships to provide their members with preferential loans to meet their economic needs, to systematically and expediently pool the funds of individual members of the partnership in order to meet larger economic needs, for the acquisition of inventory, materials, raw materials and items of equipment required in the industries and farms of the members of the partnerships, and for mediation in the sale of the products of labour of the members of the partnerships.”

Thus, one of the fundamental tasks of the creation and development of credit cooperation was the task of organising mutual assistance between the poor and middle peasants’ farms and handicraftsmen, mobilising the funds of the

peasantry themselves and the handicraftsmen themselves for the utmost acceleration of the development of agriculture and handicraft industry in the fight against kulaks, usurers and private traders. ...

The creation and strengthening of credit cooperatives, supported by the Soviet state, ensured success in the struggle of the working peasantry and artisans against the usurers. Accumulated by credit and loan-saving cooperative partnerships the funds were in addition to those resources that were allocated by the state to poor and low-power middle peasants in the form of state agricultural loans. State agricultural credit was one of the most important forms of financial support from the working class to the peasantry to create and strengthen a new cooperative system: in the countryside.

The necessity and importance of organising cheap agricultural credit were repeatedly noted by Lenin and Stalin, and were emphasised in the decisions of the party and the decrees of the Soviet government.

“Every social system,” Lenin pointed out, “emerges only with the financial support of a certain class. There is nothing to remind of those hundreds and hundreds of millions of rubles that the birth of “free” capitalism cost. Now we must realise and put into practice that at the present time the social system that we must maintain in excess of the usual is a cooperative system. But it must be supported in the real sense of the word, that is, it is not enough to understand this support as support for any cooperative turnover, “under” this support it is necessary to understand support for such a cooperative turnover in which the real masses of the population really participate”. “... a number of privileges, economic, financial and banking, cooperation—this should be the support by our socialist state of the new principle of organising the population.”¹

¹ V. I. Lenin, *Works*, vol. XXVII., pp. 393-394.

The main ways of developing the system of agricultural credit in accordance with the instructions of V. I. Lenin were outlined by the XII Congress of the Party. The resolution of the congress "On the work of the RCP in the countryside" indicated that agricultural credit is being organised in order to restore agriculture and provide assistance to the emerging socialist economy in the countryside, that the development of agricultural credit is of exceptional importance for the struggle to free the poor and middle peasants of the countryside from their dependence on fists.

Noting, further, the increase in the hiring of horses and the rent of equipment in the countryside, the congress emphasised that "The main creditor of the small peasant is his more prosperous neighbour. The patriarchal forms of horse and inventory loans cannot, of course, change its economic essence. On the basis of economic dependence, the well-to-do are also given the opportunity to politically subordinate the low-powered elements of the peasantry to them. Hence the enormous importance of the question of creating such state and cooperative credit, accessible to small and smallest peasants, which could wedge itself into the economic relations of the peasantry against the kulak. State management of all types of credit to peasants is necessary in order to raise peasant economy and ensure the rational use of credit in the interests of the peasants ..."

"The organisation of credit for low-moored elements of the peasantry should be given the maximum possible financial resources and party forces. It is necessary to attract to the organisation of agricultural credit and funds from the more prosperous elements of the peasantry, since this form of attracting funds from the more prosperous elements of the peasantry is politically less harmful than direct credit to their underpowered peasantry. The apparatuses of state and cooperative agricultural credit should successfully compete with the usurious credit of the well-to-do: peasant or merchant in terms of flexibility and variety of forms of credit

and terms of payment”¹.

The XIII. Party Conference also paid great attention to the issues of agricultural credit. The resolution of the conference indicated that “Soviet power can and should come to the aid of the peasantry by strengthening its circulating assets by: a) organising a cheap agricultural loan (organisation of the Agricultural Bank); b) providing the peasantry on a preferential loan agricultural tools and machines; c) support for rural cooperatives, etc. In all its measures in relation to the peasantry, the Party must proceed from the need for all-round assistance to the poorest and middle strata of the peasantry, in particular to associations for social cultivation of the land, in order to free them from the kulak domination. At the same time, special attention should ‘be paid to ensuring the interests of backward peoples in certain outlying regions and republics”²

Despite the urgent need of the state for funds to restore and strengthen industry and transport, the Soviet government already in 1922 released over 15 million rubles to the peasantry, as a loan for the purchase of the necessary means of production. in gold terms, in addition to helping the peasantry in the supply of seed material and in the fight against agricultural pests and cattle diseases.

Initially, this loan was issued through the State Bank. But the large number of individual organisations of credit cooperatives (credit and savings and loan cooperatives) “made it difficult to manage their activities and control the correct use of funds.

Therefore, in accordance with the instructions of the 10th All-Russian Congress of Soviets, in order to unite and manage the work of credit and savings and loan cooperatives, a network of local agricultural banks, the so-called agricultural credit societies, began to be created in

¹ “CPSU (B) in Resolutions and Decisions”, Part I, p. 517, Partizdat, 1936.

² Ibid., p. 541.

December 1922. By the founders of these banks (societies) were the State Bank, People's Commissariat for Land and Vseobank (All-Russian Cooperative Bank). In accordance with the task of attracting funds from the population itself - members of credit and "court-saving partnerships" - the capital of banks (societies) of agricultural "economic credit was made up of the founders' shares, covered by the founders (ie, the State Bank, People's Commissariat for Land and Vseobank), and from peasant shares, placed between member peasants and clients of agricultural credit societies.

In building the agricultural credit system, we had a close combination of state and cooperative principles. The state participated in this matter with its own funds, directed the work, and regulated the activities of the agricultural credit system. Members of credit cooperatives and cooperative bodies also participated with their own funds in the formation of capital in the agricultural credit system. Management of credit and loan-saving partnerships was built on a cooperative basis, carried out by elected bodies. On the whole, this combination of the state and cooperative principles ensured the maximum strengthening of the regulatory role of the state and the maximum expansion of the initiative of the peasantry—members of cooperatives—in the development of the agricultural credit system. This combination of the state and cooperative principles under the leadership of the state was expressed in the organisational structure of the agricultural credit system.

In 1923-1925, to unite and manage the work of all agricultural credit societies (local agricultural banks) located on the territory of each Union republic, special republican agricultural banks are formed, and in 1924, on the basis of a resolution of the Second Congress of Soviets, the Central Agricultural Bank of the USSR is organised. The creation of the Central Agricultural Bank completes the organisational structure of the agricultural credit.

Thus, the agricultural credit system consisted of credit and savings and loan associations ("nizovka"), agricultural

credit societies (local agricultural banks), special republican banks of agricultural credit and, nakonen, from the Central Agricultural Bank of the USSR as link leading the entire system.

The successful completion of the monetary reform and the rise of the peasant economy strengthened the basis for the development of the agricultural credit system. At the same time, the role of this system also increased. The XIII Party Congress pointed out that among the measures carried out by the Party in strengthening the connection between town and country, agricultural credit. should take one of the central places. The task of developing a grassroots network of agricultural credit demanded special attention.

“It is,” said Comrade Stalin in his report on. outcomes of XIII. Congress of the RCP (b),—not only about the central agricultural bank or even about the provincial committees of agricultural credit. It is mainly about organising a grassroots network of credit cooperatives in counties and volosts, it is about democratising credit, making agricultural credit available to the peasant, replacing the onerous credit of the usurer with cheap credit from the state, and driving the usurer out of the countryside. This is the most important question of our entire economy, without “its resolution” “it is impossible to have any solid bond between the proletariat and the peasantry.”¹.

The development of grassroots credit cooperatives and the strengthening of the entire system of agricultural credit were supposed to ensure a more complete accumulation of the funds of the peasantry.

“Indeed, if in our localities, counties and parishes a wide agricultural network will develop. credit and related institutions will enjoy the prestige of the peasant. the masses, the peasantry will not only take from the state, that is, these institutions will have not only active ‘operations, but the

¹ J. Stalin, *On the Results of the Congress of the RCP (B)*, Pravda, No. 136 of June 19, 1924

peasantry will still give there, that is, there will also be passive operations. It is not difficult to imagine that with a favourable turnover of affairs in grassroots credit institutions, the latter can turn into a source of such solid assistance to the state from the multimillion peasantry, with which no external loan can be compared.”² .

Results of the development of the grassroots network of credit cooperatives in 1924-1926, characterised by the following indicators:

Number of credit partnerships	On October 1		
	1924	1925	1926
The number of members in them (in thousands)	6774	8566	9114
Consolidated Balance of Grassroots Credit	1443	3135	4366
Cooperation(in million rubles)	85,9	261,1	352,3

As these data show the development of credit cooperation in 1924-1926 characterised by a significant consolidation of credit partnerships. The number of members on average per one credit partnership has risen from 213 people, on October 1, 1924, up to 479 people on October 1, 1926, the average size of the balance sheet per partnership increased, respectively, from 12.7 to 38.6 thousand rubles. By 1926-27, about one fifth of the total numbers of poor and middle peasant farms were members of the credit cooperatives.

The system of agricultural credit was supposed to provide the poor peasant masses of the peasantry with affordable, cheap long-term credit and thus play a big role in the development of the village.

In February 1925, the Central Committee of the RCP (B) adopted a special resolution on state farms, in which it pointed out the need to provide state farms with a bank, constantly renewing credit to strengthen and expand the

² Ibid.

fixed assets of state farms. The XIV. Party Conference in its resolution “*On Cooperation*” pointed out that it is necessary to strengthen lending to collective farms.

Through the system of the Central Agricultural Bank, the state during 1923/24–1925/26 sent about 400 million rubles to agriculture in the form of crediting. The growth of agricultural loans over these years is characterised by the following data (in million rubles):

	On October 1			
	1923	1924	1925	1926
Total amount of debt under the TSShbank system	8.1	69,4	237,7	406.2
Including:				
a) By timing;	0.5	15,2	77,7	156,0
1 Long-term loans	7,6	54,2	160,0	250,2
2. Short-term				
6) In the direction of funds:	3,5	62,3	212,2	331,0
1. Industrial lending	4,6	7,1	25,5	75,2
2. Financing of sales ¹				

As these data show, the share of long-term loans increased from year to year, and most of the funds were issued for production purposes—for the purchase of machines, seeds, fertilizers, etc.

Of 331 million rubles, debts to the system of the Central Agricultural Bank for production credits on October 1, 1926, the debts of socialised farms (collective farms, cooperatives, state farms, etc.) amounted to 118 million rubles (against 56 million rubles on October 1, 1925), and the indebtedness of individual peasant farms—213 million rubles (against 156 million rubles on October 1, 1925 tons).

This direction of funds was most consistent with the tasks set by the party and the Soviet government for the agricultural credit system: labour productivity, strengthening

¹ In addition, the State Bank provided a large loan for the procurement of agricultural products.

the economic independence of the poor in relation to the kulaks.

The implementation of the NEP posed important and responsible tasks for the consumer cooperation. "Consumer cooperation—pointed out, and the XII. Party Conference," uniting workers and peasants and directly performing the tasks of commodity exchange between town and country, is the broadest arena for the implementation of the economic union of workers and peasants"².

Consumer cooperatives were to play a major role in ousting private capital from trade, in the fight against speculation. In carrying out this responsible task, the cooperation relied on the powerful support of the Soviet state, expressed in preferential lending to cooperatives by the state industry, in providing cooperation with the best assortment of goods, in providing it with large tax benefits, as well as benefits for state insurance, etc.

Relying on this systematic and all-round support of the Soviet state, consumer cooperatives, at the same time, had to widely organise the mobilisation of funds from the population united in cooperatives, using these funds to develop their economic activities. This mobilisation of funds was carried out in the form of share contributions from members of the cooperation, advances for the purchase of goods, etc. Based on the task of the most complete accumulation of resources of cooperation and the cooperative population, as well as the best credit services to cooperative organisations, the Central Executive Committee and the Council of People's Commissars on February 6, 1922 adopted a resolution on the organisation of the Bank of Consumer Cooperatives (the so-called "Pokobank") in the form of a cooperative partnership with the participation of the State Bank.

While accepting funds for deposits and current accounts

² CPSU (B) in Resolutions and Decisions, Part I, p. 460.

from all enterprises, institutions and individuals, PNokobank initially limited itself to lending only to consumer cooperation organisations—its shareholders. The development of other types of cooperation required expanding the scope of Pokobank's activities, including all other types of cooperation among its shareholders and regular customers. In February 1923, Pokobank was transformed into the Vsecobank—the All-Russian Cooperative Bank, whose members were cooperative organisations of all types. In Ukraine, in May 1922, the All-Ukrainian Cooperative Bank (Ukrainbank) was accordingly created.

The reorganisation of Pokobank into Vsecobank contributed to the growth of its operations. The balance of this bank grew from 2.5 million rubles. on January 1, 1923 up to 36 million rubles. as of October 1, 1923, 90.1 million rubles. on October 1, 1924, 1317 million rubles. on October 1, 1925 and 116.2 million rubles. on October 1, 1926.

One of the most important tasks of the Party and the government during the transition to peaceful work to restore the national economy was the task of restoring the state industry, especially the heavy one, which constituted the basis of socialist construction. In its decisions, the Party repeatedly emphasised the need to concentrate maximum forces and resources on this task. In accordance with this, from the first years of NEP, budgetary investments in industry have been increasing; the overwhelming share of the resources of the State Bank is directed to lending to industry. However, the task of such an organisation of credit services for the industry, which would ensure the improvement of the entire activity of industry, the fullest involvement of all temporarily free working capital of industry in the intra-industrial turnover, at first turned out to be unbearable for the State Bank.

“The system of crediting industry—as the 12th Party Congress pointed out—is not only a financial and banking task, but also an essential part of the organisation and management of industry. Therefore, it is necessary that the

financing of state industry was, if possible, concentrated in one credit institution, which would be in the closest connection with the Supreme Council of the National Economy.”¹

This concentration of lending to industry was achieved by expanding the work of the Commercial and Industrial Bank (Prombank), created at the end of 1922 for lending to industry and trade. The consolidated balance sheet of this bank, which as of January 1, 1928, was 3.4 million rubles, increased to 871.5 million rubles. on October 1, 1923, 276.1 million rubles on October 1, 1924, and 541.2 million rubles on October 1, 1925.

Simultaneously with Prombank, at the end of 1922, the joint-stock company “Elektrokredit” was created for lending mainly to agricultural electrification. In 1924 this company was reorganised into Electrobank with the concentration of financing for all electrification in it. On October 1, 1925, the balance of this bank equalled 54.4 million rubles.

The development of foreign trade of the USSR required the creation of a special credit institution that would replenish the corresponding activities of the State Bank. For this purpose, in the fall of 1922, the Russian Commercial Bank (Roskombank) is organised with the attraction of foreign capital (Swedish). However, instead of facilitating the development of foreign trade with its operations, in particular, obtaining foreign loans, this bank was mainly engaged in lending to domestic trade, including private individuals. In April 1924, obligations in relation to Swedish capital were liquidated; the bank was transferred to the jurisdiction of the People’s Commissariat for Foreign Trade and was transformed into Vneshtorgbank. The balance of this bank on October 1, 1925 was equal to 143.9 million rubles.

The development of industry, the task of raising the well-being of the working people demanded increased attention

¹ “RCP (B) in Resolutions and Decisions”, Part I, p. 485.

to issues of housing and communal services. This branch of the national economy was characterised by a great backwardness in pre-revolutionary times. In an effort to squeeze out the maximum profits, the capitalists minimised the construction of dwellings for workers, limiting themselves at best to the construction of barracks-type houses—without any communal amenities. With the onset of the imperialist war of 1914-1918, capital investments in housing and communal services have almost ceased. During the years of the civil war and foreign military intervention, housing and communal services were further destroyed. As a result, despite the settlement by the workers of the houses taken from the bourgeoisie and landlords, the country experienced housing hardship, which assumed enormous proportions as industry was restored. Among the measures aimed at meeting the need for housing, the organisation of the system of public credit institutions was of great importance.

The system of communal banks, the right to organise 'of which was granted to the provincial executive committees by the resolution of the All-Russian Central Executive Committee and the Council of People's Commissars of January 18, 1923, had as its goals lending to the local communal services, providing the local population with a loan for the needs of the city construction of all types and short-term loan servicing of local state, cooperative and private enterprises. The founders of the communal banks could only have provincial executive committees. Communal banks were created in the form of mixed joint-stock companies, that is, with the participation of private capital, and in order to ensure the leading role of the state, in addition to a special procedure for approving statutes and monitoring the activities of credit institutions, it was specifically indicated that at least 51 percent shares must belong to the provincial executive committee. Banks issued loans primarily to local departments of communal services (with the permission of the provincial executive committees)

and construction and housing and rental cooperatives. Lending to private developers, as a rule, was conditional on their acquisition of bank shares. Later, with the development of state and cooperative housing and communal construction, private capital from communal banks was completely ousted.

In 1925, the system of communal banks was headed by Tsekombank. The entire system of communal credit was widely used by the Soviet state for the development of workers' housing construction.

Allowing the activity of the capitalist elements at the first stage of NEP, the Soviet state systematically limited it. The largest role in limiting and ousting capitalist elements was played by the credit system of the Soviet state, which directed resources through preferential lending to state enterprises and cooperatives. One of the forms of state control over the capitalist elements in order to limit them was the admission; at the first stage of NEP, of the organisation of private credit institutions—the so-called mutual credit societies.

Mutual credit societies were founded by private traders and industrialists. The enormous amount of interest charged by private traders and industrialists for loans they provided to each other had a disorganising effect on the development of trade, inflating the prices of goods. The organisation of mutual credit societies was to undermine usury by providing credit to private enterprises at a lower interest rate than the interest charged by individual private traders and industrialists.

The Soviet state exercised the strictest control and supervision over the activities of mutual credit societies. For the organisation of mutual credit societies, in each individual case, the permission of the People's Commissariat of Finance was required. The People's Commissariat for Finance and the State Bank were supposed to monitor and regulate the activities of these societies on a day-to-day basis. The People's Commissariat of Finance, approving the charter of each mutual credit society, established the maximum amount

of credit that could be provided to members of the society, the maximum amount of interest that the society could charge for loans. The People's Commissariat for Finance audited the activities of mutual credit societies and had the right to compulsory liquidation of the society, in particular in the case when the activities society promoted speculation.

Thus, allowing the organisation of private credit institutions, the state not only retained, but also strengthened in its hands all the levers and methods of regulating the activities of private households.

The creation of the credit system and the development of its activities to a great extent contributed to the development of commodity circulation, strengthening of the regulation of trade and monetary circulation by the state. The organisation of the system of non-cash payments was of the greatest importance in this respect. At the same time, in contrast to the previous period, the obligatory production of non-cash payments was now established only for state enterprises and institutions for their payments to each other. As for cooperative organisations and individuals, settlements of Soviet institutions and enterprises with them had to be made by agreement with the recipients of funds—either by transfers to the recipient's current accounts or in cash without limiting the amount. At the same time, the State Bank was charged with the obligation not only to carry out settlements between state enterprises and institutions, but also to stimulate the development of non-cash payments in the entire national economy in every possible way. To facilitate settlements, departments of mutual settlements were created at the institutions of the State Bank. In addition to banking settlements, the circulation of bills was also important in the implementation of non-cash payments between economic organisations and enterprises.

As pointed out by the April (1926) plenum of the Central Committee of the All-Union Communist Party (Bolsheviks), in the early years of NEP, the focus of economic policy was the task of the fastest restoration of agriculture as a starting

point for combating economic disruption in the city and countryside, creating a raw material and food base for the development of industry and market for the sale of its products.

The restoration of industry and agriculture could be mainly carried out without large capital investments only on the basis of the restoration and use of old fixed assets. The main task was to increase the working capital of enterprises and business organisations. The overwhelming part of savings was left at the disposal of enterprises and was not accumulated by the budget; At the same time, the conditions of the first years of NEP required the granting of broad rights to enterprises and economic organisations in the field of manoeuvring funds, which determined one of the features of the first period of NEP—the predominance of credit resources over budget resources in funds allocated to finance the national economy. In 1922-23, the state and local budgets allocated 317 million rubles to finance the national economy (excluding the branches of transport and communications), and the credit system—541 million rubles. In 1925-26, the budgetary system allocated 949 million rubles to finance the national economy (excluding transport and communications), and the credit system—3,418 million rubles. The budget could bear only the most necessary expenses for financing the national economy. The satisfaction of the growing needs of the economy for circulating assets could take place only with the widespread use of credit methods of redistribution, that is, the accumulation of temporarily free funds of some economic organisations, as well as the population, and the transfer of these funds for temporary use to other economic organisations.

The growth of the network and the increase in the volume of operations of credit institutions in 1923/24—1925/26, characterised by the following data:

	Number of credit institutions		Number of operating units		Balance sheet total (in million rubles)	
	1923	1926	On October 1		1923	1926
1. State Bank	1	1	251	484	836,5	3560,2
2. Prombank, Vneshtorgbank, Electrobank	2	3	40	98	115,2	791,5
3. Cooperative banks	2	2	57	99	47,4	230,5
4. Agricultural credit system	26	72	75	214	16,6	1018,0
5. The system of communes. credit	13	50	39	223	58,7	730,8
Total	44	128	462	1118	1074,4	6331,0
6. City pawnshops	4	27	4	27	0,9	11,7
7. Islands of mutual credit	84	284	54	284	7,1	93,2
Total without savings banks	102	439	520	1429	1082,4	6435,9
Including						
a) banks all-union values.	4	7	319	627	987,7	4959,0
6) rep. and reg. banks.	14	18	87	241	71,5	883,9
c) local credit institutions	84	413	114	560	23,2	593,0

The consolidated balance sheet of credit institutions increased from 1,082.4 million rubles on October 1, 1928 to 6435.9 million rubles on October 1, 1926, that is, almost 6 times. Dominant position in the credit system, in accordance with directives of the XI. Party Congress, was retained by the State Bank. As of October 1, 1926, the State Bank accounted for one third of the number of operational units and more than half (56.2 percent) of the total balance sheets of all banks of all-Union, republican and regional significance.

The dynamics of the main items of the consolidated balance sheet of credit institutions can be seen from the table on page 180 (in million rubles):

	1923	On October 1		1926
	1924	1925		
Balance sheet (without primary credit cooperative system and without interbank and inter-office settlements)	838,1	1750,5	3417,4	4356,2
Including:				
Asset				
1 Cashier and values	250,1	498,8	696,3	654,7
2. Accounting and loan operations	541,1	1159,0	2,491,9	3,417,9
Of these:				
a) promissory notes	156,3	460,8	1106,7	1563,5
b) half-goods	146,8	212,3	395,3	394,6
c) target loans	61,6	200,7	458,2	564,3
d) special funds at the expense of third-party funds	131,8	206,1	300,5	480,1
Passive:				
1. Emission	235,0	521,9	946,6	1121,0
2. Own funds	156,5	326,6	626,4	897,1
3. Raised funds	372,7	780,6	1650,7	2029,2
Of these: deposits, current accounts and deposits	228,4	537,0	1261,6	1410,0

With an increase in the consolidated balance sheet (without primary credit cooperation and without interbank and inter-office settlements) for the period from October 1, 1923 to October 1, 1926, accounting and loan operations (asset) increased by 6.3 times by 5.2 times, the balance of deposits, current accounts and deposits (liabilities)—6.1 times. This testifies to the strengthening of the role of the credit system as a tool for accumulating free funds and directing them to lending to economic turnover.

The composition of accounting and loan operations has changed dramatically. The share of sub-commodity

transactions in them decreased from 27.1 percent. in 1923 up to 11.5 percent in 1926, the share of bill transactions (accounting for bills) increased from 28.9 to 45.7 percent, and the share of targeted loans rose from 11.4 to 16.5 percent. This change in the composition of accounting and loan operations is directly related to the successful completion of the monetary reform. Particularly indicative in this respect is the decline in the role of commodity transactions, the development of which before the monetary reform was due to the desire of banks to protect their funds from depreciation.

By the end of the period of struggle for the restoration of the national economy, long-term lending operations began to increase in the operations of branch banks. In this regard, the share of the State Bank in the total amount of accounting and loan operations of the entire credit system decreased (from 59.6 percent as of October 1, 1924 to 47.1 percent as of October 1, 1926). However, the share of the State Bank in short-term loans increased, constituting on October 1, 1926, 57.3 percent. The work of the former was of great importance in the implementation of its leading role by the State Bank. under the board of the State Bank, the Committee on Banking Affairs and the operations carried out by the State Bank for the rediscounting of bills recorded by the branch banks.

The creation of the credit system and the development of its work played an important role in ensuring the successful development of socialist construction. In the conditions of the Soviet economy, banks are part of the state apparatus. Their functions and purpose are determined by the tasks of the dictatorship of the working class. Exercising a monopoly of credit, the Soviet state used the credit system for the accumulation and redistribution of funds, for the organisation and implementation of monetary settlements, for ruble control over the course of implementation of production plans and circulation of goods.

The credit system accumulated temporarily free funds,

savings and savings by attracting them for storage to accounts and deposits and sent them to enterprises and economic organisations for temporary use, that is, for a certain period, with the obligation to return after a specified period. This redistribution of funds was of tremendous importance in the struggle to restore the national economy at the fastest pace. It allowed free funds of economic organisations, institutions and the population to be drawn into circulation, transferred for use to state and cooperative organisations, poor and middle peasant farms. The acceleration of the turnover of funds achieved by this was in favour of socialism, to the detriment of capitalism. It made it possible to expand the production and circulation of goods, relatively reduced the total of the national economy of the need for working capital.

This role of credit was strengthened as a result of the implementation of settlement and control functions by banks. The concentration of settlements in credit institutions led to an increase in non-cash turnover, reduced the necessary cash holdings of economic organisations and institutions, accelerated and facilitated the very settlements and the workflow associated with it. Development of cashless payments in a hard currency contributed to the strengthening of the Soviet ruble.

Carrying out crediting and settlements, the credit system stimulated the improvement of accounting and reporting in enterprises, economic organisations and institutions, the growth of the socialist profitability of enterprises and organisations of the socialised economy, the strengthening of cost accounting, the introduction of planned discipline.

The 15th Conference of the CPSU (b) indicated that

“The main results of the restoration process are ensuring the leading role of the commanding economic heights in the hands of the proletariat, while reaching the pre-war size of

industrial and agricultural production, railway transport, achieving the predominant role of cooperation and state trade in the field of commodity circulation, the establishment of a hard currency and the construction on a new basis of the credit system”¹.

In 1925, by the end of the restoration period, agriculture was already producing 87 per cent of the pre-war production, and industry, about three-quarters of pre-war industrial production. Major successes were achieved in the fight against private capital in B and in trade.

“The economic upsurge brought with and further improvement of the situation of workers and peasants. The growth of the working class was rapid. Wages have increased. Labour productivity has risen. The material position of the peasants has significantly improved. The slave-peasant state was able in 1924-25 to provide assistance to the low-power peasantry up to 290 million rubles. On the basis of the improvement in the situation of the workers and peasants, the political activity of the masses increased greatly. The dictatorship of the proletariat was strengthened. The authority and influence of the Bolshevik party has grown.”¹.

Finance played a major role in solving the problems of restoring the national economy, in strengthening and strengthening the economic heights of command in the hands of the proletariat.

The financial system was of great organisational importance. The successful implementation of the monetary reform created a solid basis for strengthening cost accounting and ruble control. Budgetary and credit levers were used to replenish the working capital of enterprises and organisations in the socialised sector, to strengthen financial support for industry and agriculture (cooperatives, the rural poor and middle peasants), and to limit and displace

¹ “CPSU (B) in Resolutions and Decisions”, Part II, pp. 124-125.

¹ “History of the CPSU (B) Short Course”, p. 259.

capitalist elements.

Already during this period, everything possible was done to increase the fixed assets of the industry. Even at the beginning of the transition to peaceful construction, the Soviet government put forward ambitious tasks for the restoration and reconstruction of the national economy. These tasks found their expression in the GOELRO plan, designed for 10-15 years, which was supposed to transform the face of the country. The GOELRO plan meant the technical re-equipment of the national economy based on the electrification of the entire country. In connection with this plan, Lenin at the end of 1920, at the US All-Russian Congress of Soviets, he put forward his famous slogan: Socialism is Soviet power plus the electrification of the whole country.”²

While restoring its economy, the country accumulated the necessary funds to finance the development of heavy industry, which is of decisive importance for all economic construction. At the 1st Congress of the Comintern, V. I. Lenin said:

“Heavy industry needs government subsidies. If we do not find them, then we, as a civilised state — let alone a socialist state—have perished. So, in this regard, we have taken the plunge. We have obtained the funds necessary to put heavy industry on our own feet. The amount we have raised so far, however, barely exceeds twenty millions of gold rubles, but, in any case, this amount is available, and it is intended only to raise for heavy industry”³.

At the cost of the greatest economy, the Soviet government found resources already in this period in order to begin the implementation of the electrification plan. The construction of the Volkhov hydroelectric power station

² V. I. Lenin, *Works*, vol. XXVI, p. 46.

³ V. I. Lenin, vol. XXVII, p. 349.

(opened at the end of 1926 and) was launched by others. In 1924-25, the Soviet country was already able to invest 885 million rubles in capital construction.

Under the leadership of Lenin and Stalin, during the years of the struggle for the restoration of the national economy, the Soviet government successfully used money, credit, finance to limit and oust capitalist elements, to strengthen the leading role of the socialist sector in the national economy, to strengthen the link between the city and the countryside, the union of workers and peasants to raise the material level of the working class.

“Of tremendous importance was Comrade Stalin’s exposure at the 14th Congress of the All-Union Communist Party (Bolsheviks) of the counter-revolutionary Trotskyist propositions that the monetary system of the USSR was allegedly imbued with the principles of capitalist economics.

Comrade Stalin showed that the socialist elements of the Soviet economy took possession of money to overcome the capitalist elements, that the socialist elements with p use money to build the foundation of socialism.

Comrade Stalin showed that money is mainly in the service of socialism against capitalism, to the detriment of capitalism.

This development of Lenin’s theory of money by Comrade Stalin illuminated the path of our practice and was the most important condition for further successes and victories in building the finances of the USSR.

The development of the Marxist-Leninist theory of money and the full use of the leverage of money in the service of socialism could take place only on the basis of the Leninist-Stalinist theory of the possibility of the victory of socialism. in one country, the theory that the Communist Party, under the leadership of Comrade Stalin, defended itself against all enemies of the working class.

CHAPTER VI. FINANCIAL POLICY OF THE SOVIET STATE. DURING THE PERIOD OF STRUGGLE FOR SOCIALIST INDUSTRIALISATION OF THE COUNTRY (1926-1929)

1. Socialist Accumulation and its Sources

On November 7, 1925, on the eighth anniversary of the Great October Socialist Revolution, Comrade Stalin wrote:

“I think that between the period of preparation for October, which took place eight years ago, and between the present period, eight years after October, despite all the enormous difference between them, there is still one common feature. This common feature is that both of these periods reflect a turning point in the development of our revolution. Then, in 1917, it was a question of making the transition from the power of the bourgeoisie to the power of the proletariat. Now, in 1925, we are talking about making the transition from the current economy, which cannot be called socialist as a whole, to a socialist economy, to the economy that should serve as the material basis of a socialist society.”¹.

The successful solution of the tasks of rebuilding the economy did not yet mean the elimination of the country's technical and economic backwardness. The task of creating the material basis of a socialist society and transforming the USSR into an advanced country, technically independent of the capitalist world, has not yet been solved. The task of

¹ J. Stalin, *October, Lenin and the Prospects for Our Development*. From the collection “*For the Anniversaries of the October Socialist Revolution*”, Partizdat, 1937, p. 146.

socialist remaking of the bulk of the peasantry has not yet been solved. It was necessary to carry out the reconstruction of the entire national economy on a new technical basis.

The key to the reconstruction of the entire national economy was the socialist industrialisation of the country. The challenge was to create a powerful, cutting-edge heavy industry. Without this, it was impossible to re-equip industry, to ensure the supply of agriculture with the latest technology, to transform the country from a backward, agrarian into an advanced, industrial country, to strengthen the independence and defence capability of the socialist homeland, when the internal and external situation demanded the implementation of the socialist industrialisation of the country at a rapid pace.

Comrade Stalin's instructions on the industrialisation of the country, which he developed in his report at the CPSU Congress of the All-Union Communist Party of Bolsheviks, determined the further development of the Soviet economy. The country has entered a new period—the period of the struggle for socialist industrialisation.

The creation in the shortest possible time of our own advanced heavy industry required large capital investments, in connection with which the question of the sources and rates of accumulation acquired tremendous importance. Since our country was still not rich, the solution to the problem of accumulation was one of the main difficulties. The working people of the USSR had to solve this problem without outside help, in conditions of a hostile capitalist encirclement, in conditions of the imperialists preparing for a new intervention, a new armed attack on the Soviet Union.

"History," said Comrade Stalin at a meeting of the Leningrad party activists in April 1926 "knows different ways of industrialisation. England industrialised because she plundered for tens and hundreds of years, the colony collected "additional" capital there, invested them in its industry and accelerated the pace of its industrialisation. This is one way of industrialisation. Germany accelerated its

industrialisation as a result of the victorious war with France in the '70-ies of the last century, when she took five billion indemnities from the French and poured them into her industry. This is the second way of industrialisation. Both of these methods are closed to us, for we are a country of Soviets, for colonial plunder and military seizures for the purpose of plunder are incompatible with the nature of Soviet power. Russia, old Russia, rented enslaving concessions and received bonded loans, thus trying to gradually get out on the path of industrialisation. This is the third way. But this is the path of bondage or semi- bondage, the path of transforming Russia into a semi-colony. This path is also closed to us; because it was not for this that we waged a three-year civil war, repelling all and every interventionists, so that later, after the victory over the interventionists, we voluntarily go into bondage to the imperialists. There remains the fourth path of industrialisation, the path of one's own savings for the business of industry, the path of socialist accumulation, which Comrade V. I. Lenin, as the only path to the industrialisation of our country"¹.

In the same report at a meeting of the Leningrad party leader, Comrade Stalin pointed out that the Soviet country has sufficient internal resources for the successful industrialisation of the country and that the point is only to be able to mobilise these resources and use them correctly.

The Great October Socialist Revolution created the Soviet economic system, the advantages of which in comparison with the capitalist system ensure unprecedented growth rates of accumulations while simultaneously raising the well-being of the working people.

The Great October Socialist Revolution liquidated the landlord class, expropriated the bourgeoisie, and transferred

¹ Lenin and Stalin, Collection of Works for the Study of the History of the CPSU (B), v. III, p. 59.

the main means and instruments of production to the ownership of the state.

“The Soviet state received at its disposal all the factories and plants, all the land taken by the October Socialist Revolution from the capitalists and landowners, transport, banks, foreign and domestic trade. Profits from state factories and plants, from transport, trade, banks were now spent not on the consumption of the parasitic class of capitalists, but on the further expansion of industry”¹.

This profit, formed on the basis of the growth of labour productivity and the systematic improvement of the well-being of the working people, “was supposed to constitute the main source of resources for the socialist industrialisation of the country.

The nationalisation of the land and the cancellation of the tsarist debts were of the greatest importance for solving the problem of accumulations. The cancellation of the loans contracted by the government of the Russian landowners and the Russian bourgeoisie freed the working people of our country from tribute to domestic and foreign capitalists.

“We should not forget,” comrade Stalin pointed out, “that if we were to abandon these debts, we would have to pay annually several hundred million percent alone, to the detriment of industry, to the detriment of our entire national economy. Needless to say, this circumstance has brought great relief to the work of our accumulation”².

The abolition of landlord ownership of land, the nationalisation of all land carried out by the Soviet government, freed the peasantry from the annual payment of land rent in the amount of about 500 million rubles to landlords. gold.

¹ “*History of the CPSU (B)—Short course*”, Gospolitizdat, 1938, pp. 268-269.

² Lenin and Stalin, *Collection of Works for the Study of the History of the CPSU (B)*, vol. III, p. 59.

“Having freed them from all this burden, the peasantry could help the state build a new, powerful industry. The peasants were vitally interested in obtaining tractors and agricultural machines”³.

Nationalisation of land, cancellation of loans concluded by the governments of the Russian bourgeoisie and Russian landowners, nationalisation of industry, state monopoly of foreign trade, state and cooperative trade, the credit system concentrated in the hands of the state, the state budget with its levers, mobilisation and redistribution of funds—these are the main the conditions and methods of socialist accumulation created by the proletarian revolution. The task was to transform the possibilities of socialist accumulation into real accumulation and to use it correctly. The decisive condition for this was the intensification of the offensive against the capitalist elements, the all-round strengthening of the alliance of the working class and the peasantry, the observance of the strictest savings.

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Steady growth, socialised economy and the displacement of admissible, within certain limits, capitalist elements

³ “*History of the CPSU (B)—Short Course* “, 1938, p. 269.

systematically reduced the share of the national income appropriated by the latter. As early as 1921-28, the share of the kulaks and urban capitalists in the national income was only 8.1 percent; in 1929-1930 it fell to 1.8 percent. Accordingly, the share of the national income, which forms the consumption fund of the working people and the fund of socialist accumulation, increased.

The implementation of the Stalinist plan for the socialist industrialisation of the country and, on this basis, the collectivisation of agriculture, preceded in an atmosphere of fierce class struggle, meeting fierce resistance from the capitalist elements and their agents—the Trotskyist-Bukharin gang. The subversive work of the Trotskyists, right-wing and other counter-revolutionary elements caused a lot of difficulties for the party and the Soviet state in the struggle for the socialist industrialisation of the country. The defeat of the counterrevolutionary nests of the Trotskyists and right-wing restorers of capitalism, united in one bloc of spies and saboteurs from foreign intelligence services, was one of the most important conditions for the victory of the general party line.

The Communist Party proceeded from the assumption that our country has everything necessary for the complete victory of socialism. The counter-revolutionary Trotskyite-Bukharin gang tried to undermine the confidence of the working class in the possibility of the victory of socialist construction.

Pursuing the goals of capitalist restoration, embarking on the path of underground sabotage work, these enemies of the people came out with slanderous assertions that if our state enterprises are not enterprises of a consistent socialist type, but state-capitalist; that our money, credit and finance are supposedly just a “variety” of capitalist money, credit and finance; that our monetary system is allegedly imbued with the principles of the capitalist economy; that even an institution such as the State Bank of the USSR is a state capitalist enterprise. With these statements, the enemies of

the people sought to divert the attention of the party and the Soviet government from strengthening the monetary, credit and budget system of the Soviet state, and to disrupt the strengthening of budget and credit planning. All this was intended to slow down the growth of the socialist elements of the economy, to strengthen the capitalist elements of the city and the countryside.

Comrade Stalin exposed the anti-Soviet essence of these statements. In his closing speech at the XIV. Congress of the CPSU (B), he said:

“Until now I thought, until now we all thought that the State Bank is part of the state apparatus. Until now I thought, and we all thought, that our Vneshtorg, apart from the state capitalist institutions that encircle it, is part of the state apparatus, that our state apparatus is a state apparatus of the proletarian type. Until now, we have all thought so, for the proletarian government is the sole owner of these institutions. And now, according to Sokolnikov, it turns out that these institutions, which are part of our state apparatus, are state capitalist. Maybe our Soviet the apparatus also represents state capitalism, and not the proletarian type of state, as Lenin argued? Why not? Doesn’t our Soviet apparatus use a monetary system imbued with the principles of capitalist economy”? This is how nonsense a person can agree”¹.

Having received a rebuff from the entire party, all the working people of the USSR, the enemies of the people, united in the Trotskyist-Zinoviev bloc, tried to push through their counterrevolutionary principles, hiding behind the mask of “super-industrialism”.

“In words, that is, in a platform, they spoke out in favour of the policy of industrialisation and even accused the Central Committee of the fact that it was leading industrialisation at an insufficiently fast pace, but in reality

¹ J. Stalin, *On the Opposition*, ed. 1928, pp. 213-214.

they defamed the party's decision on the victory of socialism in the USSR, mocked the policy of socialist industrialisation, demanded the surrender of a number of factories and factories to foreigners on concessions, pinned their main hopes on foreign capitalist concessions in the USSR"².

They proposed in order to allegedly increase the pace of industrialisation, anti-Soviet methods of accumulation (higher prices, increased taxation of the middle peasant, excessive emission of money), that is, they pushed on the path of a break between the working class and the peasantry.

In reality, socialist 'industrialisation' could be realised only on the basis of the economic bond between the working class and the peasantry, on the basis of their strong political alliance under the leadership of the working class. Only under these conditions could socialist industry become a powerful lever for the socialist remaking of small-scale commodity economy. Under these conditions, the development of agriculture provided a market for the sale of the products of socialist industry, and agriculture became a rich source of raw materials. To build industry while undermining the material position of the working peasantry meant depriving industry of the opportunity to develop rapidly, it meant breaking the alliance of workers and peasants.

The Communist Party, fighting under the leadership of the great Stalin for its general line, defeated the Trotskyite-Zinoviev bloc, exposed the counter-revolutionary essence of the "slogans" and proposals of the enemies of the people included in this bloc, and ensured the victory of Stalin's plan for the industrialisation of the country. As early as 1927-28, the share of industry in the gross output of the national economy had risen to 45.2 percent against 42.1 percent in the pre-war period, in 1929, it amounted to 54.5 percent. The share of heavy industry (production of tools and means

² *"History of the CPSU (B)—Short Course"*, 1938, p. 271.

of production) in all industrial production planned by the Supreme Council of the National Economy (VSNKh) rose to 42.1 percent in 1927-28 and up to 48.5 percent. in 1929 the share of the socialist sector in the output of large-scale industry rose to 98.6 percent in 1927-28 and up to 99.3 percent in 1929-30 This clearly testified to the socialist nature of the industrialisation of the country. In 1929, the industrial output of the USSR was almost twice the output of 1913.

Despite the high rates of production growth, industrial products could not fully meet the growing demand for manufactured goods. As indicated in the resolution of the XV Party Conference "On the economic situation in the country and the tasks of the Party", "One of the distinguishing features and, at the same time, one of the main difficulties of the initial stage of industrialisation is. is that the costs of capital construction will require significant stress on the national economy, while the results of new construction, that is, the products of new factories and plants, better in quality and cheaper in price, will enter the market only after a considerable period, often after several years"¹.

These difficulties were aggravated by the discrepancy between the level and rate of agricultural development and the rate of development of socialist industry. Our economy could not further develop on two equal bases: on the basis of advanced socialist industry and on the basis of backward, fragmented, small-scale agriculture.

To overcome the lag in agriculture, it was necessary. to accelerate its transition to large-scale socialist production. The 15th Party Congress passed a decision on the all-round deployment of the collectivisation of agriculture.

The expansion of collectivisation required an intensification of the offensive against the kulaks. It was necessary to break the resistance of the kulaks, to crush it

¹ "CPSU (B) in Resolutions and Decisions", ed. 1986 Part II, p. 125.

“in open battle in front of the peasantry” (“A short course in the history of the CPSU (b)”). Otherwise it was impossible to overcome the grain difficulties, otherwise it was impossible to count on the mass character of the collective farm movement. The party launched a decisive offensive against the kulak.

The right-wing restorers of capitalism, together with the remnants of the Trotskyite-Zinoviev bloc defeated by the party, took the kulak under their protection, made vile attacks on the party’s policies, the policy of socialist industrialisation of the country and the collectivisation of agriculture, trying to use the difficulties of growth for their anti-Soviet goals. The grain difficulties caused by the backwardness of agriculture and the resistance of the kulaks, these vile enemies of the people tried explain the allegedly unbearable pace of industrialisation. They proposed to reduce the construction of heavy industry - the basis of the technical and economic independence of the USSR from the capitalist countries—and focus only on a certain development of light industry. They headed for the transformation of the USSR into an agrarian appendage to the capitalist countries. Allegedly in order to ‘overcome the grain difficulties, they demanded, in the interests of the kulaks, an increase in the price of grain, the unleashing of a market element. Putting forward the slogan of ‘the peaceful growth of the kulak into socialism, on the basis of their ridiculous theory of the fading of the class struggle, they fiercely resisted the offensive against the kulaks and objected to extraordinary measures against kulak sabotage of grain procurements. They resisted the construction of state and collective farms, objected to their financing, and strove to defend the capitalist path of agricultural development.

Under the leadership of the great Stalin, the party exposed all these attempts to thwart the victorious development of socialist construction and dealt a crushing blow to the right-wing restorers of capitalism. The party was guided in this by the instructions of a comrade Stalin that the

victory of socialism can be won only with a decisive offensive against the capitalist elements along the entire front, that the difficulties experienced by the country are only temporary difficulties in growth, difficulties in the reconstruction of industry on a new technical basis and the socialist reconstruction of agriculture, and that these difficulties themselves already were the possibility of overcoming them on the basis of intensifying the offensive against the capitalist elements. Only the consistent implementation of the Stalinist plan for the industrialisation of the country and the collectivisation of the countryside economy helped to overcome all these difficulties and led to the complete victory of socialism.

The rapid implementation of the Stalinist plan for the socialist industrialisation of the country required a temporary expansion of the import of means of production. This nature of imports, creating conditions for building our own machine-building industry, ensured the strengthening and strengthening of the independence and defence capability of our homeland. The party organised a struggle to increase and for the most expedient use of the foreign exchange resources of the Soviet state in the interests of creating its own heavy industry, in the interests of the victory of socialism in the USSR.

The party in every possible way strengthened the monopoly of external irrigation: the XV. All-Union Party Conference emphasised "... the inviolability of the monopoly of foreign trade as the main prerequisite for our economic relations with capitalist countries and the development of foreign trade in a direction that most fully meets the main tasks of socialist construction."¹

The counterrevolutionary Trotskyists and Bukharinites tried in this sector to disrupt the implementation of the Stalinist plan for the socialist industrialisation of the country.

¹ "CPSU (B) in Resolutions and Decisions", Part II, p. 134.

They proposed curtailing the import of means of production for the construction of heavy industry, expanding the import of personal consumption items, weakening the monopoly of foreign trade and currency monopoly, importing grain instead of taking it from the kulak, and generally creating conditions for direct communication of the kulak with foreign capital.

These proposals were calculated to transform our country into an appendage of the world capitalist system, to defeat socialism. In 1935, at the release of the Red Army, Comrade Stalin said:

“Of course, we could have 3 billion rubles of foreign exchange earned by the most severe economy and spent on the creation of our industry—we could use them to import raw materials and increase the production of consumer goods. This is also a kind of “plan”. But with such a “plan” we would have neither metallurgy, nor mechanical engineering, nor tractors and automobiles, nor aviation and ‘tanks. We would find ourselves unarmed in the face of external enemies. “We would undermine the foundations of socialism in our country. We would be held captive by the bourgeoisie, internal and external.

Obviously, it was necessary to choose between two plans: between the plan of retreat, which led and could not but lead to the defeat of socialism, and the plan of offensive, which led and, as you know, has already led to the victory of socialism in our country”¹.

In April 1929, the 16th party conference adopted the first five-year plan for the development of the national economy of the USSR (for 1928/29–1932/33). It was a grandiose program for the technical re-equipment of industry and agriculture. Fulfillment of the volume of capital investments in the socialist economy determined according to this plan (46.9 billion rubles) ensured the creation of an industry

¹ “Comrade Stalin’s speech at the graduation of the academicians of the Red Army on May 4, 1935,” Partizdat, 1935, pp. 9-10.

capable of re-equipping and reorganising the entire national economy of our country on the basis of socialism. But this required a further development of the struggle for the growth of socialist accumulation, a further intensification of the offensive against the capitalist elements in town and country.

The main task of the first five-year plan was to build the foundation of a socialist economy. It was necessary to transform the country from a technically backward, agrarian into a powerful industrial country—to transfer small, fragmented agriculture onto the rails of large-scale collective farming and, on its basis, to eliminate the capitalist elements; to create all conditions for the maximum strengthening of the country's defence capability.

In accordance with these tasks, the financial program of the first five-year plan was drawn up. Under this program, during the first five-year plan, it was supposed to mobilise resources in the amount of 91.6 billion rubles. Of these, enterprises and organisations of the socialised economy were to give in the form of savings 70.9 billion rubles, and the attracted funds of the population were to amount to 17.3 billion rubles. The main one—56.8 billion rubles—was planned to be used to finance the resources of the national economy, including: to finance industry and electrical facilities—22 billion rubles, to finance agriculture—7.3 billion rubles, for the deployment of social and cultural construction, it was supposed to send 21.4 billion rubles: about half of them—10.4 billion rubles—for education.

The implementation of this program required great exertion of forces and energetic Bolshevik work.

2. Struggle for Intra-Industrial Accumulation and for the Regime Savings

The Soviet government and the Communist Party under the leadership of Comrade Stalin waged a tireless struggle for the implementation of the Stalinist plan for the socialist industrialisation of the country, seeking to channel all, even the smallest, savings primarily towards the construction of heavy industry.

“The rate of expansion of fixed capital,” the XV. Conference of the CPSU (B) pointed out, will depend on:

- a) on the size of the accumulation of socialised industry;
- b) the use through the state budget of the income of other sectors of the national economy;
- c) using the savings of the population by ‘involving them in cooperation, in savings banks, domestic government loans, the credit system, etc.’¹.

The conference further pointed out that “The main conditions for increasing the amount of intra-industrial accumulation are: a decisive reduction of invoices expenses, acceleration of capital turnover, all-round rationalisation of industry, application of the latest technological achievements in it, increase in labour productivity and increase in labour discipline”².

Of particular importance in the struggle for the growth of industrial accumulations was the policy of the Party and the Soviet government to reduce the prices of manufactured goods.

“In our economic system,” pointed out the February (19217) plenum of the Central Committee of the All-Union Communist Party (Bolsheviks), “the policy of lowering prices is the means by which the working class acts to reduce costs, forces economic organisations to increase their

¹ “CPSU (B) in Resolutions and Decisions”, Part II, p. 126.

² Ibid, p. 126.

manoeuvrability, encourages rationalisation production and thereby creates really healthy sources of socialist accumulation, which is so necessary to advance the industrialisation of the country”³.

The vile Trotskyist gang advocated a policy of increasing manufactured goods prices, trying to break the alliance. the working class with the working peasantry. The direct agents of the kulaks—the Bukharinites and the Rykovites—advocated giving the kulak complete freedom in setting prices. They tried to intimidate the party with the alleged “impending threat of inflation” demanded a reduction in capital investments and a refusal to build state and collective farms. The Communist Party also exposed these dastardly manoeuvres designed to disrupt Soviet currency and socialist accumulation.

Ensuring the stability of the Soviet ruble was of great importance for the success of socialist construction. The Party devoted unremitting attention to this issue. An important role in preserving and strengthening the stability of the Soviet currency was played by the accumulation of foreign exchange resources and their correct use on the path of socialist industrialisation of the country. Comrade Stalin said:

“If in 1923 we managed to move from the sovznak to a firm in foreign currency, this is, by the way, because we had then, as a result of the active balance of our foreign trade, a certain foreign exchange reserve. If we want to support our chervonets, then we must continue to arrange the matter of foreign trade in such a way that we have a foreign exchange reserve in our hands as a basis for our chervonets”¹.

The policy of lowering prices for manufactured goods was

³ Ibid, p. 161.

¹ Lenin-Stalin, *Collection of works for the study of the history of the CPSU (B)*, vol. III, p. 61.

one of the most important factors in the unshakable stability of the Soviet currency. Strengthening the alliance of the working class and the peasantry, it promoted the expansion of the peasant market for manufactured goods, the growth of the marketability of the peasant economy, and thus the expansion of the country's trade turnover. This policy helped to raise real wages, increase the welfare of the working people of the city and the countryside. It stimulated the growth of the accumulations of socialist industry, strengthened it in the struggle against the capitalist elements, promoted the growth of state and cooperative trade, and the ousting of private capital from the sphere of commodity circulation. It could and was carried out only on the 'basis of the socialist industrialisation of the country, in the struggle against the capitalist elements. The success of this policy was inextricably linked with the displacement of capitalist elements.

The decline in prices for manufactured goods was based on an increase in labour productivity, a decrease in the cost of goods and distribution costs. Only under these conditions did the policy of lowering prices lead not to a decrease in savings, but, on the contrary, to a systematic increase in savings with the growing well-being of the working people. It follows from this that the pursuit of a policy of lowering prices should have been accompanied by the development of a struggle for an increase in labour productivity, for a decrease in the cost of production and costs of circulation of goods, for the ousting of private capital. Of great importance in this matter was the struggle against all kinds of excesses in production and the distribution apparatus, the struggle for a regime of economy, which at the same time was also a struggle for the most correct and effective use of accumulations.

Comrade Stalin, in his report at a meeting of the Leningrad party activists in April 1926, especially emphasised the importance of the correct organisation of the spending of savings, pointing out that for this it is necessary to take a

number of measures, kind of excesses, theft and embezzlement, to improve labour discipline and labour productivity in every possible way.

In April 1926, the Central Committee of the Party and the Council of People's Commissars of the USSR adopted a resolution on the struggle for a regime of economy. The resolution stated that along with other measures taken by the party to strengthen socialist accumulation, it acquired the greatest importance when those conditions, the establishment of the strictest regime of savings in the costs of all, without exception, administrative, economic, trade, cooperative, banking and other institutions and organisations from the bottom to the top.

A detailed list of measures aimed at the implementation of the "tremendous economy regime was given in the decree of the Central Executive Committee and the Council of People's Commissars of the USSR of June 11, 1926" On the economy regime. "The resolution indicated the need for: a) simplifying and rationalising the structure of institutions and enterprises, abolishing all kinds of unnecessary institutions or their links, reducing staff; b) rational use of labour force, adherence to planned discipline in the area of spending wage funds; c) hard reduction of all kinds of overhead costs, the most correct, the most effective use of resources by all economic agencies and enterprises.

The tasks of saving public funds required the rationalisation of the entire economic and administrative apparatus. XV. Party Conference in the resolution "On the economic situation of the country and. tasks of the party" indicated that

"For 9 years after the October Revolution, a very complex system of organising production, distribution network, credit authorities, etc. was created. Various links of this system often grew spontaneously. The very range of their activities was determined in a completely different economic situation." And further: "The discrepancy between the system of organisation and the changed situation with its

new tasks inevitably leads to a waste of funds and an increase in bureaucracy”¹.

The Central Control Commission—RKi was held for the 15th Party Congress of significant work to reduce the state apparatus. By eliminating parallelism in the work of individual departments and institutions, many redundant subdivisions within departments and organisations were eliminated (about 150 in the People’s Commissariat for Finance, about 80 subdivisions in the People’s Commissariat for Trade, etc.); large reductions were made in all kinds of representative offices, branches of the distribution system, etc.

After listening to the report of Comrade Ordzhonikidze on the work of the Central Control Commission—RCI, XV. Congress noted the successes in the implementation of the regime of economy, some simplification and reduction of the apparatus, reduction of accountability, reduction of unproductive expenses, etc. At the same time, the XV Party Congress pointed to the need for further struggle in this direction. The Congress proposed to unswervingly continue to work on reducing the cost and simplification of the administrative, commercial, industrial and cooperative apparatus, to unswervingly fight for a mode of economy. The XVI. Party Conference also paid much attention to the issues of economy, reduction in cost and simplification of the state apparatus.

The successes of the Party and the Soviet state in the struggle to increase the accumulation of socialist industry were reflected in the growth of labour productivity, a decrease in production costs, an increase in profits, and an increase in income from the socialised economy to the state budget of the USSR. For 1925/26–1929/30 payments of enterprises and organisations of the socialist economy on income and trade taxes increased almost 11 times (from 202.2 million rubles in 1925-26 to 2218.4 million rubles in

¹ “CPSU (B) in Resolutions and Decisions”, Part I, p. 127.

1929-30); deductions from the profits of state enterprises and organisations—5.8 times (from 171.9 million rubles to 1004.5 million rubles). Revenues from excise taxes increased 3.1 times (from 841.6 million rubles in 1925-26 to 2,643.0 million rubles in 1929-1930). In fact, since decisive successes were achieved in the expulsion of private capital from industry during this period, the increase in excise receipts on goods produced by socialist enterprises was even higher.

Pointing to the growth of industrial accumulations as the first source of funds for the expansion of its fixed assets, the XV. Party Conference at the same time emphasised that "... no matter how the intra-industrial accumulation grows, it, at least over the next period, cannot be sufficient to ensure the required pace of industry development.

Therefore, the further deployment of industry will largely depend on those additional funds that will be directed to industrial construction.

One of the main instruments for the redistribution of the national income is the state budget. In the state budget of the Union, the interests of the country's industrialisation must find full expression. In the expenditure side of the budget, appropriate appropriations for industry, electrification, etc. should be provided."¹

The financial and credit system was given a combat mission—to mobilise the maximum amount of funds for the socialist industrialisation of the country and to use them most correctly and rationally.

To do this, it was necessary to: 1) to stimulate the growth of the savings of industry and trade on the basis of productivity growth, lower prices, strengthening of self-financing; 2) strengthen budget and credit methods of concentration of savings and savings in the hands of the Soviet state; 3) to promote the establishment and further the increased activity of the external trade balance of the

¹ "CPSU (B) in Resolutions and Decisions", Part II, p, 126.

country; 4) strengthen the taxation law of capitalist elements; 5) to send max funds to finance the construction of socialist industry and the financial support of the poor-middle peasants masses; 6) to strengthen the struggle for the regime of economy, the struggle against all kinds of excesses in the expenditure of public funds.

The totality of all these tasks that faced the financial and credit system in this period required a certain restructuring of budgetary and credit work.

3. Restructuring Tax Payments

The common line of the Communist Party and the Soviet government in tax policy in the period under review was to increase the taxation of capitalist elements (especially towards the end of this period), to ease taxes for the middle peasant and to completely exempt the rural poor from taxes.

Comrade Stalin pointed out that

“... the industrialisation of the country can be carried out only if it is based on a gradual improvement in the material situation of the majority of the peasantry (poor, middle peasants), representing the main market for our industry, that in view of this, such an economic policy should be pursued (price policy, tax politics, etc.), which strengthens the bond of industry with peasant farming and preserves the alliance of the working class and the bulk of the peasantry”¹.

Trotskyist geeks came up with provocative proposals, allegedly in the interests of industrialisation, to carry out the maximum tax pressure on the peasantry, to impose unbearable taxes on the poor and middle peasant masses. In making these demands, they pursued the nefarious goal of breaking the link between town and country, breaking up the alliance of the working class and the peasantry, and thereby

¹ J. Stalin, *On the Opposition*, pp. 317-318.

undermining any possibility of real industrialisation.

“An attempt to view the peasantry only as an object of taxation,” the XV. Party conference pointed out, “if by excessive taxes and higher selling prices to increase the withdrawal of funds from the peasant economy, should inevitably halt the development of productive forces of the countryside, to reduce the marketability of agriculture and create a threat to break the alliance of the working class and the peasantry, endangering socialist construction”².

Only the defeat of the anti-Soviet gang of Trotskyists made it possible to carry out the correct class line in the field of tax policy. April plenum of the Central Committee of the CPSU (b) c. 1926 pointed out the need for “restructuring the single agricultural tax in accordance with the new situation and new tasks.

“The achieved degree of commodity-money relations and accumulation in the countryside, on the one hand, the need to regulate this accumulation in accordance with the interests of the proletarian state, on the other, put forward the task of building such a system of taxation of the peasant population, which, while lightening the tax burden for the low-income strata of the peasantry, in its type would be as close as possible to the income system of taxation. Due to this, it is necessary to make significant changes in the structure of the unified agricultural tax:

a) calculate the tax based on the determination of income not in kind (recalculation to arable land), but in cash;

6) include in the number of taxation objects previously disregarded (or insufficiently accounted for) sources of income of the peasant population (viticulture, beekeeping, horticulture, horticulture, having commercial nature, as well as non-agricultural earnings, etc.);

c) to change the scale of taxation in the direction of greater progressiveness, with complete exemption from tax

² “CPSU (B) in resolutions and decisions”, Part II, p. 128.

of the least powerful groups and increased taxation of the wealthy and kulak strata of the peasantry”³.

In accordance with these instructions of the party, in 1926 a reform of the agricultural tax was carried out. This achieved a further approximation of the tax to income tax and a significant increase in the differentiation of taxation.

In 1927, the Central Executive Committee of the USSR issued a manifesto on the 10th anniversary. Of the Great October Socialist Revolution freed 35 percent from agricultural tax of all peasant farms. E This event could only be carried out by the Soviet government, tirelessly caring about the development of the poor economy.

The results of the restructuring of the agricultural tax can be illustrated by the following data:

	Income per consumer in rubles				
	30	60	90	180	300
% withdrawal of agricultural products taxed in 1925-26	3,5	6,5	9,0	11,6	12,6
That same in 1927–28	2,2	6,1	11,5	18,2	20,9
Changes (+/–)	–1,3	–0,4	+2,5	+6,6	+8,3

As the above data show, the reform of the agricultural tax in 1926 significantly increased the differentiation of taxation. However, there were still disadvantages in the construction of the tax. One of the largest was the crude system for determining taxable income.

Taxable income was not the actual income of each peasant farm, but the statutory income. It was determined by multiplying the rates of yield of the sowing tithe, head of livestock, etc., uniform for each region, by the number of tithes sown, the number of livestock, etc. for the simple reason that the profitability of a crop unit or head of

³ Ibid., pp. 95-96.

livestock in different farms in the same area had significant differences. At the same time, the actual profitability of a crop unit or head of livestock in a low-power farm was often lower than that of a well-to-do one. The use of uniform rates of return for calculating taxable income meant in a number of cases a relative (in comparison with the requirements of the law) under-taxation of well-to-do and kulak farms, whose actual rates of return exceeded the established average. The incomplete attraction of all sources of income to taxation (income from beekeeping, horticulture, various non-agricultural incomes, etc.) led to the same perversions. A survey carried out in December 1928 revealed a number of such perversions. Materials of this survey showed that in a number of cases from wealthy and kulak farms a smaller percentage of actual income is withdrawn by tax than is provided for by law.

The XV. Party Congress—the Collectivisation Congress—pointed out, as the next task of the Party's policy in the countryside, the need to accelerate the transformation of small individual peasant farms into large collective farms and further intensification of the offensive against the kulaks. As one of the immediate tasks in the field of taxation, the XV. Congress recognised the need to ensure strict implementation of the decisions of the party and the Soviet government on the liberation of the low-power peasantry from agricultural tax. The congress instructed the Central Committee, in order to tax the growing incomes of the most prosperous strata of the countryside, to work out the question of a transition to the most complete progressive income taxation.

In accordance with the directives of the XV. Party Congress and the instructions of the April 1928 plenum of the Central Committee of the CPSU (B), the agricultural tax was restructured for 1928-29.

The main content of the 1928 agricultural tax reform was: 1) in attracting all non-agricultural incomes, incomes from small livestock and special sectors of agriculture to taxation;

2) in establishing, in the order of all-Union legislation for powerful farms, allowances in the amount of 5 to 25 percent agricultural tax salary; 3) in the transition to taxation of kulak farms on an individual basis according to the actual (and not according to the normatively established) the income of each kulak farm; 4) in the establishment of differentiated discounts on agricultural tax salaries for various forms of collective farms (for partnerships for joint cultivation of land—20 percent, for agricultural artels—40 percent); 5) in strengthening tax incentives for industrial crops in order to stimulate the development of a raw material base for industry.

In the future, XVI. Party Conference gave a number of special instructions to ease the taxation of the middle peasant, and all decisions to increase the taxation of the kulaks were confirmed.

As a result, the differentiation of tax payments was sharply increased, which corresponded to the tasks of strengthening the offensive against the kulaks. In 1929-30, an average agricultural tax fell on one household: on collective farms—10 rubles 74 kopecks, from individual labour peasant farms—18 rubles 09 kopecks and from kulak farms—172 rubles 49 kopecks.

The agricultural tax, restructured according to party directives, played an important role in mobilising resources for the industrialisation of the country and especially in strengthening the offensive against the kulaks, in separating the middle peasant masses from the kulaks, and in encouraging the development of collective forms of economy. At the same time, the Communist Party had to overcome the resistance of the right-wing counter-revolutionaries, who opposed the growth of taxation on the kulaks, who sought the free development of the kulak economy in the interests of restoring capitalism.

City payments were restructured accordingly. In 1926, the division into main (class) and additional (progressive) taxes was eliminated from the system of income tax from

private households and the population, taxation was introduced on the total income (except for the income of workers and employees), and the progression of taxation was strengthened.

The introduction of taxation on total income, rather than on individual sources of income, in itself meant a significant increase in the differentiation of income taxation. It is quite obvious that with the progressive construction of tax rates, the taxpayer is obliged to pay more from the entire amount of his income than if the tax was calculated and levied on him for each separate source of income, since in the first case a higher (in percentage relation to income) tax rate. Saving for workers and employees of the old procedure for calculating and collecting tax (for each income received separately) meant in fact an increase in benefits for workers and employees.

Strengthening the progression of taxation was also achieved by distributing taxpayers into separate groups – schedules with different tax rates for each of these schedules. The first schedule included workers, employees and cooperative handicraftsmen and artisans; the tax rate here fluctuated (depending on the amount of income) from 0.7 to 30 percent; the non-taxable minimum (for the first belt) was 1200 rubles of income per year. The second schedule included artisans, artisans and a significant part of the people: liberal professions; tax rates here ranged from 2.5 to 35 percent; the non-taxable minimum was 800 rubles, income per year. Finally, to the third, the schedule included persons with unearned income; tax rates here ranged from 3 to 54 percent non-taxable minimum did not have.

In 1926, a tax was introduced in addition to income tax. for excess profits in order to combat speculative price increases. First, this tax was to be levied on the increase in the profits of private traders and industrialists against the previous year; then the tax began to be levied on profits in excess of the statutory profit. Subsequently, this tax was turned into a supplement to income tax salaries for some of

the payers of the third schedule.

In parallel with the intensification of the differentiation of the income tax, the differentiation of other taxes also intensified. In particular, in 1928, the restructuring of the trade tax was made. This restructuring was carried out on the basis of the directives of the 15th Party Conference, which indicated the need to implement a number of measures that would ensure, firstly, a reliable accounting of the activities of private capital and, secondly, would direct the latter to those sectors of the national economy where regulations are most possible activities, accounting and taxation of his profits. The restructuring was expressed in the elimination of the patent fee and in the strengthening of the differentiation of tax rates depending on the social status of the payer and on the nature of the industries to which taxable enterprises or personal trades belonged.

To characterise the differentiation of the rates of trade tax, the following data can be cited. In 1928-29, state and cooperative enterprises of the first category paid a tax of 1.6 percent from turnover, and private enterprises in this category—at the rate of 2.2 percent; state and cooperative enterprises, those assigned to the 16th category paid 14.8 percent from turnover, while private enterprises—17.2 percent. It should be borne in mind that the difference in rates was reinforced by the fact that the owners of private enterprises paid a number of other taxes, also based on the principle of large-scale differentiation.

With regard to personal crafts, the reform of 1928 established the imposition of fixed rates. These rates, depending on the nature of personal trades—and on the availability of hired labour, fluctuated for the first category from 6 to 18 rubles, for the third category—from 24 to 12 rubles. Enterprises producing luxury goods, as well as personal trades of this nature, paid high tax rates; enterprises that produced consumer goods belonged to the lower ranks and paid lower rates.

The differentiation of excise taxes was strengthened in a

corresponding way, namely, the rates of excise taxes on items of small consumption were increased, while the rates of excise taxes on items of prime necessity were reduced.

4. Development of Government Loans, Savings Business and State Insurance

Implementation of the Stalinist plan for the socialist industrialisation of the country at the expense of its own funds, without enslaving loans and loans from outside, required the development of government loans and the improvement of the work of savings banks. It was necessary to find such forms and methods of work that would ensure the fullest involvement of savings and savings in the fund for financing the country's socialist industrialisation.

In the area of savings, this meant: simplifying and improve the organisation of the entire operational and technical work of the savings banks, expand the network and strengthen the savings bank apparatus with qualified personnel, develop transfer, settlement and letter of credit operations, and most importantly, expand explanatory work among the broadest masses of working people.

The growth of the material well-being of the workers and peasants, the expansion and strengthening of the network of savings banks led to a significant increase in deposits. For three years (from October 1, 1926 to October 1, 1929) the number of savings banks increased by 1.1 times, the number of depositors—individuals—by 6 times, the amount of deposits by individuals—by 4.9 times. Comparison of the growth in the number of depositors with the growth in the total balance of deposits shows that the work of the savings banks during this period was developed mainly along the lines of expanding the network and increasing the number of depositors. This meant that large sections of the population were able to save.

As for government loans, the tasks set during the struggle

for the socialist industrialisation of the country demanded lengthening the term of loans, making the cost of loans cheaper for the state, and creating a truly massive base for loans. Achievements in this area can be illustrated by the following data. For the period 1922-1925, the average loan term was 3 years and 4 months, with a significant number of loans issued for a period of less than one year (natural bread and sugar loans, short-term loan 1925). For 1926-29, the average loan term has already increased to 8 years and 4 months, and of the 15 government loans issued during this period, only 4 loans were issued for a period of 4 to 8 years, while the rest were issued for a period of 10 years.

The main achievement in the field of loans during this period is the wide distribution of loans among the working people of the city and village through a collective subscription with instalments, the creation is genuine massive Soviet loans based on activity and initiative of the broad working masses. On October 1, 1929, the state debt was equal to 1918 million rubles, that is, it increased in 1926-29 more than 8 times. Half of this increase is accounted for by loans placed among enterprises and organisations of the socialised economy (an increase of 606 million rubles). The rest falls on loans placed among the broad masses of the working people by collective subscription with payment in instalments (an increase of 648 million rubles) and which, as of October 1, 1929, gave more than the entire remainder of the public debt. These loans were: "The first loan for industrialisation in 1921—for 200 million rubles" and the "Third Industrialisation Loan", issued at the end of 1929, for 750 million rubles (as of October 1, 1929, 44 million rubles were received from the sale of this loan; the rest of the loan was received in the next year—1930).

These loans, issued at the request of the working people for a total amount of over 1.5 billion rubles, most clearly characterise the loan operations of the Soviet state. It was this form of loans that made it possible to raise the share of government loans in the state budget revenues from 3,7

percent in 1925-26, up to 8.6 percent in 1928-29.

As a result of mass political campaigns for the placement of these loans, on the initiative of the workers, special public organisations were created—commissions for promoting state credit and savings (comsodes).

In 1929, the Central Executive Committee of the USSR adopted the “Regulations on the Standing Commissions for the Promotion of State Credit and the Savings Business”. In accordance with this provision, the comsodes were turned into permanent organisations of workers, and their rights and responsibilities were significantly expanded to monitor the activities of institutions in charge of state credit and savings, as well as to promote the ideas of state credit and savings among the broad working masses, to organise a mass subscriptions to loans, etc. In subsequent years, the comsodes were entrusted with control over the circulation of bonds of loans.

The comsodes played an important role in the successful development of state credit and the savings business.

In the area of public insurance, compulsory insurance has been expanded. Compulsory salary insurance in the village covers an increasing area: it extends to new types of insurance (from soaking, frost, etc.). At the same time, the amount of insurance coverage is increasing.

In 1928, the system of discounts for organisations of a socialised economy for insurance against fire was replaced by new ones, different from the insurance of private households. The “Rules for insuring the property of organisations of the socialised economy against fire” in 1929 introduced compulsory insurance of the property of enterprises and organisations of the socialised economy; all previously existing types of insurance (except for the guarantee) are combined, a single insurance regime is established, different from private farms, for all organisations of the socialised economy (state, cooperative, etc.).

5. The State and Local Budgets during the Struggle for the Socialist Industrialisation of the Country

The successes achieved in the growth of socialist accumulation and the mobilisation of funds by the financial system affected the dynamics and structure of the budget. The growth of revenues of the state budget of the USSR for 1925/26–1929/30 characterised by the following data (in million rubles):

	1925- 26	1926- 27	1927- 28	1928- 29	1929-30	1929- 30 In% by 1925- 26
Income						
1. Tax and income	1787,3	2483,1	2957,6	3999,9	6098,9	341,2
Including:						
a) trade and income taxes of these from the socialised economy	380,6	541,1	604,8	1341,4	2603,2	684,0
from the population	200,2	318,5	365,9	1005,8	2272,4	1123,8
b) unified agricultural tax	180,4	222,6	238,9	335,6	330,8	183,4
c) shares	251,7	357,9	354,2	449,4	405,6	161,1
	841,6	209,9	1491,2	1802,7	2643,0	314,0
2. Non-tax income						
Including:	2067,1	2417,2	2808,4	3364,1	5422,4	262,3
a) transport						
b) deductions from profits	1386,5	1554,1	1813,2	2199,7	3084,1	222,4
	171,9	308,2	382,1	417,7	1004,5	584,4
3. State loans	146,0	319,2	726,4	724,8	1278,4	875,6
4. Miscellaneous income (including the balance of the original budget)	27,5	15,3	52,3	205,4	186,8	679,3
Total income	4027,9	5234,8	6544,7	8294,2	12986,5	322,4

The state budget is the main instrument for the redistribution of funds for the needs of the industrialisation of the country and the socialist reorganisation of agriculture. The above table shows that over 4 years the state budget revenues increased 3.2 times, tax revenues—3.4 times, and receipts from state loans—8.8 times. As a result, the share of

tax revenues increased from 44.3 to 47 percent, and the share of receipts from government loans—from 3.1 to 9.8 percent. Especially characteristic is the rapid growth of income from the socialised economy in terms of income and trade taxes (11 times) and deductions from profits (5.8 times). The growth of these receipts testifies to the great successes of the struggle for strengthening the accumulations of enterprises and organisations of the socialised economy on the basis of the strictest economy regime, an increase in labour productivity and the strengthening of financial control. The decrease in the share of tax revenues from payments of private farms and the population reflects the increased crowding out of capitalist elements, as well as the exemption from taxes of the poor (and part of the low-power) mass of the peasantry, while reducing taxes paid by the middle peasantry and working people in cities.

The decisive task of the state budget during this period was to concentrate maximum funds for the socialist industrialisation of the country, to prevent the scattering of accumulations.

This concentration of funds from the state budget for the socialist industrialisation of the country was expressed in the following changes in the composition of expenditures of the state budget of the USSR (in million rubles):

The concentration of the resources of the state budget on the socialist industrialisation of the country was expressed, first of all, in the growth of expenditures for financing the socialist industry. These expenses, excluding financing of the food industry) increased from 1,212.2 million rubles in 1925-26 to 2409.9 million rubles in 1929-3830, i.e., 8.9 times, while the entire amount of state budget expenditures for this period increased 3.2 times. As a result, the share of expenditures on financing industry (excluding food) in the entire mass of budget expenditures increased from 6.7 percent in 1925-26, up to 18.5 percent in 1929-30.

During these four years of the struggle for the socialist industrialisation of the country, the state budget invested

5035.9 million rubles in the state industry (not counting the food industry). The entire amount of investments in the state industry amounted to 8,963 million rubles. Thus, over half of all investments in the state industry were made through the state budget. The state budget was successfully used by the party and the Soviet government as a powerful lever for the implementation of the Stalinist plan for the socialist industrialisation of the country.

Expenses	1925- 26	1926- 27	1927- 28	1928- 29	1929-30	1929 30 in % by 1925- 26
1. Financier. National economy	2230,2	2943,7	3652,7	4644,8	7633,2	342,3
Including:						
a) industry and electrification	272,2	619,2	857,2	1149,6	2409,9	885,3
b) agriculture	209,2	203,6	274,2	543,4	1087,8	520,0
c) transport	1415,2	1743,1	1984,0	2334,3	3126,0	220,9
d) state trade, supply and procurement, organisation	47,9	94,3	171,7	260,8	545,7	1139,2
2. Social and cultural events	249,4	331,8	463,5	502,4	849,6	340,7
3. Management and defence	938,4	1013,8	1120,5	1225,6	1416,6	151,0
4. Expenditures on government loans	122,6	101,0	299,5	317,5	405,7	330,9
5. Funds transferred to local budgets	390,7	577,9	625,2	1264,2	1714,4	438,8
6. Other expenses	80,8	210,6	177,9	150,5	315,5	390,5
Total expenses	4012,1	5178,8	6339,3	8105,0	12335,0	307,4
The excess of income over expenses	15,8	56,0	205,4	189,2	651,5	
	4027,9	5234,8	6544,7	8294,2	12986,5	322,4

At the XVI. Congress of the Party of the All-Union Communist Party of Bolsheviks, Comrade Stalin, summing up the results the first years of the struggle for the socialist industrialisation of the country, clearly showed how deeply hostile to socialism was the Trotskyite-right-wing “theory” of the dying curve, designed to disrupt industrialisation.

Comrade Stalin compared the successes achieved by the party in the socialist industrialisation of the country with the

Trotskyist “plan” for the development of industry, proposed in 1925-26 and rejected by the party. According to this counterrevolutionary Trotskyist “plan,” investments in state industry were amount to: in 1926-27—1543 million rubles, in 1927-28—1490 million rubles, in 1928-29—1320 million rubles and 1929-30—1060 million rubles, and in just 4 years—5413 million rubles in prices of 1926-27. Meanwhile, the party and the Soviet state invested in state industry: in 1926-27—1,065 million rubles, in 1927-28—1304 million rubles, in 1928-29—1819 million rubles and in 1929-30—4775 million rubles, but in total for 4 years—8963 million rubles (in prices of 1926-27), i.e., 3550 million rubles more, and capital investments from year to year not only did not decrease, but increased significantly.

Trotskyist dying curve of investments in state industry was also matched by the dying curve of growth of state industry output. According to the counterrevolutionary Trotskyist “plan,” the output of state industry was to grow: in 1926-27, by 31.6 percent, in 1927-28, by 22.9 percent, in 1928-29, by 15.5 percent and in 1929-30, by 15 percent. The Party, strengthening the alliance of the working class and the peasantry, achieved a significant increase in the growth rates of the production of state industry: in 1926-27, the output of the industrial sector increased by 19.7 percent, in 1927-28—by 26.3 percent, in 1928-29, by 24.3 percent, and in 1929-30, by 32 percent—such is the picture of the rising Bolshevik curve.

Citing these data at the XVI. Congress of the CPSU (B), Comrade Stalin said:

“It is clear that, without crushing the Trotskyist-right—deviating theory of the dying curve”, “we could not have deployed any real planning, or an increase in the pace and reduction of construction time. To direct the implementation of the general line of the Party, to correct and improve the five-year construction plan, to pick up the pace and warn mistakes in construction, it was necessary first of all to break up and eliminate the reactionary theory of the “dying

curve”¹.

The correct Stalinist line in financial construction made it possible to find sufficient resources to finance the “rising Bolshevik curve”.

Contrary to the counterrevolutionary demands of the Trotskyists for increased pumping of funds from agriculture for the needs of industrialisation through the expropriation of the peasantry, the party and the Soviet government not only freed the poor, low-powered peasant farms from taxes and reduced taxation of middle peasant farms, but also channelled through the budget of the Soviet state and credit system of large funds to finance agriculture. Moreover, it was precisely the successes in building socialist industry that made it possible to begin expanding financing for agriculture.

Budget investments in agriculture increased from 209 million rubles. in 1925-26, up to 1,038 million rubles in 1929-30, that is, 5.2 times; the share in the budget of expenditures for financing agriculture increased, respectively, from 5.1 to 8.4 percent. In total, during these 5 years of the struggle for the socialist industrialisation of the country, investments from the state budget in agriculture amounted to 2,318 million rubles. These funds were used for state farm construction, to assist the rural poor and low-powered middle peasants in acquiring agricultural machines and implements in order to increase yields, for all-round financial support of collective farms. At the expense of budgetary funds, land management was also carried out for poor and low-power peasant farms and collective farms, expenses for agronomic assistance to the poor and middle peasant masses of the peasantry, for reclamation work, structures, etc. funds for long-term lending to collective farms and rural poor.

Financing of state and collective farms was of great importance for the administration of the socialist reorganisation of agriculture, and as socialist accumulation

¹ J. Stalin, *Questions of Leninism*, ed. 10th, p. 416.

increased, the Soviet state was able to devote more and more funds to this matter. The allocations for the socialist reorganisation of agriculture increased from year to year. Comrade Stalin, pointing out in his work “On the grain front” that the conditions for a mass collective farm movement are already ripe, noted at the same time:

“Of no small importance here is the fact that only recently has the state received the opportunity to seriously finance the collective farm movement.”¹

These successes in financing collective and state farms could be realised only in a decisive struggle against the right-wing restorers of capitalism, Rykov, Bukharin, and others. Their kulak soul did not want to allow widespread financing of the socialist economy, which ensured the final victory over the kulak. But the Party Central Committee pursued its line with all perseverance, and the cause of collectivisation and the building of state farms were fully provided with financial resources.

While channelling maximum funds for the construction of socialist industry, the Soviet government at the same time increased funding for cultural construction, ensuring the rapid growth of socialist culture. State budget expenditures on social and cultural activities amounted to 1926/27–1929/30 for the three-year period 5,109.2 million rubles. Particular attention in this matter was directed to the development of mass education, to the deployment of the training of qualified personnel from among the working class, to the further improvement of living and working conditions. It should be borne in mind that most of the costs of social and cultural events were spent according to the local budget.

The task of restructuring the work of the budgetary system during this period was to not only ensure the transformation of possible accumulation into actual, but also to fight for the most correct use of accumulations. The

¹ J. Stalin, *Questions of Leninism*, ed. 10th, p. 215.

intensification of the struggle for the strictest economy is the most important moment characterising the work of the financial system during the period of the country's socialist industrialisation. The financial authorities had to counteract the illegal spending of funds, they had to control the ruble, organised verification to stimulate the most economical and productive use of funds.

The Financial and Control Directorate of the People's Commissariat of Finance of the USSR, created after the transition to the NEP, could not provide the necessary control, since the activities of this department were mainly limited to the subsequent documentary verification of accounts. In 1926-27, the Financial Control Department was reorganised into the State Financial Control Department. The authorities of the State Financial Control Service were asked to proceed to the actual audits of operations, with a sampling check of original documents and with an examination of cash and material values. The reorganisation of the Financial and Control Department into the State Financial Control Board strengthened the independence of control bodies and expanded their rights in the fight against all kinds of violations of the interests of the state.

As a result of the struggle for the strictest economy in the spending of public funds, the share of management expenditures has decreased. With an increase in state budget expenditures for financing the national economy by 3.4 times (from 2230.2 million rubles in 1925-26 to 1633.2 million rubles in 1929-30), the total amount of expenditures on management and defence increased by a little more than 1.5 times (55.3 percent).

Simultaneously with the growth of the state budget, local budgets have also been strengthened.

In the "Regulations on local finances", approved by the session of the Central Executive Committee of the USSR in 1926, it is especially noted that local finances are part of the unified system of finance of the USSR and are directly under the jurisdiction of local councils and their executive

committees. This “Regulation” allowed the formation of funds for regulation of general importance, which later played a large republican and local role in the deficit-free consolidation of each individual link in the system of local budgets.

In addition, the indicated “Regulation” increased deductions to local budget from agricultural tax, industrial tax, forest revenues, etc., and strengthened the rights and regulatory functions of the union republics. In 1925-26, local sources in the revenues of local budgets gave 63.5 percent and deductions and allowances to state revenues—29.8 percent of all income; in 1929-30, local sources gave 42.4 percent of all income of local budgets, and deductions and allowances to state revenues—49.7 percent. The share of national sources of income in local budgets, thus, has increased sharply. For 4 years (1926/27—1929/30) local budgets (net) have grown 2.7 times. The following table characterises the direction of funds from local budgets for 1925/26-1929/30 (in million rubles):

	1925- 26	1926- 27	1927- 28	1928- 29	1929- 30
Financing of the people’s masters	262	466	557	637	999
Socio-cultural expenses	496	661	811	1043	1425
Control	361	379	353	393	529
Other expenses	93	156	217	229	291
Total	1212	1662	1938	2302	3244

Local budgets played an important role in financing the national economy, although the maximum share of funds from local budgets was directed to financing culture. An increase in the share of costs of financing the national economy with a rapid decrease in the share of management costs is a characteristic feature of changes in the structure of costs and local budgets over this period. The share of administrative and managerial expenses in local budgets decreased from 29.8 percent. in 1925-26, up to 16.3 percent.

in 1929-30, and the share of spending on financing the national economy rose from 21.6 to 30.8 percent. In the composition of local budgets, the share of lower-level budgets continued to grow steadily. Thus, the share of regional and rural budgets rose to 28 percent in 1929-30, while the share of urban and settlement of budgets—up to 40.5 percent.

Despite a significant increase in the revenues of the republican budgets, which they received in accordance with the “Regulations on the budgetary rights of the Union and the union republics” in 1924, the deficit-free and sufficient stability of incomes of all budgets of the union republics were not ensured, the expenses of which grew along with the growth of costs on financing the socialist reconstruction of the national economy.

During 1925-26 and 1926-27, a number of amendments were made to the “Regulations” in 1924. All these changes were consolidated and expanded by the “Regulations on the budgetary rights of the Union and the Union republics” of 1927. According to this “Regulations”, the budgets of the Union republics should be balanced without a deficit by covering expenses at the expense of their own income sources. A number of sources of income were assigned to the union republics, including 99 percent receipts from agricultural, trade and income taxes, income from enterprises of republican significance, forest income, income from the sale of state property, etc. Income from stamp duty, from the tax on the circulation of valuables from the sale of all-Union state loans were turned into regulatory (balancing) articles budget revenues; The amount of deductions from these receipts to the budgets of the Union republics should be established annually by the all-Union legislation. From 1928-29, in connection with the merger of the tax on the circulation of pennies with the trade tax (decree of August 10, 1928), the trade tax became a regulating article.

In 1928, a session of the All-Russian Central Executive Committee adopted the “Regulations on the budgetary rights

of the ASSR”. This “Regulation” eliminated the parallel existence in the ASSR of two republican budgets—the republican state budget and the republican local budget—and increased the revenues of the state budgets of the ASSR.

6. The Credit System during the Struggle for the Socialist Industrialisation of the Country

The struggle for the socialist industrialisation of the country, for the increase and correct use of accumulations also demanded a restructuring of the credit system, strengthening and strengthening of credit control and credit planning.

The tasks facing the credit system were to ensure the maximum mobilisation of ‘resources for financing industry, including those resources that could and should have been directed to long-term lending to industry, to strengthen credit assistance to the rural poor and collective farms.

During the first period of NEP (1921-1925), a system of credit institutions was created, designed to accumulate and redistribute the current balances of funds of economic agencies, to use these temporarily free funds through short-term loans to promote the growth of working capital of enterprises, the development of sales and supply trade cooperation. And the operations of the credit system to attract temporarily surplus funds and short-term lending during this period have increased significantly.

The entry into the period of the struggle for the socialist industrialisation of the country changed the working conditions of the credit system. The credit system was faced with the task of increasing the mobilisation of funds for long-term investments. On the other hand, this transition set before the economic agencies the task of further increasing fixed assets, concentrating the maximum amount of funds for

this business. The reduction in free balances of economic entities affected the dynamics of the balance of deposits and current accounts of economic entities in credit institutions, as can be seen from the following data (according to the consolidated balance of the USSR credit system, in million rubles):

		On 1st October				
	1925	1926	1927	1928	1929	
Deposits and current accounts	1303,6	1503,1	1645,0	1779,7	2,065,2	
Growth over the year	—	199,5	141,9	134,7	285,5	
Accounting and loan operations	2921,3	4066,2	6,103,3	8528,0	9883,9	
Growth over the year	—	1144,9	2,037,1	2424,7	1355,9	
The ratio of the amount of deposits and current accounts to the amount of accounting and loan operations (in %)	44,6	36,9	26,9	20,8	20,9	

Under these conditions, in order to meet the growing needs of the household for short-term loans, banks had to especially strengthen control over the use of dispensed funds, stimulate the acceleration of their turnover. However, the plurality of credit institutions that have developed over the previous years, and the lack of a clear demarcation of clients between them and functions hindered the solution of these tasks, gave rise to unhealthy competition between banks in pursuit of clientele which undermined the banks' control over their clients.

The beginning of a radical restructuring of the credit system was laid by the decree of the Central Executive Committee and the Council of People's Commissars of the USSR dated June 15, 1927 "On principles of building a credit system ".

The main content of the changes introduced by this law consisted in: 1) strengthening the regulatory role of the State Bank; while the Narkomfin retained the functions of general regulation of the activities of credit institutions, the State Bank was entrusted with the functions. direct management of the activities of all credit institutions; 2) in the

delimitation of functions between individual banks; this was reflected in the strengthening of the role of the State Bank as a body of short-term credit; 3) in the delimitation of clients between banks; the law stated that, as a general rule, each client should use a short-term loan and concentrate his free funds only in one specific bank in accordance with the nature of his organisation and economic activity.

Further measures were aimed at developing the main points established by the decree of the Central Executive Committee and the Council of People's Commissars of the USSR dated June 15, 1927 the largest event of this period is the reorganisation of Prombank and Electrobank into the Bank for Long-Term Lending to Industry and Electricity (BDK).

Back in March 1926, the STO adopted a resolution on the organisation of the Department of Long-Term Lending (KODYU) as part of Prombank. This department was entrusted with long-term crediting of industry at the expense of budgetary appropriations, and thereby - control over the use of budgetary investments in fixed assets of industry and ensuring the repayment of loans. The disadvantage of this department was that not all amounts intended for long-term crediting of industry passed through it. Thus, the significance of this department, from the point of view of ruble control in the field of capital construction and ensuring maximum efficiency in the use of funds, was small. On the other hand, being only a department of Prombank, the UEC did not enjoy sufficient independence. Prombank, in addition to long-term lending, continued to engage in short-term lending, which weakened attention to the issues of capital investments. As of October 1927, the size of short-term loans issued by Prombank was 304.1 million rubles, and the size. long-term loans—141 million rubles, of which the UEC balance sheet—132.7 million rubles. Consequently, at the expense of sources other than budgetary appropriations, Prombank issued long-term loans in the amount of less than 9 million rubles, while on October 1, 1921, the fixed capital of Prombank was 104.3 million rubles, and the amount of current accounts and

deposits amounted to 131.4 million rubles.

The tasks of strengthening control in the field of capital investments required the restructuring of the work of Prombank. In February 1928, Prombank and Elektrobank were merged with their transformation “into the Bank for long-term crediting of industry” and the electric power industry. All short-term operations of Prombank and Elektrobank are transferred in full to the State Bank. The Bank, on the other hand, is provided with only long-term lending and financing functions for long-term lending to industry and electricity.

At the same time, the activities of Vneshtorgbank are being reorganised (Bank for Foreign Trade Financing). As the name suggests, the bank was designed to finance export and import operations; however, in practice, duplicating the work of the State Bank, it provided short-term lending to a number of domestic trade operations. In order to eliminate concurrency in the work of Vneshtorgbank and the State Bank at the beginning of 1928, the internal (within the USSR) branches of Vneshtorgbank were liquidated. Vneshtorgbank is completely switching over to financing and lending for foreign trade operations, and its activities are more closely linked to the activities of the foreign department of the State Bank.

During 1928 and 1929, there is a consistent strengthening of long-term operations and a reduction in the functions of short-term loans from communal, cooperative and agricultural banks. In general, this meant the process of delimiting the functions of long-term and short-term lending with the concentration of the latter in the State Bank. However, practice has shown that the concentration of short-term lending functions in the State Bank and the demarcation of customers between banks cannot be completed and cannot provide sufficient ruble control and strengthening credit planning while maintaining the relationship between commercial credit and circulation of bills. These relations, which played a major positive role in the first period of NEP, became an obstacle to ruble control and credit planning.

In the conditions of commercial lending by economic agencies to each other, there was no direct connection between the bank and the economic agency that ultimately used a bank loan. For example, trade organisations received goods on credit against their bills from industrial organisations; industrial organisations accounted for these promissory notes in the bank, received a bank loan. The bank seemed to be lending to the industry, since the recipient of the bank funds was an industrial organisation. In reality, however, the bank lent to a trade organisation, because the industrial organisation only repaid with a bank loan the credit that it provided to the trade organisation. And this meant that intermediaries wedged in between the State Bank and the economic agencies using bank funds, which interfered with the credit impact on the economic agencies. On the other hand, this meant that commercial credit prevented the actual separation of customers between banks.

During 1928 and 1929, in a number of sectors of the national economy, new forms of payments and lending are being introduced, which have been compressed or even partially eliminated the need for commercial lending by economic agencies of each other: intra-syndicate settlements are organised, eliminating to a large extent the need for bills; check circulation is developing; in the form of experience, direct bank lending is carried out—excluding promissory notes—and measures are being taken to strengthen and strengthen the entire credit planning business (this includes improving the practice of drawing up and executing quarterly short-term lending plans, rationalising lending and settlement of agricultural and industrial cooperation, improving agricultural loan planning)...

These measures, which prepared the conditions for the successful implementation of the credit reform in 1930-31, were based on the strengthening of the planning principle in the entire national economy of the USSR, ensured by the growth and strengthening of socialist elements in the struggle against capitalist elements, and by the

implementation of the Stalinist plan for the country's socialist industrialisation.

The restructuring of the credit system, as well as the forms and methods of banking, contributed to the growth of the role and significance of the State Bank. As of October 1, 1980, the amount of credit and settlement operations of the State Bank was 4.6 billion rubles. The state bank, endowed with a monopoly right to issue bank notes, has become the main body of short-term lending and settlements. All free cash reserves of credit institutions and all free funds of state enterprises and cooperative organisations were subject to mandatory storage in the State Bank. Credit institutions could only receive loans from the State Bank. The State Bank was engaged in lending and settlements for foreign trade operations. The State Bank concentrated the country's foreign exchange reserves. The State Bank carried out operations on cash execution of state and local budgets, participated in the placement of government loans.

One of the most important fundamental features of the socialist industrialisation of the country in comparison with the capitalist 'is the steady growth in the well-being of the working people, conditioned by the implementation of socialist industrialisation. In the course of the fulfillment of the Stalinist plan of socialist industrialisation in our country, by 1931, unemployment had been completely and forever eliminated. The annual wages fund for workers and employees rose from 3.8 billion rubles. in 1924-25 to 13.6 billion rubles in 1930, the average annual salary, respectively, from 450 to 936 rubles (for large industry).

The growth of industry, the tasks of increasing labour productivity and meeting the growing needs of the working people required increased attention to the development of housing and communal services, which were still in a state of acute crisis and far from satisfying the needs of the country.

In accordance with the resolution of the July 1926 plenum of the Central Committee of the CPSU (B), a permanent fund is created for financing and lending to

workers in housing construction (at the expense of budgetary allocations, deductions from profits of economic agencies, deductions from State Insurance funds, receipts in the order of repayment of previously issued loans, etc.), benefits and incentives in the field of cooperative worker construction are being strengthened. A special capital of Tsekombank was formed for lending to public utilities.

In order to further develop and strengthen the role of cooperation in trade, expand the cooperative industry, short-term crediting of operations of all types of cooperation is being strengthened. Under cooperative banks, long-term lending funds for cooperatives are created to provide cooperative organisations with long-term loans for capital expenditures, for an increase in working capital, for education or for an increase in fixed and special capital, at the expense of allocations from the state budget of the USSR and from the funds of the cooperation itself. Measures are being taken to strengthen deposit operations in order to strengthen the means of cooperation. All these measures contributed to the growth of the cooperative's retail turnover from 5.2 billion rubles. in 1925-26 to 12.4 billion rubles in 1929-30 and an increase in its share in the entire retail turnover of the country, respectively, from 44.5 to 10.6 percent.

The main task of the agricultural and credit system consisted in strengthening assistance to the rural poor, in promoting the involvement of the poor and middle peasant masses in socialist construction. Along with this, the agricultural credit system was supposed to enhance the attraction of deposits and savings from the agricultural population.

On August 19, 1926, the Central Committee of the All-Union Communist Party of Bolsheviks adopted a resolution "On agricultural credit". In this resolution, the Party Central Committee pointed out a number of shortcomings in the work of the agricultural credit system, in particular, the weak development of deposit transactions, the presence in a

number of regions of massive delinquencies in loan repayment, and the weak development initiative of the population to involve peasant funds, etc. the Central Committee of the CPSU (b) pointed out, as the main task of the agricultural credit system, the need for more complete involvement in cooperation of the low-power and middle peasant strata and their service. The Central Committee of the All-Union Communist Party (Bolsheviks) proposed to the Central Agricultural Bank: a) to develop and implement special measures to ensure the unification of poor households into credit cooperatives; b) to increase the interest on deposits, to ensure the timely return of deposits, the true secrecy of deposits and depositors, to strengthen the placement of peasant shares in agricultural credit societies on a strictly voluntary basis; c) to expand the issuance of long-term loans to the peasantry, first of all, to poor peasants, for the acquisition of agricultural machinery, to lengthen the terms loans, reduce the cost of credit, do not allow investment of funds intended for lending to the peasantry in trade operations. Central Committee of the CPSU (B) specifically pointed out the need to strengthen lending to state farms and collective farms.

In 1926, funds for crediting the rural poor were created as separate Capitals of agricultural banks. The funds were made up of budgetary appropriations, deductions from profits of agricultural banks and other sources and were intended for preferential production crediting of the rural poor.

In 1927, by the decree of the Central Executive Committee and the Council of People's Commissars of the USSR of March 16, a fund for long-term crediting of agricultural collectives (collective farms) was formed at the expense of budgetary allocations and resources of the Central Agricultural Bank. By the same decree, it was proposed to ensure the priority supply of collective farms with agricultural machines.

By increasing financial assistance to poor households and

collective farms, the Soviet state intensified its struggle against usury. By the decree of the Central Executive Committee and the Council of People's Commissars of the USSR dated August 11, 1927, the maximum rates of interest rates on loans were established. Interest charging in excess of these norms was qualified as usury, prosecuted in a criminal procedure.

These measures could not but entail an improvement in the performance of the agricultural credit system, as can be seen from the following data (see table on page 214).

However, the development of the agricultural credit system was far from consistent with the tasks set by the party and the government for this system. As the XV. Party Congress pointed out, due to the lack of proper resistance from the cooperative bodies and agricultural credit, kulaks have crept into the elected cooperative bodies in a number of places. As a result of this, and also as a result of the hostile activities of the enemies of the people who crept into the apparatus of land and financial bodies, cooperatives and banks, there were cases when loans were sent to wealthy and kulak farms to the detriment of the interests of the poor, and funds intended for cooperating with the poor were not used according to destination.

The XV. Party Congress, which put forward the unification and transformation of small individual peasant farms into large collectives as the main task of the party in the countryside, proposed strengthening the supply of the peasantry (especially the poor cooperation as the main task, to increase funds for lending to the poor of lo to state and local budgets.

	1925	On October 1 1926	1927
Equity capital (in million rubles)	37,8	54,6	70,1
Including share capital.	9,1	16,4	22,7
The amount of deposits of the grassroots network (in million rubles)	2.7	8,2	16,1
For one credit partnership (in rubles)	317	901	1922
Per one member of the partnership (in			

rubles)	0.87	1,89	3,21
Debt on loans issued by the TsSKhbank system (in million rubles).	237,7	406,2	657,6

Including:

a) for short-term	160,0	250,2	326,6
for long-term	77,7	156,0	331,0
b) sales finance	25,5	75,2	115,0
on production lending	212,2	331,0	542,6

In % to the total:

Loans to individual peasant farms	65,5	52,6	49,0
Loans to collective farms and cooperative organisations	22,3	31,4	34,7
Loans to government agencies and other public institutions	12,2	16,0	16,3

“In accordance with the task of all possible encouragement of the unification of small peasant farms into large collective farms,” the Congress of the Party pointed out, “the agricultural credit system should direct its main attention to the support and development of production cooperation between the broad poor and middle peasants, increasing attention as to the matter of involving in cooperation peasant contributions, and especially to the organisation of cooperative enterprises for processing, etc.”¹.

The directives of the 15th Party Congress determined the restructuring of the agricultural credit system and the further development of its activities. In 1928 and 1929. a number of measures were taken to institutionalise the agricultural credit system, to strengthen the role and importance of its grassroots network, to ensure complete coherence and maximum efficiency of the agricultural credit system. In 1929, in the system of agricultural credit, long-term and short-term production credit was concentrated. lending to agriculture, lending to the same supply and marketing operations was assigned to the State Bank and

¹ “CPSU (B) in Resolutions and Decisions”, Part II, pp: 255-256.

cooperative banks. The Central Executive Committee and the Council of People's Commissars of the USSR prohibited the credit institutions of the agricultural credit system from the production of trade and commodity-commission operations; all own capital of the Central Agricultural Bank (except for the reserve one) was offered, as well as all funds in general intended for long-term use exclusively for this non-profit.

Strengthening the system of agricultural credit in every possible way, the Party and the government made extensive use of it to strengthen aid to the poor and middle peasant masses of the peasantry, to strengthen the alliance of the working class and the peasantry, to create and strengthen collective forms of farming. Along with an increase in the funds allocated by the state to state farms, collective farms, and the rural poor, the Party and the government carried out a large reduction in interest on agricultural loans for collective farms and the rural poor (from 7 to 4 percent on long-term loans and 12 to 7 percent on short-term loans). Whatever kind of lending to wealthy (not to mention kulak) farms was stopped. In 1928, the decree of the Soviet government abolished the practice of individual guarantees for poor borrowers, which was embarrassing for the poor, established the collection of interest on loans from poor households not in advance (when issuing a loan), but at the maturity of the loan; introduces criminal liability for the use of funds directed to lend to the rural poor, not for their intended purpose. In 1929, at cooperative organisations and at institutions of the agricultural credit system, funds for cooperation and collectivisation of the rural poor and agricultural labourers were formed, from which interest-free loans were to be issued to poor peasants and farm labourers to pay entrance and share contributions to collective farms and cooperative organisations.

The following table illustrates the reversal of direction in loans through the agricultural credit system:

	1926-27	1927-28	1928-29	1929-30
Total (in million rubles)	414,5	547,0	587,4	907,9
Including:				
Collective farms	36,4	64,3	170,0	505,0
State and cooperative organisations	146,1	206,7	245,8	353,8
Individual farmers	232,0	276,0	171,6	49,1

The size of production loans to agriculture has grown 2.2 times over 3 years. The share of collective farms in production repairs increased from 8.8% to 8.8% in 1926-27, up to 55.6 percent in 1929-30, the share of individual farms decreased from 55.9 to 5.4 percent. (Moreover, in recent years, loans to poor peasants and farm labourers have accounted for the overwhelming share of credit to individual peasant farms.

Expansion of credit assistance to the poor and middle peasant mass of the peasantry, along with the restructuring of the agricultural tax and implementation of other measures aimed at strengthening aid to the poor and promoting collectivisation were of great importance in preparing a decisive turn of the middle peasant on the path of collectivisation.

The working people of the USSR, under the leadership of the great Stalin, had already by 1930 achieved major victories in business, the industrialisation of the country and the socialist reorganisation of the countryside.

The year 1929 went down in the history of socialist construction as a “year of a great turning point”, which passed under the sign of a decisive offensive of socialism against the capitalist elements of town and country. This turning point was expressed in a tremendous upsurge in the creative initiative and labour enthusiasm of the masses; in the development of socialist emulation and shock work, which ensured a steady increase in labour productivity. This turning point was expressed, further, in the successful resolution of the mainly accumulation problem, which

ensured the capital construction of heavy industry, an accelerated rate of development of the production of means of production, and the transformation of the USSR into a metal country. The great turning point was expressed in the decisive transition of the bulk of the peasantry from small and backward individual farming to large-scale and forestry collective farming. The sown area of collective farms increased from 1.4 million hectares in 1928 and 4.1 million hectares in 1929 to 38.1 million hectares in 1930, the weight of the sown area of collective farms in the entire sown area of the country rose from 1.1 percent in 1928 and 3.5 percent in 1929 up to 29.2 percent in 1930.

The great breakthrough achieved in 1929 testified to tremendous successes in the implementation of the Stalinist plan of socialist industrialisation of the country, the victory of the general line of the party. These successes made it possible to develop even wider the offensive of socialism against the capitalist elements, to go over to the offensive of socialism along the entire front.

Since the end of 1929, the party led by the great Stalin: made a turn from the policy of restricting and ousting the capitalist elements to the policy of eliminating the kulaks as a class on the basis of complete collectivisation. A new stage of socialist construction in the USSR was opened, setting new tasks and in the field of financial policy of the Soviet state.

CHAPTER VII. FINANCIAL POLICY OF THE SOVIET STATE DURING THE PERIOD OF STRUGGLE FOR THE COLLECTIVISATION OF AGRICULTURE (1930-1934)

1. Objectives of Financial Policy

The transition to complete collectivisation was prepared by the successes of socialist industrialisation, the development of a cooperative society, a decisive struggle against the kulaks and the good experience of the first collective and state farms. Total collectivisation was carried out in the process of the class struggle of the peasants against the kulaks.

With the growth of state and collective farms at the end of 1929, the party and the Soviet government made a sharp turn from the policy of restricting the kulaks to the policy of eliminating the kulaks as a class on the basis of complete collectivisation. The kulaks were expropriated, and the means of production that belonged to them were transferred into the hands of the collective farms.

“It was a profound revolutionary upheaval, a leap from the old qualitative state of society to a new qualitative state, equivalent in its consequences to the revolutionary coup in October 1917.”¹

The pursuit of the policy of liquidating the kulaks as a class on the basis of complete collectivisation, the struggle for the organisational and economic strengthening of the collective farms could not fail to cause major transformations in the field of finance of the socialist state.

¹ “*History of the CPSU (B)—Short Course*”, 1938, p. 291.

Earlier, before this policy was implemented, taxes, credit, and other financial instruments and methods were also used by the party and the Soviet government to restrict and oust the capitalist elements. In this case, the role of financial instruments and methods in combination with other methods of influence of the proletarian state was huge. Now, with the transition to the policy of eliminating the kulaks as a class, the conditions for the use of these tools and methods have changed dramatically. The task now was the complete expropriation of the kulaks, the final eradication of the capitalist elements in the entire national economy. The role of financial instruments and methods in solving this problem could not be the same as in solving the problem of limiting and displacing the capitalist elements, because, as Comrade Stalin pointed out, it is impossible to eliminate the exploiting classes by means of tax and any other restriction. At the same time, with the elimination of the capitalist elements and the transformation of the small commodity economy, the importance of finance in strengthening socialist enterprises, better organising their economic activities, and stimulating the growth of labour productivity has increased enormously.

Earlier, before the transition of the bulk of the peasantry to collective farms, the financial system was used to provide all-round assistance to the poor and low-power middle peasant farms against the kulaks in the countryside. The main figure in the village was the middle peasant individual peasant, while the support of the Soviet power in the village was the village poor and farm labourers. Through its financial system, the Soviet state supported the farms of the poor and low-power middle peasants, prevented their economic subordination to the kulak farms, and strengthened the alliance of the working class and the peasantry. Now, with the transfer of the bulk of the peasantry to collective farms, the situation has changed radically. The collective farmer became the main figure in the countryside, a solid support of the Party and Soviet power in the countryside. Collective farms have erased the line between the former middle

peasants and the former poor on the basis of a general rise in the welfare of the entire mass of the collective farm peasantry—to the level of wealthy people. The former poor peasant and the former low-powered middle peasant became equal members of collective farms. Their well-being was closely linked to the strengthening of collective farms. Now the task is to support the poor and the underpowered middle peasants against the kulak bondage, since the peasants became collective farmers, the kulaks were liquidated as a class, the collective farms have forever freed the peasantry from kulak exploitation. The task now was to help in every possible way the organisational and economic strengthening of the collective farms in order to strengthen the advantages of the collective farms as socialist farms. The largest role in this case was to be played by the financial system of the socialist state. The financial system should help protect and strengthen socialist property, stimulate interest in social work.

The transition to the policy of liquidating the kulaks as a class meant the offensive of socialism against the capitalist elements along the entire front, both in the city and in the countryside. At the XVI. Party Congress, Comrade Stalin gave an exhaustive explanation of the content and tasks of the socialist offensive along the entire front:

“The essence of the Bolshevik offensive is, first of all, to mobilise the class vigilance and revolutionary activity of the masses against the capitalist elements of our country; to mobilise the creative initiative and initiative of the masses against the bureaucracy of our institutions and organisations, which keeps under wraps of colossal reserves lurking in the depths of our system, and preventing them from being used; to organise competition and labour uprising of the masses for raising labour productivity, for developing socialist construction.

The essence of the Bolshevik offensive consists, secondly, in organising the restructuring of the entire practical work of trade union, cooperative, Soviet and any other mass

organisations in relation to the needs of the reconstruction period; to create in them a nucleus of the most active and revolutionary workers, pushing back and isolating the opportunist, trade-unionist, bureaucratic elements; drive out of them alien and degenerated elements and put forward new workers from below.

The essence of the Bolshevik offensive consists, further, in mobilising the maximum amount of funds for financing our industry, for financing our state and collective farms, and directing the best 'people of our Party' to develop all this work. The essence of the Bolshevik offensive is, finally,

in order to mobilise the Party itself for organising the whole work of the offensive; to strengthen and hone party organisations, expelling from them the elements of bureaucracy and degeneration; isolate and push back the speakers of the Right and "Left" deviations from the Leninist line by nominating to the forefront of real, staunch Leninists"¹.

Without a decisive struggle against the anti-Soviet groups of the 'right and Trotskyists', it was impossible to mobilise the party and the working class, the poor and middle peasants, for the full-scale offensive of socialism. The fulfillment of the tasks indicated by Comrade Stalin determined the success of the offensive of socialism along the entire front.

The success of the offensive of socialism was closely linked with the further growth of socialist accumulation. Only on this basis it was possible to advance the further development of heavy industry at an accelerated pace, to provide maximum assistance to the new collective farm system in the countryside by supplying the countryside with the latest technology, to complete the transformation of our country into a powerful, completely independent industrial country. But for this it was necessary to develop a struggle

¹ J. Stalin, *Questions of Leninism*, ed. 10th, pp. 391-392.

for the growth of the productivity of socialist labour, to identify and use all the country's resources, to create new sources of accumulation.

At a conference of business executives in June 1931, Comrade Stalin emphasised the enormous importance of the problem of accumulation:

"If the old sources of accumulation were enough for the reconstruction of industry and transport, now they are already clearly lacking. It is no longer a matter of reconstructing the old industry. It is about the creation of a new, technically armed, industry in the Urals, Siberia, Kazakhstan. It is about the creation of a new large agricultural production in grain, livestock and raw material regions of the USSR. It is about the creation of a new railway network between the East and West of the USSR. It is clear that the old sources of accumulation cannot be enough for this grandiose undertaking"².

At the same meeting, Comrade Stalin, noting that it was no longer possible to be content with old sources of accumulation and that it was necessary to find new sources, said: also gave accumulation.

This is the way out."

And for this it was necessary, as Comrade Stalin pointed out:

"The elimination of mismanagement, the mobilisation of internal industrial resources, the introduction and strengthening of self-financing in all our enterprises, the systematic reduction of production costs, the strengthening of intra-industrial accumulation in all industries without exception."

"...to introduce and strengthen self-financing, to raise intra-industrial saving—this is our task"¹.

The concentration in the hands of the socialist sector of all the economic levers of the entire national economy

² Ibid., Ed. 11th, pp. 345-346.

¹ J. Stalin, *Questions of Leninism*, ed. 11, pp. 346-347.

meant that our country had entered the period of socialism. This not only did not diminish the role and importance of money, credit, finance, but raised their importance to a new, higher level. The party resolutely brushed aside the leftist anti-Bolshevik chatter about the “withering away” of money, credit, finance, about the transformation of money into simple calculating symbols, about the need for an immediate transition to direct product exchange: cover for their wrecking work. They were subjected to devastating criticism by Comrade Stalin.

The strengthening of Soviet money, credit and finance as an instrument of the struggle for the fulfillment of the national economic plan was of no small importance in ensuring the victory of socialism in our country.

Comrade Stalin’s instructions determined the tasks of the financial and credit system: to stimulate an increase in savings on the basis of strengthening cost accounting and financial planning discipline; to mobilise the maximum amount of funds and direct them to finance socialist industry, state and collective farms; and using the methods of financial policy to launch an offensive against the capitalist elements.

The fulfillment of all these tasks required improving the financial apparatus, restructuring the forms and methods of budget and credit work. It was necessary to cleanse the financial apparatus of class enemies that had penetrated into it, from bureaucratic elements and create around it a financial asset from people loyal to the Soviet regime; to raise the creative initiative and activity of the masses in the struggle for the implementation of financial measures of the party and the Soviet government; to revise the relationship between the budgetary and credit systems and enterprises and organisations of the socialist economy in order to strengthen cost accounting and raise planning discipline.

2. The Credit Reform

The most important measure for the fulfillment of these tasks is the credit reform of 1930.

As early as December 5, 1929, the Central Committee of the All-Union Communist Party (Bolsheviks) adopted a resolution "On the reorganisation of industrial management." This resolution contained the requirements for strengthening cost accounting, introducing cost accounting in all levels of industrial management, and bringing cost accounting to individual shops. The decree also indicated the need to strengthen the agility of enterprises, and at the same time the responsibility of their leaders for the work of enterprises. Each enterprise should have been provided with the funds necessary to fulfill its industrial financial plans, and the amount of these funds should have been installed simultaneously with the approval of the industrial financial plan of the enterprise. These funds were supposed to ensure the uninterrupted functioning of the enterprise, the uninterrupted "fulfillment of production targets.

The enterprise was to become the main link in the management of the industry. The transfer to self-financing was to be carried out in the shortest possible time at all enterprises of the state industry without exception.

As mentioned earlier (see Chapter VI, § 6), mutual lending by economic agencies to each other (commercial credit), which played a large positive role in the first period of NEP, became, as the socialist sector grew and the development of national economic planning, an obstacle to further the growth of planning and the strengthening of cost accounting. By 1930, the share of a private trader in the turnover was reduced to 6 percent. Success in planning led to the fact that for each enterprise in its industrial financial plan, firm targets were already established for the production and sale of goods, as well as for cost. An opportunity has been created, on the basis of industrial financial plans, to precisely regulate the state of the working

capital of economic agencies. Under these conditions, the preservation of mutual lending became a relic. It gave economic agencies the opportunity to cover problems in the organisation of their work and breakthroughs in the implementation of plans by attracting funds from other economic agencies. All this undermined cost accounting and ruble control.

The tasks of strengthening cost accounting required the establishment of direct relationships between enterprises and the bank. Only this kind of relationship in which the bank directly lends funds to enterprises that need to temporarily replenish their own funds, made it possible to strengthen cost accounting, strengthen control over the activities of individual enterprises. The old system of credit, relations did not meet these requirements.

On January 30, 1930, the Central Executive Committee and the Council of People's Commissars of the USSR 'adopted a resolution "On Credit Reform", which says:

"The rapid development of socialist principles in the national economy of the USSR and the achieved level of planning make it necessary to fundamentally reform credit. The system that has existed until now, the release of goods on credit in the socialised sector, which led to the complication of the path of credit and to difficulties in planning, should be eliminated and replaced exclusively by bank lending. (Bank lending itself should be organised in such a way that enterprises and organisations in need of a loan receive it without going through intermediary links of Lending at the State Bank".

Thus, the main content of the credit reform was: 1) the liquidation of commercial credit with its replacement by direct bank lending. Mutual lending of economic entities (transfer of goods by economic entities to each other and provision of services on credit) was prohibited. Every economic agency that needed a loan could only get it from a bank on the basis of credit plans; 2) in the concentration of the entire business of short-term lending in a single credit

institution—the State Bank. The reform was supposed to strengthen the role of the State Bank as a settlement centre. The implementation of these measures was supposed to help strengthen cost accounting and ruble control, and strengthen the entire business of credit planning.

The successes in the collectivisation of peasant farms also required changes in the organisational structure of the agricultural credit system.

By the decree of the Central Executive Committee and the Council of People's Commissars of the USSR dated January 30, 1930 "On Credit Reform", in accordance with the instructions of the Central Committee of the All-Union Communist Party of Bolsheviks, all republican, regional and regional agricultural banks were transformed. to branches of the All-Union Agricultural Bank, directly subordinate to him. Banking links below the regional and regional, as well as agricultural credit unions were liquidated. Agricultural credit partnerships were transferred to purely credit work with the termination of their production, marketing, supply and trading activities. Agricultural credit partnerships were to unite collective farms, primary agricultural production organisations and their regional unions, other cooperative organisations, committees of mutual peasant assistance and individual poor and middle peasant farms as their members. Credit partnerships were entrusted with control over the financial condition of borrowers, for the correct use of loans for their intended purpose, etc.

However, with the tremendous growth in investment in agriculture, credit partnerships were unable to ensure firm control. Therefore, at the end of 1930, the agricultural credit system was liquidated and all credit partnerships, as well as the rest of the agricultural credit system, were transformed into branches of the State Bank.

The Credit Reform was aimed at strengthening planned discipline and ruble control. In the resolution of the Central Election Commission and the Council of People's Commissars of the USSR, the objectives of the credit reform were

emphasised quite clearly and clearly. However, in practice, the credit reform was carried out in such a way that it weakened cost accounting and ruble control. The Credit Reform in the practice of its implementation were the result of the vile sabotage work of the Mensheviks, Trotskyists and other agents of foreign intelligence, who made their way to the leadership of the State Bank.

The saboteurs covered up their subversive veteran chatter about the “withering away” of money and credit.

The harm in the practice of carrying out the credit reform was expressed in the so-called “unpreparedness” of the bank for the credit reform, despite the fact that for a number of months before the reform the issues of its implementation were thoroughly discussed in the press. Pests tried to disrupt the reform, deliberately creating difficulties, confusing banking statistics, giving confusing, contradictory, incomprehensible instructions and circulars to the branches of the State Bank.

The State Bank is a credit institution. Its tasks are to ensure the most complete accumulation of temporarily free funds and to correctly direct them in the form of short-term loans to economic organisations; direct them so that the loan stimulated the fulfillment of planned targets. Pests are the same. During the course of the credit reform, they tried to assign to the State Bank functions unusual for it, namely the functions of regulating the production and distribution of goods in the country, which distracted the State Bank from fulfilling its real tasks and functions.

The harm in the practice of carrying out credit reform was expressed, further, in the distortion of a number of basic principles of credit reform.

First, the bank took the path of indiscriminate lending under plan instead of lending to individual business transactions to the extent that the plan is fulfilled. In the process of drawing up the industrial financial plan, it was established what part of the needs of the enterprise or economic agency is not covered by the funds at its disposal.

Difference between the need for funds and between the availability of funds was taken as the planned amount of credit, and the enterprise could receive this amount of credit established by the plan, regardless of the progress of its plan. The state bank was not interested in whether the plan is being fulfilled or not, whether in the course of fulfilling the plan the company's need for a loan is confirmed or not.

In practice, the economic agencies sought to exaggerate the planned need for funds in order to thereby receive more funds from the bank. Consequently, the system of indiscriminate lending under the plan undermined bank control with the ruble, weakened cost accounting, and entailed unrestrained lending, since economic agencies could receive all the funds due to them under the credit plan without worrying about the fulfillment of their production plans. It led to the automation of lending, which excluded the possibility of control by the bank and economic authorities over the course of implementation of plans.

The second distortion in the practice of carrying out credit reform was the so-called automation of calculations. As you know, in every operation for the sale of goods there are two parties: the supplier who sells the goods and the buyer who buys the goods. The bank's task is to carry out settlements between buyers and suppliers by transferring funds from buyers 'accounts to suppliers' accounts based on the order of the payer.

In fact, it was like this: the supplier, arbitrarily shipping goods to the buyer's address, presented a special document to the bank—an invoice. The state bank, without the knowledge and consent of the buyer, credited the amount of this invoice to the supplier's account, and then, after the invoice arrived at the buyer's location, debited this amount from the buyer's account.

Such automatism of calculations, in fact, "removed the supplier's concern about the quality and completeness of the shipped products, because it was enough to present a document confirming the fact of shipment of goods in order

to receive money from the bank at the expense of the buyer. He extremely narrowed the manoeuvrability of economic agencies, their ability to manage their funds. Khozorgan was under constant threat that the bank would write off him without his knowledge. the current account of funds to be transferred to other economic agencies and thereby leave it without funds for running costs. For example, an economic agency accumulates funds on its account to pay salaries; the day of salary payment comes, the economic agency turns to the bank and unexpectedly finds out that there are no funds on his account, since they are transferred to his supplier for the goods shipped. The automaticity of calculations undermined the foundations of the correct organisation of the financial activities of enterprises.

The automatism of settlements made it possible for economic agencies to ignore the minimal impact on the part of the bank, which was expressed in the refusal to issue funds after exhaustion of the planned credit limit. For example, a business organisation needs funds to pay salaries, and the bank refuses to issue the necessary funds, since the entire amount established under the loan plan has already been used. Then the economic agency ships some goods to one of its buyers and presents invoices to the State Bank; on the account of the economic agency immediately, the required amount of funds appears automatically.

The automatism of settlements increased the automatism of lending, with all its harmful consequences. 'Suppose that the buying company used all the funds due to it under the quarterly credit plan. Obviously, this economic agency will receive more loans from the bank.

But to the address of this buyer, another economic agency-supplier shipped the goods, and the bank at the location of the supplier credited the invoice amount to his current account at the expense of the buyer. The bank cannot transfer these funds from the buyer's account, since on the buyer's account, the funds are gone. The bank has only one "way out": to lend to the buyer for the entire

amount that is not covered by the balance of funds on the buyer's account.

Indiscriminate lending against the plan and the automatism of settlements led to a complete violation of contractual relations between economic agencies. The supplier was not interested in fulfilling the contract exactly. The automaticity of settlements eliminated control from the side of the buyer for the supplier: the buyer could not, by means of ruble control, demand from the supplier that the contract was accurately fulfilled with respect to the quality and range of goods, their timely delivery. As a result, interest in contracting has weakened; the number of concluded economic contracts has dropped sharply; the incentive to improve the quality and range of products was undermined.

The violation of cost accounting in enterprises and economic organisations in the practice of carrying out the credit reform was also expressed in the depersonalisation of own and borrowed funds of economic agencies. The most striking expression of this depersonalisation was the introduction of the so-called single current account, that is, a single account to which all funds of an enterprise or economic organisation are credited, regardless of whether they are the enterprise's own funds or are provided to it by a credit institution for temporary use. In practice, a single current account led to the fact that the State Bank equally disposed of the borrowed and own funds of economic organisations, and the economic agencies were freed from the obligation to increase their own circulating assets.

Harmful perversions in the practice of credit reform, disorganising trade and weakening banking levers for regulating monetary circulation, dealt a blow to the stability of the Soviet ruble.

The Council of People's Commissars of the USSR pointed out the need to improve the practice of credit reform back in August 1930. In its resolution on the reports of the NKRKI and the State Bank, the Council of People's Commissars of the

USSR suggested that the State Bank accurately observe government-approved credit plans and credit limits, take decisive measures to decentralise lending to self-supporting enterprises, and accelerate promotion of operational documents on direct bank lending, liquidation of neglect of accounting, etc. The Council of People's Commissars of the USSR suggested that the State Bank immediately inform the Council of People's Commissars about any breakthroughs in the implementation of plans by economic organisations and gave the State Bank the right to stop paying invoices in case of breakthroughs in the implementation of financial plans, require in respect of unscrupulous suppliers the prior acceptance of invoices by the buyers. At the same time, measures were taken to strengthen the responsibility of economic agencies for the misuse of loans.

The former wrecking leadership of the State Bank maliciously sabotaged the enforcing of these guidelines. The State Bank did not use the broad rights granted to it by the government, and continued to carry out the destructive practice of indiscriminate lending against a plan and automatic settlements. The State Bank also used completely unsatisfactorily the right granted to it to participate in the review and approval of the balances of economic agencies and in the distribution of their profits.

The elimination of harmful perversions in the practice of carrying out the credit reform was carried out during 1931 on the basis of direct instructions from Comrade Stalin.

In June 1931, at a meeting of business executives, Comrade Stalin also noted that

"... owing to the mismanagement of business, the principles of cost accounting have been completely undermined in a whole series of our enterprises and economic organisations. It is a fact that a number of enterprises and economic organisations have long ceased to count, calculate, and draw up reasonable balances of income and expenses. It is a fact that in a number of enterprises and economic organisations the concepts: "economy mode",

“reduction of unproductive costs”, “rationalisation of production”—has long gone out of fashion. Obviously, they expect that the State Bank “will give us the necessary amount”¹.

It was necessary to crush, eradicate to the end such a wrong attitude to money, to finance. And this could be done only under the condition of the complete elimination of wrecking perversions c. practice of carrying out credit reform.

On the instructions of Comrade Stalin, a number of measures were taken throughout 1931 to eliminate distortions in the practice of carrying out credit reform.

The decree of the Council of People’s Commissars of the USSR of January 14, 1931 obliged the bank to pay suppliers’ bills within the limit provided to the buyer only with the buyer’s consent (acceptance of the invoice), or his order (letter of credit), or from his special account. Of these three forms of payment, the predominant form was recognised acceptance. In the case of an acceptance form of settlements, the bank has the right to pay suppliers’ bills only subject to the buyer’s consent to this. Only in cases where the buyer did not declare his refusal of acceptance within the prescribed period, the bank can transfer funds from the buyer’s account to the supplier’s account without the buyer’s consent (acceptance). This right is granted to the bank in order to protect the interests of the supplier.

The establishment of these three forms of settlement meant liquidation, automatism of settlements and related elements of automatism of lending.

In connection with the introduction of new forms of settlements, by a decree of January 14, 1931, two additional types of credit were established: a) for amounts in transit and 6) commodity credit. The first type of loan should cover the additional need of the supplier for working capital for the period from the moment of shipment of the goods to the

¹ J. Stalin, *Questions of Leninism*, ed. 11th, p. 346.

receipt of money from the buyer. The second type of credit is provided to economic agencies in cases when the delay in the sale of goods, and therefore the release of working capital, occurs for reasons that do not directly depend on the economic agency or enterprise (for example, due to transport difficulties).

Further, in order to improve the settlement activities of the State Bank, by a decree of January 14, 1931, the bank's staff was unloaded from various kinds of small settlement operations. Prior to this resolution in 1930, the bank accepted accounts for any amount for payment by non-cash settlements, which excessively overloaded the banking apparatus with small settlement transactions. The decree of January 14, 1931 established the minimum amount of the account (1000 rubles), accepted by the bank for payment in the order of non-cash payments, while smaller accounts (up to 1000 rubles) must be paid in cash in addition to the bank.

The second decree aimed at eliminating distortions in the practice of carrying out credit reform is the decree of the Council of People's Commissars of the USSR dated March 20, 1931 "On changes in the credit system, strengthening credit work and ensuring cost accounting in all economic bodies." This is the most important document highlighting the role and the tasks of the State Bank in the Soviet economy and establishing the basic principles of credit work. It is of tremendous theoretical importance, since it formulates the main provisions of the Leninist-Stalinist theory of Soviet credit—the role of the bank in the USSR.

As pointed out as such, the role of the State Bank is to:

“a) become a settlement organisation for a socialised economy, a nationwide apparatus for accounting for the production and distribution of products;

b) to ensure real day-to-day control by the ruble over the course of fulfillment of plans for the production and circulation of goods, over the fulfillment of financial plans and the course of accumulation in the socialised sector of the national economy;

c) to ensure the strengthening of the cost accounting of enterprises and economic associations as the main lever for the implementation of plans (quantitative and qualitative targets) in the entire socialised sector.”

The lending system established by this decision was characterised by the following main points: a) when drawing up and approving financial plans, each economic agency was set a credit limit, that is, the maximum amount of funds that this economic agency could receive from the bank in the course of lending; b) upon presentation by economic agencies of contracts concluded on the basis of their financial plans, the bank opened a loan to economic agencies; c) as the economic agencies fulfilled the contracts they concluded, the bank made a release of funds, that is, provided an actual loan.

This meant that the State Bank had the right to credit economic entities within the credit limit only in the amount of actual needs, confirmed by the agreements presented to the bank and only in accordance with the progress of these agreements. Consequently, lending should have been carried out not according to the plan, but to the extent of the fulfillment of the plan.

The bank was given the right to apply credit measures (credit sanctions) to inaccurate economic entities, namely: to stop issuing amounts from the accounts of sloppy economic entities, to sell their goods and other material values forcibly. All economic agencies, by order of the Council of People's Commissars of March 20, 1931, pledged to publish their balance sheets, presenting them also to the State Bank.

The liquidation of the depersonalisation of own and borrowed working capital was carried out by a resolution of the STO dated July 23, 1931 “On the working capital of associations, trusts and other economic organisations.” According to this resolution, each state economic organisation must be endowed with its own circulating assets, sufficient for ensuring minimum stocks of raw materials,

materials, fuel, semi-finished products, work in progress and finished products and goods, as well as investments in expenses for future years. These minimum stocks, necessary for the normal operation of the enterprise, expressed in days, are called standards. To bring the size of own circulating assets of state enterprises to the level of the standard, in 1931 the debt of economic agencies to the State Bank was converted, namely, a part on the debt of state economic organisations to the State Bank was written off to replenish their own working capital. Further replenishment of the own circulating assets of state economic organisations had to be carried out at the expense of their own savings and in the missing amount at the expense of budget irrevocable appropriations.

Endowing enterprises with their own circulating assets with the establishment of an exact list of objects covered by these funds, as well as the regime for the disposal of these funds, required changes in the relationship between economic agencies and the State Bank.

First, in order to actually ensure the right of the economic agency to dispose of its own circulating funds, a single current account is liquidated, reflecting the depersonalisation between its own and borrowed circulating assets. Instead, two accounts are entered. Each is self-supporting. an enterprise that has an independent balance sheet and its own circulating assets must have its own current account with the State Bank, to which all its own and borrowed) free circulating assets of the enterprise or the owner are credited. The right to dispose of this account belongs only to the enterprise or economic agency - the owner of the account. "The state bank can write off funds from this account without the consent of the economic agency or enterprise only in certain cases established by law. In addition to the current account, each economic agency or enterprise, credit bank, has loan accounts, which reflect a movement of their debt to the State Bank.

Secondly, the endowment of enterprises and economic

agencies with their own circulating assets for certain needs and only within the minimum requirements entailed the specification of banking lending facilities.

Obviously, the needs of enterprises, covered by their own circulating assets, could not serve as objects of bank lending. On the other hand, it is just as obvious that the planned needs of enterprises and economic agencies in funds exceeding the established minimum of their own circulating funds should be covered by a bank loan.

In the resolution of the STO of July 23, 1931 on working capital, it was indicated that "the State Bank provides short-term loans to state enterprises only for needs related to the financing of valuables on the way, with the advance payment of seasonal production rates, the accumulation of seasonal stocks of raw materials, fuel, production and auxiliary materials, with a temporary increase in investments in work in progress, with a seasonal accumulation of finished goods and goods, as well as for other temporary needs arising from the course of production and circulation of goods."

Thus, according to the decision of the STO of July 23, 1931, a bank loan is provided only for the temporary needs of enterprises and economic agencies, and in each case, for strictly and precisely defined needs. Hence follow the basic principles of lending: urgency, repayment, target nature and security of the loan. Each loan provided by the State Bank should have a specific purpose, should be issued only if the enterprise or economic agency guarantees the use of the loan for the purpose established when it was issued. Each loan can, further, be issued only for a definite, precisely fixed period. Compliance with this second principle requires the provision of unconditional repayment of the loan received at the end of its term. To ensure the same 'repayment of the loan, the fourth principle is established - the security of the loan with commodity and material values. In this case, the bank is given the right to write off funds from the settlement account of the household authority to repay overdue loans.

The implementation of the credit reform was of great

importance for the entire cause of socialist construction. This was noted by Comrade Stalin at the 16th Party Congress. Comrade Stalin said:

“Rational organisation of credit” and correct manoeuvring of monetary reserves are of great importance for the development of the national economy. The party’s measures to resolve this problem are going along two lines: along the line of concentrating the entire case of short-term credit in the State Bank and along the line of organising cashless payments in the socialised sector. Thus, firstly, the State Bank turns into a nationwide apparatus for accounting for the production and distribution of products, and secondly, whole masses of money are freed from circulation. There can be no doubt that these measures will lead (they are already leading) to the ordering of the entire lending business and the strengthening of our chervonets”¹.

3. Financial Organisation of Capital Investments

The implementation of the credit reform was inextricably linked with the restructuring of the entire credit system. The main line of this restructuring consisted in the delimitation of the functions of short-term lending and financing of capital investments, while carrying out the sectoral specialisation of banks for capital investments.

The tremendous growth in the volume of capital investments demanded an improvement in the construction business, the strengthening of cost accounting in construction, and an intensification of the struggle to reduce the cost of construction. Under these conditions, the concentration, for example, in the State Bank of the entire business of financing and lending to agriculture could be tolerated only as

¹ J. Stalin, *Questions of Leninism*, ed. 10th, p. 403.

temporary transitional measure. Already in itself the combination of short-term functions, lending and the function of financing capital investments in one institution could not fail to damage both.

In addition, the rapid growth of budgetary appropriations directed irrevocably to the construction and reconstruction of industrial enterprises, transport, state farms and MTS, the transformation of budgetary appropriations into the main, decisive source of funds for financing capital investments strengthened the direct responsibility of the People's Commissariat for Finance for the correct use of funds, for the correct organisation of the financial economy. construction. All this necessitated the creation of special bodies for financing capital investments, directly subordinate to the People's Commissariat for Finance, responsible for the use of funds.

At the same time, the same tasks of maximum strengthening of control required the sectoral specialisation of these bodies.

On May 5, 1932, the Central Executive Committee and the Council of People's Commissars of the USSR adopted the decree "On organisation of special banks for long-term investments". The decree says:

"In accordance with the implementation of the socialist reconstruction of the entire national economy and the interests of rapidly developing capital construction, requiring specialised, in relation to individual industries, the organisation of financing while ensuring unity in the credit system, control over the established target use of state funds allocated for capital construction, the introduction of self-financing on construction sites and to reduce the cost of construction—the Central Executive Committee and the Council of People's Commissars of the USSR decide: 1) to organise all-Union special banks for long-term investments in the system of the People's Commissariat of the USSR: a) the Bank for financing the capital construction of industry and electrical facilities (Prombank), converted from the Bank for

long-term crediting of industry and electrical facilities; 6) Bank for financing socialist agriculture (Selkhozbank); c) the Bank for Financing the Capital Construction of Cooperation (Vsecobank), which is being reorganised from the All-Russian Cooperative Bank; d) Bank for financing public utilities and housing construction (Tsekombank)”.

By the decree of the Central Executive Committee and the Council of People’s Commissars of the USSR dated May 5, 1932, as well as a number of subsequent, supplementary and amended government decrees between the special banks made the following delineation of the branches of activity:

a) Prombank is entrusted with financing in the ‘order of irretrievable investments and long-term loans for capital construction of the state industry, transport, communications, domestic and foreign trade and in the field of procurement;

6) for Tsekombank—financing in the order of non-repayable investments and long-term loans of all housing, communal and cultural and domestic construction, as well as the complex construction of new cities and towns;

c) to Selkhozbank—financing in the order of non-repayable investments and long-term loans of all types of capital investments of agricultural state enterprises and organisations and collective farms;

d) to Vsecobank—financing in the order of long-term loans of all types of capital construction of consumer, industrial cooperatives, cooperation of disabled people, while retaining for Vsecobank other operations performed by it before the resolution of May 5, 1932.

The decree of the Central Executive Committee and the Council of People’s Commissars of the USSR dated May 5, 1932 indicated that that the special banks concentrate all the funds intended for capital investments, carry out settlement operations for servicing their customers and, on the basis of approved plans, monitor the use of the funds allocated by the bank for their intended purpose in accordance with the actual progress of work. However, the forms and methods of control have not yet been established

by this decree. The banks themselves have taken the wrong path in their work. They tried to appropriate to themselves, to one degree or another, the functions of planning and regulating construction, disregarding the instructions on the financing of capital construction of industry given by the government back in June 1931.

Recognising the sharp discrepancy between the existing system of financing the capital construction of industrial and electrical facilities and the main provisions of the government decrees of January and 20 March 1931, STO in June 1931 proposed that the State Bank and the Bank of Long-Term Lending finance construction projects: a) only in accordance with the implementation construction assignments and with obligations arising from construction contracts; b) depriving the limits of the approved construction plans, preventing the spending of funds allocated for capital construction for the operational needs of the enterprise. STO proposed, further, to strictly comply with the directive prohibiting the financing of project-free construction and to reduce the funding limits for construction projects for the cost of work not provided with approved projects and estimates. Ignoring these instructions was one of the forms of sabotage in the field of financing capital investments.

April 21, 1933 The Council of People's Commissars of the USSR adopted a special resolution "On the procedure for control exercised by banks of long-term investments in financing capital construction." By this resolution long-term investment banks were assigned the following control responsibilities:

- 1) finance only those construction projects that have an approved estimate for a technical project and a title;
- 2) pay bills for building materials, horse-drawn carriage only at fixed prices;
- 3) pay bills for equipment only at the prices provided for in contracts or specified in price lists;
- 4) to issue money for wages only within the established

funds;

5) to issue funds for start-up costs, personnel training, administrative and economic, research and other expenses only according to approved estimates;

6) pay, by order of customers, invoices accepted by them for construction and installation work performed by contractors at prices established in contracts between contractors and customers;

7) stop financing those constructions for which the actual costs incurred have already exhausted the estimated amounts or quarterly allocations established by the people's commissariat, association or trust of ownership.

Strict adherence to these rules and control responsibilities was to help streamline capital investments and reduce construction costs.

4. Expansion of Soviet Trade, Further Strengthening of the Soviet Ruble and Restructuring of Forms and Methods Crediting of Goods Turnover

The successful implementation of the Leninist-Stalinist plan for the industrialisation of the country and the collectivisation of agriculture ensured a tremendous growth in industry and agriculture, a steady increase in the needs of workers and peasants and, as a result, revitalisation and expansion of trade between town and country and further strengthening the Soviet ruble. Having expelled private traders, merchants, and intermediaries of all kinds from the circulation of goods, the party, under the leadership of Comrade Stalin, developed Soviet trade—trade without capitalists and speculators. On the degree of development of Soviet trade. depended on the timely delivery of the growing mass of commodities to the consumer, taking into account his tastes and needs, strengthening ties between town and

country, strengthening incentives for further growth in industrial and agricultural production. The expansion of Soviet trade, as Comrade Stalin pointed out at the 17th Party Congress, became the most urgent task, without the resolution of which it was impossible to move forward successfully.

In 1929, the retail turnover of the state and cooperative trade were (excluding public catering) 14.6 billion rubles in 1934—54.8 billion rubles. For 5 years, the state-cooperative trade turnover has increased, therefore, 3.1 times. In addition, the turnover of collective-farm and peasant trade, which constitutes a necessary supplement to state-cooperative trade, in 1934, it was equal to 14 billion rubles.

In 1929, the country's retail trade turnover was still 13.5 percent fell on the share of private trade. In 1934, the entire retail trade—the country's turnover in the amount of 61.8 billion rubles (and together with collective farm trade—in the amount of 75.8 billion rubles) constituted the turnover of Soviet trade, trade without capitalists and speculators. As early as 1931, private capitalist elements were completely kicked out of trade.

The expansion of commodity circulation was of tremendous importance for the state of our money circulation.

At the January 1933 Joint Plenum of the Central Committee and Central Control Commission of the All-Union Communist Party (Bolshevik), Comrade Stalin showed the closest dependence of the unshakable stability of the Soviet currency on the development of Soviet trade.

The Soviet monetary system is a planned system completely independent of the capitalist environment. The main cash and commodity flows in the Soviet economy are determined and directed by the national economic plan, and are regulated by the state in the interests of developing the socialist productive forces, in the interests of raising the well-being of the working people. The basis for the stability of Soviet money is the mass of commodities concentrated in

the hands of the proletarian state and put into circulation at planned, stable prices. Under the conditions of the Soviet economy, money is directly related to the mass of commodities concentrated in the hands of the state.

The growth of the mass of commodities, concentrated in the hands of the state and launched into trade at stable prices, ensured the further strengthening of the Soviet currency. The party exposed and defeated the counter-revolutionary chatter about the “withering away” of Soviet money, the diminution of its role and significance. The party strengthened the Soviet currency in every possible way, successfully used it to carry out the Stalinist plan for the socialist industrialisation of the country and the collectivisation of agriculture. With Soviet currency, the working people of the USSR built a number of giants in mechanical engineering and other industries, equipped hundreds of thousands of collective farms, thousands of state farms.

The enemies of the people, perverting the practice of credit reform, sought to disorganise production, disrupt trade, and disrupt the stability of the Soviet currency. The dastardly hires of foreign intelligence agencies flattered themselves with the hope of breaking our monetary system, knocking this most important tool out of the hands of the Soviet government, by means of carrying out loans under the plan and automatism of calculations.

The subversive work of the enemies of the people influenced money circulation and trade. The capitalist masters of the enemies of the people, anticipating the fruits of this heinous subversive work, launched a frenzied campaign of slander, claiming that the Soviet currency no longer had any value.

But, in spite of the vile intrigues of the enemies of the people, the credit reform contributed to the further strengthening of the Soviet currency by strengthening the planning principle in the entire national economy. It contributed to the acceleration of the circulation of goods

and reduced the need of the national economy for cash through the development of non-cash payments. She significantly improved the planning of monetary circulation and allowed the transition to the preparation of cash plans.

The rapid growth of cities and new industrial areas in connection with the development of socialist industrialisation of the country, the steady rise in the well-being of the working people in town and country led to a huge increase in demand for bread and other products. Small-scale individual peasant farming, with its backward technology and low yields, could not meet this growing demand. All this created a tense situation on the grain front. It was necessary to use special measures against the kulak, aimed at combating price increases and speculation. It was necessary to fully ensure the supply of cities, industrial regions and regions of industrial crops with bread and other products at fixed state prices.

One of the measures taken for this purpose was the introduction of rationing (rationing system) in supply. In the resolution of the plenum of the Central Committee of the All-Union Communist Party of Bolsheviks dated November 26, 1934, on the report of Comrade Molotov said:

“The introduction of a rationing system for bread and other products was not only necessary, but in recent years has also been the most important condition for improving the supply of workers. The rationing system of supply during this period was especially necessary because, despite the significantly higher prices of the free market and the presence of elements of speculation in this matter, the supply of workers with grain produced at firm government prices. Only thanks to this system, the state, with limited resources, could fully ensure the supply of cities and industrial regions could ensure the preferential supply of the most important centres and shock workers in production, and at the same time ensure the supply of grain at firm state prices to the suppliers, agricultural raw materials: cotton, flax, hemp, tobacco, etc. in the interests of the rise of

industrial crops and the growth of procurement of raw materials for industry”¹.

The expansion of soviet trade on the basis of successes in the socialist industrialisation of the country and the collectivisation of agriculture prepared the way for the abolition of the rationing system. This event was carried out, by decree of the November plenum of the Central Committee of the All-Union Communist Party of the Soviet Union) (1934), from January 1. 1935 The abolition of the rationing system meant a further strengthening of the value of the Soviet ruble as a weapon ties between town and country, an intermediary in the circulation of goods, an instrument through which socialist distribution according to work is carried out:

Of no small importance in the development of Soviet trade was the change in the system of lending to cake organisations, made in 1933.

The credit system established by the law of 23 July 1931, which generally met the needs of economic turnover, did not stimulate the acceleration of the promotion of goods to the consumer, the fight against overstocking. The growth of turnover could not have been ensured by the growth of own circulating assets of trade organisations, the objects of lending indicated by the decree of July 23, 1931 were insufficient for the necessary strengthening of credit assistance to trade organisations. Trade organisations were credited without direct connection with the growth of trade turnover. It is necessary to make additions to the lending system. This was carried out by the decree of the Council of People’s Commissars of the USSR of August 16, 1938 “On the procedure for lending to trade organisations (in terms of trade).”

“The further development of Soviet trade,” the decree indicated, “requires strengthening the financial economy of

¹ “CPSU (B) in Resolutions and Decisions”, Part II, pp. 609-610.

the commodity distribution system, strengthening the accumulation of its own circulating assets, more flexible methods of lending to trade and better adaptation of bank loans to meet the needs of the growing turnover. In these conditions, especially in connection with the increased demand of the consumer for the range and quality of goods, a bank loan must provide a decisive strengthening of the ruble control over the activities of commodity distribution organisations, to facilitate the acceleration of the promotion of goods to the consumer and the strengthening of the financial economy of trading organisations.”

By the decree of the Council of People’s Commissars of the USSR of August 16, 1933, lending was established for trade organisations in terms of trade in two types.

The first type of loans is provided to credit the import of goods in excess of the amount of this import; which is covered by the minimum own circulating assets of trade organisations. These loans are disbursed as goods arrive at the merchant. Term loans are determined by the turnover rate of goods established by the plan.

The second type of loans is provided to replenish the shortage of the established minimum of own circulating assets of trade organisations to the standard. The object of crediting here is a part of the circulating assets not yet covered by the own funds of the trade organisation within the limits of the standard. The resolution indicated that such loans can be issued only in cases where the trading organisation’s own circulating assets amount to at least 10 percent. the total amount of the standard established for it. Loans of the second type are provided for the period of bringing the trade organisation’s own circulating assets at the expense of its accumulations up to the established standard.

Loans for trade turnover could be made by the State Bank only on condition: a) unconditional profitability of the trading and other activities of the trading organisation; a) the allocation of non-trading activities to a special balance,

which should have prevented the investment in this activity of working capital intended directly for trade; c) the existence of well-established accounting and periodic, timely reporting; d) the absence of delays in obligations to the State Bank and payment for goods. In addition, the provision of a loan for goods turnover presupposed that the trade had a set minimum of its own circulating assets.

5. Restructuring Payments of the Socialised Economy to the Budget. The Tax Reform of 1930

Established by 1980, as a result of previous development, the tax system was characterised by a plurality of separate types of payments, multiple taxation of the same goods.

at different stages of their production and circulation. It also lacked a complete, fully completed delimitation of payments by enterprises and organisations of a socialised economy from payments by private farms.

According to the financial plan for 1929-30, the number of payments to enterprises and organisations of the socialised economy reached 86. The main ones were the following:

	The amount according to the plan for 1929-30	
	in million rubles	in percent to the bottom line
Excise taxes (12 types)	2208,2	28,9
Trade tax	1648,4	21,5
Customs duties	300,9	3,9
Stumpage board	371,7	4,9
Income tax	353,5	4,6
Deductions from profits to the budget (3 types)	928,1	12,2
Contributions to the FUBR (fund for improving the life of workers and employees)	145,1	1,9
Contributions to BDK	329,2	4,3
Loans 1928 and 1929	256,8	3,3

Total 23 payments	6531,9	85,5
Other 63 payments	1081,8	14,5
Total 86 payments	7613,7	100,0

The bulk of all these payments (79.8 percent) were paid by the state industry. With the growth and strengthening of the socialist sector of the national economy, with the strengthening of the planning principle in the national economy, the economy as a whole and in individual enterprises, the existing tax system ceased to correspond to the state and organisation of the national economy.

The plurality of payments and the multiple taxation of trade and industrial turnover in its various links made it extremely difficult to carry out a planned price policy, complicated the process of collecting taxes, control over their timely and full payment, and increased the costs of collecting them, created unnecessary difficulties for business organisations. The complex relationship between socialised industry and trade and the budget made it difficult to plan individual industries and the entire national economy as a whole. Partial changes introduced in 1928-29 (the transition to a non-centralised collection of excise taxes, the abolition of a number of small excise taxes, the merger of excise and industrial tax on textiles and alcohol, etc.) did not eliminate the negative aspects of the existing tax system. In the decree on the reorganisation of industrial management dated December 5, 1929, the Central Committee of the CPSU (B) pointed out that the creation of a single self-supporting organisation requires a decisive simplification of the system of taxation of industry. The Central Committee of the All-Union Communist Party (Bolsheviks) instructed the People's Commissariat of Finance and the Supreme Economic Council of the USSR to develop a system of taxation of state industry on the principle of a single deduction from profits.

The need to introduce fundamental changes in the tax system has become even more acute in connection with the implementation of the credit reform.

The tax reform was carried out on the basis of the decree of the Central Executive Committee and the Council of People's Commissars of the USSR of September 2, 1930.

The reform of 1930 unified and simplified the system of payments for enterprises and organisations of the socialised economy. All pre-existing payments were mainly combined into two payments: value added tax and deductions from profits—for state-owned enterprises and value added tax and income tax — for cooperation.

The value added tax has been unified. 53 payments, including trade tax from enterprises and organisations of the socialised economy and excise taxes; in deductions from profits—5th payments, including income tax from state enterprises and economic organisations. A number of payments have been preserved as separate payments. This includes payments that had a specific purpose (for example, deductions to the FUBR), or related to external relations (for example, customs duties, port dues), or constituted an independent source of income for local budgets (for example, rent, tax on buildings).

Subsequently, in addition to the turnover tax, the following were introduced: tax on turnover of cinemas (law of April 13, 1931), tax on non-commodity transactions (law of August 3, 1931), tax on state farms (law of August 7, 1931) ... Besides, in connection with the deployment of open trade. special budget margins and taxation of open (commercial) trade (special commodity fund) were established. Unlike turnover tax, budget margins were set for certain types of goods, varied in relation to goods sold in the city and in the countryside (depending on market conditions), and were not included in the selling price of goods. The elimination of the card system and the transition to widespread open trade in all goods at uniform prices led to the abolition of the taxation of commercial trade and the budget margins associated with the card system, which were thus of a temporary nature.

In the practice of tax reform, a number of perversions, in

some cases similar to harmful perversions in the practice of credit reform. The main distortions in the field of turnover tax were: 1) excessive centralisation of tax collection, 2) excessively depersonalised tax rates, 3) tax collection based on planned (rather than actual) turnover, and 4) automatic tax calculations.

Excessive centralisation of the collection of turnover tax consisted in the fact that the tax was to be paid not by individual enterprises or economic organisations selling goods of their own production or their own preparations, but by associations. In 1931, associations of all-union significance were to pay over 93 percent of the entire amount of the tax. This tax collection procedure removed the republican and local financial authorities from this case. Thus, they were deprived of the opportunity to exercise real control over the fulfillment by enterprises of their obligations to the budget, over the financial situation, over the entire economic activity of enterprises. This procedure weakened the financial authorities' interest in organising such control. Excessive centralisation of tax collection was reflected in the course of receipts of payments on this tax to the budget: the associations themselves were poorly aware of the progress in the sale of goods by enterprises. In addition, the associations did not have the proper impact on enterprises that delayed tax payments.

A second distortion was also associated with the excessive centralisation of the collection of the turnover tax—the use of excessively impersonal tax rates: the rates were set for each industrial association as a whole. Such a structure of rates created an impersonal taxation of certain groups of goods, completely imposing on the associations the differentiation of the uniform rate established for them for certain goods. The government decree stated that the tax reform should not lead to an increase in the total amount of tax exemptions, as well as to an increase in the prices of goods or to an increase in overhead costs. As a rule, associations have retained in the calculation of the selling

prices of goods the same payments that were made for these goods before the reform; the turnover tax rates established for associations at best corresponded to the range of goods in 1929-30. Changes in the range of goods created a gap between the amounts of tax calculated for the union and the actual tax revenues, which entailed changes in capes for individual goods on the part of associations. As a result, trade organisations received goods with varying capes from associations; in some cases, the same product came from different associations with sharply different cloaks, which made it difficult to calculate and reflected either on the financial position of the trade organisation or on prices. Thus, the system of uniform rates of turnover tax for associations undermined the foundations of cost accounting and did not ensure strict fulfillment of the tax revenue plan to the budget.

The negative impact of excessive centralisation of tax collection and flat rates, which were established as a whole for individual associations, was aggravated by the practice of levying tax on the planned turnover and automatic calculations (transfer of funds from the taxpayer's account to the budget account for each individual operation of goods issue upon presentation of an invoice for the goods sold to the institution. State Bank).

With regard to deductions from profits, the main distortions were expressed in the fact that: 1) deductions were made according to the plan, and not according to actual profit, 2) the percentage of deductions was set excessively. high (81 percent of the planned profit for the state industry and 84 percent for the state trade) and did not differentiate depending on the planned needs of the enterprise itself in an increase in working capital and in capital investments. This practice undermined the interest of economic agencies and enterprises in the growth of savings, weakened cost accounting and financial discipline, and eliminated the dependence between the expenses of economic agencies and the results of their economic

activities.

These perversions were mainly eliminated during 1931 by changing the procedure for calculating and levying turnover tax and deductions from profits.

Decentralisation of the calculation and collection of value added tax payments was carried out. These payments began to be collected not from associations, but directly from those enterprises that sell goods and receive money for them. Sales tax rates have been established for groups of goods.

The payment of turnover tax and deductions from profits began to be made not according to the planned profit and the planned turnover, but according to the actual turnover for the past month and the actual profit for the past quarter. The transfer of amounts due from enterprises and economic organisations for turnover tax and deductions from profits was made to the budget only on the basis of a direct order of the payer.

The amount of deductions from profits was sharply reduced. The basic rule that was established in this regard was that deductions to budget revenue cover only that part of the profit that exceeds the needs of the enterprises themselves. The dimensions of these needs were determined by the necessary increase in working capital and capital expenditures. All enterprises were divided into three groups: 1) enterprises with high costs for replenishment of working capital and capital investments in excess of their profits were paid in the order of deductions from profits 10 percent. these goals from the budget), paid in order of deductions from profits 81 pr. profits and 3) all other enterprises for which the percentage of profit withdrawal ranged from 10 to 81 percent, depending on the above basic principle. For the State Bank, the amount of deductions from profits was set at 50 percent, for other banks and state trade—at 85 percent. In order to strengthen the interest of enterprises and economic organisations in the growth of savings, a rule was established according to which 50 percent profits accumulated as a

result of overfulfillment of planned targets remain at the disposal of enterprises and economic organisations.

The tax reform of 1930 basically left unchanged the procedure for calculating and collecting income tax from cooperative enterprises. This tax was levied on the balance sheet profit in the form of quarterly advance payments of 17 percent from the balance sheet arrived. In 1933, in order to combat excessive capes and profits, a progression of income tax rates was established in relation to industrial cooperatives and cooperatives of disabled people, namely: if the profit did not exceed 15 percent. of the commercial cost, the tax rate was 20 percent from the amount of profit; with a profitability of 16 to 25 percent the tax rate increased to 25 percent; if the profit ranged from 26 to 35 percent. to the commercial cost, then the tax rate increased to 30 pr., and for surplus profits in excess of 35 percent. to the commercial cost, the tax rate was 90 percent from surplus profit. For other types of cooperation (except for trade and cooperation of disabled people), a single income tax rate of 20 percent was retained.

A number of changes in the system of state insurance are associated with the tax reform of 1930. In 1931, insurance organisations of consumer cooperatives were liquidated (other insurance organisations were liquidated in 1930) and insurance of state property was cancelled (with a few exceptions), while compensation for losses of state organisations from natural disasters was assigned to the state and local budgets.

6. Government Loans and Savings Banks. The State Credit Reform 1930

The need to increase resources for the needs of socialist construction also demanded a restructuring of the factory in the field of state credit and savings. It was necessary to expand even wider the mass work to explain the role and significance of state loans and savings, to strengthen and improve the service of owners of bonds, loans and savings bank depositors in order to further involve the growing monetary resources of the population in the financing of industry, state and collective farms, while ensuring the real long-term state credit.

Of the greatest importance in resolving these problems was the reform of the state credit, carried out in 1930 simultaneously with the issue of the Five-Year Plan in Four Years loan. It unified the previously issued mass loans, replacing the bonds of these loans (except for the bonds of the Third loan of industrialisation”) with bonds of the loan “Five-Year Plan in four years” without any change in the yield of loans. The unification greatly simplified the system of government loans, made it easier for bondholders to monitor the circulation of winnings and redemptions, and helped to improve the service for borrowers. A reduction of government expenses associated with the placement of loans and with servicing borrowers, helped to reduce the actual cost of government loans (without any decrease in their yield for bondholders).

In accordance with the requirements of advanced workers and collective farmers, in 1930 circulation of bonds of mass loans was placed under the public control of the commissions for promoting state credit and savings; case (comsods). These commissions were entrusted with issuing permits to workers to ‘sell or pledge their bonds of mass loans. In all cases where the owners of bonds were really needed, the comsodes freely gave them permission to sell or

pledge bonds of loans.

In previous years, the Soviet state issued a number of special loans for placement among the peasantry. However, the scattered, individual small peasant economy could not serve as a sufficient basis for the distribution of state loans in the village. The transition of the peasantry to collective forms of economy, the abolition of pauperism and poverty in the countryside, and the growth of the prosperity of the collective-farm village radically changed the situation. As of October 1, 1929, only 11.8 percent of the total amount of the state debt to the population accounted for the peasantry, and as of January 1, 1935—already 21 percent. Soviet ones state loans began to spread widely, not only among the workers and employees, but also among the broadest masses of collective-farm peasants. The reform of the state loan of 1930, instead of various loans intended—some for placement among workers and employees, and others among the peasantry—created a single mass form of state loans for all working people of the city and village—five-year loans.

All of the above circumstances contributed to the rapid growth of the role of government loans in state budget revenues. Public debt increased from 1.9 billion rubles. on October 1, 1929 to 11.8 billion rubles as of January 1, 1935, including loans distributed among the broad masses of the population through collective subscription—from 0.7 to 11.6 billion rubles and for loans placed within the socialised economy—from 1 to 6.2 billion rubles.

For the period 1930-1934, five issues of mass loans were carried out: three issues of the loan “Five-year plan in four years” (the first issue—1930, the second issue—the third, decisive role of the five-year plan”—1931 and the third issue —”The fourth, by the final year of the five-year plan—1932”) and two issues of the” loan of the second five-year plan “(issues of the first and second years of the second five-year plan). In addition, during this period, the following were issued: a) a 9% government loan in 1930 and a government winnings loan in 1932—for placement among the population

as individual purchases for cash without prior collective subscription; 6) 10 percent government loan—for placement in it of the free balance of savings bank funds.

At the beginning of this period (in 1930-31), the target (advance) loans include: tractor and car commitments, sewing commitments, bike commitments, and photo commitments. Funds received by placing these obligations, were completely directed to the development of the production of the corresponding goods, while the owners of the obligations received the right to 'exchange them on time for these goods (get a bicycle, a camera, a sewing machine). Tractor and automobile obligations were placed among the collective farms. In addition, in 1930 the Central Executive Committee and the Council of People's Commissars of the USSR allowed the All-Union Association of the Automotive and Tractor Industry to issue a special "Loan for the Promotion of Tractorisation of Agriculture". The bonds of this loan gave the collective farms the right to receive priority tractors. Since 1932, the practice of issuing targeted loans has been abolished.

During this period, significant changes have occurred in the field of savings. The Council of People's Commissars of the USSR in a resolution on the work of savings banks in 1931 stated some achievements in the work, namely, the growth in the number of depositors and the amount of deposits. At the same time, the Council of People's Commissars of the USSR noted that this growth in the number of depositors and the amount of deposits does not correspond to the enormous opportunities that exist in connection with the growth of monetary incomes of the population, and those tasks of mobilising the people's accumulations, which are put forward by the gigantic program of socialist construction in the third year of the five-year plan. The Council of People's Commissars of the USSR proposed to increase the number of savings banks, especially in the countryside, to strengthen the apparatus of savings banks with trusted people capable of becoming the real organisers of the workers' savings, to

raise the entire work of the savings banks to the proper level. At the same time, the Council of People's Commissars proposed to raise the authority and strengthen the work of the commissions for promoting state credit and the savings business, and to allocate public instructors of the savings business from the assets of these commissions and state credit.

During 1931-32, an organisational merger of the management of savings banks with the apparatus of financial institutions in charge of state credit and with the fund departments of the State Bank was made; the Main Directorate of State Labour Savings Banks and State Credit was established. This helped to improve the formulation of work as in the field of savings, and in the field of state loans.

In order to stimulate a better organisation of the work of savings banks and the implementation of plans for increasing deposits by the Council of People's Commissars of the USSR on. 1932 allowed the Main Directorate of State Labour Savings and State Loans to issue loans to local councils and collective farms from the increase in deposits in savings banks for the needs of local economic and cultural development. The size of the loan was strictly differentiated depending on the degree of fulfillment of the plan for attracting deposits. When completing tasks to attract deposits by 100 percent. and above, 15 percent was allocated for the issuance of loans to councils and collective farms increase in deposits, when tasks are completed by 15-100 percent. 10 percent was allocated for the issuance of loans to councils and collective farms. growth of deposits, and in the case when the planned target for attracting deposits was fulfilled by less than 75 percent, no loans to councils and collective farms were provided from the increase in deposits.

All these activities contributed to the further growth of the operations of the State Labour Savings Bank. The growth of deposits in savings banks was also facilitated by the improvement in the material situation of the working people

thanks to the elimination of unemployment and a systematic increase in wages. However, the savings banks were not able to use all these favourable circumstances for their work.

Carried away by the pursuit of the number of depositors and the expansion of their network, the savings banks did not conduct sufficient explanatory work among the working population, did not provide adequate service to depositors, which hindered the stability of deposits and their increase.

From October 1, 1929 to January 1, 1933, the number of savings banks increased from 20.4 to 56.1 thousand, while the number of depositors increased from 7.2 to 23.9 million (without conditionally closed accounts). The balance of deposits of individuals over the same period of time increased from 315.8 to 974.3 million rubles. The number of depositors grew faster than the amount of deposits. As a result, the average size of the deposit decreased from 44 rubles. on October 1, 1929 up to 40 rubles. on January 1, 1933, this decrease in the average size of the contribution meant, an increase in the cost of attracted funds, since the smaller the average size of deposits, the more expenses for maintaining the apparatus, attracting workers' savings and servicing depositors fall for each ruble of deposits.

In 1933, the Council of People's Commissars of the USSR, noting a number of shortcomings in servicing depositors and holders of government bonds, proposed to take a number of practical measures to improve the organisation of the work of savings banks, in particular, not to allow any delays in issuing money to depositors at their request, to bring to justice those responsible for such delays, to accelerate the introduction of a bonus and encouraging system of remuneration of workers of savings banks for the fulfillment and overfulfillment of the plan for raising funds, to carry out a complete check of the bonds held by the population annually in order to pay unclaimed interest and winnings, etc.

Enemies of the people, who made their way into the financial authorities, sabotaged the implementation of this decree of the Council of People's Commissars of the USSR,

sought to distort it. So, under the guise of liquidating irrationally opened savings banks, they carried out a massive indiscriminate closure of savings banks. As a result, the number of savings banks decreased from 56 thousand as of January 1, 1933 to 41.9 thousand as of January 1, 1935. This harmful reduction in the network of savings banks, which continued after 1934, was supplemented by sabotage in the implementation of measures aimed at an increase in the average size of deposits. The limitation of the size of the deposit (for individuals—at least 5 rubles and for legal entities—at least 25 rubles) with the transfer of smaller deposits to the consolidated account, henceforth to the demand of their depositors, was carried out automatically, without the necessary mass propaganda and explanatory work ... As a result, on January 1, 1934 such conditionally closed accounts numbered 16.4 million with a total amount of deposits of 81.3 million rubles, and the number of depositors—physical leans—decreased from 23.9 million as of January 1, 1933 to 15.4 million per 1 January 1935.

The enemies of the people, however, did not succeed in thwarting the growth of deposits in savings banks.

On January 1, 1935, the amount of deposits of physical ling reached 1,638.1 million rubles against 974.3 million rubles. on January 1, 193838, the average size of individual deposits rose from 40 rubles on January 1, 1933 up to 104 rubles on January 1, 1935.

The basis of these successes was the victory of the Stalinist plan for the socialist industrialisation of the country and the collectivisation of agriculture, which ensured tremendous growth of income of the working people of the city and village. Already in the first years of the first five-year plan, unemployment was finally eliminated in the USSR. The annual wages fund of workers and employees grew from 9.7 billion rubles in 1929 to 44 billion rubles in 1934 the average annual wages of workers and employees increased from 800 rubles in 1929 up to 1858 rubles in 1934 the social insurance budget reached 5859.8 million rubles in 1934. On

the basis of complete collectivisation, the kulak class was eliminated; poverty and pauperism in the countryside were abolished. On July 1, 1935, the collective farms had already united 83.2 percent of all peasant farms. Together with the organisational and economic strengthening of the collective farms, the income of the collective farm peasantry grew rapidly.

On the basis of the rise in the well-being of the working masses, deposits in savings banks and investments in government loans grew. These receipts constituted one of the most important sources of funds for financing the industrialisation of the country and the collectivisation of agricultural farms.

7. Finance in the Struggle for the Victory of the Collective Farm System in the Countryside, for Organisational and Economic Strengthening of Collective Farms

“Each social system arises only with the financial support of a certain class”¹, wrote V. I. Lenin in 1923. The party and the Soviet government, implementing the Leninist-Stalinist cooperative plan, provided enormous organisational and material assistance to the poor and middle peasant masses in collectivisation.

The construction and strengthening of a new, collective farm system in the countryside, which took place under conditions of an acute class struggle, demanded a further increase in assistance to the collective farms and the collective farm peasantry from the Soviet state. The party mobilised the political activity and the Bolshevik vigilance of the masses to fight the kulaks, who were trying to undermine

¹ V. I., Lenin, *Works*, Vol. XXVII, p. 393.

the collective farm movement from within. Under the leadership and instructions of Comrade Stalin, the party fought for the transformation of all collective farms into Bolsheviks and all collective farmers into prosperous ones.

In a detailed resolution adopted in 1920 "On benefits for collective farms", the Central Committee of the CPSU (b) proposed, among other benefits: 1) to exempt from taxation for two years all socialised working cattle on collective farms (horses, oxen, etc.)), all the livestock of cows, pigs, sheep, all poultry, both in the collective ownership of collective farms and in the individual possession of collective farmers; to establish benefits for taxation of vegetable gardens; 2) to ensure crediting of collective farms in 1930 in the amount of not less than 500 million rubles; to postpone the coverage of overdue debt on loans to farms that have joined collective farms, to remove a number of arrears from such farms; 3) to release the collective farms from the payment of debts for the confiscated kulak property, which is passed into the possession of the collective farms.

The Soviet state increased its investments in the construction of enterprises producing agricultural machines, tractors, fertilizers, etc., in the construction of state farms and machine and tractor stations. In an unprecedentedly short time, the giants of agricultural engineering were created and tractor building, thousands of state farms and tens of thousands of collective farms. In 1927-28 it was in the USSR. 1272 tractors were produced and not a single combine, and in 1934 the Soviet socialist industry produced 34,452 tractors and 8,239 grain combines for socialist agriculture. In 1934, there were already 277 thousand tractors and 32 thousand combines in the agriculture of the USSR.

For 1929/30–1934, budgetary investments in agriculture amounted to 19.3 billion rubles.

The Soviet state increased credit assistance to collective farms and collective farmers, releasing large sums in the form of long-term crediting through the agricultural credit system. The Decree of the Council of People's Commissars of

the USSR and the Central Committee of the CPSU (B) of December 23, 1934, the state wrote off the debt on old agricultural loans from the collective farms in the amount of about half a billion rubles.

Direct financial aid from the state to collective farms and collective farmers was expressed, further, in huge expenditures from the state and local budgets for the construction of schools, hospitals, etc. in rural areas.

The state rendered enormous assistance to the cowless collective farmers in acquiring cows. Based on the resolution of the Council of People's Commissars of the USSR and the Central Committee of the All-Union Communist Party (Bolsheviks) only in 1933 and at the beginning of 1934 the state allocated 50 million rubles to the collective farmers for this business as a long-term loan. In subsequent years, this amount was increased to 300 million rubles.

The State and Agricultural Banks were entrusted with the task of providing assistance to collective farms in the field of accounting and reporting. Savings banks were entrusted with the task of servicing the settlements of collective farms.

The restructuring of the tax system was of great importance in solving the problems of the economic policy of the parties of the first Soviet power in this period.

It was impossible to liquidate the kulaks as a class by means of tax and other restrictions, while at the same time leaving in their hands the instruments of production. But the implementation of complete collectivisation and the elimination of the kulaks as a class on this basis did not take place at the same pace in all regions. Where there was not yet a solid collection of visats, the increased taxation of the kulaks seriously undermined their economic strength. On the other hand, the benefits to collective farms reinforced their advantages as socialist enterprises. Taxes were restructured in such a way that they would contribute to the organisational and economic strengthening of collective farms.

In 1930, taxation and taxation of collective farms was

separated from the unified agricultural tax. Collective farm income subject to taxation is mainly were calculated still normatively. But instead of the progressive rates of the agricultural tax, followed by a system of discounts for collective farms, a proportional tax rate was established in 1930. On the other hand, from collective farms that had well established accounting and reporting, the tax began to be calculated and levied not on the normatively determined income, but on the amount of gross income based on the reports of the collective farms. Such a procedure for taxation of collective farms was supposed to stimulate the improvement of accounting and increase responsibility for it. Comrade Stalin pointed out the importance of this matter, stressing that the collective farm is like a socialised, planned economy cannot develop properly without well-established accounting and reporting.

At the same time, the taxation of kulak farms is increasing. All kulak farms were subject to individual taxation, and not a certain percentage of all farms, as it was earlier.

Major changes in the agricultural tax on collective farms were made in 1931. The transition to taxation of all collective farms according to the sum of their gross income on the basis of collective farm reporting is being completed. For agricultural artels, a reduced tax rate of 3 percent is established and Collective farm animal husbandry and feed transferred by collective farms to collective farmers are completely exempted from taxation. This was supposed to help overcome the decline in animal husbandry and increase the number of collective farm herds. The proceeds from collective farm trade are completely exempted from taxation. Collective farms are provided with large privileges for industrial crops. We should especially note a discount of up to 10 percent (in 1932 it was increased to 25 percent) for the fulfillment of the production assignment for sowing, processing and harvesting and for the correct setting of accounting and reporting. This discount was supposed to

stimulate a better organisation of the collective farm as planned socialist economy. Thanks to all these benefits and discounts, the actual tax on collective farms was not 3 percent, but about 1.5 percent gross income of collective farms.

In the yoke of the restructuring of the agricultural tax, there was an increase in the differentiation of tax rates for certain categories of payers, which can be seen from the following data:

	The amount of tax in rubles to the yard	
	1929-30	1932
Collective farms	10,74	9,84
Individual labour farms	18,00	26,86
Kulak farms	172,49	313,73

In 1938, a new restructuring of the agricultural tax was carried out. In connection with the establishment of mandatory state sowing plans for collective farms and individual farmers, the income of collective farms and individual labour peasant farms from field cultivation began to be taxed on the basis of the river. the planned size of sown areas and the planned yield, exemption from taxation of over-planned crops.

Thus, while maintaining the old procedure for taxing non-agricultural income of collective farms (proportional rate as a percentage of gross income determined on the basis of collective farm reporting) and with complete exemption from taxation of collective farm livestock, the income of collective farms from field cultivation began to be taxed according to the planned sowing area and according to the planned yield in fixed per hectare rates. At the same time, all the benefits previously established for collective farms. In particular, a discount of up to 25 percent has been preserved. for carrying out agro-technical measures and for the best organisation of accounting and reporting. This discount was

used to reward the best collective farm brigades and shock workers.

Collective farmers had to pay tax at fixed rates per household (from 15 to 30 rubles) only on income from the non-socialised part of the economy. Collective farmers who did not have their own subsidiary non-socialised economy were not involved in the payment of the tax. The village councils were given the right to release individual collective farmers who have non-socialised economy, from payment of agricultural tax—in part or in full.

The individual farmers in relation to the taxation of agricultural taxes were divided into two categories. The first category included individual farms whose taxable income did not exceed 200 rubles a year; they paid the tax on the statutory income at fixed rates (15 rubles, but not lower than the rate of the collective farmer in the corresponding region). The second category included individual farms with an income of over 200 rubles; they paid the tax at progressive rates. To stimulate the implementation of state sowing plans, income from field cultivation of individual labour farms was determined on the basis of the planned area of crops and the planned yield. For the same purposes, the district executive committees were given the right to reduce the tax on tidy farms and, on the contrary, to raise it in relation to farms that maliciously did not fulfill their sowing plans, at the same time depriving these farms of agricultural tax benefits.

With regard to kulak farms, the previous order was preserved—individual taxation.

In 1932, in addition to agricultural tax, an exchange tax was introduced on individual peasant farms, which was repeated later in 1934. The purpose of this tax was to increase the taxation of non-agricultural and unearned income of individual farms. Tax rates varied depending on the capacity of the farm. Individual labour farms, subject to agricultural tax at fixed rates, paid from 15 to 20 rubles. in 1934—from 15 to 125 rubles) per farm; the rest of the working peasant farms—at an amount from 100 to 175

percent. the salary of the spruce tax. (From kulak farms, this one-time tax was levied in the amount of 200 percent of the salary of the agricultural tax of their obligations.

In 1931, at the initiative of the working masses, a special boron was introduced for the needs of housing and cultural construction (kultzhilsbor), which is imposed on both the urban and rural population. In the village, the payers of the kultzhilsbor were all the population—all the farms, except for the collective farms. Kultzhilsbor was also paid by collective farmers who did not have income from the non-socialised part of the economy. In 1934, the rates of this cultural collection were differentiated as follows: collective farmers paid from 15 to 80 rubles. to the yard; individual labour farms, which in 1933 were taxed at fixed rates, from 15 to 80 rubles. per yard (depending on the amount of income and on the availability of a worker on the farm livestock, non-agricultural earnings, etc.); the rest of the individual labour peasant farms, in the amount of 175 to 115 percent agricultural tax salary. For kulak farms, the size of the cultural collection was determined in the amount of 200 percent agricultural tax salary.

Thus, taxes were used as one of the tools for the organisational and economic strengthening of collective farms and a serious undermining of the kulaks.

The restructuring of the rural compulsory and compulsory salary insurance was also of great importance.

Until 1931, uniform rates of insurance payments were applied for all farms, and benefits for poor farms were expressed in a system of discounts or in complete free salary insurance.

On October 1, 1931, differentiated rates of insurance payments were introduced, significantly reduced for collective farms and increased (doubled against the rates for individual labour peasants) for kulak farms. This differentiation of rates has been supplemented the establishment of differences between collective farmers, individual labour peasants and kulak farms in relation to the

range of objects covered by insurance coverage, as well as the norms of security, the procedure for compensation for losses, etc.

Enemies of the people who have crept into the financial system have done great harm to the business of public insurance. The nefarious subversive work of these dastardly traitors to the homeland led to the fact that insurance in the countryside turned in a significant number of regions into a legal form of deceiving the state and covering up the results with insurance acts mismanagement and direct sabotage. "Rules of mandatory salary insurance" "in 1931, for example, they offered to make compensation for losses (from the death of an animal," from whatever reason such has not happened. "On the basis of these wrecking "Rules", the insurance authorities paid "insurance compensation" to the kulaks who organised the destruction of livestock in order to discredit and undermine the collective farm business.

In the wrecking instruction of 1931 on animal insurance, it was proposed to pay insurance indemnity immediately, if the correctness of the drawn up act on the insured event "from the formal point of view does not raise any doubts." This meant the elimination of control over the payment of insurance compensation, which was used by kulak elements to deceive the state (hiding the real reasons for the destruction of property, obtaining insurance compensation for property that did not actually die or did not exist, exaggerating the amount of losses, etc.), as well as for concealment of acts of kulak revenge. Thus, for example, in the Gorky Territory, the regional financial authorities determined the loss of 2.5 million rubles as allegedly caused by the "destruction of crops" due to drought; when checking, it turned out that the crops did not die from drought, but as a result of late sowing, lack of weeding and control of field pests. By paying insurance indemnity in such cases, the insurance authorities encouraged sabotage by the kulak elements of the village.

On March 8, 1933, the Central Committee of the All-

Union Communist Party of Bolsheviks adopted a resolution “On perversions in the work of insurance in the countryside.” The Central Committee of the All-Union Communist Party (Bolsheviks) cancelled the sabotage instructions of the People’s Commissariat of Finance through the State Insurance and proposed to restructure the insurance work, strengthening the insurance bodies with politically proven cadres. The decree of the Central Committee of the CPSU (b) on this issue emphasises that the state compulsory insurance of agricultural property and crops, protecting the farms of collective farms and individual farmers—tomorrow’s collective farmers—that is the consequences of fires, deaths and various natural disasters, is a powerful tool strengthening collective farm production and protecting public property.

On the basis of this resolution of the Central Committee of the CPSU (b) in 1933 and 1934, a radical restructuring of the forms and methods of all insurance work is being carried out. Any insurance of property and crops of kulak farms is completely terminated. Strengthening the composition, rights and obligations of regional “insurance inspections, regional and rural insurance commissions are being created. Along with compulsory insurance, voluntary insurance is established and expanded (over-budget insurance and insurance of objects not covered by compulsory insurance).

8. Restructuring the Budgetary System, etc. Strengthening of the Financial Planning

The period of the struggle for the collectivisation of agriculture is characterised by a further strengthening of the role and significance of the budgetary system in the distribution of the national income. This was facilitated by the above-stated restructuring of the forms and methods of budget accumulation of funds, and also the restructuring of

the budgetary system and financial planning.

The restructuring of the budgetary system was closely connected with the successful deployment of collectivisation, with the zoning carried out by the party and the Soviet government, as well as with the tax reform of 1930.

The zoning of the country and the subsequent liquidation of the districts caused further strengthening of the regional budgets. "Basic regulations on district congresses of councils and district executive committees", approved by the Central Executive Committee and the Council of People's Commissars of the USSR on October 13, 1930, increased the budgetary rights of district executive committees, and expanded the range of revenues and expenditures of district budgets. Along with this, the development of collectivisation and the liquidation of districts, which set their task—the maximum to bring the administrative apparatus closer to the district and the village, demanded the strengthening of the village councils and the strengthening of their financial base. In the decree of the Central Executive Committee of the USSR of January 25, 1930 "On the new tasks of the councils in connection with the widespread collectivisation in the countryside," it was indicated that "rural councils, especially in areas of complete collectivisation, should have their own budgets." The decree of the Central Executive Committee and the Council of People's Commissars of the USSR of July 23, 1930 on the liquidation of districts strengthened the districts and demanded the acceleration of the widespread introduction of independent rural budgets.

The tax reform of 1930, which unified the payments of enterprises and organisations of the socialised economy and restructured the system of budget revenues, caused fundamental changes in the distribution of revenues and expenditures between the all-Union, republican and local budgets. The decree of the Central Executive Committee and the Council of People's Commissars of the USSR of September 2, 1930 established the following distribution of income between individual categories of budgets. The all-Union

budget should receive: the bulk of the turnover tax, deductions from the profits of state enterprises and economic agencies of all-Union significance, income tax from enterprises of a socialised economy of all-Union significance. The republican budgets should receive: the part of the turnover tax established by the union government, deductions from the profits of state-owned enterprises of republican significance and the income tax from enterprises of the socialised economy of republican significance: In local budgets, part of the turnover tax (at the expense of the share received in the republican budgets), deductions from profits of state-owned enterprises of local importance, corporate income tax socialised economy of local importance, unified agricultural tax, income tax from private ling, trade tax and tax on excess profits (the latter was merged with personal Income Tax Regulation of May 17, 1934).

The transition to a new system of income distribution, since at the same time the rights of each type of local budgets in relation to income were not precisely defined, initially led to the spread of the practice of “borrowing funds” from lower budgets at the local level, which temporarily affected the sustainability of lower budgets. These negative aspects, however, were soon eliminated on the basis of - the decree of the Central Executive Committee and the Council of People’s Commissars of the USSR of December 21, 1931 “On Republican and Local Budgets”.

The basic principle adopted by this decree can be formulated as follows: the expenditures carried out by each republican and local budget should be balanced mainly by revenues, the collection of which is entrusted to the corresponding republican and “local authorities. In accordance with this, not only were transferred to the republican and local budgets deductions from the turnover tax of enterprises of republican and local significance, but also part of the deductions from the turnover tax of enterprises of all-Union significance, the collection of which (tax) was entrusted to local financial authorities. Not less

than 50 percent tax from enterprises subordinated to the bodies of the ASSR was to be transferred to the budgets of the autonomous republics. Further, in order to strengthen the stability of the republican and local budgets, their revenues included special deductions from the turnover tax on oil, cotton, tobacco, etc. (which is especially important for the budgets of a number of national republics), as well as deductions from the implementation of massive loans. and fully revenues from state land properties, fishing and hunting grounds and peat bogs. A number of sources of income were also firmly assigned to the grassroots (district, rural) budgets.

Rural budgeting became a matter of law of December 21, 1931, universally binding.

To increase the interest of local councils in fulfilling the plan of state and local revenues, the amounts from overfulfillment of the planned targets for revenues had to remain at the disposal of local councils.

As a result of the restructuring of the budgetary system, the role and importance of regional and rural budgets has greatly increased. The share of district budgets in the general set of local budgets rose from 20.2 percent in 1929–30 up to 23.6 percent in 1934; the share of rural budgets was 1.8 to 18.1 percent.

The restructuring of the budgetary system was accompanied by the strengthening and strengthening of the entire business of financial planning, in particular budget planning. The transition from control figures to firm annual national economic plans, the strengthening of sectoral production and financial planning (drawing up industrial financial plans) made it possible to start drawing up a consolidated financial plan. As indicated in the decree of the Central Executive Committee and the Council of People's Commissars of the USSR of May 28, 1930. "On a single financial plan":

"The achieved successes of the planned economy make it possible and necessary to raise financial planning to a higher level and to cover the finances of the socialised sector with a

single financial plan. This plan, without eliminating individual operational financial plans (state budget, industrial financial plan, credit plans, etc.), should facilitate and improve their mutual coordination and ensure the most expedient direction and economical use of funds for the needs of the national economy, culture, management and defence of the USSR”.

Mutual agreement of individual operational financial plans, achieved through the preparation of a consolidated financial plan, made it possible to identify and most effectively, in accordance with the tasks of the national economic plan, use the financial resources of the socialised economy. At the same time, it was necessary to overcome the perversions that consisted in an attempt to transform a single financial plan into an operational plan.

The main operational financial plan of the socialist state remains the budget. It establishes firm financial obligations in close connection with the plan for the production and circulation of goods.

Measures to strengthen financial control were of the greatest importance for strengthening financial planning and planning and financial discipline.

The functions of financial control—control over the correct use of budgetary funds—were carried out by the RCT, its various sectoral departments (first of all—the financial department of the RFL) and operational departments and sectors of the financial apparatus, that is, those departments and sectors that are directly in charge of the release of funds (in the process of issuing money). Practice, however, has shown that the established system of financial control does not provide sufficient expedient and economical spending of budgetary resources. Therefore, already in 1932, in the decree of the Council of People’s Commissars of the USSR indicate the need for the organisation of real and comprehensive control over the spending of budgetary funds from the point of view of observing budgetary discipline and implementing a saving regime.

The instructions of the Council of People’s Commissars

are implemented through the creation at the end of 1932 of finance—budgetary inspections. The main methods of work of the FBI (according to the temporary regulation about them in 1933) were supposed to be surveys and audits with verification of original documents. A financial asset from the workers and employees of the surveyed enterprises and ‘institutions’ were to be widely involved in these examinations and audits and in all control work. The “Regulations” also indicated the main forms and methods of public control—control posts, reports at general meetings of employees of institutions, public reviews, coverage of the results of work in the press, organisation of public trials against violators of budget discipline, etc. All this was aimed at strengthening the role and significance of financial and budgetary inspections. In fact, the then wrecking leadership of the People’s Commissariat of Finance reduced these inspections to a mere appendage of the financial apparatus and turned them into a multitude of cases. to bodies that not only did not reveal violations of state discipline, but covered these violations.

9. Financial Results of the First Five-Year Plan and the Financial Program of the Second Five-Year Plan

The above restructuring of the forms and methods of financial and credit work contributed to the successful use of money, credit, finance to solve the great problems of the first and second Stalinist five-year plans.

The tremendous successes achieved by the Party and the Soviet government in fulfilling the production program of the first five-year plan, in particular the tremendous achievements in increasing the accumulations of the socialised economy and the income of the population, ensured a significant overfulfillment of the financial program

of the five-year plan.

The national income of the USSR—the most generalised indicator of the growth of the country's wealth and the direct basis for strengthening its financial power—increased (in prices of 1926-27) from 25 billion rubles in 1928 to 45.5 billion rubles. in 1982, that is, by 86.1 percent the average annual growth of the national income was 16 percent. For 4 1/4, the year was mobilised financial resources in the amount of 120.1 billion rubles against 91.6 billion rubles according to the plan for 5 years. Thus, the five-year program was overfulfilled in 4 1/4 years by 31 percent. The main overfulfillment of the fundraising program was achieved by attracting resources from the socialised economy. A general description of the fulfillment of the revenue side of the consolidated financial plan of the first five-year plan for 4 years is given by the following table (in billion rubles):

	Planned for 5 years	Completed in 4 1/4 years	Excess
1. Means of a generalised economy	70,9	89,9	+ 19,0
Including:			+ 9,9
Industrial	33,5	43,4	+ 3,3
Transport and Communication	5,7	9,0	+ 0,3
Commune and lived. Economy	2,9	3,2	
State trade and cooperation	6,1	8,4	+ 2,3
Social insurance (payroll)	10,1	12,4	2,3
2. Attracting funds from the population	17,3	21,5	+ 4,2
3. Other income	3,4	8,7	+ 3,3
Total	91,6	120,1	+ 28,5

The budgetary system played a decisive role in mobilising and reallocating these resources. The revenues of the consolidated (state and local) budget of the USSR increased from 8.1 billion rubles. in 1928-29 to 34.6 billion rubles. in 1932 and amounted to 84.1 billion rubles in 4 1/4 years. The

share of the budget in the resources of the consolidated financial plan rose from 62.3 percent to in 1928-29, up to 77.6 percent in 1932.

The second place after the budgetary system in the mobilisation and redistribution of funds belonged to the State Bank of the USSR. The balance sheet of the State Bank has grown since. 5.6 billion rubles on October 1, 1929 to 21.3 billion rubles. as of January 1, 1933. The net debt of the branches of the national economy (that is, the amount of short-term loans minus the amounts on the accounts of economic agencies) increased from 0.8 billion rubles. on October 1, 1928 to 6.6 billion rubles on January 1, 1933.

Social insurance funds were of tremendous importance in providing resources for the costs of social and cultural activities. The social insurance budget has grown from 1.3 billion rubles. in 1928-29 to. at 4.4 billion rubles. in 1932 and amounted to 10.6 billion rubles for 4 1/4 years.

The successful fulfillment of the revenue side of the consolidated financial plan of the first five-year plan provided financial resources for overfulfilling the enormous construction program of the first five-year plan. According to the five-year plan, it was supposed to make capital investments in the socialised economy in the amount of 46.9 billion rubles against 11.1 billion rubles, invested in the period 1923/24–1927/28. The actual investments for 4 1/4 years of the first five-year plan amounted to 52.5 billion rubles, that is, 4.7 times more than in the previous five-year period (1923/24–1927/28 years), and for 11.9 percent more than planned for 5 years. The distribution of these capital investments by sectors of the economy is characterised by the following data (in billion rubles):

	For 1923/94 — 1921/28	According to the plan for 1928/29- 1932/88.	Completion in 4 1/4 years
Total capital investment	11,1	46,9	52,5
Including:			
1. Industry	4,9	19,1	24,8
Of these, by industries producing means of production	3,6	14,7	21,3
2. Agriculture	0,7	7,2	10,8
3. Transport and communication	2,8	10,2	10,4

Such fulfillment of the capital investment plan, which contributed to the successful solution of the tasks of the first five-year plan, determined the results of the fulfillment of the expenditure side of the entire consolidated financial plan of the first five-year plan. The direction of monetary resources for the years of the first five-year plan in comparison with the five-year program is shown in the following table (in billion rubles):

	Five- year	1928-29	Performance 1932	in 4 1/4 years	more or less than planned
1. Financing of the national economy	56,8	7,2	30,2	80,3	+23,5
Including:					
a) industry	22,0	3,2	16,6	41,6	+19,6
b) agriculture	7,3	1,2	5,0	15,1	+7,8
c) transport and communication	10,2	1,4	4,9	12,5	+2,3
2. Financing social					

and cultural construction	21,4	3,0 ¹	9,5 ¹	23,9 ¹	+2,5
Including:					
a) education	10,4	1,4	5,7	14,1	+3,7
b) healthcare	4,7	0,6	2,0	5,1	+0,4
3. Management and defence	10,0	1,6	2,5	9,0	−1,0
4. Other expenses	3,4	1,2	2,4	6,9	+3,5
Total	91,6	13,0	44,6	120,1	+28,5

As the table below shows, the overfulfillment of the five-year financial plan went mainly in the line of spending on financing industry, agriculture and education.

The overwhelming part of the funds allocated to finance industry was used for reconstruction and new construction of the government of the giants of heavy industry—this and the basis for the technical reconstruction of the entire national economy.

The doubling of expenditures on financing agriculture against the outlines of the five-year plan is associated with a radical change in the development of our agriculture; the latter finally switched to the rails of the world's largest collectivised farm, armed with tractors, sophisticated agricultural machines, etc. Collective farms have become a solid and invincible force.

The enormous scope of education spending is associated with universal primary education. training and with the growth of training and retraining of qualified personnel for all sectors of the national economy and especially for heavy industry and collective farm villages. According to the plan of

¹ Excluding the costs of economic agencies for capital construction of social and cultural events, which amounted to 151 million rubles in 1928-29 in 1932—991 million rubles, and for 4 1/4 years—2081 million rubles.

¹ *ibid.*

¹ *ibid.*

the First Five-Year Plan, expenditures on social and cultural activities in 1932-33 per capita were planned at the rate of 24 rubles 53 kopecks (against 4 rubles 34 kopecks in 1913). The actual costs per capita in 1932 amounted to 61 rubles 13 kopecks, i.e. 2.5 times more than according to the five-year plan, and almost 20 times more than in old, pre-revolutionary Russia.

Large investments were also made in financing transport and communications, housing and communal construction (construction new and reconstruction of old towns and workers' villages), and health care.

In total, 104.2 billion rubles were allocated to finance the national economy and socio-cultural events for 4 1/4 years, which is 86.8 percent, i.e., almost 9/10 of all expenditures of a single financial plan, and 26 billion rubles more than planned for 5 years. This direction of the financial plan's resources is one of the most important reasons for the enormous successes of socialist construction and one of the most striking indicators of the advantages of the socialist economic system.

The first five-year plan has changed beyond recognition the face of the national republics and regions; it brought tremendous achievements in eliminating the backwardness they inherited from the tsarist times. New industrial regions arose in the national republics and regions, large factories and plants, powerful state farms, MTS were built, the collectivisation of agriculture was successfully developed and on its basis—the technical re-equipment of the latter. This led to a rapid growth in the prosperity of collective farmers. The construction progress of socialist economy in the national republics and regions were largely the result of assistance from others, more advanced regions of the Soviet Union and financial support from the Union budget, which ensured faster rates of economic and cultural growth in previously backward republics and regions.

The First Five-Year Plan brought with it not only the rapid development of industrialisation and collectivisation of

the national outlying areas, but also the flourishing of cultures national in form, socialist in content:

The following data give an idea of the growth rate in the national republics and regions of spending on social and cultural needs. In 1932, compared with 1927-28, these expenses increased: in the Uzbek SSR—6.6 times, in the Turkmen SSR—7.5 times. We had the same process in individual autonomous republics and regions. During the years of the first five-year plan, social and cultural expenditures in the RSFSR as a whole increased by 3.2 times, in the Chuvash ACC—R by 4.6 times, in the Kazakh—by 4.8 times, in the Kyrgyz Republic—by 6.4 times, etc. Growth rates of expenditures for social and cultural needs in national republics and regions were significantly higher than the average for the RSFSR.

Thus, the main tasks that the financial system carried out in the first five-year period and which received a clear expression in the direction of the resources of the Soviet state, consisted in: a) to ensure the growth of investments in socialist industry, mainly for the reconstruction of old and construction of new enterprises in heavy industry and electrification; b) to provide support from the Soviet state to the new, collective farm system in the countryside; c) to provide financial resources for the growth of training and retraining of engineering and technical personnel, improvement of the living conditions of the working people (primarily workers in the leading industries), and the introduction of universal primary education; d) to contribute to the elimination of the economic and cultural backwardness of the national republics and regions, inherited from the old, pre-revolutionary Russia; e) to strengthen, strengthen the country's defence capability.

Successful fulfillment of the plan for the first five-year plan in 4 1/4 years, building the foundation of the socialist economy made it possible to set the following three main tasks of the second five-year plan:

The first and at the same time the main political task is

the final elimination of the capitalist classes, the complete elimination of the causes that give rise to class differences and the exploitation of man by man.

The second task is to further improve the well-being of the working people and to increase the level of their consumption by a factor of 2-3.

The third task is to complete the technical reconstruction of the entire national economy: industry, transport, agriculture.

These tasks determined the volume and direction of financial resources according to the plan of the second five-year plan. The following table describes the volume and the composition of the sources of funds in the financial program for the second five-year plan:

	1932	1937	For the first five years		For the second five-year plan	
	in billion rubles	in billion rubles	in billion rubles	In % to the total	in billion rubles	in% to the total
1. The accumulation of socialised households excluding price reductions	33,8	93,7	83,6	69,6	328,0	79,9
Including:						
a) profits	6,6	24,7	19,1	15,9	72,9	17,8
b) tax with turnover	19,6	59,4	42,3	35,2	216,1	52,6
Social accumulation households taking into account price reductions	33,8	65,1	83,6	69,6	273,0	76,8
2. Depreciation of fixed assets	2,0	5,9	6,3	5,3	20,2	5,7
3. Attracting funds from the population	8,2	9,0	21,5	17,9	44,6	12,5
4. Other income	0,6	4,1	8,7	7,2	17,7	5,0
Total income, taking into account price reductions	44,6	84,1	120,1	100,0	355,5	100,0
Total income excluding price reductions	44,6	112,7	120,1	100,0	420,5	—

The resources of the financial program for the second five-year plan were determined in the amount of 410.5 he rubles, that is, 3½ times more than in the years of the first five-year plan.

Crucial to the programme had the accumulations of a socialised economy. They had to grow from 33.8 billion rubles. in 1932 to 93.1 billion rubles (taking into account the projected reduction in prices to 65.1 billion rubles) in 1937. The implementation of this part of the programme was directly dependent on the success in the field of mastering new technology and new industries and the development of Soviet trade. The large increase in depreciation charges is associated with a huge increase in the country's fixed assets. The direction of financial resources according to the plan of the second five-year plan is characterised by the following data:

	1932	1937	The First Five-Year Plan		Second Five-Year Plan	
	in billion rubles	in billion rubles	in billion rubles	In % to the total	in billion rubles	In % to the total
1. Financing of the national economy	30,2	46,8	80,3	66,8	221,4	64,8
2. Funding social. cultural events ¹	9,5	20,2	23,9	20,0	75,4	22,1
3. Management and defence spending	2,5	4,3	9,0	7,5	19,0	5,6
4. Government borrowing costs	1,0	2,8	2,2	1,9	10,0	2,9
5. Other expenses	1,4	3,5	4,7	4,7	15,7	4,6
Total	44,6	77,6	120,0	100,0	341,5	100,0
State reserve	—	6,5	—	—	14,0	—
Total	44,6	84,1	—	—	355,5	—

¹ Without expenses from the own funds of economic agencies.

With the further rapid growth of expenditures on financing the national economy, the share of these expenditures in all the resources of the financial plan for the second five-year plan somewhat decreases due to an even more rapid growth in expenditures on social and cultural activities.

The enormous scale of social and cultural construction (75.4 billion rubles of investments according to the plan of the second five-year plan against 23.9 billion rubles for the first five-year plan) with an increase in the share of costs for the construction of the light and food industries, for the development of Soviet trade and for housing and communal construction, they were supposed to contribute to the fulfillment of the Party's directives to increase the level of consumption of workers in the second five-year period by 2-3 times.

The growth of investments in industry, agriculture, transport and communications was supposed to ensure the development of enterprises created for the years of the first five-year plan, the construction of new giants of heavy and light industry and electrification, the completion of the technical reconstruction of all sectors of the national economy. The capital work plan for the second five-year plan was set in a total amount of 133.4 billion rubles.

The successful implementation of the financial program of the second five-year plan was reflected in the results of the implementation of the state budget.

The state budget of the USSR, as before, played a leading role in the implementation of the financial program of the new five-year plan.

The State budget of the USSR still played a leading role in the implementation of the financial program of the new five-year plan.

During the first two years of the second five-year plan, the budget system accumulated and allocated 99.3 billion rubles for the needs of socialist construction. The composition of revenues and expenditures of the state

budget of the USSR (union, republican and local) for 1933 and 1934 is characterised by the following data (in billion rubles):

Income	1933	1934	Expenditure	1933	1934
Total income	44243,4	55,067,0	Total expenses	39,905,1	52,396,8
Including:			Including:		
Sales tax	26982,7	37595,6	National economy	25047,4	31241,2
Deductions from profits	3349,7	3,090,4	Of these: Industry	13701,4	13686,6
Personal taxes and fees			Agriculture	4133,6	6408,6
	2979,6	3332,5	Socio-cultural events	6095,3	8372,9
State loans sold to the population	3196,0	3396,8	Of these: Education	4934,9	6325,1
			Health care	960,2	1796,9

As this table shows, the first years of the second five-year plan are characterised by a further increase in the share of the income of the socialised economy in the entire amount of budget revenues. Especially large growth was given by revenue from turnover tax, which is associated with large successes in the development of Soviet trade, especially open trade without cards.

In the expenditure side of the budget, with huge amounts of money in the line of heavy industry, investments in light and food industries and in trade, as well as costs for social and cultural activities, are increasing.

State budget for 1933 and 1934 executed with great excess of income over expenses. This excess (for 1933—in the amount of 4.5 billion rubles, for 1934—in the amount of 2.5 billion rubles), evidenced by the fact testifying to the steady growth of the financial power of the USSR, had of enormous importance for the further strengthening of the Soviet ruble.

The development of credit and settlement operations played a major role in the development of Soviet trade and

in the strengthening of the Soviet currency State-owned bank. The net debt of the branches of the national economy to the State Bank of the USSR increased from 6.6 billion rubles on January 1, 1933 to 13.9 billion rubles on January 1, 1935, i.e. more than 2 times, including the net debt of enterprises and organisations of the People's Commissariat of Internal Affairs increased from 0.4 to 1.3 billion rubles, i.e. more than 3 times, and the debt of enterprises and organisations of the Narcomp Industry and the Procurement Committee-from 1.9 to 4.1 billion rubles, and enterprises of consumer cooperation and are (departments of working supply) - from 1.6 to 4.1 billion rubles. This expansion of lending to industries directly related to Soviet trade was of the greatest importance in the struggle for the implementation of the Second Five-Year Plan and the further strengthening of the Soviet ruble.

CHAPTER VIII. FINANCIAL POLICY OF THE SOVIET STATE IN THE PERIOD OF STRUGGLE FOR COMPLETION OF CONSTRUCTION SOCIALIST SOCIETY AND CARRYING OUT A NEW CONSTITUTION OF THE USSR. FINANCE IN THE THIRD STALIN FIVE YEARS

1. The Victory of Socialism in the USSR is the Basis of the Invincible Financial Might of the Soviet State. Stalin's Constitution and Finance

The victories of socialism give an unprecedented flourishing of economic life and culture in our country.

Under the leadership of the great Stalin, the working people of the USSR achieved brilliant successes, having accomplished the ambitious tasks of the second five-year plan.

The main political task of the second five-year plan has been solved: the exploiting classes have been eliminated, and a basically socialist one has been built—the first phase of communism. The collective farm system has won a complete victory in our country. As of January 1, 1938, collective farms covered 93 percent of all peasant farms and 99.1 percent of the entire sown area of peasant farms. The socialist structure reigns supreme in the national economy of the USSR. Socialism has entered the everyday life of the people. The dictatorship of the working class was further strengthened.

The main economic task of the second five-year plan has

been accomplished—basically, the technical reconstruction of the national economy has been completed. USSR turned into a powerful, advanced, technically and economically independent country. Over 80 percent all industrial production of the USSR in 1937 was provided by new and newly reconstructed enterprises. State farms and MTS in 1937 already had about half a million tractors with a total capacity of over 8 million horsepower and more than 120 thousand combines.

In terms of production techniques in industry, as Comrade Stalin pointed out at the XVIII. Congress of the All-Union Communist Party of Bolsheviks, our country has overtaken and surpassed the main capitalist countries. Our agriculture is the largest and most mechanised, the most marketable and the most equipped with modern technology in comparison with the agriculture of any other country.

The capital investments in the national economy of the USSR during the years of the second five-year plan amounted to 137.5 billion rubles against 50.5 billion rubles for the first five-year plan.

The successes in the development of new technology and new industries, in the organisational and economic strengthening of collective farms have made it possible since 1935, liquidate the rationing system and expand Soviet trade.

The successes of socialist construction gave birth to the Stakhanov movement—a new, higher stage of socialist emulation. Comrade Stalin showed the roots of and with exceptional clarity and the enormous significance of the Stakhanov movement. The Stakhanovites are breaking down outdated technical norms and creating new norms that characterise the socialist rise in labour productivity. The Stakhanov movement raises the masses of workers to the level of workers in engineering and technical labour, creates conditions for the complete overcoming of the differences between physical and mental labour. The Stakhanov movement prepares that abundance of products that is necessary for the transition from the first to the second

phase of communism.

The Stakhanov movement is a vivid indicator of success in mastering new technology, in creating cadres who have mastered technology and are able to fully use it. As a result, the profitability of socialist enterprises and organisations increased significantly on the basis of an increase in labour productivity and a decrease in production costs. Labour productivity in industry during the years of the second five-year plan increased by 82 percent against 63 percent according to plan. Already in 1986, it was 3 times (and taking into account the reduction of the working day, 4 times) exceeded the level of labour productivity in pre-war Russia.

The task of improving the well-being of the working people in the city and countryside has been resolved. The wages fund of workers and employees has grown over the years of the second five-year plan by 151.2 percent. The real wages of workers have doubled. Cash incomes of collective farms increased from 4.6 to 14.2 billion rubles, i.e. more than 3 times. The balance of deposits in savings banks grew from 1 billion rubles on January 1, 1938 to 4.5 billion rubles. as of January 1, 1938. The balance of funds in the current accounts of collective farms rose from 298.3 million rubles. on January 1, 1933 to 2,187 million rubles on January 1, 1939, the culture of the collective farm village rose immeasurably. The national income increased from 45.5 billion rubles in 1932 to 96.3 billion rubles in 1937, i.e., more than 2 times.

The defence capability of the socialist country has grown and strengthened. The Soviet people are armed with the latest military technology, capable of repelling any enemy attack, the Workers' and Peasants' Red Army, the Red Navy, and also has Soviet intelligence. The defeat of the agents of the capitalist states—the Trotskyite and nationalist espionage centres, carried out by the glorious Soviet intelligence, is of tremendous importance. Our country has become a fortress of socialism, inaccessible to all enemies. The Soviet people are stepping up their vigilance in accordance with Comrade Stalin's instructions on the need to be in mobilisation

readiness in view of the dangers associated with the presence of a capitalist encirclement.

In 1939, the Soviet people and their heroic Red Army liberated the working brothers of Western Ukraine and Western Belarus from the yoke of the Polish lords. The peoples of Western Ukraine and Western Belarus became part of the Soviet Union. In 1940, the family of the peoples of the Soviet Union was replenished with the peoples of Estonia, Latvia, Lithuania, Bessarabia and Northern Bukovina.

The brilliant victory of the bloc of communists and non-party people in the elections to the Supreme Soviet of the USSR, the Supreme Soviets of the union and autonomous republics and local councils of working people's deputies testifies to the invincible moral and political unity of all peoples of the USSR:

On December 5, 1936, the Extraordinary VIII All-Union Congress of Soviets adopted the greatest document in its world-historical significance—the new Stalin Constitution (Basic Law) of the USSR.

The Stalinist Constitution clearly records the enormous gains of the working people of the USSR, achieved over the past years of the socialist construction under the leadership of the great party of Lenin-Stalin.

The great Stalinist Constitution in golden words captured the victory of socialism in our country and unprecedented in the history of mankind the rights of citizens, obtained and won over the past years by the socialist revolution.

“... The Constitution enshrined the world-historical fact that the USSR entered a new phase of development, the phase of completion of the construction of a socialist society and a gradual transition to a communist society, where the communist principle should be the guiding principle of social life: “From each, according to his abilities, to each according to his needs”¹.

¹ “*History of the CPSU (B)—Short Course*”, p. 331.

The elimination of the capitalist classes and the victory of socialism ensured the further development of the broadest socialist democracy. In particular, the Stalinist Constitution provides ample opportunities and rights in the field of local leadership in economic and cultural development, not only for the supreme bodies of the union and autonomous republics, but also for all local government bodies.

The Stalinist Constitution enshrined the right of every council of workers' deputies and every union and autonomous republic to establish its own (local and state) budget.

The approval of the state budget of the USSR, as well as taxes and revenues received for the formation of the union, republican and local budgets, is the right of the USSR in the person of its higher authorities and government bodies. This confirms the unity of the USSR budgetary system.

The new Stalinist Constitution also consolidated the unity of the monetary, credit and insurance systems of the USSR. According to the Constitution, the jurisdiction of the USSR, represented by its higher authorities and government bodies, in particular, is subject to the management of the monetary and credit system, the organisation of state insurance, the conclusion and provision of loans.

The Constitution entrusted the USSR government with the task of implementing the state budget and strengthening the monetary system². This underlines the importance of this matter.

The financial system plays an important role in the implementation of the rights and obligations of citizens of the USSR established by the Constitution of the USSR. By accumulating and directing money for the needs of socialist construction, by exercising ruble control over the production and circulation of goods, the financial system helps to increase social wealth, to steadily raise the material and

² See *Constitution (Basic Law) of the USSR*, art. Art. 14 (clauses "l", "m", "o", "p", "p", etc.) and 68 (clauses "b").

cultural level of the working people, to strengthen the independence of the USSR and to strengthen its defence capability. The financial system is entrusted with the provision of financial resources for the rights of citizens of the USSR to rest, to material security in old age, to education, etc. A number of measures are carried out through the financial system aimed at effectively ensuring the rights of women in all areas of economic, state, cultural and socio-political life, a number of measures are being taken to effectively ensure the equality of all citizens of the USSR, regardless of their nationality and race.

The first session of the Supreme Soviet of the USSR in January 1938 elected the standing budget commissions of the Council of the Union and the Council of Nationalities. These commissions are the organs of people's control over the spending of public funds.

The second session of the USSR Supreme Soviet included local budgets and the state social insurance budget in the unified state budget of the USSR, which once again testifies to the inviolable unity of the financial system of the Soviet Union.

The USSR Constitution demanded a revision and amendment of the financial legislation, which was formed on the basis of the previous Constitution of 1924. These changes were partially implemented already in 1937.

The decree of the Central Executive Committee and the Council of People's Commissars of the USSR of March 21, 1937 "On the release of village councils from the duties of calculating and collecting monetary taxes, insurance payments and supplies in kind" is of the greatest importance. As stated in this resolution, "the new political, economic and cultural tasks set in connection with the new Constitution to the village councils, as the elective bodies of Soviet power in the countryside, require a radical change in the order that is currently in force and no longer corresponds to the interests of the cause, in which the village councils are entrusted with all the work on the calculation and collection of monetary

taxes and in-kind supplies of farms of collective farmers and individual peasants.”

By a decree of the Central Executive Committee and the Council of People’s Commissars of the USSR, all work on the calculation and collection of monetary taxes and insurance payments is entrusted to the regional financial departments. The village councils, in addition to managing the rural budgets, are left with only the responsibility for calculating, collecting and spending funds for the self-taxation of the rural population (since 1935, not included in the budget system revenues). This release of the village councils from the obligation to calculate and collect cash taxes, insurance payments and in-kind supplies allows the village councils to focus all their attention on serving the economic and cultural needs of the population.

On April 11, 1937, the Central Executive Committee and the Council of People’s Commissars of the USSR adopted a resolution “On the abolition of the administrative procedure for the seizure of property to cover arrears”. This resolution also clearly shows the direction of restructuring the forms and methods of budgetary work in connection with the introduction of the Stalin’s Constitution. At the same time, it is aimed at the complete eradication and prevention of sabotage in such a politically important matter as the calculation and collection of taxes. Prior to the publication of this decree, the inventory and sale of defaulters’ property to cover arrears was carried out according to administrative orders of local government bodies. This procedure was in practice used by sabotage elements to distort the tax policy of the Soviet regime. The saboteurs (as was revealed by the example of the Lepel case) sought to organise the inventory and sale of property to cover arrears in such a way as to arouse discontent on the part of the peasantry against the Soviet regime. And the pests who have crept into the higher financial and control bodies by their own instructions and the criminal organisation of the investigation of the revealed anti-Soviet actions covered up these facts of sabotage. The

new judicial procedure for the seizure of property to cover the arrears puts under great public control the work of financial authorities on calculating and levying taxes. In order to confiscate property, it is necessary to have in each individual case a special decision of the people's court, a body chosen by the people on the basis of universal, direct and equal suffrage by secret ballot and guarding socialist revolutionary legality.

The implementation of the Stalinist Constitution required a radical revision of the existing provisions on the budgetary rights of the Union and the Union republics, on the budgetary rights of the autonomous Soviet republics, and on local finance. A regulation on the budgetary rights of the Union, the Union and autonomous republics, and the local bodies of State power is being developed, which fully complies with the great instructions of the Stalinist Constitution.

The victory of socialism in the USSR, the growth of socialist profitability, of enterprises and organisations of the socialist economy, the expansion of Soviet trade—all this determined the unshakable financial power of our socialist state.

The Soviet finance, money and credit played an important role in the struggle for the successful solution of the great tasks of the second five-year plan.

During the years of the second five-year plan, 183.7 billion rubles were allocated through the state union, republican and local budgets to finance the national economy (against 53.8 billion rubles in the first five-year period). Expenditures on social and cultural events grew especially rapidly. The budgetary expenditures for these activities amounted to 73.2 billion rubles (against 12.8 billion rubles in the first five-year period). The total expenditures of the state on social and cultural construction in the second five-year period amounted to over 110 billion rubles.

The Soviet state provided about 3 billion rubles of long-term production loans to collective farms through banks, wrote off over 1 billion rubles of collective farm debt on

previously issued loans over the last three years of the five-year plan, and deferred payments in the amount of half a billion rubles. Lending to collective farmers has developed to eliminate the lack of grain.

While the budgets of the capitalist countries are characterised by a systematic increase in the deficit, the Soviet state budget was fulfilled during the second five-year plan with an excess of revenues (362.1 billion rubles) over expenses (348.8 billion rubles) in the amount of 13.3 billion rubles. This excess of income is a vivid illustration of the unshakeable fortress—the Soviet monetary system, the Soviet currency.

The strengthening of the importance of money, credit and finance in socialist construction, the further strengthening of the monetary and financial system of the socialist state of workers and peasants were achieved in the struggle against the despicable enemies of the people—the Trotskyists, Bukharinites, bourgeois nationalists—who had turned into a gang of murderers, spies, saboteurs and saboteurs. As these vile hirelings of the capitalist intelligence services cynically admitted before the Soviet court, they tried to beat the Soviet economy with the Soviet ruble. They sought to disorganise production and trade, thereby undermining the foundation of the stability of the Soviet currency.

The state (union and republican) budget of the USSR in terms of revenues increased from 50.8 billion rubles in 1934 to 96.6 billion rubles in 1937 the financial strength of the socialist state of workers and peasants is clearly reflected in changes in the composition of income and expenditure of the Soviet budget. These changes are characterised by the following data on the state (union and republican) budget (in billion rubles):

	1934	1935	1936	1937
Total income ¹	50,8	67,4	83,8	96,6
Including:				
Socialist household income	43,5	59,6	75,8	86,4
Of these:				
a) value added tax	37,7	52,2	65,8	75,9
b) deductions from profits	1,3	2,1	3,7	6,5
c) income coop tax. organisations and collective farms	0,6	0,6	0,8	1,1
d) equity loans	0,9	1,1	1,4	1,6
Funds of the population	6,2	6,1	5,9	6,7
Of these:				
a) government loans	3,4	3,8	3,5	4,3
b) taxes and fees	2,6	2,3	2,4	2,4
Total expenses	48,3	64,7	81,7	93,9
Including:				
National economy	30,2	36,9	38,5	39,3
Of these:				
a) industry	13,4	15,9	14,3	16,1
b) agriculture	6,2	7,3	8,7	9,0
c) transport and communications	5,8	7,0	8,7	7,9
d) trade and procurement	3,5	5,0	3,4	2,8
Socio-cultural events	3,2	5,0	7,0	9,5
Of these:				
a) education	2,7	3,8	5,2	6,3
b) healthcare	0,4	1,1	1,7	2,0
Defence	5,0	8,2	14,9	17,5
Funds transferred to local budgets	5,0	8,9	14,3	16,5
Excess income over expenses	2,5	1,0	1,9	2,7

In 1922-23, the first Soviet state budget was drawn up in hard currency (chervontsy). It was equal to 1.7 billion rubles (together with local budgets). About 400 million rubles the expenses of this budget were then covered by the issue of banknotes. In 1987 the state and local budgets already amounted to 100.9 billion rubles in terms of expenditures, and revenues exceeded expenditures by 2.2 billion rubles.

In 1922-23, state budget receipts from state enterprises

¹ Including the balance from the execution of the USSR state budget for the previous year.

and property amounted to 0.4 billion rubles, and state budget expenditures for financing the national economy— 0.2 billion rubles. In the state budget of the USSR for 1937, revenues from the socialist economy amounted to 95.6 billion rubles, and the cost of financing the national economy—43.4 billion rubles.

1935-1937 are also characterised by further significant strengthening of local budgets. The party and the government held for these years, a number of measures aimed at strengthening the revenue base of local budgets and at strengthening the stability of the lower budgets. To local budgets were entrusted with the largest tasks of financing local sectors of the national economy and especially socio-cultural events. The direction of funds from local budgets over these years can be seen from the following data (in million rubles):

	1934	1935	1936	1937
Financing of the national economy	1990	2453	3468	4079,4
Socio-cultural events	5093	8014	12865	16151,5
Administration and judicial institutions	1357	1941	2217	2474,3
Other expenses	546	583	559	789,2
Total expenses	8986	12991	19109	23494,4

The State Bank's turnover increased significantly. In 1934, the State Bank issued loans to household organisations in the amount of 140 billion rubles, in 1938—for 475 billion rubles. Daily cash receipts to the State Bank's cash registers increased from 163 million rubles in 1934 to 380 million rubles in 1938. The first session of the Supreme Soviet of the USSR of the first convocation, taking into account the huge growth in order to give it more independence, it decided to separate the State Bank from the People's Commissariat of Finance of the USSR and subordinate it directly to the Sovnarkom of the USSR. The Chairman of the Board of the State Bank is given a decisive vote in the Soviet People's Commissar of the USSR on the rights of the People's

Commissar.

The above figures testify to the tremendous path traversed by Soviet finance during the years of socialist construction, to the enormous power that Soviet finance is now characterised by.

Comrade V. M. Molotov at the meeting of the First Session of the Supreme Soviet of the USSR on January 15, 1938 said:

“If we didn’t have such a rapid growth of the state, republican and local budgets, if it weren’t for such a rapid growth of credit turnovers of the State Bank ..., our economy, our cultural construction could not grow at such a fast pace, the defence would be strengthened so quickly countries, as we have for all these recent years”¹.

Enormous value for enhancing the role of money and to further strengthen monetary circulation and the entire financial system had the elimination of the rationing system and the growth of the socialist profitability of our enterprises through the development of new technology and the development of the Stakhanov movement. The elimination of the rationing system and the struggle for the growth of socialist profitability caused a restructuring of the forms and methods of financial and credit work. This restructuring was carried out in the last years of the second five-year plan.

2. Elimination of the Rationing System and Strengthening Soviet Ruble

“The elimination of the rationing system for bread and some other products and the widespread transition to widespread grain trade at uniform fixed state prices, as well as an unconditional possibility in the future for further

¹ V. Molotov, *Reports and speeches at the First session of the Supreme Soviet of the USSR*, 1938, p. 112.

reduction of these prices and, together at the same time, lower prices for manufactured goods, the November 1934 plenum of the Central Committee of the CPSU (B) pointed out, create favourable conditions for further growth in the well-being of the workers and peasants.

This event became possible thanks to the victory of the collective farm system in the countryside and the rise of agriculture, and, in turn, it contributes to the further even faster growth of agriculture and industry on the basis of the strengthening Soviet ruble and the developing trade turnover between town and country”².

The abolition of the rationing system, prepared by the expansion of Soviet trade, contributed to the further growth of trade in the city and countryside. State and cooperative turnover trade rose from 61.8 billion rubles. in 1934 to 125.9 billion rubles in 1937, together with the collective farm trade, retail trade in 1937 amounted to 150.3 billion rubles.

The elimination of the rationing system has strengthened the role of money wages. Cash wages have become the main regulator in production, the most important stimulus for the growth of labour productivity. The card system prevented the complete elimination of elements of equalisation in payment of labour. It was impossible to differentiate the cards so that everyone received goods according to the quantity. and the quality of the labour expended by him. The transformation of cash wages into the main regulator removed this obstacle. The abolition of the rationing system created the possibility of maximising the use of money wages and Soviet trade for the implementation of the socialist principle of distribution according to work. Thus, the Soviet currency was strengthened even more.

The rationing system was associated with the system of stocks of agricultural goods. The peasants who handed over to the state through the procurement agencies the products

² “CPSU (B) in Resolutions and Decisions”, Part II, pp. 611-612.

of their economy at fixed prices, received manufactured goods at preferential fixed prices. In practice, this meant that, since the release of manufactured goods played a leading role in stimulating agricultural procurement, the role of money in settlements for procurement was somewhat reduced. The abolition of the rationing system and the rationing of blanks strengthened the role of money in the economic ties between the city and the countryside.

The abolition of the rationing system further increased the importance of cost accounting. It increased the responsibility of employees of trade enterprises for the quantity and quality of goods, for taking into account the tastes and needs of buyers.

The abolition of the rationing system created additional conditions for a systematic reduction in prices, which was one of the conditions for the growth of consumption. The abolition of the rationing system eliminated the double prices of goods: the prices of goods issued by cards and the so-called "commercial prices" used in open trade. Uniform prices were installed. The transition to uniform prices was accompanied by their decrease in comparison with the previous "commercial prices". In the future, a number of decrees made additional price reductions in state and cooperative open trade. Growth of state and cooperative trade without cards, growth of collective farm trade ensured a significant reduction in prices on the collective farm market. From the price cut, the Soviet buyer received in 1935-36. over 10 billion rubles savings. Decrease in prices in 1937 gave the buyer only for state and cooperative trade 1.5 billion rubles savings. For all that, however, in the second five-year plan it was not possible to achieve the projected price reduction. Failure to fulfill this five-year plan did not in the least affect the well-being of the working people. It was blocked by a larger than the five-year plan, an increase in the wages and incomes of collective farmers. As a result, even in conditions of insufficient price reduction, consumption of working people increased by 1½ times.

The abolition of the rationing system and the transition to open, expanded Soviet trade strengthened the role of financial and credit authorities in stimulating the expansion of Soviet trade. The procedure for crediting trade turnover established by the law of August 16, 1933 did not meet this task. Credit was provided to trading organisations within firmly established limits and for an impersonal “average” period of goods turnover. Under the conditions of the expanded open Soviet trade and the growing variety of the assortment of goods in shops and shops, the turnover of goods began to strongly differentiate; at the same time, the growth of trade turnover, the fulfillment and overfulfillment of the turnover plans began to depend mainly on the quality of the work of the trading organisations. This meant that it was no longer possible to be limited by the old impersonal credit terms. Lending on average terms of turnover of goods did not contribute to the development of trade in sufficient goods, but with high (above average) turnover periods. It was necessary to differentiate the terms of crediting by groups of goods. It was necessary to abolish the practice of established firm credit limits for each trading organisation, which no longer met the new conditions, and to make the amount of lending much more dependent on the degree of fulfillment and overfulfillment of turnover plans.

The system of lending for goods turnover was changed by the decree of the Council of People’s Commissars of the USSR of June 4, 1936. This decree: a) abolishes the practice of lending for an impersonal period and establishes the principle of lending based on differentiated turnover periods of certain groups of goods; b) abolished the hard credit limits that were previously established for each trading organisation. The size of the loan issued to each trading organisation was made dependent on the volume of its turnover within the total credit limit for all trade, and the profitability of trading activities of trading organisations, compliance with the established share participation of trading organisations in covering the turnover of goods with their own working capital

and accuracy of payments of trading organisations to the State Bank.

The same decree extended the deadline for paying bills, namely, instead of the old 48-hour deadline, it was established for out-of-town settlements (that is, for settlements between organisations located at different points) a period of 10 days and for intercity settlements—4 days. The establishment of these longer deadlines for paying bills was supposed to help strengthen payment discipline and eliminate the accounts receivable and payable of economic agencies.

In 1935, by a government decision, the consumer cooperation was entrusted with servicing exclusively rural trade. Tasks timely and correct satisfaction of the needs of the rural population and the development of Soviet trade in the countryside required the provision of consumer credit assistance co-operation and rural shops. Resolutions of the Council of People's Commissars of the USSR of February 21, 1936 and June 11, 1937 radically changed the procedure for crediting the turnover of rural and rural shops. The State Bank was charged with the obligation to lend to break-even general store with a retail turnover of over 20 thousand rubles. per month, whereas previously only break-even general retail stores were credited with a turnover of over 50 thousand rubles. Thus, the new order strengthened the direct ties of the State Bank with rural trade. Fixed credit limits for each individual general store or rural store were cancelled. In the event of an overfulfillment of the turnover plan, lending for the over-planned turnover was to be carried out without the share participation of trading organisations.

The State Bank was entrusted with the duty to carefully check the financial condition of rural consumer societies and rural shops, use credit to stimulate the improvement of the activities of these trading organisations. The system has been changed crediting the procurement of agricultural products in order to ensure the immediate payment of procurement organisations to the suppliers of products (the law of June 20,

1935).

The expansion of Soviet trade required an increase in the financing of capital investments in the trade system at the expense of state funds. By the decree of the Central Executive Committee and the Council of People's Commissars of the USSR of August 17, 1936, Vsekokbank and Ukrainbank were liquidated, and their operations were transferred to the newly organised Torgbank, that is, the Bank for financing the capital construction of state and cooperative trade. The organisation of this bank ensured the concentration of funds intended for financing the capital investments of trade organisations in one bank (while earlier this business was dealt with by Vsekokbank and Prombank) and, therefore, the best use of funds.

The establishment of uniform prices and an increase in procurement prices associated with the elimination of the rationing system and the purchase of blanks, demanded changes in the tax system. The commercial and most of the budget margins are eliminated: partly by removing them (to the extent that the prices of the former commercial trade are reduced in the transition to new, reduced uniform prices), and partly by including them in the turnover tax (i.e., in vacation pay prices of goods). Change in the level of production costs and the ratio of retail prices for different goods required some revision of wholesale prices. Everything necessitated a change in the turnover tax rates.

In connection with the cancellation of the card system, some tax payments of the population were also changed. To compensate for the rationing system was cancelled, an increase in the price of bread in comparison with the previous excessively low rationing prices was established the so-called grain allowances to wages. They are not included in income taxed and taxed. In addition, the minimum income of workers and employees, free of income tax and cultural collection, was raised.

During the struggle for the industrialisation of the country and for the collectivisation of agriculture, the Soviet

state had to import large sums of equipment from abroad, which we ourselves could not yet produce. The temporary need for increased import of machinery, machine tools and other equipment from abroad required an increase in the resources necessary to pay for imported goods. Expanding exports, rapidly developing the gold mining industry, the Soviet government simultaneously took a number of measures to strengthen the mobilisation of foreign exchange values (gold, silver, foreign currency) inside the country. One of the methods of such mobilisation of currency values was the creation of a special organisation—"Torgsin", in whose stores goods were sold exclusively for currency values.

The successful implementation of the Stalinist plan for the industrialisation of the country and the collectivisation of agriculture led to an active balance in foreign trade and to a significant increase in gold mining. Trade balance asset for 1935-36 exceeded 2 billion rubles. Since 1935, the USSR already has an active balance of payments. The asset under the current items of the balance of payments of the USSR amounted to 2 years (1935 and 1936) 1306 million rubles. Thanks to the tireless concern of the party and government. from year to year, the reconstructed, powerful Soviet gold mining industry is overfulfilling the planned targets. Growth driven by the victory of socialist industrialisation and collectivisation foreign exchange reserves of the USSR eliminated the need for special methods of mobilising gold resources through Torgsin. Under these conditions it was inappropriate to keep the Torgsin bonds and pay books (for all their limited value) along with the Soviet ruble, for which it was possible to buy any consumer goods in the system of open Soviet trade. By the resolution of the Council of People's Commissars of the USSR dated November 14, 1935, Torgsin was liquidated. Persons in possession of currency values could acquire goods for these values only by preliminary exchanging them at a fixed rate for Soviet money.

3. Finance in the Struggle to Increase the Profitability of Socialist Enterprises

During the struggle for the socialist industrialisation of the country and for collectivisation of agriculture in a number of branches of heavy industry, the cost of goods exceeded the sale price set by the government for these goods. The planned gap between the prime cost and the selling price was caused by two reasons.

The first of them is that the newly built enterprises could not be fully utilised at once. It was necessary to master these new enterprises, to master new technology. During the period of such development, the cost price at new enterprises was high, but it quickly decreased as the development of new technology and new production. It was irrational to set selling prices on the basis of the high prime cost of the first period of operation of new enterprises from the point of view of stimulating the struggle for the growth of labour productivity, for the full mastery of new technology. In addition, a high selling price would put in a difficult financial situation all those enterprises and economic organisations that are consumers of this product: it would increase the cost of production of these enterprises. Therefore, the selling prices were set at a level that corresponded to the cost price not of the development period, but of the period when the enterprise would already be developed.

The second reason for the temporary gap between the cost price and the selling price was that the state, in order to provide maximum assistance to the new, collective farm system in the countryside, released agricultural machines, tractors, etc., to collective farms, MTS and state farms at preferential prices—lower than their cost... The resulting gap between the prime cost and the selling price (planned loss) due to these reasons was covered by the state through subsidies from the budget.

Success in mastering new technology and new industries, the birth and development of the Stakhanov movement ensured a decrease in the cost of production, an increase in the profitability of enterprises and organisations of the socialist economy. In 1936, the profits of state enterprises and economic agencies reached 14.2 billion rubles. Many enterprises began to refuse subsidies even earlier. In 1936 the subsidy system in heavy industry was cancelled. In cases where previously set selling price turned out to be excessively low, it was by way of increasing it brought in line with the planned cost price. The new system of selling prices was built in such a way that not only did it eliminate the need for subsidies from the budget, but that all enterprises and organisations of heavy industry, as a rule, had savings formed on the basis of cost reduction. A partial increase in the selling prices for heavy industry products was offset by light industry by reducing the turnover tax.

In the interests of a successful struggle for the growth of socialist profitability and savings, in 1936, numerous funds for bonuses and improvement of the life of workers and employees in enterprises, formed at the expense of the profits of enterprises, with the replacement of all these funds with one fund of the director. The formation of the fund for the director was made in direct proportion to the degree of fulfillment by the enterprise of the planned targets for reducing the cost and increasing savings. For the same purposes of stimulating the struggle for the growth of socialist profitability, in 1936 self-supporting functions were assigned to the main departments of industrial people's commissariats (the right to conclude economic contracts, have their own working capital, use a loan from the State Bank, etc.).

Unremitting attention was also paid by the party and the government to the organisation of capital investments.

In 1935, the Council of People's Commissars of the USSR adopted special resolutions on the work of the Agricultural and Central Communal Banks. The Council of People's

Commissars of the USSR abolished the harmful practice of mechanical and equalising distribution of loans between districts and collective farms and obliged the Agricultural Bank to provide loans only at the request of the collective farms themselves on the basis of their production plans and income and expense estimates. The Agricultural Bank was entrusted with drawing up plans for production crediting of collective farms and collective farmers. The most important task of the Agricultural Bank was to attract funds from the indivisible funds of collective farms to the accounts of this bank and to assist collective farms in establishing their financial economy and bookkeeping. Noting the unsatisfactory control of Tsekombank over the work of local communal banks, the Council of People's Commissars of the USSR expanded the rights and obligations of Tsekombank in the area of managing the work of local communal banks. The Central Bank of the USSR granted both banks the right to suspend or even completely stop financing construction in cases of detection of overspending on administrative and managerial expenses or illegal use of working capital for construction and other violations of financial discipline.

By a decree of the Council of People's Commissars of the USSR of September 19, 1935, Soviet institutions, economic, cooperative and public organisations were granted the right to carry out extra-limited (in excess of those established for them by the national economic plan) capital expenditures at the expense of funds provided for by their financial plans, or at the expense of excess savings and mobilisation of internal resources. This event has strengthened the agility of economic organisations and institutions.

Of tremendous importance in the struggle to improve capital construction and the work of capital investment banks is the decision of the Council of People's Commissars of the USSR and the Central Committee of the All-Union Communist Party of Bolsheviks of February 11, 1936 "On improving construction business and the reduction in the cost of construction". By this decree, the economic organisations

were entrusted with the task of streamlining the design and estimate business, since the disorder in this business undermined the cost accounting in construction and increased the cost of construction. Untimely approvals of projects and estimates, their frequent alteration narrowed the manoeuvrability of construction organisations, interfered with the correct organisation of construction work, and were a large overhead additional expense on the cost of construction.

The decree of the Council of People's Commissars of the USSR and the Central Committee of the CPSU (B) was directed against handicraft and partisanism in capital construction. These handicrafts and partisans were expressed in the fact that, along with the implementation of construction by special construction organisations, economic organisations carried out construction on their own, in the so-called economic way, without resorting to the services of special construction organisations. The economic method of construction actually meant the underutilisation of all the advantages of a large construction organisation, insufficient use of all possibilities of mechanisation of construction, lack of sufficient struggle to create a permanent cadre of construction workers, weakening of financial control in the field of construction, etc. The Council of People's Commissars of the USSR and the Central Committee of the All-Union Communist Party (Bolsheviks) in a decree of February 11, 1986 indicated that construction should mainly be carried out by contract, that is, by special construction organisations. The performance of the work by these organisations ensures a deeper introduction of modern construction techniques, their deep mechanisation, and the creation of a permanent cadre of construction workers makes it possible to really turn the construction business into an agricultural industry and ensure a systematic reduction in the cost of construction.

The Central Committee of the All-Union Communist Party (Bolsheviks) and the Council of People's Commissars of the

USSR, by a decree of February 11, 1936, proposed to the people's commissariats to strengthen the working capital of construction organisations, giving construction organisations the right to receive short-term loans from banks. They obliged the people's commissariats and economic organisations to develop a truly Stakhanov movement in the region of construction.

In the struggle for the growth of socialist profitability and for the austerity regime in the expenditure of public funds, the correct organisation of financial control had to play an important role. However, due to the wrecking 'organisation of the work of the financial and budgetary inspections, the latter did not provide the necessary financial control. In their work, absolutely insufficient attention was paid to documentary audits. The employees of the financial and budgetary inspections did not conduct a proper fight against violators of budget discipline.

Control was poorly organised by the sectors and departments of financial agencies.

In order to streamline the staff business and constantly, systematically monitor compliance with the established states, the resolution of the SNK of the USSR in 1935 established staff commissions headed by the Central Staff Commission under the People's Commissariat of Finance of the USSR and introduced mandatory registration by all institutions, economic organisations, etc. in the city and district financial departments of states, rates and funds, salaries, as well as estimates of administrative and managerial expenses. According to this resolution, 50 percent of the savings on administrative and managerial expenses remain at the disposal of managers, institutions and economic organisations for awarding employees. In order to strengthen control, an internal control was established by a government decree. At the end of 1937, the financial control bodies were reorganised. As part of the People's Commissariat of Finance of the USSR, a Control and Audit Department is being created.

The same tasks of strengthening financial control were in view when the Council of People's Commissars of the USSR was approved in 1936 of bodies and enterprises. The People's Commissariat of Finance was entrusted with the approval of the forms of accounting reports and balances, as well as instructions for their preparation. The financial authorities were given the right to participate in the review of accounting reports and balances, to require economic bodies and enterprises to submit materials to these reports and balances, to consider on the spot accounting records, statements, all the necessary documentary data, etc.

The years of the Second Five-Year Plan are characterised by an increase in the socialist profitability of not only industry, but also of socialist agriculture. The organisational and economic strengthening of the collective farms ensured the rapid development of all branches of socialist agriculture. By the end of the first five-year plan, significant successes had already been achieved in the development of socialist livestock raising of that branch of the economy which suffered especially great damage from the resistance of the kulaks.

Further development of agriculture and the entire national economy, on the whole, he demanded an increase in the output of grain farming, the fulfillment of Stalin's task: to bring the harvest of grain to 1-8 billion poods per year. All this required a restructuring of the system of taxation of income: collective farms and made it possible to carry out such a restructuring in 1936.

Prior to this, the agricultural tax from collective farms was levied at per hectare rates, depending on the planned size of crops and the planned yield, and collective farm animal husbandry was completely exempt from the tax and most of the industrial crops. As stated in the decree: the Central Executive Committee and the Council of People's Commissars of the USSR dated July 20, 1936, the growth of collective farms incomes from industrial crops, animal husbandry, truck farming and crafts makes it possible even

now to lower the taxation of income from grain crops, and to strengthen collective farms as large agricultural enterprises, allows you to replace the outdated agricultural tax on collective farms with a more equitable taxation system— income tax.

Income monetary tax from collective farms, instead of the agricultural tax levied on them earlier, is paid on everything determined by the annual reports of the collective farm's gross income for the previous year, including all income from livestock, industrial crops and trades. Such a procedure for taxing collective farm income stimulates the struggle to increase income from all branches of agriculture, therefore, stimulates the struggle for an increase in the yield of grain crops, and for an increase in the number and productivity of livestock, and for a further rise in industrial crops.

The growth of the socialist profitability of all branches of the national economy of the USSR is steadily strengthening the financial position of our country. One of the striking indicators of the strengthening of the financial economy of our country on the basis of the rise of the entire people, economy is carried out in 1936, a large reduction in interest rates on the operations of the State Bank of the USSR, long-term investment banks and savings banks. At the same time, the reduction in the cost of the loan should have helped to reduce the cost of production of our enterprises and, consequently, further growth in production and the circulation of goods, further strengthening the monetary system of the USSR.

With the same purpose of reducing the cost of credit, a conversion of state loans was carried out in 1936. The conversion of 1936 combined the previously issued mass loans ("The third loan of industrialisation", the loan "Five-year plan in 4 years", its two subsequent issues—"The third, decisive" and "The fourth, final" years of the Five-Year Plan and three issues of the "Loan of the Second Five-Year Plan") in the water (fourth, 1936) issue of the "Loan of the Second

Five-Year Plan". This simplified the entire organisation of government loans and made it easier to monitor the circulation of winnings and redemptions. The cost of state loans for the state was reduced by 2 times (from 8 to 4 percent), while the term of loans was lengthened by 2 times (from 10 to 20 years). The conversion of government loans in 1936 was accompanied by the abolition of the previously applied procedure for the issuance of loans by savings banks secured by government bonds, with the permission (in each case) of the commissions for promoting state loans and savings. This order, which played a positive role in the past, no longer corresponded to the NEW conditions of economic life and the successes achieved in the development of state loans. Savings banks were invited from March 1, 1937 to freely issue loans secured by government bonds in the amount of 30 percent of their par value.

4. Finance in the Third Stalinist Five-Year Plan

The Third Five-Year Plan for the development of the national economy of the USSR discussed and approved by the 20th Congress of the Communist Party is one of the most important stages in solving the greatest historical task of the transition to the highest phase of communism.

"On the basis of the victorious fulfillment of the second five-year plan and the achieved successes of socialism, the USSR entered the third five-year into a new phase of development, into the phase of completion of the construction of a classless socialist society and a gradual transition from socialism to communism, when the communist education of the working people, overcoming the remnants of capitalism in the minds of the people-builders of

communism”¹.

As a result of the successful implementation of the first two Stalinist five-year plans, the USSR became ahead of any capitalist country in Europe in terms of the level of production technology in industry and agriculture. This made it possible to practically put the final solution within the next period of time to the main economic task of the USSR—to catch up and overtake the most developed capitalist countries of Europe and the United States of America also in economic terms. The third five-year plan for the development of the national economy of the USSR is a grandiose program of economic and cultural development, the implementation of which will largely predetermine the solution of this basic economic task of the USSR.

According to the third five-year plan, industrial output should increase by 92 percent, that is, almost double, reaching 184 billion rubles in 1942 (in prices of 1926-27). The production of such industries as machine building, ferrous and non-ferrous metallurgy, and the chemical industry is growing especially rapidly. This ensures the further powerful technical armament of industry and other branches of the national economy and defence, as well as the accelerated development of the chemicalisation of the national economy. The solution of the main economic problem of the USSR depends on this.

In the resolution on the third five-year plan of its national economy of the USSR, the 20th party congress especially confirmed “... the need to improve budgetary and credit work, further strengthen cost accounting, strengthen the fight against mismanagement, increase the level of profitability of heavy industry and other sectors of the national economy, strengthen the Soviet ruble by the basis of socialist production, enhanced development of trade and a

¹ XVIII. Congress of the CPSU (B), *Verbatim Report*, 1939, p. 665.

general rise in the material standard of living of the people”².

This defines the tasks and role of finance, money, credit in the Third Five-Year period.

The entry of the USSR into a new phase of development, into the phase of completion of the construction of a classless socialist society and the gradual transition from socialism to communism, strengthens and develops the function of the economic-organisational and cultural-educational work of state bodies and their function of protecting socialist property from any encroachments on it by anti-Soviet elements, while fully preserving and developing the function of military defence of the socialist homeland from all outside encroachments. The completion of the construction of a classless socialist society and the gradual transition from socialism to communism cannot be accomplished without the full use of the state organs of the dictatorship of the working class. At the 15th Party Congress, Comrade Stalin, developing and enriching the Marxist doctrine of the state, brilliantly proved that the state will remain in the period of communism, if the capitalist encirclement is not eliminated.

The main tasks of the financial system in the third five-year plan are to provide the necessary resources for a grandiose programme of the economic and cultural development and strengthening of the defence of the USSR, every possible assistance to increase the productivity of socialist labour, stimulation of the most efficient use of the resources of the national economy. These tasks can be accomplished only under the condition of a struggle to further strengthen the Soviet ruble and improve the entire work of the budget and credit system.

The growth in the output of the national economy is ensured primarily by a further increase in labour productivity, the strengthening of labour discipline, and the development of socialist emulation and the Stakhanov movement. Labour

² Ibid., p. 665.

productivity in industry is to rise over the Third Five-Year plan by 65 percent, in rail transport by 82 percent, and in water transport by 38 percent. The yield of grain and industrial crops and the productivity of socialist livestock raising are significantly increasing.

The most important task of the financial system is all possible assistance in the fulfillment of these tasks to increase labour productivity. To this end, the financial system must on a daily basis stimulate an increase in the production of goods, a decrease in production costs. The financial relations system should help to improve the material position of the working people, an increase in labour discipline, the development of socialist emulation and its highest stage—the Stakhanov movement as the main measures of the Party and the Soviet government to ensure systematic growth in labour productivity. Along with this, the financial system should in every possible way strengthen the cost of accounting and planning and financial discipline, intensify the fight against mismanagement, and prevent the plundering of the people's wealth. The change in the ratio between value added tax and deduction from profits is of great importance. An increase in the role and importance of deductions from profits strengthens the financial authorities' control over the production of goods, strengthens cost accounting, and increases the interest of economic organisations in the growth of savings.

The third five-year plan set the task—to reduce the cost of production in industry by 10 percent. The fulfillment of this task should provide the state in 1942 with 20 billion rubles savings in comparison with 1937. Needless to say, how great the significance of this matter. The cost of construction should be reduced by 12 percent in the third five-year period. The five-year plan also requires the transformation of state farms in practice into highly productive, highly profitable farms.

The financial system must facilitate the strict fulfillment of these tasks, strengthening cost accounting, waging a

decisive struggle against the squandering of wage funds, stimulating an all-round improvement in the quality of products, decisive the fight against downtime and losses in production, the reduction of the consumption rates of raw materials, materials, fuel, electricity, the widespread use of production waste, the decisive introduction of high-speed construction methods into practice, etc.

One percent of the savings in raw materials and materials as a whole for all industry is calculated for 1940 at almost 1,300 million rubles.

The implementation of the decisions of the XVIII Party Congress on the growth of labour productivity and on reducing the cost is the most important condition for the fulfillment of the financial plan of the third five-year plan.

“We must ensure that all our workers, from small to large, always remember their responsibility to the state and the people, always remember their duty to protect people’s goods and treat them in a business-like manner, to save costs and in practice to protect people’s penny!” said Comrade Molotov at the 18th Party Congress¹.

The third five-year plan established an ambitious capital investment programme—192 billion rubles (in current estimated prices) against 114.7 billion rubles for the Second Five-Year Plan. The capital investments in industry should amount to 111.9 billion rubles of which 93.9 billion rubles in the industry that produces the means of production. The capital investments in transport are set at 37.3 billion rubles, in agriculture—11 billion rubles. The investments in agriculture by the collective farms themselves will amount to about 24 billion rubles.

The fulfillment of this programme of capital investments, which corresponds to the plan for the growth of production, ensures a further increase in the production and technical

¹ XVIII. Congress of the All-Union Communist Party of Bolsheviks, *Verbatim Report*, p. 304.

base of the USSR and the formation of the necessary reserves of capacities in the most important branches of the national economy. The financial system must not only provide resources for the implementation of this 'program, but also achieve strict fulfillment of tasks to increase labour productivity in construction (by 75 percent) and to reduce the cost of the latter (by 12 percent). Struggle for the effective use of the enormous funds spent on capital investments for strengthening cost accounting and financial planning discipline at construction sites is the most important task of capital investment banks.

The victory of socialism in the USSR created the basis for a joyful and happy life for the Soviet people. The third five-year plan provides a new, further rise in the material and cultural level of the working people. One of the main tasks of the third five-year plan is to increase national consumption by one and a half to two times. This is ensured by the growth of the output of the national economy, the expansion of Soviet trade, the growth of the monetary incomes of workers, collective farmers and Soviet intelligentsia. The output of the consumer goods industry should increase by 72% and will amount to 69.5 billion rubles in 1942 (in prices of 1926-271). Agricultural production should increase more than 1/2 times (52 percent), reaching 30.5 billion rubles in 1942 (in prices of 1926-2171). State-cooperative trade turnover grows from 126 billion rubles in 1937 up to 206 billion rubles in 1942 the average wages of workers and employees increased by 37 percent, the wages fund by 87 percent. As a result of an increase in labour productivity on collective farms, a rise in crop yields and an increase in livestock production, there will be a further significant increase in the income of collective farmers. The financial system is faced with the task of stimulating the production of consumer goods, the expansion of Soviet trade, the acceleration of the turnover of goods, strengthening control over the use of wage funds, and promoting the further growth of the prosperous life of collective farmers. A particularly large role falls to the share

of the State Bank of the USSR. The ongoing restructuring of the turnover tax is also of great importance in this matter.

The entry of the USSR into the period of completion of the construction of a classless socialist society and the gradual transition to communism makes the task of communist education especially urgent, the task of the elimination of the remnants of capitalism in the minds of people. Fostering a communist attitude towards labour and social property is one of the decisive conditions for the rapid growth of labour productivity. It is necessary to educate in every way a socialist combination of public and personal interests, the subordination of personal interests to public interests. A wonderful example of how the financial system can and should contribute to solving these problems is the new law on agricultural tax, approved in 1939 by the Fourth Session of the Supreme Soviet of the USSR.

Earlier, before this law, all collective farmers who had income from the non-socialised part of the economy (household crops) paid agricultural tax in the same amount for the entire collective farm or even for the whole region (fixed salaries), regardless of the size of the indicated income. Such a structure of the tax ran counter to the tasks of the struggle for a further rise in the incomes of the collective farms, for the strengthening of labour discipline on the collective farms. On the contrary, such a system of taxation to a certain extent encouraged violators of labour discipline encouraged the development of the personal economy of collective farmers to the detriment of the interests of the entire collective farm as a whole. This contradiction was especially clearly exposed by the May (1939) Plenum of the C.C. of the CPSU (B).

The new law on agricultural tax eliminates this contradiction. Under the new law, collective farmers with income from non-socialised farms pay agricultural tax at progressive rates: the higher the income, the higher the tax rate, the higher the percentage income is taxed. The law proceeds from the indisputable position, already proven by

practice, that the basis of the well-being of collective farmers is the income they receive from the collective farms, and the personal economy of collective farmers should take a subordinate place, should play only an auxiliary role, and the further, the more narrowly subsidiary role.

The new order of taxation of incomes of the population with income tax, established by the law adopted by the Sixth Session of the Supreme Soviet of the USSR in 1940, is of similar importance. The strengthening of the differentiation of taxation of the handicraftsmen and artisans will have to contribute to the development of commercial co-operation.

The Third Five-Year Plan for the development of the national economy of the USSR includes a large programme of cultural development, corresponding to the grandiose program of economic development and improvement of the well-being of the Soviet people. The task has been set for the implementation of universal secondary education in the cities and the completion of the universal seven-year education in the countryside and in all national republics. The expansion of a wide network of schools and courses for the training and retraining of skilled workers and masters of socialist labour, the growth of higher and secondary specialised education, an increase in the network of cinemas, clubs, libraries, etc.—all this ensures a significant further rise in the culture of the entire mass of working people of the city and villages, being a major step forward in raising the cultural and technical level of the working class to the level of workers in engineering and technical labour. The measures to ensure recreation and to protect the health of workers are gaining momentum. The state expenditures on cultural and social services for the Soviet people (not counting state expenditures on housing and communal construction) increase from 30.8 billion rubles in 1937 to 53 billion rubles in 1942, i.e. 1.7 times, including health care costs—from 10.3 billion rubles in 1937 to 16.5 billion rubles in 1942.

The ensuring of the uninterrupted development of industry and the entire national economy in accordance with

the national plan requires the creation of large state reserves. These reserves are especially necessary in view of the growing threat of attacks on the USSR by the imperialist states. The third five-year plan provides for the creation of such reserves. During the years of the third Stalinist five-year plan, the defensive might of the socialist state has been growing and gaining strength.

The development of the socialist economy of the USSR, increase in the national economic wealth, the rise in the welfare of the masses get their synthetic expression in the systematic increase in the national income of the USSR. During the years of the third five-year plan, the national income of the USSR will increase from 96 billion rubles in 1937 to 174 billion rubles. in 1942, i.e. by 1.8 times. The increase in the national income for the third five-year plan will amount to 18 billion rubles, or 10 percent exceeds the increase in the national income for the first two five-year plans taken together. As the XVIII. Party Congress pointed out, such growth of the national income will give “the full opportunity to meet the growing incomes of the population and the state, both the needs of national consumption and state needs in the development of the national economy, strengthening the defence capability and creating the necessary state reserves.”

The tremendous growth of the national income is the basis for the further development of the work of the budget and credit system.

The composition of revenues and expenditures of the state budget of the USSR in the first years of the third Stalinist five-year plan is characterised by the following data (in billion rubles):

	1937 ¹	1938	1939 (prev. isp.)	1940 (Plan)
Total income	109,3	127,5	156,0	183,9
including:				
Sales tax	75,9	80,4	96,9	108,6
Deductions from profits	9,3	10,2	15,8	22,4
MTS income	—	1,4	1,8	2,6
State funds social fears	6,6	7,2	7,8	9,1
Government loans	5,9	7,6	8,3	12,0
Personal taxes and fees	4,0	5,2	7,0	9,6
Total splits	106,2	124,0	153,2	179,9
including:				
Financing of the national economy	43,4	51,7	59,1	57,1 ²
Socio-cultures. meropr	30,9	35,3	38,3	43,0
People's Commissariat of Defence and NEVMF	17,5	23,2	39,3	57,1
People's Commissar of Internal Affairs	3,0	4,2	5,6	7,0
Managed and the court is established	4,5	5,4	6,4	7,2
State Borrowing Costs	3,5	2,0	2,0	2,5

The decisive revenues of the USSR state budget are receipts from the turnover tax and deductions from profits, which increase with the growth of production and the sale of goods, with the rise in the profitability of socialist enterprises and economic organisations. Characteristic is the rapid increase in the absolute size and share of receipts from deductions from profits. This testifies to the systematic growth of production and socialist profitability of enterprises and economic organisations. The profits of state-owned enterprises increase from 15.7 billion rubles in 1938 to 33.3

¹ For 1937, the data are presented in comparison with subsequent years in the form, that is, with the inclusion of income and expenses of the budgets of the USSR, local councils and social insurance.

² Excluding the sums of the reserve funds of the Council of People's Commissars of the USSR and the Council of People's Commissars of the Union republics (5 billion rubles).

billion rubles according to the plan for 1940, the growth of income from machine and tractor stations, which were transferred in 1938 to estimated budget financing, is also of great importance.

The direction of budgetary resources is determined by the tasks assigned to the country in the third five-year period. The bulk of the budgetary funds intended to finance the national economy goes to capital construction and to replenish the working capital of industry. For 1938-1940, the total volume of capital investments throughout the national economy is 93.8 billion rubles. Of these, 71.4 billion rubles, or 76.1 percent, were covered at the expense of the USSR state budget. Consequently, the budget remains the main source of funds for financing capital investments. The growth of expenditures on social and cultural measures corresponds to the task of such an increase in the material and cultural standard of living of the working people, which means a real flourishing of socialist culture. The envoys received with great enthusiasm. of the people—the deputies of the Supreme Soviet of the USSR—an increase in appropriations for strengthening the defence of the socialist homeland.

In 1940, a number of measures were taken to provide all the conditions for the successful implementation of financial plans. Prohibition of unauthorised departure from enterprises, the introduction of an eight-hour working day and a seven-day week, the strictest responsibility for the release of incomplete and defective products radically change the working environment at our enterprises. It goes without saying that the economic effect of these measures cannot be obtained by gravity.

The financial system has the most important responsibility: through the control of the ruble to stimulate the fight against losses, the fight for economy, to stimulate the growth of attention of business executives to the production economics. It largely depends on the financial system whether the created favourable environment in the work of enterprises will be used for cheapening of production,

liquidation of unprofitability, growth of profits, fulfillment and overfulfillment of plans of socialist accumulation.

5. The Struggle of the Party to Strengthen the Financial Apparatus, to Uproot and Prevent Sabotage

The Party has attached and continues to attach tremendous importance to the task of strengthening the financial and credit apparatus, cleansing it of all alien people and enemies of the people. This is evidenced by the history of the development of Soviet finance, money circulation and credit.

On February 28, 1931, the Central Committee of the All-Union Communist Party (Bolsheviks) adopted a special resolution "On strengthening the personnel of the Narkomfin system". In this resolution of the Central Committee of the CPSU (B); noting some improvements in the personnel of the financial organs, achieved as a result of the purge of the USSR People's Commissariat of Finance and its system in the Union, indicated that these results are completely insufficient. The Central Committee of the All-Union Communist Party (Bolsheviks) pointed to the existing contamination of the central and local financial apparatus by alien people and proposed to the USSR People's Commissariat of Finance in the shortest possible time to achieve a radical improvement in the composition of the personnel of the entire Narkomfin system.

However, the implementation of this instruction of the party was sabotaged by the enemies of the people, who had crept into the central and local financial bodies.

The vile traitors and traitors, Trotskyite-Bukharin bandits, spies and saboteurs who sold themselves to foreign capitalist intelligence, pests, taking advantage of the blunting of the Bolshevik vigilance, littered cadres, plundered public funds,

confused grassroots authorities with incorrect instructions and weakened financial and credit controls.

The exposure of the enemies of the people, on the basis of the instructions of the leader of the peoples, Comrade Stalin and the decisions of the February (1937) plenum of the Central Committee of the CPSU (b), revealed the facts of sabotage in various areas of financial and credit work. The saboteurs tried to confuse the calculation and collection of sales tax by establishing an excessive multiplicity and fractionality of tax rates. They sought to impose anti-Soviet methods of levying taxes and fees from the population, ignored complaints from workers about incorrect, illegal charging and collection of taxes, sought to reduce the work of the complaints bureau to formal replies. They confused, distorted the planning of savings, thereby undermining the role and significance of such methods of struggle for the growth of socialist profitability as deductions from profits to the director's fund. The enemies wreckingly curtailed the network of savings banks and tried to disorganise the activities of savings banks by artificially creating queues. They almost completely reduced the functions of financial and budgetary inspections to the role of a passive appendage to the apparatus of the People's Commissariat for Finance, encouraging a conciliatory attitude of inspectorates towards violators of budget discipline. They obfuscated budget planning, approved inflated bids for public funds in some cases, and cut funding for urgent needs in other cases. They strove, by means of automatism and depersonalisation in lending, to direct funds to economic organisations, regardless of their financial condition, the degree of their fulfillment of planned targets and obligations to the state, to the budget and banks; tried create difficulties in the settlements of economic agencies with the bank and the budgetary system and confuse mutual settlements between economic agencies. They disrupted the construction of new enterprises, scattering funds between many simultaneously starting construction projects, shutting down enterprises under the

guise of the need for major repairs and reconstruction, etc., disrupted control over the spending of wage funds.

Under the leadership of the great Stalin, armed with his instructions, relying on the active assistance of the working people of the city and the countryside, the glorious Soviet intelligence destroyed the sabotage nests, which tried, in particular, to undermine the financial and credit system of the Soviet state. The party has cleared the financial and credit apparatus of enemies of the people, strengthened it with trusted people.

The elimination of capitalist elements and the exploitation of man by man do not mean the end of the class struggle. The great Stalin teaches to recognise enemies of the people—saboteurs, terrorists, spies, saboteurs recruited by capitalist intelligence from among

“Former people”—fragments of the defeated urban bourgeoisie and kulaks, from among the double-dealing Trotskyists and right-wing restorers of capitalism, from the disguised remnants of anti-Soviet parties and decayed elements.

The great Stalin teaches that as long as there is a capitalist encirclement, there is also a source that feeds and sends to us sabotage, spy gangster elements. The great Stalin teaches us Bolshevik vigilance, irreconcilability towards all enemies of the people, the ability to expose a skilfully disguised enemy, who, in particular, is trying to cover up his hostility, remain in the ranks of the party and strive to destroy our cadres by various methods, sow uncertainty and excessive suspicion in our ranks.

These qualities of the Bolsheviks—vigilance, intransigence, the ability to recognise the enemy, no matter what disguise he is hiding—especially needed by financial workers who “the country trusts the greatest values. They must stand guard over these values with the same vigilance and dedication as the coupons of the Red Army stand guard over our borders”(Pravda newspaper).

The financial workers must not only completely eliminate

the consequences of sabotage, but also fight against any possibility of penetration of the enemies of the people into the budget and credit apparatus.

To fulfill the honour assigned to them, the duty is to stand guard over socialist property, to fight for the strengthening of state and financial discipline, for the most effective use of people's funds, financial workers must from day to day to improve the techniques, forms and methods of budget and credit work. It is necessary to deeply study the entrusted to each it is business for a financial worker, to mobilise all forces and knowledge to fulfill the great tasks set by Comrade Stalin, to systematically take into account and correct shortcomings in work.

The complete elimination of the consequences of sabotage by the spy—Trotskyist-Bukharin agents of the capitalist states, the mastery of Marxism-Leninism, an increase in Bolshevik vigilance, Bolshevik persistence in studying the area of work assigned to each and correcting all shortcomings in the work are the decisive conditions for the victorious fulfillment of the grandiose plan of the third Stalinist Five-Year Plan.

CHAPTER IX. THE STATE BUDGET INCOME. INCOME FROM ENTERPRISES AND ORGANISATIONS OF THE SOCIALIST FARMS

1. The System of State Budget Revenues. Obligatory Payments Tax

The socialist state distributes the people's income in a planned manner to the necessary funds (accumulation fund, fund for social and cultural events, administration and defence funds) in order to ensure the fulfillment of all the functions of the socialist state. The largest role in this matter is played by the state budget of the USSR.

These funds are formed through the state budget by mobilising part of the savings of individual enterprises and organisations of the socialist economy and a part of the personal income of the population. Accordingly, the state budget revenues by payers are divided into two main groups: a) payments of enterprises and organisations of the socialist economy and b) taxes and fees from the population. Under the conditions of a planned socialist economic system, this division of budget revenues by payers' means at the same time their division according to sources of payment. The socialist state in a planned manner determines the volume of savings of enterprises and organisations of the socialist economy, the total amount of personal incomes of the population and that share of socialist accumulation and income of the population, which should be accumulated in budget revenue. This problem is solved on the basis of production planning, planning of wage funds, production costs and prices, and planned regulation of the distribution of income of cooperative-collective farm enterprises and organisations.

The victory of socialism in all areas of the national economy—in industry, agriculture, and trade—is vividly expressed in the structure of state budget revenues. Over 90 percent of the budget receives all its revenues from socialist enterprises and organisations. The budget of a socialist state is based on the accumulations of the socialist economy. The population's funds accumulated in the budget do not even reach 10 percent of all budget revenues.

At the present stage, in the conditions of basically built socialism, the task set in relation to budget revenues by the VIII Party Congress has been realised. The party program adopted by the congress states that Art. In a transitional era, the party will carry out a progressive taxation of income and property, directed against the capitalist elements, so that taxes from the exploiting classes will be used to cover direct government expenditures. And since the tax will outlive itself due to the widespread expropriation of the propertied classes, the coverage of state expenditures must rest on the direct conversion of part of the income from various state monopolies into state revenue. According to the methods of mobilisation, state budget revenues are divided into two main groups: mandatory payments voluntary payments. The first group includes payments by enterprises and organisations of the socialist economy and taxes and dues from the population; the second is the accumulation of funds through government loans.

The funds accumulated in the budget are used to finance the national economy, social and cultural events, management and defence of the country. The direction of funds for certain types of costs and their amount are strictly determined by the plan according to the tasks expanded free socialist reproduction. This implies the need for strict regulation of revenue receipts to the budget, the establishment by law of the volume of payments and the timing of their payment. Therefore, the prevailing place in budget revenues is occupied by compulsory payments, which account for about 95 percent of all budget revenues. The

accumulation of funds through government loans, absolutely growing from year to year on the basis of the incessant growth in the well-being of the population, occupies a small share in budget revenues.

The obligatory nature of payments creates conditions for the fulfillment of the income part of the budget, for the full and uninterrupted fulfillment of all national expenditures provided for by the plan. At the same time, the establishment of compulsory payments in relation to state enterprises, the accumulations of which are the property of the state, that is, the national one, is also due to the special relationship of the budget, as a centralised national fund of resources, with state enterprises, the activities of which are organised on the basis of cost accounting. As is known, self-financing presupposes a strict delimitation of the state's resources from the resources provided for the disposal of individual state economic bodies, and the demarcation of resources between individual enterprises and organisations: "On the other hand, by strict regulation of the obligations of individual economic bodies to the budget, it is possible to deepen state financial control for the activities of enterprises and organisations of the socialist economy. In relation to collective-farm cooperative organisations, the use of mandatory methods of budgetary accumulation of funds is also conditioned by the possibility, with their help, to exercise control of financial agencies over the economic activities of these organisations, as well as to regulate income and savings (in industrial cooperation) in accordance with the political and economic tasks of the socialist state.

Mandatory payments from the population, like all others, are established by the state authorities. The introduction of these payments expresses the will of the Soviet state, the will of the working people—workers, peasants and the Soviet intelligentsia, aimed at resolving historical tasks of the Soviet state for the destruction of classes and building a communist society. The principles on which mandatory payments from the population are based will be discussed below.

The peculiarities of compulsory payments to the budget, which distinguish them from other methods of accumulating funds, also lie in the fact that, being obligatory, they ensure the regularity of budget revenues. By introducing compulsory payments, certain shares of the income and accumulations of the socialist economy and the personal income of the population are established in advance, which must be transferred to the budget in a timely manner.

In order to ensure the revolutionary legality, completeness and timeliness of receipts of revenues to the budget, the law on the introduction of one or another compulsory payment provides for: a) the payer (subject) of the obligatory payment (state enterprises, cooperative-collective farm organisations, citizens); b) the object of taxation, that is, the basis for calculating and levying one or another mandatory payment (turnover, profit, income); c) rates (share of withdrawal); d) payment terms and e) the main (and sometimes all) benefits for this mandatory payment. Failure to pay or untimely introduction of the established obligatory payments to the budget is a violation of the laws of the socialist state, a violation of the interests of the working people of a socialist society.

All resources mobilised into the budget are repayable. This recurrence stems from the special nature, role and tasks of the state of the dictatorship of the working class, which realises the unity of economic and political leadership. Funds mobilised into the budget are returned to the payers in the form of expenses for financing the national economy and social and cultural events and for strengthening the defensive might of the socialist homeland. At the expense of the resources spent from the budget, the wealth and power of the socialist country are increasing, the material and cultural level of the broad people is increasing. the masses of the working people. The return of the resources accumulated by the budget to the whole society, to all workers takes place both in relation to voluntary and in relation to mandatory payments. However, differences in the methods

of accumulating resources determine the features and their return. The funds accumulated on a voluntary basis are returned not only in the form of expenses for financing the process of extended socialist reproduction, but also individually to each individual worker, who provides the saved part of his personal income at the disposal of the state. The forms of such a return are the repayment by the state of the debt to the population on loans and the payment of profitability on them in the form of interest and winnings. As for obligatory payments, there is no such direct, individual repayment.

The main form of obligatory payments to the budget is taxes. The above-mentioned distinctive features of mandatory payments from other methods of raising funds to the budget allow us to give the following general definition of Soviet taxes. The Soviet tax, if viewed in its most general form as a financial method, is nothing more than a statutory mandatory payment to the state budget in predetermined amounts from the incomes and savings of socialist enterprises and organisations and the incomes of the population.

The above definition of tax, as agreed, does not yet fully reveal its economic content. The economic role and significance of the tax are related to who is the payer of the tax, what is the source for paying the tax, and what specific tasks in ensuring extended socialist reproduction are resolved by this type of tax. It follows, for example, that the turnover tax, as we will see below, is in its economic nature similar to a non-tax payment—deduction from profits—and differs sharply from taxes and fees from the population.

In bourgeois literature, taxes are classified according to formal criteria, according to the organisational and technical forms of their construction. The purpose of this classification is to conceal the class content of taxes, their orientation against the working people in the interests of the bourgeoisie. The bourgeois state, on the other hand, specifically uses in the construction of taxes such their forms that veil the source of payment, create the appearance of paying taxes by

the bourgeoisie, and not by the working people.

It should be noted that not all obligatory payments to the budget fall within this definition. Deductions from the profits of state enterprises to the budget are not tax deductible. The law does not establish uniform payments in the form of a certain share of profits for all enterprises. The amount of withdrawals is differentiated here for individual economic organisations, depending on the planned needs for funds of each economic organisation.

Soviet taxes fully and openly express their class commitment to the interests of the working class, in the interests of all working people, in the interests of strengthening socialist society. At the previous stages of socialist construction, when capitalist elements still existed, Soviet taxes fully and openly expressed their orientation against the capitalist elements. The working class openly raised the question of supporting the poor peasants with its tax policy, and of facilitating taxation of the middle peasants.

The laws on the introduction of individual taxes clearly define their political and economic objectives. The concentration of commanding heights in the hands of the Soviet state and the planned system of the economy exclude the shifting of taxes. A striking indicator of this is the tax policy during the period of industrialisation of the country, during the period of intensification of the offensive against the capitalist elements. Attempts by the capitalist elements to increase 'their accumulations by raising prices, using the phenomenon of a commodity shortage, were paralysed and eliminated by a number of measures: sharp increasing of the progressiveness of the income tax, the introduction of a special tax on excess profits, measures to reduce prices, a sharp restriction on purchases of goods by private capital and measures in the field of credit policy. Individual taxation of the kulaks in the countryside was accompanied by extraordinary measures for grain procurement, restrictions on the supply of industrial goods to the kulaks, and a number of other measures.

The specified features of Soviet taxes determine the content and principles of their classification. Soviet taxes, in accordance with the political and economic tasks resolved with their help, are classified primarily by payers, and not by organisational and technical forms of building a particular tax. On this basis, taxes, like all budget revenues, are subdivided into tax payments of enterprises and organisations of the socialist economy and taxes and fees from the population. Accordingly, according to the source of payments, taxes are divided into payments from savings of the socialist economy and from the personal income of the population.

Tax payments of enterprises and organisations of the socialist economy, based on the difference in the forms of socialist property are in turn subdivided into payments from the savings and revenues of state enterprises and into payments from the savings and revenues of cooperative-collective farm enterprises and organisations.

These tax groups can be combined in the same tax. For example, agricultural tax applies to collective farmers and individual farmers; income tax applies to workers, employees, handicraftsmen and persons with unearned income. However, each of these taxes is essentially subdivided into several subspecies according to the objectives of tax policy in relation to certain groups of payers.

Organisationally and technically, Soviet taxes are also structured in such a way as to provide additional implementation of the political and economic tasks of the Soviet state. In accordance with these tasks and in order to resolve them for certain groups and categories of payers, various objects of taxation, special principles for constructing tax rates and methods for determining tax salaries are applied.

The object of taxation, that is, the basis for calculating payments, can be: turnover, profit, income, property in general or some of its types. In the Soviet tax system, the main objects of taxation are turnover, profit and income. The use of these objects for calculating payments gives it the

most opportunity to take into account the actual income and savings and to resolve the set political and economic tasks. The largest tax, in which property appears as an object of taxation, is currently a tax on horses on sole proprietorships. In the history of the development of Soviet taxes, there were also two objects of taxation for the same tax. This type of tax was the income tax in 1922.

For calculating the amount of taxes, progressive, proportional and fixed tax rates are applied. With progressive taxation, the amount of withdrawals grows faster than the increase in the source of payment tax, so that as income rises, so does the proportion of exemptions.

Highly progressive taxes were used in the previous stages of socialist construction in order to limit and displace capitalist elements. Progressive taxes were also used to regulate the income and taxation of small-scale commodities. At the same stage, progressive rates are used in order to stimulate the subordination of the private economy to the public, in order to establish the proportionality of the shares of the participation of individual workers with their personal incomes in the formation of a national fund of resources with the amounts of income they receive.

Proportional taxation, in which, in contrast to the progressive taxation, the tax rates remain unchanged despite the increase in income or profit and the amount of tax increases only in accordance with the increase in income, is of greatest importance at the present stage. This taxation system is applied to enterprises and organisations of the socialist economy (with some exceptions), since there is no task of regulating savings and incomes, limiting them. On the contrary, the task of tax policy is to stimulate in every possible way the growth of the accumulations of the socialist economy on the basis of raising labour productivity.

When applying fixed tax rates, the actual income of each payer is not taken into account. Fixed tax rates are established if the payer has a taxable object for a particular tax. The system of fixed rates is used as a method of

preferential taxation, as well as in cases when the income of payers from a taxable object does not differ significantly in individual republics or other administrative territorial units and when the actual accounting of income is not decisive for solving the political and economic tasks.

According to the method of determining salaries, taxes can be salary and tax. Salaries include taxes, the amount of payments for which is set on the basis of accurate accounting of income, profits and property of each payer. The amounts of payments for the tax-de-commissioning are established on the basis of the layout (breakdown) of the total tax amount for individual territories and settlements, up to each individual payer. The main taxes in the Soviet tax system are salaries. An example of a folding tax can serve as an extraordinary \$10 billion revolutionary tax, carried out with special goals and objectives and in the difficult conditions of foreign military intervention and civil war.

Due to the peculiarities of the legal organisation, Soviet taxes and fees are subdivided into state and local. State taxes and fees are those established by law for the entire territory of the Union, the implementation of which is, therefore, mandatory for local authorities. The implementation of local taxes and fees is optional for local authorities. It should be noted that taxes, which, although they go completely to the local budget (for example, the C tax on non-commodity transactions), but which are mandatory for local authorities, are not local, but state taxes.

2. System of Payments of Enterprises and Organisations of Socialist Economy to the Budget

System of payments of enterprises and organisations of the socialist economy to the budget is determined by the established procedure for the formation and use of income

and savings of the socialist economy.

The growth of incomes and savings of the socialist economy, new growth of the socialist profitability of enterprises and economic organisations are the main source of expanded socialist reproduction.

In his historic speech at a conference of business executives in 1931, Comrade Stalin pointed out the exceptional role of strengthening the growth rate of savings in the entire national economy.

Under the conditions of self-financing, the incomes and accumulations of the socialist economy are formed as incomes and accumulations of selected self-supporting enterprises and organisations.

The planned amount of savings in each separate industry, in each, individual enterprise is determined by two factors: the planned price and the planned cost. The actual amount of savings depends from the implementation of the production program and the amount of cost reduction achieved in the process of fulfilling the plan. The more successful the struggle is to improve the quality of the enterprise, to reduce the cost, the higher the amount of savings. The increase in savings due to price changes by the enterprises themselves cannot take place. Each enterprise is obliged to set the state planned prices.

The amount of income and savings is strongly differentiated for individual industries and enterprises, depending on the established planned prices. When establishing prices for goods of individual sectors of the economy and individual enterprises are taken into account not only the level planned cost and the need to provide a given enterprise producing goods, a certain level of profitability, but also broader national economic needs and tasks. By means of planned prices, the state distributes the incomes and accumulations created in the production process between individual industries and enterprises. Planned prices take into account the ratio of supply and demand in Soviet trade, which is formed under the influence of planning factors.

Planned prices are built taking into account in order to stimulate especially economical consumption of certain goods as means and objects of labour in the production process. Planned prices also stimulate the production of certain types of goods.

In industries and enterprises for whose goods prices are set that significantly exceed the cost, the savings created in the production process, not only in this industry, but also in other industries and enterprises, are actually realised. On the contrary, in enterprises for whose goods relatively low prices are set, the amount of money accumulated in a given industry may be lower than the savings actually formed in the production process in this industry.

In order to ensure the interests of the budget and strengthen self-financing, the incomes and accumulations of socialist enterprises are distributed into two parts: a) sales tax and b) profit. The first part—the turnover tax—represents not only the accumulation of this conversion, but also the accumulation of the entire socialist economy. The realisation of this accumulation in a given enterprise is the result of price planning. The amount of savings realised in each enterprise depends on the size of the sale of goods and on the established prices for them.

The tasks of strengthening cost accounting are also resolved by separating the second part of savings as the enterprise's own profit. At the same time, the amount of profit can increase as a result of the fulfillment and overfulfillment of quantitative and, mainly, qualitative indicators of planned targets. The interest of enterprises in this is stimulated by a certain procedure for the formation and use of profits.

The procedure for the formation of profits differs according to the branches of economic activity. So, for example, in industry, profit is formed as the difference between the selling price minus the turnover tax and the commercial cost of products; on transport, in the organisations of the People's Commissariat of

Communications. and in the utilities sector, as the difference between the proceeds from the sale of services (transportation by transport, postal services in the organisations of the People's Commissariat of Communications, etc.) and the operating costs of these organisations; in trade, as the difference between trade margins and distribution costs, etc. Moreover, in all cases, profit is determined by the plan and the results of the struggle for its implementation.

The fulfillment of the planned assignment for savings (the amount of profit or net income) depends on the quality of the work of enterprises and economic organisations. Take industry, for example. Selling prices for all industrial products are firmly fixed in a planned manner. As a rule, the selling price is set at a level slightly higher than the cost price. This (net of sales tax) determines the planned profit. The actual amount of profit does not depend on changes in selling prices, since the company cannot change these prices at its discretion: Thus, the actual amount of profit depends only on the degree of fulfillment of planned targets for reducing costs and for increasing production.

If the company has exceeded the cost set by the plan, then it will have a profit less than the plan set. Wherein a decrease in savings as a result of higher costs will not affect the second share of savings—the turnover tax. Meanwhile, when determining the amount of financing and lending to an enterprise, not the actual, but the planned amount of profit is taken into account. The funds of the budget and credit system cover only the planned needs of enterprises and economic agencies in capital investments and in the increase in working capital, exceeding the own profits of enterprises and economic bodies established by the plan. The budgetary system releases funds only within the limits established by the plan. The state bank does not credit plan breakthroughs. It follows that the failure to fulfill the profit plan leads to a tense financial situation of the enterprise. On the contrary, if the company is attached the fulfillment of the plan achieved

a greater reduction in cost than it was established by the plan, then, with the unchanged share of savings, component of the turnover tax, a surplus profit is formed and it will be able to fully cover all its planned costs and its financial position will be quite favourable.

Consequently, the established procedure for the formation and distribution of savings stimulates the struggle to reduce the cost and fulfill the plan of savings, increases the interest of enterprises in reducing the cost, in the growth of savings.

This interest is reinforced by the established procedure for the distribution of profits. The overwhelming part of the profits of enterprises and economic organisations is left at their disposal to replenish working capital and for capital investments. For state-owned enterprises, deductions from profits to the director's fund have been established. These funds are spent on improving the material and cultural situation of workers and employees of the enterprise, on additional, unplanned capital investments. The correct formation and use of the director's fund is a tremendous incentive in the struggle of enterprises and economic agencies for the growth of savings, for the fulfillment and overfulfillment of planned targets to reduce costs.

Even to a greater extent, the current procedure stimulates the implementation and overfulfillment of planned targets to reduce the costs of distribution and use of excess profits. Obtaining excess profits by overfulfilling the quantitative and qualitative indicators of the plan significantly improves the financial condition of enterprises and economic agencies, enhances the possibilities of economic manoeuvring in order to fulfill production targets. In addition, deductions are established from the excess profit in the amount of 50 percent to the director's fund, at the expense of which expenses for improving the material and living conditions of workers and employees can be increased and the volume of additional, unplanned capital investments can be expanded.

Reducing the cost in manufacturing enterprises, operating costs in transport, in utilities, in pre-acceptance of communication, costs of circulation in trade is the main method of struggle for the growth of savings. At the same time, the reduction of prime cost, operating costs, distribution costs is one of the most important quality indicators of the work of an enterprise or economic agency. As pointed out by the Central Committee of the CPSU (B) in the decree "On the Reorganisation of Industrial Management" dated December 5, 1929, "the difference between the specified and actual cost, provided that the requirements for the quality of the manufactured products are met, is the main indicator of the success of the enterprise."

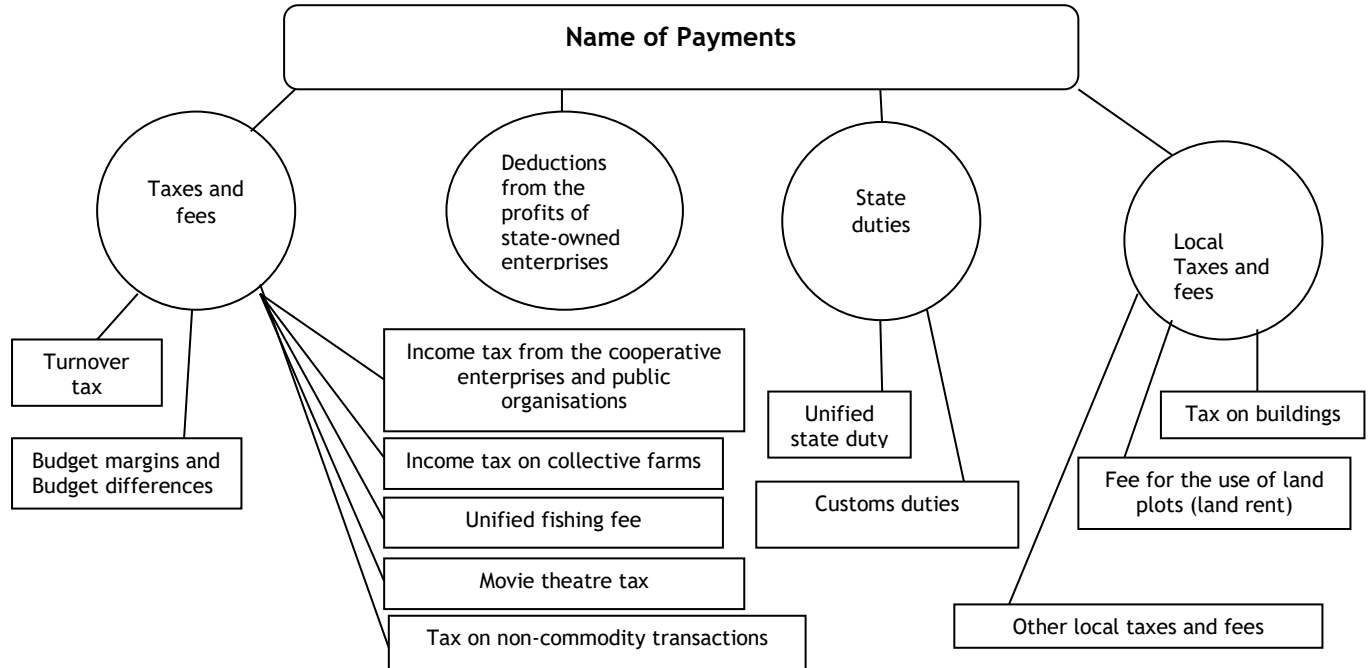
Part of the accumulations of the socialist economy, previously intended, as indicated above, for the formation of a centralised national fund of resources, is withdrawn by the state in the form of a turnover tax, which is an integral part of the socialist accumulation and taken into account in the price (selling or retail) of goods. The turnover tax, through which the accumulations of enterprises and organisations that produce and sell goods are withdrawn, is supplemented with a tax on non-commodity transactions and a tax on skins, which are, in their content, a kind of turnover tax.

Turnover tax and related turnover payments apply to state and cooperative-collective farm enterprises and organisations. The methods of withdrawing into the budget the second part of accumulations remaining at the disposal of enterprises in the form of profit are different for state and for cooperative-collective farm enterprises. This difference stems from the characteristics of the two forms of socialist property. For the withdrawal of part of the profits is established in the form of deductions from the profits. At the same time, the amount of deductions is not fixed firmly depending on the size of the profit. The amount of deductions is determined on the basis of taking into account the needs of the economic agency in funds for the purpose of expanded reproduction. Collective-farm enterprises, on the

other hand, transfer to the budget a fixed share of their profits or incomes, and pay income tax. The cooperative enterprises and economic bodies of public organisations pay income tax from their profits. Collective farms pay income (cash) tax from their income.

Thus, the current system of payments of the socialist economy mainly consists of turnover tax, tax on non-commodity transactions, tax on cinema installations, deductions from profits, income tax from cooperative enterprises and economic organisations of public organisations, and income tax from collective farms. Each of these payments has its own peculiarities with regard to the principles of construction, the procedure for calculating and charging.

Payment Scheme of Enterprises and Organisations of the Socialist Economy



3. Sales Tax

Turnover tax, along with profit, is a form of distribution of the national income. This is reflected in the structure of the target price. It breaks down into three main components: cost price, sales tax and profit. In terms of its economic content, turnover tax is no different from profit. Their source is the same—the income of socialist enterprises and economic organisations.

The funds accumulated by the turnover tax are fully transferred to the budget, redistributed between industries and enterprises (in that share of it that is directed to finance the national economy), are directed to finance social and cultural events, management and defence of the country. In contrast to this, the second part of the income and accumulations of socialist enterprises and economic organisations—the profits of enterprises and economic organisations—are mainly directed by the enterprises themselves, in accordance with the plans approved for them, for the purpose of expanded reproduction. Only a relatively small part is transferred to the budget, profits in the form of deductions from profits of state enterprises and income tax from cooperative-collective farm enterprises and organisations. Consequently, only a certain part of the profit is subject to redistribution.

Turnover tax is the most important budget revenue. The receipts from the turnover tax to the budget are increasing from year to year in connection with the growth of output, the growth of trade turnover and the accumulations of the socialist economy. VAT revenue and their role in the state budget for the years of the Second Five-Year Plan and the first years of the Third Five-Year Plan are characterised by the following data:

Years ¹	Total government revenues budget (in million rubles)	Including		In% to total income	
		sales tax	deductions from profits	sales tax	deductions from profits
1933	46364	26983	3350	58,2	7,2
1934	58434	37596	3090	64,3	5,3
1935	75011	52167	3258	69,5	4,3
1936	94399	85762	5269	69,6	5,6
1937	109329	75911	9294	69,4	8,5
1938	127487	80411	10186	63,1	8,0
1939	156014	96870	15838	62,1	9,9
1940	183955	108609	22429	59,0	12,2

During the years of the second five-year plan, the overwhelming part of income and savings was allocated to turnover tax. In the years of the third five-year plan, in order to strengthen cost accounting and stimulate savings, the task is set to significantly change the relationship in the budget between the turnover tax and deductions from profits in favour of the latter. This change should and is happening both through the transfer of a certain part of savings, which is now in the form of a turnover tax, into profit, and through an increase in the profitability of enterprises and organisations of the socialist economy on the basis of an increase in labour productivity and a decrease in production costs.

The turnover tax, as indicated above, withdraws to the budget part of the accumulations of the socialist economy in the form of a fixed share of the planned selling or retail price. In other words, the source of payment of turnover tax is those received in the production process and the sale of accumulation goods. The object of taxation, that is, the basis

¹ 1933-1938—according to reports on the execution of budgets for 1939— according to preliminary reporting data, 1940—according to the plan; for the purposes of comparability, the budget revenues of the USSR, local councils and Social Insurance are included in the volume of budget revenues of 1933-1937.

for determining the size of the withdrawal, for calculating the tax, is the turnover of goods—the turnover of the sale of goods. In this case, the object of taxation can only be the turnover of the sale of those goods for which payment has been made. The turnover of sold but unpaid goods, with some exceptions, is not an object of taxation, because the savings have not actually been realised yet and there is no tax payment.

The most important principle of building a turnover tax is the principle of one-time and one-link taxation. According to this principle, each product is subject to taxation only once and only in one link. Goods subject to value added tax should not be taxed in their further movement from the place of production to the place of consumption. As a rule, goods are not taxed in retail links of commodity circulation.

The implementation of the principle of one-off taxation facilitates the implementation of a planned price policy and planning of budget revenues. The full implementation of the principle of one-off taxation is hampered, however, by the fact that one and the same product can either be sold on the broad market as a finished consumer product, or transferred as a raw material or semi-finished product for further processing to other enterprises. So, for example, the fabric can be transferred either to a retail network for sale to the public, or to sewing companies for the manufacture of clothing. Since a new product (clothing) made from this fabric is a product of its own production for a sewing company, the turnover for the sale of this new product must be taxed with value added tax. Violation of the principle of one-off taxation is prevented in these cases as follows: 1) for individual goods, for the manufacture of which other goods are used as raw materials or semi-finished products, already taxed with turnover tax, reduced tax rates are established on the basis of taking into account the reduced amount of savings, or these goods are not taxed at all; 2) in cases where it is possible to determine in advance the direction of the manufactured goods, the turnover tax rates are

differentiated depending on the direction of the goods (for industrial consumption or for the general market).

The principle of one-off taxation is directly related to the question of the taxable link; on the place of taxation and payers of value added tax. The payers of the turnover tax are all state and cooperative enterprises and public economic organisations that sell the products of their production and their procurement. The tax is calculated and collected, as a rule, in a decentralised manner. Every plant, factory or sales base is self-payer of tax. The taxation is carried out by the city or regional financial departments at the location of the enterprise.

Correct implementation of the turnover tax, which is of great national economic importance, cannot be carried out without correctly constructed, economically justified turnover tax rates. They are set, as a rule, as a percentage of the selling price of goods. The volume of savings redistributed through tax depends on the size of the rates, and at a given cost price and prices, the size of that part of savings that remains as the profit of the enterprise. This implies the need to differentiate the turnover tax rates in connection with differences in the volume of savings of individual economic agencies and their periodic revision in connection with changes in prices and costs. The complete absence of differentiation of rates leads to the formation of 'increased profitability in individual enterprises, and thus to a weakening of the interest of economic agencies in the expedient use of savings, to a violation of cost accounting.

The need to differentiate sales tax rates and revise them periodically does not mean excessive fragmentation of rates or excessively frequent revisions in connection with any changes in the level of profitability. Excessive fragmentation of rates leads to a complication of the turnover tax, makes it difficult for financial authorities to control the completeness and timeliness of turnover tax receipts, and almost excludes the possibility of financial control over the activities of economic agencies. Frequent revisions of sales tax rates lead

to the same results.

In the period 1985-1937 the sales tax rate system has been perverted in a wicked manner by imposing a huge number of overly detailed sales tax rates. The cumbersome and frequently changing system of rates made it difficult, disrupted the full and timely receipt of turnover tax into the budget, made it difficult to control the activities of economic agencies, contributed to the manifestation of anti-state tendencies—concealment of taxable turnover and incorrect calculation of tax.

In 1938 and 1939, the turnover tax rates for some industries have been revised to eliminate excessive differentiation. However, in a number of industries, excessive differentiation of rates still takes place.

Tax rates are differentiated: 1) by goods and commodity groups; 2) by belts—due to different belt selling prices; 3) depending on the direction of the goods—for industrial consumption or for the general market. Differentiation of rates also depends from where the goods were produced — in a state-owned enterprise or in an enterprise of industrial cooperation; for agricultural products, depending on whether these procurements are centralised or decentralised.

The calculation of the amounts of tax is made by the payers of the turnover tax themselves. The tax is calculated on the basis of the actual, not the planned turnover. Tax payment is made by taxpayers through the State Bank.

The deadline for the payment of value added tax is established in such a way as to bring these terms as close as possible to the time of receipt by the economic agency money for the goods sold. This is necessary both for the smooth execution of the budget and for the strengthening of cost accounting. Since the size of the own circulating assets of economic agencies is strictly standardised, leaving the amounts of turnover tax at their disposal for a long period would mean an additional increase in the circulating assets of enterprises that are payers of turnover tax. The timing of the payment of turnover tax differs for certain categories of

payers (sectors of the national economy, industries), depending on the share of turnover tax in the price of goods sold by them, and thus on the value of turnover tax receipts from this industry in total tax revenues from the turnover. With a significant or high share of turnover tax in the price of goods, the most frequent tax payments are established.

The least frequent payment deadlines are ten-day installments on the turnover of the previous month (on the 13th and 22nd day—one third monthly payment, on the 29th—70 percent the last third of the monthly payment and the 3rd day of the next month—the remaining 30 percent). Some enterprises pay tax on the “turnover of the current decade” also within the four specified periods. Finally, some businesses pay current turnover tax daily on the third day after the turnover. Enterprises and branches of the village are transferred to this payment procedure taking into account the value of their payments on turnover tax in the budget.

Verification of the correctness and completeness of the payment of value added tax is carried out on the basis of monthly, quarterly and annual reports on value added tax submitted by enterprises and organisations.

Sales tax reporting is checked in order to ensure the timely and complete receipt of funds in the budget, to monitor the activities of economic organisations, their implementation of plans for the production and sale of goods. In the process checks are established: the total turnover of the enterprise for the reporting period, taxable turnover, the correct application of rates for individual goods and product groups, the correctness of the selling prices, the financial condition of the enterprise, in particular the presence and size of accounts receivable.

By checking the turnover, the results of the implementation of the production plan and the timely sale of products are revealed. Here, the close connection of revenue from the turnover tax with the expansion of commodity circulation, with the organisation of the clearest and fastest

promotion of manufactured products from production to the consumer, is most striking. A slowdown in turnover, overstocking as a result of poor sales organisation immediately lead to a decrease in revenue from the turnover tax budget. When establishing lagging behind the plan, the financial authorities are obliged to identify the reasons for this and outline, together with the economic agency and higher organisations, measures to eliminate this lag.

The turnover of sold but unpaid goods is not subject to taxation. Consequently, the presence of receivables reduces the amount of taxable turnover. At the same time, accounts receivable in most cases indicate an unsatisfactory organisation of the financial economy of an enterprise or economic organisation. Accounts receivable may arise as a result of non-compliance with contracts, non-application of sanctions (termination of shipment of goods, arbitration, etc.) against sloppy buyers. Having identified the reasons for the formation of debt, financial agencies, together with economic organisations, must take measures to eliminate it and prevent it in the future.

The close relationship between the fulfillment of the sales tax revenue plan and the expansion of turnover can be illustrated by the following example. Let us assume that for the enterprise in the first quarter a production plan has been established in the amount of 1 million rubles and the implementation plan is equal to the same amount. The enterprise actually produced goods for 950 thousand rubles. and shipped goods worth 750 thousand rubles to customers; part of the shipped goods (250 thousand rubles) were not paid by the buyers, and therefore the same amount was formed accounts receivable. In this example, the taxable turnover will be equal to only 500 thousand rubles. (150 thousand rubles—250 thousand rubles) and accordingly, there will be less revenue from turnover tax.

The timeliness and completeness of revenue is influenced by the turnover tax, also the correctness of planning the delivery of goods by quantity, assortment and timing,

depending on the seasonality of the sale of certain goods. The formation of excessive stocks of goods in the distribution network, due to improper planning—delivery and poor organisation of the work of trade enterprises, entails a decrease in shipments of goods and an increase (over the plan) of stocks of goods of industrial enterprises, a deterioration in the financial situation of enterprises due to the late settlement of trade organisations for shipped goods. Therefore, when checking the completeness and timeliness of the payment of turnover tax, the financial authorities are also obliged to identify the reasons for the formation of excess stocks of finished goods in industrial enterprises and the distribution network and to contribute to the elimination of these reasons.

When checking the reporting, the correctness of the selling prices adopted when calculating the turnover tax is also revealed. This is necessary to verify that economic agencies comply with the prices set by the state.

In the current system of turnover tax, a number of benefits and features are established when taxing individual enterprises and organisations.

For decentralised procurement, reduced rates are set, and some goods are completely exempt from tax, this is done in order to stimulate decentralised procurement; this is also explained by the fact that these blanks are produced at prices that exceed the state procurement prices; the sale of harvested goods is carried out at common uniform prices. The preferential taxation procedure—a reduced rate of turnover tax (3 percent), calculated in retail prices (that is, gross receipts) and one payment deadline per month—is also applied to collective farm trade from stalls, stalls and shops.

A special preferential taxation procedure has also been established for catering establishments. The turnover of public catering enterprises (with some exceptions) is taxed at a single preferential tax rate (1 percent of turnover).

In relation to enterprises in which the labour of workers with reduced working capacity is used (the so-called

enterprises with an inferior labour force—enterprises of cooperation of disabled people), preferential taxation is expressed either in the establishment of reduced rates, or in the complete exemption of certain goods from taxation. The benefits here are explained mainly by higher costs and, accordingly, by the higher commercial cost of the products of these enterprises.

A special taxation procedure has been established for sales of grain products. Enterprises are the main payer. system “Zagotzerna”. The taxation of bakery products is carried out in a decentralised manner. Tax rates are differentiated by. noses and for certain types of crops in each belt are set not as a percentage of turnover, but in solid amounts per centner of goods sold. The application of such rates, linked to a fixed belt price system, simplifies tax collection. The payment of the turnover tax and its crediting to the budget are made at the place of consumption of bakery products, which increases the interest of local financial authorities in the implementation of the plan of trade in bread and facilitates the planning of turnover tax receipts for bakery products.

The large budgetary significance of tax revenues from the turnover of grain products is also determined by a special procedure for calculating tax payers with the budget. The amount of turnover tax is credited to the budget by the bank, as a rule, for each separate account simultaneously with the payment of the accepted invoice (payment request). In some cases (for small payments) the tax is paid directly by the Zagotzerna bases every ten days. Such a payment system ensures the timely receipt of turnover tax to the budget.

In addition to the turnover tax on bakery products, budget differences for grain and flour are applied. Budget differences, as opposed to sales tax, are part of the retail tax, not the sales tax. They were established in connection with the introduction of belt selling and retail prices for all bakery products, including flour and food grain. (At the same time, retail prices for flour and food grain were set at an

amount slightly higher than the selling price with the addition of the necessary trade cover to it. This stimulates the use of products from mechanised bakeries and the development of mechanised bakery.

The budget difference for flour and food grains is the difference between the retail zone price, minus the selling price, and the trade costs established by the plan. It is paid only for the flour and food grain fund sent and used for retail sale. The payers of budgetary differences are trading organisations (state and cooperative) and all others that sell flour and grain at retail to the population.

The control over the timely receipt of turnover tax is also based on plans for tax receipts in the sectoral and territorial context, as well as on the timing of receipt of annual and quarterly plans. A sectoral profile is necessary to determine tax revenues in accordance with the budget classification for individual commissariats and departments, as well as for individual main departments. The territorial section of the plan provides for the determination of tax revenues for individual links of the budget system and control by individual financial agencies over the implementation of the turnover tax plan.

The main indicators for drawing up a plan for turnover tax are data on gross and marketable products, the amount of sales, taxable turnover and the average rate of turnover tax. Based on these data, a turnover tax plan is determined for individual commissariats and departments. These plans are submitted by the union people's commissariats and departments to the USSR People's Commissariat of Finance and the State Planning Committee, republican plans to the State Planning Commissions and People's Commissars of the Union Republics, and regional and regional organisations to the corresponding planning commissions and financial departments. On the basis of these materials, the People's Commissariat of Finance and the regional financial agencies draw up consolidated annual and quarterly plans in the territorial context. When drawing up these plans, financial

authorities examine the indicators of the volume of sales of products, taking into account the balances of products at the beginning and end of the planning period, since an increase or decrease in balances affects the amount of sales. In addition, the correctness of the average tax rates is checked taking into account the assortment of products established by the plan, which is taxed at various rates. Finally, when drawing up quarterly plans, the seasonality of the sale of goods, the procedure and timing of payment of turnover tax are taken into account. On the basis of the amount of the turnover tax approved by the government, the NKF of the USSR establishes a plan in a territorial context.

The tax on non-commodity transactions also withdraws a part of the savings of enterprises and organisations that manufacture products from the customer's materials or provide paid services. This tax is, in terms of its content, a kind of value added tax. The establishment of a special tax on non-commodity transactions is due to the special nature of the activities of the above group of enterprises and the peculiarities of planning prices in them and the formation of savings.

The principles of taxation on non-commodity transactions are basically the same as the principles of taxation on value added tax. For taxation of the entire gross turnover (revenue) of the enterprise is involved, with the exception of commodity turnover. In enterprises with commodity and non-commodity turnover, part of the turnover (commodity) is subject to turnover tax.

The tax is usually levied in a decentralised manner by the district and city finance departments. Tax payers are businesses that provide paid services or manufacture products from customer materials (for example, hairdressing salons, photographs, sewing workshops, etc.). The tax is levied as a percentage of the taxable turnover (1, 5 and 10 percent). The tax is calculated by the payers themselves according to the actual turnover for expired month.

The verification of the correctness of the calculation and

payment by enterprises of tax on non-commodity transactions: carried out, according to monthly and quarterly reports submitted to financial authorities. When checking the reports, it is mainly determined whether the taxable turnover has been established correctly; this is especially important for enterprises engaged in both commodity and non-commodity transactions, since commodity turnover should be taxed at the rates of another tax, including a land tax as significant as a turnover tax.

The budgetary value of the tax on non-commodity transactions is small compared to the value added tax. It is characterised by the following data (in million rubles):

1938	1934	1935	1936	1937	1938	1939	1940
160,8	207,2	242,4	309,7	358,4	417,4	540,6	723,5

Cinema tax is levied as a percentage of total revenues. Tax rates are differentiated from 15 percent. (for rural cinema vehicles) up to 38 percent. (for city cinemas). Some cinema installations and sessions (children's cinemas, cinema installations in the houses of the Red Army for sessions without the admission of unauthorised persons) from the tax completely released. The tax is calculated by the payers themselves. The tax is paid by rural movements according to the turnover of the past month, once a month, and the rest of the cinema installations—on a turnover for each decade. Correctness and timeliness of payment tax is checked by local financial authorities.

4. Deductions from Profits

The second, after the turnover tax, the most important payment of state enterprises and organisations is deductions from profits. The growth in budget revenues from deductions from profits (see the table on page 296) is an indicator of the growth in profitability of state-owned enterprises and

organisations based on the improvement of the quality indicators of their work. The expansion of the Stakhanov movement gave a powerful new impetus to the growth of profitability and accumulation in all sectors of the national economy. In 1938—the first year of the Third Five-Year Plan—the profits of state enterprises amounted to 15.7 billion rubles, and according to the plan for 1940, they should increase to 33.3 billion rubles.

Deductions from profits are paid according to the actual (not planned) profit, established according to the reports of enterprises. Payers are self-supporting enterprises and organisations that have the right to distribute their profits: trusts or autonomous enterprises that are not part of the trust and are subordinate directly to the main administration or the people's commissariat, and only in some cases, the main administration. Deductions from the profits of trusts and head offices are made on the basis of accounting for the total amount of profits in all enterprises of the trust or head office, after deducting losses, for individual enterprises (if any).

The basis for determining the amount of deductions is based on the principle that the profit of the enterprise, first of all, should be used in the enterprise itself for the purpose of expanded reproduction (investment and growth of its own circulating assets). In the order of deductions from profits, only that part of the profit is transferred to the budget, which according to the plan should not and cannot be used for the purpose of expanded reproduction in this enterprise.

The specified principle of the use of profits and the relationship of economic bodies with the budget presupposes the existence of a special basis for determining the amount of deductions from profits to the budget of individual economic agencies. Profit in itself, its volume are not the basis for determining the amount of deductions; for this, indicators are used that characterise the state of the financial economy of a particular another enterprise (or a particular industry) and their relationship with the budget. In

a generalised form, these indicators find their expression in the balance of income and expenses of the enterprise, the main department, the People's Commissariat for the coming year.

The balances of income and expenditure are drawn up by enterprises, main departments and people's commissariats. Balance of income and expenses of the main management, the People's Commissariat covers all enterprises and all financial and economic processes that are regulated, planned or managed by this administration or the People's Commissariat. Consequently, this balance is the consolidated financial plan of the given People's Commissariat, this sector of the economy. The materials for it are the balances of income and expenses of individual enterprises.

Income

1. Proceeds from the sale of products (separately industrial enterprises, agricultural enterprises) with the allocation (including): a) profit, b) turnover tax.

2. Operational gross incomes of transport and communications (separately).

3. Income from supply, sales, procurement and trade (separately) organisations with the allocation (including) of profit and turnover tax.

4. Incomes of housing and communal services.

5. Profit of contractor construction and installation organisations.

6. Savings from reduced construction costs.

7. Increase in the minimum balance of accrued wages and social insurance and other stable liabilities.

8. Proceeds from the sale of retired property.

9. Parents' funds for the maintenance of kindergartens.

10. Incomes of subsidiary enterprises of educational and research institutions.

11. Income from subsidiary enterprises and from the services of administrative and administrative institutions of

the people's commissariats.

Total income, including: a) profit, b) turnover tax.

Of the total amount of income, they are distributed within the People's Commissariat:

- a) depreciation charges;
- b) income under contracts for research work;
- c) allocations from the director's fund for the maintenance of kindergartens;
- d) subsidies to enterprises for housing and communal services with the allocation of:

1) at the expense of production costs and 2) at the expense of profits.

Expenditure

1. Costs of enterprises for production (separately industrial, agriculture with the allocation of certain types of costs (raw materials and materials, fuel, wages, etc.).

2. Operating costs of transport and communications (separately) with the allocation of certain types of costs.

3. Costs of supply, sales, procurement, trade (separately) organisations with the allocation of the purchase value of goods and distribution costs.

4. Growth of own circulating assets.

5. Replenishment of the lack of own working capital.

6. Expenses for the payment of premiums.

7. Contributions to the director's fund.

8. Capital works.

9. Mobilisation of internal resources in capital construction (—P increase, — decrease).

10. Overhaul.

11. Out-of-limit costs.

12. Reserve for savings from reducing the cost of construction.

13. The costs of housing and communal services.

14. Invention costs.

15. Costs of training.
16. Expenditure on research institutions and activities.
17. Expenses for the maintenance of kindergartens.
18. Expenses for the maintenance of general education schools.
19. Health spending.
20. Administrative and administrative expenses of the People's Commissariat (with allocation wages).

Total expenses.

Out of the total amount of expenses, the following are covered by the incomes distributed within the narcomat: a) capital expenditures in the part financed by depreciation; b) capital repairs in the amount of depreciation charges; c) expenses for research work under contracts; d) expenses for the maintenance of kindergartens at the expense of the director's fund; e) the costs of housing and communal services, covered with the allocation of:

1) at the expense of the cost of production and 2) at the expense of the profits of enterprises.

Total expenses minus expenses covered by income distributed within the People's Commissariat.

Excess income over expenses

Relationship with the budget

I. Payments to the budget:

1. Sales tax.
2. Deductions from profits.
3. Withdrawal of savings from reducing the cost of construction in construction and installation organisations.
4. Withdrawal of surplus working capital.

Total payments to the budget.

II. Appropriations from the budget:

1. On the growth of own circulating assets.
2. To replenish the shortage of own circulating assets as of January 1, 194.
3. State subsidy.
4. For expenses related to the payment of premiums.
5. For capital construction.
6. For unlimited costs.
7. For education.
8. For health care.
9. On the administrative and administrative expenses of the People's Commissariat.

Total Appropriations from the Budget.

Excess of payments to the budget over the appropriations from the budget or the excess of appropriations from the budget over payments to the budget.

The balance sheet shows the revised plan of the previous year, its expected execution and the plan for the next (planned) year.

In addition to the balance of income and expenses, calculations are attached for the main, most important items. In particular, separately calculations are made for the proceeds from the sale of products, based on the results of the operational activities of transport and communications; on receipts of turnover tax, cost reduction, on depreciation deductions, on the needs for working capital.

Thus, the balance of income and expenses is a detailed financial plan of an enterprise or a People's Commissariat. In him shows the full movement of working capital carried out in order to fulfill production and implementation plans, the costs of socio-cultural activities and costs associated with the expansion of production. The balance of income and

expenses fully reflects the relationship with the budget system—all payments to the budget (including turnover tax) and all amounts of financing from budget for certain types of costs. All this makes it possible to strengthen budget planning, most fully ensures the conduct of financial control over the financial economy of economic agencies both in the process of drawing up a budget and in the process of its execution. The balance sheet shows in an expanded form the calculated relations of the budget with individual enterprises, main departments, and people's commissariats.

Determination of the amount of deductions from profits is of great importance for the establishment of settlement relations between the budget and the economic agency. The amount of deductions from profits should be determined in the process of drawing up the balance of income and expenses on the basis of identifying surplus, excess of income over expenses. Only after the size of deductions has been established, the relationship between the economic agency and the budget is finally established.

As indicated above, the amount of deductions from profits to the budget depends on the amount of resources required by the economic agency to fulfill planned targets, on the size of the surplus of income over expenses. To establish the amount of deductions from the balance of income and expenses, the following indicators are used: the total amount of income, the total amount of expenses and the planned amount of profit. In order to establish the ratio of income and expenses necessary to determine the amount of deductions, some of them are subject to exclusion. The total amount of income is excluded from the amount of turnover tax, as subject to full transfer to the budget and therefore not included in the resources of the enterprise used in order to fulfill the production plan. Certain amounts are also excluded from the total cost to eliminate double counting. This includes those costs that are incurred at the expense of the cost of production and distribution costs—the cost of capital repairs and capital construction at the

expense of the depreciation fund. In addition, expenses for kindergartens at the expense of the director's fund, subsidies for housing and communal services at the expense of profits and costs are subject to exclusion, since the same amounts are not separately taken into account in the income part of the balance sheet. After these exceptions, the ratio of income and expenses of the economic agency is established and the percentage and amount of deductions are determined.

Depending on the ratio of income and expenses of the enterprise in terms of deductions from profits are split into two main groups. The first group includes enterprises in which the amount of expenses is equal to the amount of income, as well as those enterprises whose expenses exceed their own sources of coverage, income, that is, enterprises financed from the budget. Deductions from the profits of these enterprises are set at a minimum amount (10 percent), solely for the purpose of conducting budgetary control over the fulfillment of the savings established by the plan. The second group includes enterprises, which, according to the balance of income and expenses, have their own sources of coverage (income) exceeding expenses. The amount of deductions here depends on the size of the surplus funds. If, according to the plan of the enterprise, the costs of capital investments and an increase in its own working capital are not at all provided, then the deductions are set in the maximum amount, that is, in the amount of all profits, minus deductions to the director's fund. If the financial plan of the enterprise provides for the costs of capital investments and the increase in working capital, then the percentage of deductions should be equal to the percentage of surplus funds to the total amount of profit, but within the range of 10 percent. to the total amount of profit, less deductions to the director's fund.

Specifically, the amount of deductions is established as follows: 1) the amount of the excess of income over expenses is determined; 2) the percentage of the surplus of funds to

the amount of the planned profit indicated in the balance sheet of income and expenses is revealed; 3) the amount of the planned profit is multiplied by the received coefficient. The result obtained is the amount of deductions from profits to the budget, which is included in the balance of income and expenses in the section "Relations with the budget".

What has been said about the system and the procedure for deducting from profits shows that the overwhelming mass of profits is at the disposal of the enterprises themselves. This increases the interest of the latter in obtaining the profits provided for by the plan, in reducing the cost of construction, in accelerating turnover and in better use of their own working capital, since the failure to fulfill the profit plan reduces the possibilities of financing the costs of capital investments provided for by the financial plan and the increase in own working capital.

The specified procedure for determining the amount of deductions from profits applies to all state enterprises and organisations (industrial, agricultural, commercial, transport and others), except for banks and state insurance bodies. From the profits of the State and other banks and state bodies) insurance deductions are made in the amount of 50 percent.

Calculations for deductions from the profits of enterprises of union significance are carried out by the People's Commissariat of Finance of the USSR in a centralised manner. Collection of payments from these enterprises is carried out on the instructions of the USSR People's Commissariat for Finance by local financial authorities on the basis of orders received from the main directorates of economic people's commissariats in each quarter. In the same way, the People's Commissars of Finance of the Union republics can give instructions to financial agencies to collect deductions from profits for enterprises of republican significance.

Three monthly payments are set for each quarter. The amount of deductions for each quarter is specified by the

financial authorities by checking the submitted quarterly balances. This check is the most important way of monitoring the progress of the accumulation plan and the expedient, economical use of funds. To determine the total amount of actual profit for the quarter, from which deductions are made, a detailed analysis of all indicators that affect the results of the enterprise's activity is required. The production costs are checked in particular in detail, on the level of which the implementation of the plan depends on cost reduction and profit margins. Administrative expenses and all non-productive expenses that reduce the amount of savings are also subject to scrutiny.

Allocations for deductions from profits are made at the end of the year when the annual balance sheet is approved. This recalculation is necessary because only at the end of the year: a) the profit of the enterprise can be revealed in full (a number of losses and accumulations cannot be reflected in the quarterly balance sheets) and b) it is possible to fully determine the size of the excess profit. It should be borne in mind that excess profit is a positive indicator activity of the enterprise only if it is obtained as a result of overfulfillment of the quantitative and qualitative indicators of the plan. But in some cases, excess profits can be obtained through deterioration in quality, changes in the range of products, illegal price increases or as a result of incorrect drawing up of a profit plan. Such "above-planned" profit indicates anti-state, criminal activity of the head of the enterprise, reduces the amount of profits from which deductions are made to the budget. Therefore, checking the sources of the formation of excess profits is of great importance in the analysis of the balance sheets of the enterprise.

The approval of the annual balance sheet and the recalculation of deductions to the budget are the most important stage in the activities of the financial authorities to collect deductions from profits. These acts finally establish use of profits for the reporting year for capital investments and growth of own working capital, deductions

to the director's fund and deductions to the budget.

Deductions from profits, despite the relatively low share in the budget, are of great national economic importance. In them, the relationship between the economy and the budget is most fully expressed, in the process of making deductions, the most effective financial control over the activities of economic agencies is provided. When determining the amount of deductions, the indicators that determine the size of the planned profit for the coming year, as well as the ability of the enterprise to mobilise other internal resources, are carefully checked. This check and the correct establishment of the amount of own resources are important not only for increasing the amount of contributions to the budget, but also for a corresponding reduction in the amount of budget financing. Equally, in the process of collecting deductions from profits and checking the reporting during the year, the progress in the implementation of the production plan and the savings plan, the activities of economic agencies to mobilise internal resources and organise their financial economy are revealed. This systematic control should prevent non-compliance with production and financial plans, to promote the strengthening of cost accounting and the introduction of: financial and budgetary discipline.

5. Income Tax on Cooperative Enterprises and Public Organisations. Collective Farm Income Tax

Part of the profits of cooperative enterprises and organisations, as well as part of the income of collective farms, is mobilised into the budget through income tax.

The difference in the principles and forms of accumulation in the budget of a part of the profits of state and cooperative organisations, as well as income of the

collective farms is associated with the difference in the forms of socialist property—state and cooperative-collective farm. The profits of state-owned enterprises are the property of the state. Therefore, surplus profit is withdrawn to the budget through deductions from profits, which should not be used by the enterprise according to the plan. The profits of cooperative enterprises and the income of collective farms are the property of collective farm cooperative enterprises and organisations. Their partial withdrawal to the budget can be carried out only by the tax method with the establishment of clearly defined boundaries of this exemption.

The payers of the income tax from cooperative enterprises and public organisations are all enterprises and organisations of consumer, industrial cooperatives and cooperatives of disabled people, mixed commercial and agricultural artels and (since January 1, 1937) economic organisations of public organisations.

The object of taxation is the actually received (according to the reporting data) balance sheet profit. The tax rates are proportional, with the exception of the tax from artels of industrial cooperatives and cooperatives of disabled people engaged in industrial and trade-non-commodity activities. For these artels, in order to prevent violations of the Soviet the policy of prices and an increase in savings due to increased capex to the cost of production, a system of progressive rates has been established, differentiated depending on the level of profitability: an increase in the percentage of profitability also increases the percentage of withdrawals through income tax. The level of profitability of each individual enterprise is defined as the ratio of the profit received from the sale of products to the commercial cost. Consequently, to determine the level of profitability, the following are required indicators: a) turnover at sales prices, b) turnover at commercial cost, c) agricultural turnover tax

on goods sold¹.

For industrial cooperatives, taxed progressively, tax rates range from 23.5 percent (if the profit does not exceed 8 percent of the commercial cost of production) up to 55 percent. (if the profit exceeds 28 percent, but not more than 32 percent of the commercial cost of production); from that part of the profit that exceeds 32 percent. to the commercial cost of products, the tax is levied at a rate of 90 percent of this part of the profit.

For enterprises subject to proportional taxation, rates are set at 23.5 and 31 percent.

Income tax is payable in quarterly installments based on actual profits on the dates set for the presentation of quarterly balances. At the end of the year, on the basis of the submitted annual report, the total amount of profit for the year and the amount of income tax are established. The verification of the correctness of the calculation of the amounts of income tax is carried out on the basis of the analysis of the quarterly and annual balances. The analysis of these balances enables the financial authorities to check the quality of work of taxable enterprises and their financial economy. At the same time, checking the activities of cooperative enterprises is a means of combating pseudo-cooperatives.

The current system of taxation of collective farms was introduced by the decree of the Central Executive Committee and the Council of People's Commissars of the USSR dated July 20, 1936 "On the replacement of the

¹ An example of calculating the level or percentage of profitability: if the turnover but sales prices = 100 thousand rubles, the commercial cost of all products = 60 thousand rubles. and turnover tax = 10 thousand rubles, then the profit from the sale will be 30 thousand rubles. (100 thousand rubles—60 thousand rubles—10 thousand rubles), and the percentage of profitability: 30 thousand rubles. (profit from sales) X 100/60 thousand rubles. (commercial cost) = 50 percent

agricultural cash tax with collective farms with income tax”.

The object of taxation of collective farms with income tax is the gross income of collective farms. This difference in the imposition of income tax on collective farms from other cooperative organisations is explained by the peculiarities of the organisation of labour and the distribution of income on collective farms. On the basis of the Stalinist charter of an agricultural artel, the gross income of each artel (after fulfilling its obligations to the state) is distributed among the members of the artel and for public needs (within the limits specified by the charter). The size of the income of collective farmers depends on the results of their common work and the quantity and quality of labour expended by each of them. Profit in the sense that it exists for state-owned enterprises and other cooperative companies, there are no organisations here. The growth in the profitability of collective farms is expressed in a general increase in their income and fixed assets, in an ever higher assessment of the workday (in kind and in money). With this procedure and principles for distributing income and determining the profitability of collective farms, the most complete and generalising indicator of the quantitative and qualitative results of their work is gross income.

Income tax is paid by agricultural artels and agricultural communes, mixed commercial and agricultural artels (industrial collective farms) on income from agriculture and partnerships for joint cultivation of land.

The taxable gross income of the collective farm is established according to the report for previous year. The gross income includes all the income of the collective farm—natural and monetary—from all branches of agriculture, auxiliary industrial enterprises, non-agricultural earnings and other receipts. When establishing the taxable gross income of a collective farm, the principle of one-time taxation of income is observed: double taxation of the same income is not allowed. Taxable income does not include fishing income as subject to fishing tax and value added tax paid. Amounts

received from the sale of worker¹ and productive livestock², as well as received amounts of insurance compensation for lost property and crops are excluded from the gross income. In addition, the taxable income does not include bonuses received by advanced collective farms, interest and winnings on loans; the cost of aggregate raw materials consumed for products sold to the outside; the cost of non-agricultural products of subsidiary enterprises left on their farm; sums of money paid to collective farmers engaged in horse-drawn carriage of the collective farm.

The tax inspectors are responsible for determining the taxable income calculating the tax and checking the annual report of the collective farms financial departments. According to the report, the gross output of individual branches of agriculture is determined, and data on the actual harvested areas of sowing for individual crops, data on the yield estimates per hectare of sowing for individual crops by the Central Administration of Economic Accounting of Gosplan (CAEAG) authorities, and other materials are used. The production accounting statement is subjected to a detailed check. This is an aid to the collective farm to prevent theft and squandering of products. The most difficult point is to determine the amount of total gross income in monetary terms. A significant part of the production is used by the collective farm directly in kind (distribution by workdays, creation of funds, etc.), part of the production is handed over to the state at established procurement prices, and part is sold in the order of collective farm trade. Therefore, the monetary value of the same type of product can be different, depending on its direction in the implementation and on the method of its use.

When checking the annual report of the collective farm,

¹ Except when collective farms raise horses on commercial farms for the purpose of selling them.

² When these amounts are credited to an investment account for the improvement or rehabilitation of the herd.

taxable income from individual branches of its economy is established. It is established by determining: a) the amounts received from the sale of products to the state in the order of mandatory deliveries and contracts; 6) the value of the products used on the collective farm at state procurement prices, thus serving as the basis for calculating the collective farm's gross income in monetary terms, and c) the amounts actually received from the sale of products in the collective farm trade. Separately, according to the report, income from subsidiary industrial enterprises and non-agricultural earnings is determined, taking into account the statutory exclusions from gross income.

Based on all these data, the total taxable gross income of the collective farm is determined.

For collective farms, proportional tax rates have been established, namely: 3 percent - for agricultural artels and communes and 4 prov. for partnerships for joint land cultivation. The application of proportional taxation is aimed at. to stimulate the growth of collective farm incomes, thereby contributing to the rise in the well-being of collective farmers. The tax rates (3 and 4 percent) remain unchanged regardless of the amount of taxable gross income.

The tax is payable in four terms. The amount of payments by maturity is set taking into account the seasonal changes in cash in collective farms. A smaller share of payments (30 percent) falls for the first two terms—March and June, while a larger (10 percent)—for the last two terms—October and December.

The role of financial authorities in checking the reports is reduced, not only to the correct establishment of the amount of taxable income. Financial agencies should identify the existing shortcomings in the reporting and activities of a particular collective farm.

A decree of the Council of People's Commissars of the USSR and the Central Committee of the All-Union Communist Party of Bolsheviks of April 19, 1938 sharply condemned the practice of incorrect distribution of monetary incomes,

inflating costs for public needs, excessive construction, which caused a decrease in the assessment of a workday—in kind and in money. Therefore, it is of particular importance for the financial authorities to identify, when considering annual reports, the correct distribution and use of cash income (distribution by workdays, the amount of deductions to the indivisible fund and to administrative and economic costs). This kind of verification work of financial agencies are of great political and economic importance, contributing to the organisational and economic strengthening of collective farms by improving the organisation their financial economy, their accounting and reporting, improve income distribution. The district financial authorities must, through tax inspectors, organise daily communication with taxable collective farms, provide them systematically, throughout the year, with assistance in correcting shortcomings revealed during the examination of reports.

6. Apparatus of Financial Bodies for State Revenues

Fulfillment of the most important tasks of mobilising part of the income and savings of the socialist economy into the budget and exercising financial control over the activities of economic agencies are entrusted to a special apparatus for state revenues of the NKF of the USSR, union republics and local financial bodies. This apparatus consists of the following links: the State Revenue Directorate of the NKF of the USSR, the State Revenue Directorate of the NKF of the Union Republics, the State Revenue Departments of the NKF ASSR and regional, regional financial departments and state revenue inspections of the rai (mountains) financial departments.

The State Revenue Department of the NKF of the USSR carries out planning of state revenues, manages the activities

of the lower levels of the state revenues apparatus and controls their work on the implementation of the revenue side of the budget. Along with this, the State Revenue Department of the NKF of the USSR is working on collecting state revenues for individual industries, enterprises and types of payments. Direct verification of work on state revenues are entrusted to the auditors of the State Revenue Department of the NKF USSR. These same functions are mainly subject to a narrower one range of tasks, carried out by the state revenue departments of the NKF of the Union republics and the state revenue departments of the NKF ASSR 'and regional, regional financial departments. The main work on the fulfillment of the state revenue plan is carried out by the regional state revenue inspectorates.

The State Revenue Inspectorate includes: a senior inspector, government revenues inspectors and accounting. The State Revenue Inspection keeps records of payers, checks reports on all types of payments and makes additional payments, if necessary (in the process of checking periodic reports and checking annual reports and balances). The State Revenue Accounting Department keeps records of receipts and monitors the timeliness of payments and the correctness of settlements with payers. Honourable and responsible tasks for the implementation of the revenue side of the budget assigned to the inspectors of state revenues can be resolved only with a systematic study of production activities and the state of the financial economy of economic agencies, with daily control over the implementation of turnover plans.

The daily communication with enterprises, timely suppression anti-state attempts by individual economic agencies to evade the fulfillment of their obligations to the budget are the pledge prevention of arrears, ensuring the timeliness and completeness of the receipt of funds to the budget.

The public provides a huge amount of assistance to the inspectors of state revenues in fulfilling their duties. The organisation of the public, its involvement in active work on

state revenues is a prerequisite for fulfilling the plan of state revenues and exercising control over the activities of economic agencies. Organised at enterprises that are payers of state revenues, financial control posts take an active part in the work on state revenues. Financial and control posts are elected at general meetings and work under the guidance of inspectors of state revenues. They monitor the implementation of production plans, turnover plans, and pre-check the availability of funds to enter on time plans for the budget. Knowing the economy of this plant and factories, being daily connected with it, financial and control posts provide great assistance to inspectors of state revenues.

The second form of organising the public according to state revenues is the allocation of public inspectors. Public inspectors are the closest assistants of government revenue inspectors. They are attached to individual enterprises and carry out certain tasks to check reports and identify the completeness and timeliness of making payments to the budget. In this way, they provide substantial assistance to inspectors of state revenues, because the quality of all work on state revenues depends mainly on the timeliness and thoroughness of checking the accounts of economic agencies.

The wide involvement of the public, improving the business and political qualifications of the state revenues apparatus are the guarantee of fulfillment and overfulfillment from year to year, on the basis of the development and strengthening of the socialist economy, budget revenues, prevention of sabotage and distortions in work on state revenues.

CHAPTER X. TAXES AND POPULATION CHARGES. OTHER STATE INCOME. LOCAL TAXES AND FEES

1. The Content and Role of Soviet Taxes on the Population

The role and significance of Soviet taxes changed along with the changes in the functions of the Soviet state.

In the first phase of the development of the Soviet state, taxes were one of the most important revolutionary weapons of the dictatorship of the working class, aimed at suppressing the overthrown classes within the country.

As early as 1918, Lenin pointed out the great importance of taxes as a method of control over the capitalist elements, as a tool for their constraints and crowding out. Later, in the resolution of the XI. Party Congress, it was noted that “tax policy should have the task of regulating accumulation processes through direct taxation of property, income, etc.”¹

The taxes played an important role in the system of measures taken by the Soviet government aimed at suppressing resistance to exploitative classes. They were used to restrict and displace capitalist elements through the application of highly progressive tax rates. The taxation of capitalist elements was especially sharply increased during the period of immediate preparation for liquidation of the capitalist elements in town and country.

But the tax system, taken by itself is, of course, still insufficient to eliminate the capitalist elements and the exploiting classes in general. All sorts of “theories” about the

¹ “CPSU (B) in Resolutions and Decisions”, Part I, p. 427.

possibility, allegedly by obtaining a majority of votes in parliaments, without forcibly overthrowing the power of the bourgeoisie and without establishing the dictatorship of the proletariat, to reorganise taxes in such a way as to expropriate the capitalists (theories of reformists and opportunists from the Second International), are only an apologetics for capitalism, pursue the task of diverting the workers from the struggle for the proletarian socialist revolution. This, of course, does not mean that the workers should not use the means of political struggle at their disposal to tax the possessing classes as much as possible.

However, even after the victory of the proletarian revolution, taxes cannot become a method of eliminating capitalist elements and exploiting classes in general. Comrade Stalin pointed out that it is impossible to liquidate the kulaks as a class only with the help of taxes, without taking away the tools and means of production from the kulaks, without prohibiting them from renting land and labour. By means of taxes it is possible only to regulate the income and accumulations of the capitalist elements, to carry out a policy of limiting and ousting the capitalist elements.

The successful application of taxes as a means of carrying out such a policy required the organisation of real accounting and control over the capitalist elements in order to prevent their concealment of income and other violations of the laws of the Soviet state.

The taxes played a significant role in strengthening the alliance of the working class with the main mass of the peasantry. The tax policy of the Soviet government boiled down to exempting the poor from taxes, systematically easing taxation of the middle peasants, and placing the main burden of taxation of the countryside on the kulak. Individual taxation of kulaks, complete exemption of all poor peasant farms from taxes, moderate taxation of middle peasant farms and the broadest benefits to collective farms and collective farmers—all this is striking, characterises the class meaning

of the Soviet tax policy in the countryside.

Tax policy created significant advantages for collective farms and for members of collective farms over individual farms. These advantages are especially significant when the main task of the policy of the Soviet government in the countryside was the construction of collective and state farms. Granting the collective farmer the maximum tax benefits over the individual farmer—this principle has until recently been rigorously carried out in the directives of the Central Committee of the All-Union Communist Party (Bolsheviks) and decrees of the Soviet government.

In the second phase of the development of the Soviet state, there was no need to use taxes to suppress the exploiting classes, to restrict and oust the capitalist elements. The need for taxes is based here only on the economic-organisational and cultural-educational tasks of the Soviet state; and also on the tasks of protecting and strengthening socialist property, the correct combination of public 'and personal interests of Soviet citizens.

The taxes from the population, used in its interests, are a form of participation of workers with a part of their personal income in financing general government expenditures.

The Soviet taxes are fundamentally different from taxes in capitalist countries.

Under capitalism, the need for taxes is conditioned by the parasitic nature of the bourgeois state. They are its economic basis. The funds accumulated through taxes are intended and used to maintain the state apparatus - the apparatus of oppression of the working people and the exploited masses. Taxes are used to enhance exploitation. By means of taxes, the bourgeois state further cuts the consumption of the working people, makes an additional deduction from the workers' wages.

"With each new tax," wrote Marx, "the proletariat falls

one step lower”¹.

Under the conditions of the rule of the spontaneous law of value, the anarchy of capitalist production, real regularity and stability of tax receipts and thus the stability of the entire financial system of the bourgeois state cannot be ensured.

Under capitalism, taxes levied on workers are unlimitedly compulsory and irrevocable. The bourgeois state uses its entire apparatus of violence to extort taxes and arrears from the working people. The funds that the state squeezes out of the pockets of the working people in the form of taxes, the bourgeois state not only does not return to the working people, but, on the contrary, ‘spends them on strengthening the system of capitalist exploitation of the working people. Taxes are used in capitalist countries and their colonies to maintain the apparatus for suppressing the revolutionary movement, the apparatus of violence against the workers and peasants, for preparing and waging imperialist wars. The bourgeoisie has the opportunity to shift onto the working people (through changes in prices, the length of the working day, wages, through the receipt of all kinds of “compensation” and other forms of subsidies from the state) and the taxes that it pays to the state from the taxes it has already received surplus value. The bourgeois state deliberately veils the sources of tax revenues and tries by all means (including by means of tax techniques) to hide the fact that taxes under capitalism fall heavily on the working people.

Our Soviet taxes are of a completely different nature. The economic basis of the USSR is socialist public ownership of the means of production and the socialist economic system. In the Soviet state, the funds accumulated through taxes are used to finance the people’s economy and socio-cultural events, on measures to ensure the uninterrupted course of

¹ K. Marx and F. Engels, *Works*, vol. VIII, p. 811.

socialist reproduction, i.e. used productively. At the present stage of socialist construction, the main source of budgetary revenues is the accumulations of the socialist economy, which increase with the growth of industry, agriculture, transport, together with the growth of labour productivity, the expansion of trade, and the improvement in the use of material values and funds. This increase in socialist accumulation is accompanied by a steady, rapid rise in the well-being of the working people.

Being irrevocable in form, Soviet taxes, due to the nature of the use of funds (financing the process of socialist expanded reproduction), are in fact returnable to workers. The amounts of tax paid by individual workers are returned to them in the form of factories and plants built and reconstructed mines and railways, state farms and machine and tractor stations, schools and hospitals, and an increasing flow of goods. Soviet taxes contribute to the growth of the cultural and prosperous life of the working people.

If in bourgeois countries taxpayers-capitalists are given all kinds of indulgences, then in the USSR, on the contrary, in relation to the capitalist elements, the state established the highest tax rates, which were collected with all the severity of the law.

The Soviet state pursues a pronounced, unveiled class tax policy. Implementation of such a tax policy presupposes a clear delineation of taxpayers.

The Right-Trotskyist restorers of capitalism and other enemies of the people tried to disrupt the tax policy of the Soviet state. They strove, on the one hand, not to allow an increased taxation of capitalist elements, and on the other, to impose the entire burden on taxation on the middle peasant in order to break the alliance of the working class with the bulk of the peasantry and restore capitalism.

The Party, having exposed and defeated the enemies of the people, successfully used taxes as one of the weapons in the struggle for the victory of socialism.

2. Income Tax and Collection for the Needs of Housing and Cultural and Domestic Construction from the Non-Agricultural Population

The main tax payments of the non-agricultural population are *income tax and levies for housing needs and cultural and social construction (kultzhilsbor)*¹.

Despite the fact that at the present stage the task of regulating income and savings by taxes has almost completely disappeared, differentiation of the size of tax payments of certain groups of the population, as well as individual citizens, is still necessary. This differentiation is necessary due to the presence of differences in the nature, sources of income, as well as due to the fact that the amount of income for individual citizens is different. Accordingly, citizens are attracted payable taxes, should be subdivided into categories, for each of which special tax rates, benefits and collection procedure are established. Within these categories, the share of withdrawals and the amount of payments are differentiated depending on the amount of income received.

The VI session of the Supreme Soviet of the USSR on April 4, 1940 adopted a new law on personal income tax. This law essentially divides income tax payers into four main categories: a) workers and employees; b) writers and artists; c) doctors, lawyers and other persons with income from private practice; d) non-cooperative artisans and artisans.

Workers and employees, as well as groups of the population equated to them according to the principles and procedure of taxation (scholarship students, lawyers on remuneration received in legal consultations, etc.) pay income tax on special grounds different from other

¹ See the diagram on page 320.

categories of payers. The highest non-taxable minimum is set for workers and employees—150 rubles per month. The tax rates are the lowest—the minimum rate is from 151 rubles (per month)—1 rubles 20 kopecks (or 0.8%), from a salary of 1000 rubles per month—4.2% and for an amount exceeding 1000 rubles, the maximum rate per month—7%. In addition, a multi-family benefit has been established for workers and employees. If there are more than 3 dependents, the salary tax (at the place of main work) is reduced by 30%.

The procedure for calculating taxable income and paying tax is also preferential in relation to workers and employees. Tax payment is made on the entire amount of earnings in this enterprise; salaries received from part-time jobs in individual institutions and enterprises, as well as income from other sources are taxed separately.

The calculation and withholding of income tax is entrusted to enterprises and institutions that pay wages. Retention and tax payments are made monthly. The financial authorities are responsible for checking the correctness of deductions and the timeliness of transferring the amounts of income tax to the budget account. At the same time, the task of verification is not only to prevent the underestimation of the calculated amounts of tax, but also to promptly suppress possible cases of exaggeration of tax deductions from individual workers and employees.

Until 1940, cooperative handicraftsmen and artisans were taxed on the same basis as workers and employees, the same tax rates were applied. The new law retains the same taxation procedure for workers and employees. However, the size of the tax established for workers and employees in relation to cooperative handicraftsmen and artisans, including those working in the workshops of an artel are increased by 10%. This procedure does not apply to members of transport artels who have not socialised draft animals. They, in order to stimulate the process of socialisation, are taxed on other grounds, which will be discussed below.

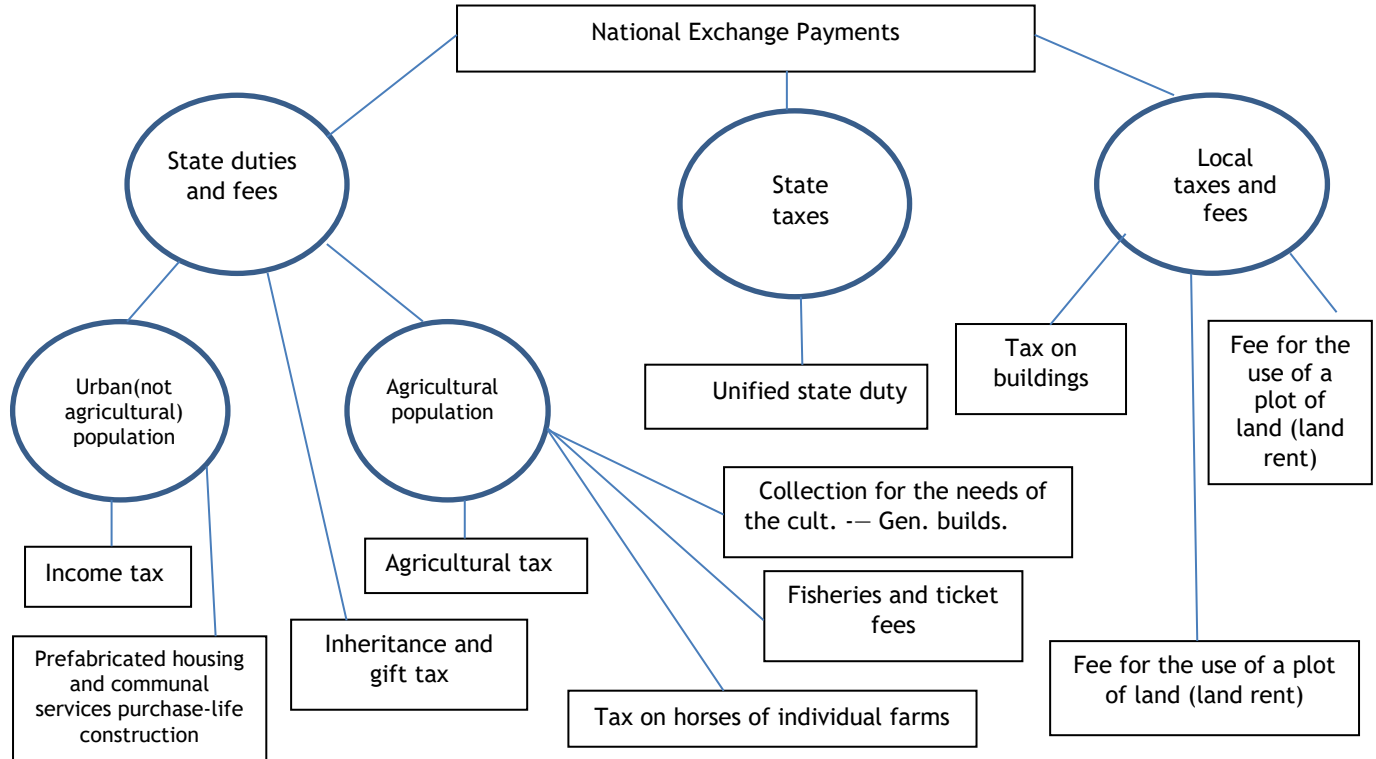
Taxation of the income of writers and art workers (for

earnings outside a permanent place of work) is based on several excellent from taxation of workers and employees on the grounds. There is no non-taxable minimum. The minimum income tax rate (from income up to 1,800 rubles per year) coincides with the rate of workers and employees—0.8%. The rate on income of 12,000 rubles also coincides per year—4.2%. Higher rates are set for higher incomes. So, with an annual earnings of over 300 thousand rubles charged 86 34 rubles plus 50% of the amount exceeding 300 thousand rubles. The tax is calculated and withheld by institutions and enterprises that pay earnings.

Income tax on physicians, lawyers and other persons in private practice is calculated on an annual basis and levied by the financial authorities. Non-taxable minimum—600 rubles per year. The same non-taxable minimum applies to other payers: uncooperative handicraftsmen and persons with other income from self-employment. The minimum rate (from income up to 1000 rubles per year) is 1%. The maximum—with an amount of income over 20 thousand—is charged 3975 rubles—38% of the amount exceeding 20,000 rubles per year. Payers of this category, as well as workers, employees, writers and art workers, are not taxed on the total income from all sources.

Increased taxation of income tax is established for uncooperative handicraftsmen and artisans and persons with other income from self-employment. The tax rates are the highest: for incomes up to 1200 rubles per year—4%, and for incomes exceeding 24,000 rubles. 8952 rubles are charged per year, plus 60% from the amount exceeding 24 thousand rubles. The calculation of tax on total income from all sources is also applied. With regard to a certain part of handicraftsmen and artisans, taking into account the special nature of their incomes and the possibilities of obtaining these incomes in increased amounts, the established general tax rates are increased. The size of the logs when imposing uncooperative handicraftsmen and artisans who produce

Personal Income Tax On Weekdays



products from their own material, as well as those who are It is also important to note that on the same grounds with uncooperative handicraftsmen and artisans, but without increasing the tax by 35%, are subject to:

a) cooperative handicraftsmen and artisans (as well as workers and employees) according to income received from artels and enterprises at home at home, if, in addition to artels, they perform work for individual citizens or use special equipment in their work (machines, except sewing machines, machines);

b) members of transport cooperative artels who have draft animals not socialised.

Such a taxation procedure stimulates the socialization of the means of production (machines, draft animals) and the subordination of personal interests public, their correct combination.

In connection with the elimination of capitalist elements in our country, the new law on income tax, this group of taxpayers does not stand out, as was the case in the past. Persons with unearned income (ministers of religious cults) are taxed on the same basis as uncooperative handicraftsmen and artisans, but with an increase in the rates established for them by 40%. Determination of income and calculation of the salary of the tax of uncooperative handicraftsmen and artisans and other income from self-employment is entrusted to the financial authorities.

The payment of tax by payers of this category is made during the year in quarterly installments in the amount of 25% of the salary, calculated either on the income of the past year, or on the estimated (in relation to the newly attracted payers) income for the current year. At the end of the year, a recalculation is made based on the income actually received.

The new law on income tax establishes a number of benefits and exemptions, Heroes of the Soviet Union, citizens, awarded orders of the USSR or honorary revolutionary weapons, and heroes of labour—in full according to the

wages received, and income from other sources is exempt from taxation in the amount of 6,000 rubles; military personnel are completely exempt from tax and liable for military service on the content received in the Workers' and Peasants' Red Army, the Navy and the troops of the NKVD. Scholarships for students in the amount not exceeding 210 rubles are also exempt in the month and pension.

The VI. session of the Supreme Soviet of the USSR also adopted a new law on the collection for the needs of housing and cultural and social construction from the population subject to income tax. The structure of this law, the principles of its construction are similar to the law on income tax.

The differentiation of payers into categories, the principles of differentiation of rates between them, benefits and the procedure for calculating and collecting payments completely coincide. The difference is mainly only in the size of the rates. The levy rates are lower than the income tax rates.

For workers and employees the minimum wage rate from 151 p. per month—1 p. 05 k. (Or 0.1%), and the maximum salary rate exceeding 1000 rubles per month,—37 rubles 80 k. Plus 6% on the amount exceeding 1000 rubles. The same rates, but in relation to annual income, are set for writers and artists.

Un-operated handicraftsmen and artisans pay the levy at the following rates: minimum—from income up to 1200 rubles. per year—2.5%, maximum—from income exceeding 10,000 rubles per year—612 rubles plus 8.0% on the amount exceeding 10 thousand rubles. At the same rates, doctors, lawyers, etc. also pay a levy on income from private practice, with a decrease, however, for incomes up to 10,000 rubles per year the amount of the collection by 25%.

A levy from workers and employees is levied on the monthly wages at the place of work, from writers and art workers—according to their annual income, also by institutions and enterprises that pay wages. From the rest of

the payers, the fee is levied on the annual income established by the financial authorities for calculating income tax. The fee is paid in equal installments in four terms.

A special place in the payments of the population is occupied by the inheritance and gift tax. This tax is of limited importance in the Soviet economy. It is levied on property that is transferred by inheritance and donation worth more than 1,000 rubles; however, the value of the property does not include household items. Tax payers are persons who are legally granted the right to inherit. The tax is calculated by local financial authorities. Tax rates are differentiated depending on the size of the inheritance.

The strictest observance of revolutionary legality in the conduct of taxes on the population is of great political importance. The mean enemies of the people, operating in the financial organs, tried to pervert the tax policy of the Soviet government and undermine the confidence of the population to the measures (of the Soviet state. In some areas, the enemies of the people re-taxed certain groups of the population and at the same time provided an opportunity for all kinds of “businessmen” to hide behind the mask of an artisan for the purpose of speculation. The revolutionary legality of the collection of taxes was grossly violated.

Mastering the basics of Marxism-Leninism and improving the business qualifications of the tax apparatus, the daily struggle for the strictest the implementation of revolutionary legality is a prerequisite for increasing political vigilance, complete elimination of consequences and prevention of sabotage in this area.

3. Agricultural Tax and Cultural Collection from the Rural Population

The main tax payments of the agricultural population are agricultural tax and cultural collection (rural)¹. Payers of these taxes are divided into two groups: a) collective farmers, b) individual peasant farms.

The system of taxation of collective farmers at the present stage, as already indicated, is completely subordinated to the tasks of strengthening labour discipline on collective farms, the growth of a socialised economy and socialised incomes, the correct combination of social and personal interests and, on this basis, raising the material level and prosperity of collective farmers.

These tasks are most clearly expressed in the new law on agricultural tax, adopted by the Extraordinary IV session of the Supreme Soviet of the USSR on September 1, 1939. The new law, aimed at implementing the decisions of the XVIII Party Congress on the development of agriculture, is an important link in the general system of measures outlined by the May (1939) by the plenum of the Central Committee of the CPSU (B), for the further rise of the collective farm economy and strengthening labour discipline on collective farms.

Until 1939, the law on agricultural tax was in force, introduced as early as 1934. Under this law, collective farmers were subject to fixed rates on their income from non-socialised farming in the range from 10 to 50 rubles. These fixed rates were differentiated according to individual regions and districts according to the economic characteristics of the area and differences in the profitability of collective farms and collective farmers. Within each collective farm or village, the tax rates were the same for all

¹ See diagram on page 320.

collective farmers. The amount of income from personal, non-socialised farming did not affect the amount of agricultural tax from individual collective farmers. There was also an insignificant taxation of the income of collective farmers from non-agricultural earnings. Fixed tax rates on collective farmers who had non-agricultural earnings increased only within the limits of from 40 to 80 percent. In this case, the amount of income individually, in relation to each collective farmer, was also not taken into account. In addition, the income of collective farmers from collective farm trade, animal husbandry and beekeeping was completely exempted from tax. Such a system of taxation at a time when the collective farms were still not sufficiently strong and could not sufficiently meet the needs of the collective farmers at the expense of the socialised economy, was expedient and necessary. With her help resolved the task of combining the personal and public interests of collective farmers in order to raise and strengthen the socialised economy, the task of eliminating the lack of cowardice of collective farmers.

At the present stage, as a result of the successful fulfillment of the five-year plans, the collective farms have finally gained a foothold, and only the further development and growth of the income of the socialised economy can ensure an increase in the material level and prosperity of the collective farmers. The personal economy of the collective farmers should have an increasingly narrowly subsidiary character. Under these conditions, the previously installed system of taxation of collective farmers could no longer be saved.

The imposition of fixed rates of income from non-socialised economy, with a completely insignificant taxation of non-agricultural income, essentially encouraged violators of labour discipline on collective farms, as it led to the most preferential taxation of them. The more the collective farmer paid attention to his personal economy to the detriment of the socialised one, the more preferential was

his taxation, since the amount of income actually received was not taken into account.

On the contrary, under the system of fixed rates, the taxation of collective farmers who worked honestly was less preferential collective farm, personal income which from non-socialised economy was insignificant.

By the new law on agricultural tax, the previously existing taxation system, as not meeting the task of strengthening labour discipline on collective farms, was cancelled. The main privilege for collective farmers—exemption from tax on income from a socialised economy—has been retained. As for the rest of the income—from non-socialised economy and non-agricultural earnings—a system of progressive taxation has been established.

All income of collective farms from personal farming, including income from animal husbandry and special branches of agriculture, is involved in the taxation of agricultural taxes. Income from agricultural sources is set at the average rate of return for various crops and agricultural sectors. These average rates of return are based on actual average yields, livestock productivity and market price levels.

The norms, taking into account the economic characteristics, are differentiated according to the union republics. The Soviets of People's Commissars of the Union Republics have been given the right to differentiate rates of return up to individual regions within the range of up to 30%.

Taxable income from field cultivation, meadow cultivation and special branches of agriculture is determined by multiplying the norms profitability per hectare of the entire sowing area of spring and winter crops of the current year and perennial plantations (orchards, vineyards, etc.). If the size of the sowing of spring and winter crops is less than the area established by the state sowing plan, then for calculating the taxable income, not the actually sown area is taken, but the planned area; this stimulates the implementation of seeding plans. Taxable income from livestock production is calculated on the basis of the number

of livestock (by species) using established rates of return.

The taxable income of collective farmers also includes the entire amount of income from uncooperative handicraft and craft activities and other non-agricultural earnings received not in waste for the year (from July 1 of the previous year to June 30 of the current year). All types of non-agricultural income received in waste are not subject to agricultural tax, but income tax.

The calculation of the tax on collective farmers, as indicated above, is made at progressive rates. The minimum rate for income up to 700 rubles—50 rubles, or 7.1 percent; the maximum rate for income exceeding 4,000 rubles is 404 rubles +15 rubles for each ruble of income over 4,000 rubles.

It should be noted that the progression in the rates of tax on collective farmers is insignificant. In addition, only the non-voluntary part of the collective farmers who ignore work on the collective farm and receive high incomes from personal farming is taxed at the highest rate. The bulk of the collective farmers taking into account their possible income from personal farming in the amounts allowed by the Charter of the agricultural artel, they pay a tax in the range from 7.1 to 10.1 pron.

For farms of collective farmers who are members of partnerships for joint cultivation of the land, the amount of tax calculated from them is increased by 10 percent. This stimulates the transition of partnerships for joint cultivation of land to the Charter of an agricultural artel.

The preferential rates of taxation of collective farmers, in comparison with individual farmers, do not fully apply to the farms of collective farmers, in which there are able-bodied family members who are not on the G collective farm and are not employed. For these farms, the generally established rates are increased by 20%.

The procedure for determining the taxable income of individual farms from agricultural sources and non-agricultural earnings does not differ from the procedure established for collective farmers. Income from agricultural

sources is determined according to rates of return, and from non-agricultural earnings according to actual recorded income. The difference between the taxation of individual farms and the taxation of collective farmers consists, firstly, in a more complete accounting of income and, secondly, in significantly higher tax rates. The taxable income of individual farms, in addition to the normatively determined income from agriculture and actually recorded income from non-agricultural earnings, also includes fully income from the sale of agricultural products on the market. The minimum rate for calculating tax on individual farms with income up to 1000 rubles set at 110 rubles, and the maximum—with an income exceeding 6000 rubles—1410 rubles plus 45 kopecks from each ruble of income over 6,000 rubles.

Privileges were provided to individual farms in order to stimulate their transition to collective farms. When joining a collective farm before crust; during the first term for payment of tax, individual farms are taxed at the rates of collective farmers. When individual farms enter a collective farm after the first payment deadline, the rates of collective farmers are recalculated only in relation to the remaining amount of tax, the due date for which has not yet arrived. On the contrary, farms of collective farmers who have left the collective farm are involved in the payment of tax at the rates established for individual farms.

The deadlines for paying the tax are set common for farms of collective farmers and individual farmers—October 1, November 1 and December 1.

A number of benefits have been established for the farms of collective farmers and individual farmers. In particular, farms of collective farmers and individual farmers who are incapable of work due to their advanced age and who do not have able-bodied family members who are involved in personal labour on the farm are completely exempted from tax.

A farm whose head or his son is in active military service is exempt from tax (if there are no other able-bodied people

in the family, except for the wife of a military man with children under the age of 8). Multi-family tax rebates are also available. In addition, the following are exempt from tax: the farms of immigrants, the farms of persons who have been assigned to work in the coal industry for a period of at least one year, and the farms of the gold and platinum miners.

The cultural collection in the countryside is built similarly to the agricultural tax, with the only difference that there is a wider circle of payers for the cultural collection.

With regard to the payment of the rural cultural collection, the farms' farms are divided into two groups. The first group includes the farms of collective farmers who do not have non-socialised sources of income (they are not involved in the payment of the agricultural tax); fixed rates of cultural collection are established for them in the amount of 5 to 10 rubles on the farm. The second group includes collective farms' farms with non-socialised sources of income; they pay cultural fees at fixed rates in the amount of 10 to 40 rubles. on the farm. Farms of individual farmers who joined the collective farm before the first deadline for paying the cultural fee are taxed at the rates of farmers' farms.

Individual peasant farms are divided into two groups: the first group includes farms that do not have draft animals, market and non-agricultural income; the second group includes farms with either draft animals or non-agricultural or market incomes. The rates of the cultural collection are set: for the first group in the amount of 75 to 100 percent agricultural tax salary, for the second group—in the amount of 100 to 175 percent, the salary of the agricultural tax of the previous year. The calculation of the cultural collection and the distribution for farms into groups are made on the basis of the materials for taxation of the agricultural tax in the previous year (i.e., the year for which the cultural collection is calculated).

Self-taxation occupies a special place in the payment system of the rural population, which, as its name implies, is

a voluntary payment, therefore, not a tax. The procedure for self-taxation is regulated by federal law. It can be established only by decree of the general meetings of the citizens of the village. At these meetings, measures are discussed and established for which self-taxation is carried out, rates for certain categories of payers and payment terms (within the limits established by law) are determined. By granting these broad rights to assemblies of citizens, the development of the initiative and initiative of the broad masses of the rural population is achieved, aimed at improving their cultural and living conditions. Self-taxation involves, with some exceptions, all citizens permanently residing in rural areas: collective farmers, individual farmers, leading a peasant economy, and other citizens, even if they are not engaged in agriculture. For these separate categories, different (within the limits established by law) rates of self-taxation are established. The control over the correct use of the amounts collected on self-taxation is carried out by the village audit commissions.

Village councils are accountable to the general assemblies of citizens in the spending of funds.

The massiveness of payments by the agricultural population determines the enormous political significance of the correct implementation of tax policy in the countryside.

Agricultural tax and cultural collection in the countryside should be carried out in such a way as to facilitate the involvement of individual farms in collective farms, to raise the production discipline of collective farmers and to strengthen the organisational and economic strength of collective farms.

The decree of the Council of People's Commissars of the USSR and the Central Committee of the All-Union Communist Party (Bolsheviks) of April 19, 1938 notes the violations of the Soviet tax policy that took place in the village, numerous facts of connivance with individual farmers in the fulfillment of state obligations and other distortions of tax policy, which essentially led to the release of many individual farmers from

compulsory deliveries and taxes. Thus, the farms of individual farmers were placed, contrary to the law, in an advantageous position in comparison with collective farmers. In particular, horses were not taxed on individual farmers. At the same time, it was not taken into account that horses in individual farms, as a rule, were not used for agricultural work in this farm, but as a means of speculation and profit by working on the side.

With the connivance of the regional Soviet and party organs, collective farm boards, in violation of the Charter of the Agricultural Cartel, often resorted to hiring individual farmers to work on collective farms for a wage that significantly exceeded the collective farmers' wages in terms of workdays.

As a result of this wrong attitude towards individual farms, their further involvement in collective farms was hampered.

The Council of People's Commissars of the USSR and the Central Committee of the All-Union Communist Party (Bolsheviks) obliged the Soviet and party organisations on the ground to eliminate all these perversions, strictly monitor the exact fulfillment of all state obligations by the individual farms and not allow any advantage of individual farmers over collective farmers.

The second session of the Supreme Soviet of the USSR in August 1938 adopted a law on the state tax on horses of individual farms.

According to this law, the union republics are divided into two groups in terms of the amount of income received by individual farms from the use of horses. The first group includes: the RSFSR (with the exception of some regions, territories and autonomous republics classified in the second group), the Ukrainian SSR and the BSSR. The second group covers all other union republics and some regions, territories and autonomous republics of the RSFSR.

Tax rates are differentiated for these two groups, and within the groups—for individual regions and districts, taking

into account differences in profitability and depending on the number of horses on the farm.

The table of tax rates established by the law adopted by the Second Session of the Supreme Council is as follows:

	With one horse		If there is more than one horse per each track	
	I rate (1st group of districts)	II rate (2nd group of districts)	I rate (1st group of districts)	II rate (2nd group of districts)
1st group of republics	400 rubles	500 rubles	700 rubles	800 rubles
2nd group of republics	275 “	350 “	450 “	550 “

Farms with horses aged 3 years and above are involved in the payment of the tax. The payment deadline is set from 1 to October 15,

At the same time, farms that sold horses after the publication of the law are not exempt from tax. Farms are the same; who, before the due date for payment, entered the collective farm and handed over their horses to the collective farms, are completely exempt from tax. These provisions of the law prevent possible facts of tax evasion by individual farms and stimulate the transition of individual farms to collective farms.

The enemies of the people tried to distort the Soviet tax policy in the countryside and thereby cause discontent on the part of the rural workers Soviet power.

Under the guise of a struggle to fulfill the plan for taxes and fees, the saboteurs grossly violated revolutionary legality. Instead of preventing the formation of arrears, the practice of administrative tax collection, inventory and seizure of property was indiscriminately applied. At the same time, in a number of cases, property was seized, which, according to the law, was not subject to seizure. The regulation on the collection of taxes established an extensive list of property

for which the compulsory collection is not could be painted; these included: necessary household items, clothing, consumer goods in certain sizes and the means of production necessary for the production process.

The very process of taxation of individual farmers and collective farmers, the confiscation of property from them, the procedure for registering and selling it, was carried out in a destructive manner in a number of places. In some cases this property was squandered and plundered. Such facts of sabotage were found in a number of regions and districts (Lepel district in Belarus, Slavut district in Ukraine, etc.).

Elimination of consequences and prevention of sabotage are carried out on the basis of organisational restructuring of forms and methods of work on taxes from the population by increasing political vigilance, improving the training of personnel (political and business) of the financial apparatus, the promotion of new cadres of proven employees. By a decree of the Central Executive Committee and the Council of People's Commissars of the USSR of March 21, 1937, the councils were exempted from calculating and levying taxes and insurance payments. All this work is entrusted to the regional financial departments, which are fully responsible for the correct conduct of tax policy, for strict adherence to revolutionary legality.

In order to combat violations of revolutionary legality in the collection of tax payments, a decree of the Central Executive Committee and the Council of People's Commissars of the USSR of April 11, 1937 introduced a fundamental change in the order of enforcement. The administrative procedure for the seizure of property (but by orders of the tax authorities) has been replaced by a judicial one. The confiscation of property is carried out only in the presence of the relevant decisions of the people's courts. The resolution clearly defines again the list of types of property that cannot be foreclosed. Compulsory collection of arrears is carried out only in exceptional cases. The main method of ensuring the timely and complete receipt of tax payments should be the

correct organisation of the work of the tax apparatus for the calculation and collection of taxes.

4. Other State Revenues. Local Taxes and Fees

In addition to the types of tax revenues discussed above, there are a number of smaller sources of revenue for the budgetary system; this includes: a single state duty, customs revenues, revenues from state property and local taxes and fees¹.

A single state duty is collected in payment for the actions of state bodies and from documents issued by the same bodies. The duty is levied on statements of claim in cases carried out in judicial institutions of the Union republics, on cassation complaints against decisions of the same judicial bodies and on statements of claim in cases carried out in state arbitration bodies; for the issuance of court orders and for the notarisation of contracts.

Payers of the duty are divided into two categories: the first category includes state and public institutions, enterprises and organisations, to the second—all citizens and private legal entities.

The rates of the fee—either fixed or proportional—are differentiated depending on the amount of the claim and the contract; for payers of the second category, the rates are differentiated depending on the actions and documents from which the fee is collected. All appeals of citizens to government agencies and officials, as well as claims of workers and employees on labour issues and a number of others are exempt from paying the fee.

In the general system of state revenues, a special place is occupied by revenues from state property. The collection

¹ See diagrams on pages 295 and 320.

of these revenues strengthens the revenue base of the budget system and ensures control by the financial authorities over the expedient use of huge assets concentrated in the hands of the state.

Revenues from state property include: forest income, income from subsoil, peat bogs, fishing grounds and from the sale of toss fund.

The main type of forest income is the stumpage payment received from the paid supply of timber. Stumpage payers payments are in the forests of local importance all loggers, including the main ones (Narkomles, NKPS, heavy and food industry).

In the forests of the state forest fund, the main procurers and government organisations equated to them are exempt from stumpage fees when they harvest forests in an economic way to fulfill their production program.

Leskhozoes of Glavlesoohrana, which harvest timber in order to take care of the forests, also do not pay stumpage fees.

Revenues from local forests, which are under the jurisdiction of the People's Commissariat of Agriculture and managed by regional forestry enterprises (sale of timber to the main procurers and organisations equated to them, as well as to individual enterprises and organisations and the population), go to local budgets. Local budgets receive income from the sale of timber to self-harvesters and the population from the state forest fund.

Subsoil income is received as payment for granting the right to develop common minerals (chalk, limestone, gravel, etc.). This right is granted by local authorities' government authority on the basis of leases or written permits. Fee is determined by weight or volume of products within the rates established by the mining authorities by agreement by the regional (krai) financial departments.

Peat bogs are leased for industrial development by the authorities of the People's Commissariat for Agriculture. Rent rates are set in accordance with the amount of

extracted peat (per ton of air-dry peat) and depending on the use of peat (for building materials, fuel), on the economic features of the development of the region and on the degree of development of peat extraction. The provision of peat deposits for development to the population for fuel is carried out at reduced, preferential rates, and for construction purposes and for fertilization—free of charge. The rent for the industrial development of peat deposits is paid on several dates during the year. Final amount of the rent is set at the end of the peat season based on the amount of peat extracted.

The income from the fishing grounds comes in the form of a single fishing and ticket fee. For fishing collective farms, a single fishing tax is set at 1½ percent from the value of the catch. Individual farms that donate their catch under contract pay a fishing fee of 15 percent from the cost of fish handed over under contract. The rest of the individual farms pay a ticket fee instead of the fishing tax at the rate of 15 percent the cost of the fish catch; in addition, the income of these farms from fishing is taken into account when taxing agricultural (or income) tax.

The state funds, which are accounted for and sold by financial authorities, include property of: a) museums that have lost their museum value; b) institutions to be liquidated that are funded by the state and local budgets; c) and self-supporting enterprises and organisations of local: significance, which are not part of trusts; d) liquidated prayer buildings and other property recognised as having no owner in accordance with the procedure established by law.

Income from a unified state duty, from subsoil and peat bogs, from fishing grounds and from the sale of state funds (as a republic, and local significance) go to local budgets.

According to their content, local taxes and fees are an integral part of the unified system of Soviet taxes. They differ from state taxes and fees only in the order of their introduction and in the fact that all proceeds from them are fully transferred to local budgets. In order to prevent local

“tax-making” and preserve the unity of the tax system, the all-Union and republican legislation establishes a list of local taxes and fees, the range of objects of taxation, as well as a list of mandatory benefits, marginal tax rates (in general or for certain categories of payers) and the procedure for conducting taxes and collecting payments. Local taxes and fees are introduced taking into account: local conditions only by decisions of local government bodies. Without these decisions, local taxes and fees, even if they are provided for in the list, cannot be carried out. Local state authorities also set the rates of local taxes and fees (not exceeding the limit), payment terms, benefits and exemptions for certain categories of payers.

Local taxes and levies include: tax on buildings, levy on land use, tax on vehicles in urban settlements, tax on visitors to public shows and entertainment in urban settlements, summer cottages and resort villages, one-time levy on mobile commerce, and some others. The main place in the system of local taxes and fees is occupied by the tax on buildings and the levy for the use of land plots (the so-called land rent).

The allocation of these taxes and fees to the group of local ones is due to the fact that the corresponding revenue sources, by their nature and significance, can be most effectively used by local government bodies. The same bodies can better establish the principles of levying local taxes, which would optimally combine the interests of the budget and the taxpayers.

Local taxes and fees are important not only as sources of budget revenues. When conducting local taxes and fees, local government bodies exercise more active and complete management of the economy of a city or district, local taxes stimulate its further development.

5. The Apparatus of Financial Bodies for Taxes and Fees from the Population

The administration of taxes and levies from the population is of great political importance. These payments cover multimillion-dollar masses working people of the city and village. By the decree of the Central Executive Committee and the Council of People's Commissars of the USSR of March 21, 1937, all work on the calculation and collection of taxes and fees from the population is entrusted to the financial authorities. The apparatus for taxes and dues from the population is thus entrusted with the responsible task of implementing the tax policy of the Soviet government.

The apparatus for taxes and levies from the population is basically built similarly to the apparatus for state revenues. In the NKFSR USSR and NKFSR allied republics there are departments for taxes and fees from the population, in the NKFSR of the ASSR, regional and regional financial departments—tax departments, and in districts and cities—tax inspectorates for taxes and fees from the population.

The functions of the higher echelons of the apparatus for taxes and levies of the population coincide with the functions of the apparatus for state revenues. A distinctive feature here is that the calculation and collection of payments are carried out exclusively by the inspections of the regional (mountains) of the financial departments.

By the decree of the Council of People's Commissars of the USSR of April 29, 1937, in connection with the transfer of the calculation and collection of taxes to the regional financial departments, the regulation on the tax inspection was approved. The district (city) tax inspectorate consists of a senior inspector, district tax inspectors, assistant tax inspectors and a tax accountant. The same resolution approved the regulation on tax auditors. On the basis of the resolution of the Council of People's Commissars of the USSR of April 26, 1938 on improving the organisation of collection

of tax and insurance payments, the positions of tax agents were introduced.

The duties of senior inspectors include: 1) management of the work of district inspectors and their assistants, 2) management of the tax accounting department. The duty of the senior inspector to check the implementation of the decree of the Central Executive Committee and the Council of People's Commissars of the USSR should be especially highlighted of April 11, 1937 on the replacement of an administrative penalty by a judicial one, as well as on the prevention of violations of revolutionary legality. The most important duty of the senior tax inspector is the strictest implementation in life of the decisions of the Council of People's Commissars of the USSR and the Central Committee of the Committee of the People's Commissars (Bolsheviks) of April 19, 1938 and prevention of evasion of individual farmers from fulfilling their obligations to the state. Thus, the senior tax inspector bears full responsibility for the correctness of the tax policy, being a person vested with the confidence of the state and politically responsible to it.

The duties of local tax inspectors include: 1) accounting for payers, 2) calculating taxes, 3) accounting for enterprises withholding income tax and cultural collection from workers and employees, 4) checking the correctness of deductions and the timeliness of making payments to the budget. Tax Inspector Assistants assist tax inspectors in performing these tasks.

The duties of tax agents include: 1) registration of payers, 2) calculation of taxes, 3) collection of taxes and insurance payments (according to compulsory salary insurance).

The important political significance of tax administration in the city and, in particular, in the countryside requires wide involvement of the public of enterprises and collective farm assets and the daily improvement of the political and business qualifications of tax inspectors and agents.

CHAPTER XI. GOVERNMENT LOANS AND SAVINGS BOOKS OF THE USSR

1. The Essence and Significance of Soviet Government Loans

The significance of state loans in the USSR lies primarily in the fact that through them the state attracts the savings of the broad masses of the working people to finance socialist construction.

The State loans of the USSR express relations in which the millions of the working people of the Soviet Union act as creditors of the socialist state transfer to it for a certain period of time part of their monetary income. Thus, loans make it possible to concentrate in the hands of the Soviet state additional funds to finance the national economy, culture and defence of the country, contributing to the acceleration of the development of the productive forces of socialist society and the creation of preconditions for a gradual transition from socialism to communism. Loans strengthen the might of the socialist state of workers and peasants.

The enormous success of Soviet state loans testifies to the boundless confidence of the many millions of working people in their own interests—the state—about their boundless devotion to the organizer of socialist victories—the party of Lenin and Stalin, about the indestructible strength of the moral and political unity of the Soviet people. The deepest interest of the working people in the success of socialist construction is the basis for the rapid development of Soviet state loans. The workers know that they are being given. their savings lent to the state will be returned to them a hundredfold in the form of first-class factories, MTS, schools, hospitals, homes, that our loans multiply the wealth of our motherland, that they strengthen the defence

capability of the USSR—the guarantee of our peaceful labour.

By means of loans, the Soviet state attracts those funds that each worker considers possible and necessary to allocate from the personal budget and to make available to the state for a certain period of time to finance socialist construction. Participation in loans is a voluntary deed of every worker, in contrast to taxes imposed by the will of the workers by the Soviet state as a compulsory payment.

The next feature of our state loans is that through them the Soviet state mobilises funds for a certain period of time with the obligation to return these funds to each holder of the loan bonds. The productive use of funds from loans ensures the creation and expansion of sources of return of these funds not only for the workers involved in loans, but also for the payment of remuneration to bondholders in the form of interest and prizes. This creates additional incentives and interest of the population in purchasing government loan bonds, the most complete and direct combination of government tasks with the personal interests of the working people.

The number of holders of government bonds is growing from year to year. In 1927, there were only 6 million subscribers in the country, for state loans, in 1933 their number had already increased to 40 million people, and in 1939 more than 50 million people signed up for the Third Five-Year Plan Loan (issue of the second year).

The success of Soviet loans is also reflected in the fact that the subscription for each newly issued loan invariably exceeds the amount of its issue. The loan for the Defence Fortification of the USSR, issued in 1937 for 4 billion rubles, was placed in the amount of 4932 million rubles. In 1938, the subscription to the Third Five-Year Plan Loan (first year issue) exceeded by 887 million rubles, the amount of the loan (5 billion rubles), as a result of which further subscription to this loan was terminated. In 1940, in a very short period of time, the subscription to the Third Five-Year Plan Loan (third year issue) exceeded the established loan amount by more

than 1.3 billion rubles, reaching 9,311 million rubles, and within 20 days after the issue of the loan, further subscription on it has been discontinued.

During the years of the first five-year plan, the working people of the USSR received in the form of interest and winnings on loans, excluding the cost—redeemable with bond wins, 582 million rubles, and for the years of the second five-year plan—2667 million rubles. If we take into account the cost of redeemed upon payment winnings of bonds, then the size of workers' income from loans will be expressed in the first five-year plan in the amount of 853.8 million rubles, and for the Second Five-Year Plan—in the amount of 4226.3 million rubles.

Funds from loans are used for long-term capital investments in the national economy. During the years of the first five-year plan, receipts from state loans, which were spread among the population, were expressed in the amount of about 5.9 billion rubles, which covered 11.5 percent of the cost of capital investments (51 billion rubles) in the national economy. At the expense of these funds, new factories, factories, state farms, machine and tractor stations were created, broad financial support was provided to collective farms, and huge construction projects were launched, which raised the material and cultural level of the Soviet Union. During the years of the Second Five-Year Plan, receipts from loans placed among the working people amounted to 19 billion rubles, that is, 13.8 percent. the amount of capital investments for the second five-year period (137.5 billion rubles).

In addition, part of the savings and free funds of some state organisations—savings banks, state insurance bodies, and others—will get in the way of state loans. During the years of the second five-year plan, 6.2 billion rubles were received.

Soviet state loans are fundamentally different from those of the capitalist states.

The economic basis for loans of capitalist states is the

market for loan and monetary capital, seeking profitable for them. Fluctuations in stock and bond prices dictate their terms to the state and force it to adapt to these conditions, to spontaneous processes. Loans are the subject of stock market play and speculation. The main holder of loan bonds in the capitalist countries is the parasitic layer of rentiers who live by clipping coupons—at the expense of interest, that is, at the expense of unpaid labour of workers. The pursuit of profit, the desire to get rich at the expense of others is the main motive for buying bonds of capitalist government loans. The patriotic slogans that sometimes accompany the issuance of loans by capitalist states are designed to deceive the petty bourgeoisie, and not to “sober” capitalists, who are ready to be “patriots” only for large profits.

The magnates of finance capital, big bankers and stock traders, lending money to the state, thereby completely subordinate it to their own selfish interests.

Big capitalists dictate to the state the terms of loans (external and internal), which are beneficial for themselves, making colossal profits from operations with loans.

“Financial capital, concentrated in one hand and enjoying a virtual monopoly, takes an enormous and ever-increasing profit from the foundation, from the issue of stock securities, from government loans, etc., bending the rule of financial oligarchies, taxing the whole society with tribute to the monopolists.”¹.

The growth of spending on militarism, on the monstrously inflated apparatus of oppression, compels the capitalist states to resort to new loans at each new expense. And each new loan increases the dependence of states on bankers and stock exchange traders, consolidates the dominance of the financial oligarchy.

Our government loans are based on completely different principles.

¹ V. I. Lenin, *Works*, Vol. XIX, p. 113.

The economic basis of Soviet loans is the growing savings of the working people, the people's savings. In the USSR there is no private ownership of the means of production, there are no bankers and manufacturers, and there is no loan capital either. The Soviet state sells and buys the bonds of its loans at fixed prices, which are not subject to any spontaneous influences. Soviet loans are being developed on the basis of a single national economic plan. Soviet loans are the only genuinely popular loans in the world. In our country of socialism, loans are a national affair—that is why our loans are allocated in an atmosphere of ardent patriotism and enthusiasm of millions of working people.

The bourgeois states issue loans to cover the budget deficits that arise as a result of the colossal expenses for the preparation of imperialist wars, for the maintenance of the entire monstrously increased machine of oppression of the working people (police, gendarmerie, prisons, church, etc.). The unproductive use and use of loans in capitalist countries leads to the fact that the costs and payments on loans are covered by the capitalist state from a single source—tax revenues. With the help of loans, the communist state collects funds for the implementation of so-called emergency expenditures, i.e., mainly military expenditures, in order to later, by increasing the tax burden, shift all these costs to the workers. There is, therefore, a very close connection between the loans and taxes of the capitalist states. Loans are essentially taxes taken several years in advance.

“Since government debts are based on government revenues, which should cover annual interest and other payments, the modern tax system has become a necessary complement to the national credit system. Loans allow the government to cover extraordinary expenses in such a way that the payer does not immediately feel the full burden of the latter, but the same loans require, in the end, tax increases”¹.

¹ K. Marx, *Capital*, vol. I, Marx and Engels, Works, Vol. XVII, pp.

The debts of the capitalist states are associated with unproductive costs and no real values are hidden behind them.

In the Soviet Union, already since 1924, when the monetary reform was successfully completed on the basis of a strengthened national economy, the state budget of the USSR became deficit-free. From year to year, it is performed with an excess of income over expenses. Therefore, our government loans are not a means of covering the budget deficit. Loans from the USSR are an independent regular source of income for the Soviet state.

The development of Soviet loans is not associated with taxes, does not lead to higher taxes. The funds raised by Soviet loans are used productively: for the creation of new material and cultural values, for expanded reproduction, and for strengthening the defence of the socialist country. This means that loans are conducive growth of national income. And this is the source for repayment of loans, for payment of interest and winnings to holders. The state debt of the USSR is secured by the growth of production and the increase in savings.

Loans from capitalist states strengthen the power of capital, the exploitation of the working people inside the country and are an instrument for pursuing an imperialist, predatory policy outside. Foreign loans of capitalist states are aimed at enslaving colonies and backward countries, at squeezing out super-profits, at suppressing revolutionary movements.

An example is tsarist Russia, which was financially dependent on Western European capitalist states (England, France). By providing loans to the tsarist government, European capital supported its military ally and at the same time received large profits in the form of interest on loans and profits on capital invested in industrial enterprises and

banks. Tsarist Russia was forced to pay only interest on foreign loans from 600 to 700 million gold rubles annually. Payment of this interest, as well as the increasing burden of the amount of public debt entailed new loans, creating an ever larger ball of debt. This expressed the financial dependence of tsarism on Western European capital, connected with the dependence of the military and political European capital, interested in suppressing the revolutionary actions of the proletariat of Russia, provided loans to the tsarist government, saved the autocracy from collapse. In the article: "European capital and autocracy", written in 1905, V. I. Lenin noted that "... European capital saves the Russian autocracy. Without foreign loans, it could not have held." And further:

"What is happening before us is what may be called the speculation of the international bourgeoisie to save Russia from the revolution and tsarism from complete collapse."¹. A two-billion-dollar loan received by Narskaya Russia from the French bourgeoisie in 1906 helped the tsarist reaction to recover, and tsarism was strengthened at the cost of a new financial enslavement of the country.

The Soviet state does not know onerous loans. The Soviet economy is developing at an unprecedented pace exclusively at the expense of internal resources, without onerous loans from outside. Soviet loans are in line with the nature of the socialist state, which is strengthening its independence and independence.

¹ V. I. Lenin, *Works*, Vol., Pp. 175 and 179.

2. The Structure of Soviet Government Loans

The main type of Soviet government loans are loans placed among the population by subscription with installment payment. In addition, loans are issued that are placed through the sale of bonds for cash.

Loans placed by subscription are predominant in terms of specific weight and importance. These include: loans of the First and Second Five-Year Plan, exchanged in 1936-837, in connection with the conversion, for bonds of the Second Five-Year Plan Loan (issue of the fourth year), as well as those issued: in 1937 the Defence Fortification Loan of the USSR, in 1938 The Third Five-Year Plan Loan (first year graduation), in 1939 the Third Five-Year Plan Loan (second year graduation) and in 1940 the Third Five-Year Plan Loan (third year graduation).

Among the loans placed among the population only for cash is the State Domestic Winning Loan of 1938. Simultaneously with the issue of this loan in 1938, a conversion of state domestic winning loans of 1929, 1930, 1932 and 1935 was carried out; the bonds of these loans were exchanged for the bonds of the 1938 loan.

A special group is made up of loans, in which the free balance of deposits of savings banks, spare capital of State Insurance and some cooperative organisations are placed.

Of the 12 billion rubles of income from loans provided for in the state budget of 1940, 9.2 billion rubles fall on loans distributed among the population, 1.6 billion rubles—on loans in which savings bank funds are placed, and 1.2 billion rubles—for loans purchased by State Insurance and other organisations.

When setting the term for state loans, the Soviet state takes into account the tasks of the national economy at every stage: socialist construction and the achieved level of development of the productive forces and the people's well-

being. The first Soviet loans were very short-term: they were issued for 1—3—5 years. Subsequently, with the creation of a stable base for the further development of state loans, up to 1936, state loans were issued for a period of 10 years.

The rapid growth of the national economy of the USSR and an unprecedented rise in the well-being of the masses as a result of the successful implementation of two Stalinist five-year plans allowed the Soviet state to extend the term of subsequent loans. This fully corresponded to the tasks of socialist construction associated with an increase in the volume of capital work in the national economy. Therefore, since 1936, the Soviet state switched to issuing loans for a period of 20 years (instead of a ten-year period for issuing previous loans). This long-term character of Soviet state loans increases their national economic importance.

The interest rate on the loan determines the cost of the loan for the state, as well as the level of income received by the bondholders. With the development of state loans, in full accordance with the growth of the financial power of the Soviet state and the strengthening of the Soviet ruble, the amount of interest paid on loans decreased. It has now been increased to 4 percent. for loans placed by subscription in installments, and up to 3 percent—on the State Domestic Winning Loan of 1938.

By the form of payment of income, there are interest-bearing, interest-winning, interest-free and win-win loans.

On bonds of interest-bearing loans, their holders receive a fixed annual income in the amount of the interest set on the loan. Interest-bearing loans are loans that pay firm interest on coupons and are also raffled off some amount of wins. On interest-free loans, bondholders will receive all income in the form of winnings, but not all bonds will win, but only part of them. For win-win loans, as well as for interest-free-winning loans, the form of payment of income is winnings, but, unlike interest-free loans, winnings fall on each bond during the term of the loan.

The practice of Soviet loans knows all these varieties.

Second Five-Year Loan (Year Four), Defence Fortification Loan of the USSR, the Third Five-Year Plan Loan (issues: first year, second year and third year) each consists of two issues:

win-win, according to which all income is paid in the form of winnings falling on each bond, and interest, according to to whom all income is paid in the form of coupon interest. The 1938 State Domestic Winning Loan is a winning loan, on which about 23 percent win. the total number of bonds, and the rest will be redeemed at face value upon the expiration of the loan term.

The loan of the Second Five-Year Plan (issue of the fourth year), into which all previously issued massive loans were converted, was issued at 4 percent. annual. In a win-win issue of a loan, there are bonds in denominations of 500, 300, 200, 100, 50, 25 and 10 rubles, and in an interest issue—in denominations of 500, 200, 100 and 25 rubles. The main bond is the 100-ruble bond. Bonds in 500, 300 and 200 rubles are equivalent, respectively, to five, three and two hundred-ruble bonds, and bonds of 50, 25 and 10 rubles are the corresponding parts ($1/2$, $1/4$, $1/10$) of a hundred-ruble bond.

The win-win issue will produce 80 winnings over a 20-year loan period, 4 draws per year. The winnings are set at 3000, 1000, 500, 200 and 150 rubles. per hundred-ruble bond, including the face value of bonds (100 rubles). Interest-bearing bond income is paid once a year, commencing September 1, 1937, for each year that has elapsed since the date of the loan.

Both issues of the loan—win-win and interest-bearing—are divided into categories of 100 million rubles in everyone. Each win-win issue category consists of 20,000 series and 50 bond numbers in each series. Each bit of percentage release consists of 100,000 series with 10 bond numbers in each series.

The USSR Defence Fortification Loan was issued on the same terms as the Second Five-Year Plan Loan (fourth year issue). It only contains no bonds worth 300 rubles. In addition, unlike the Second Five-Year Loan (the fourth year issue),

each category of the interest issue of the USSR Defence Fortification Loan consists of 20,000 series of 50 bond numbers in each series. The coupons of the interest bearing bonds of this loan are due on October 1 of each year, commencing on October 1, 1938.

A distinctive feature of the Third Five-Year Plan Loan (first year issue) and the Third Five-Year Plan Loan (second year issue) is a different than in previous loans, the distribution of winnings by years of loan circulation. For these loans, in the first years after their issue, more winnings are drawn than in the same period for previous loans. On the interest bearing bonds of these loans, coupons are due on December 1 of each year: from December 1, 1989, on the Third Five-Year Plan Loan (first year issue) and from December 1, 1940, on the Third Five-Year Plan Loan (second year issue).

All four loans—the Second Five-Year Plan Loan (fourth year issue), the USSR Defence Fortification Loan, the Third Five-Year Plan Loan (first year issue), and the Third Five-Year Plan Loan (second year issue)—have continuing series numbering. So, a win-win issue of the Second Five-Year Loan (issue of the fourth year) has series numbers from No. 1 to No. 20000, the Loan for Strengthening the Defence of the USSR—from No. 20001 to No. 40000, the Loan of the Third Five-Year Plan (issue of the first year)—from No. 40001 to No. 60000 and the Loan of the Third Five-Year Plan (issue of the second year)—from 60001 to No. 80000. Similarly, series of interest-bearing issues are numbered: in the Second Loan! Five-year plans (fourth year graduation)—from No. 1 to No. 100000, in the Loan of Fortification Defence of the USSR—No. 100001 to No. 120000, in the Third Five-Year Plan Loan (first year issue)—from No. 120001 to No. 140,000 and in the Third Five-Year Plan Loan (second year issue)—from No. 140001 to 160000.

This numbering of the series of loans allows in the future combine the circulation of winnings on all these loans and makes it easier for holders to check the bonds against the

pay tables.

The conditions of the State Domestic Winning Loan of 1938 differ significantly from the conditions. loans placed by subscription. This loan was issued in 3 percent, has not two, but only one issue and is such a winning loan in which not all the Bonds win, but only a part of them. The loan consists of bonds of 200, 100 and 50 rubles, with the main bond being a 200-ruble bond, and bonds with denominations of 100 and 50 rubles are, respectively, half or one fourth of the 200-ruble bond. Loan winnings are set at 25,000, 10,000, 5,000, 1,000 and 400 rubles. Over 20 years, 120 draws of winnings will be produced, 6 draws per year. The loan was issued in three categories of 600 million rubles each. The loan category consists of 15,000 series of 40 bond numbers in each: series.

Receipts from government loans, minus the amount of redeemed (redeemed) bonds, find their final expression in the state debt of the USSR. In accordance with the difference in the sources of funds accumulated by loans, the state debt is divided into two parts: 1) the debt to the population and 2) the debt to the organisations of the socialised economy. The debt to the public consists of the capital amount and the current debt, which includes unclaimed interest and winnings.

The size and structure of the state debt of the USSR can be seen from the following data (in million rubles):

The size and structure of the state debt of the USSR

	Population			At institutions and organisations		
	Total	including		Total	Including	
		Workers and employees	Farmers		save cash registers	Total
On October 1, 1928	411	152	108	833	290	1244
" January 1, 1933	5443	3766	1271	4329	1287	9772
" January 1, 1938	20934	15992	3900	7611	4653	28545
" January 1, 1939	25833	19961	4562	9737	6203	35570

The growth of public debt in the first and second five-year plans testifies to the large role that loans played in financing the national economy. The public debt to the population, as can be seen from the table, is more than 2/3 of the total public debt. Increase in the share of savings banks in government debt socialised economy is associated with the rapid growth of deposits in savings banks, which is the result of rising incomes of the population of the USSR.

The state debt of the USSR does not burden the state budget. It can be repaid with one increase in the income of the state budget for one year. Withdrawal of interest, winnings and redemption of bonds take only 1-2 pr. the amount of the state budget. In the capitalist countries, however, the public debt is 3 to 10 times the annual amount of the state budget, and borrowing costs annually take 80 to 170 percent of the entire budget.

3. Organisation of Placement and Repayment of State Loans in the USSR

By issuing a loan, the state assumes a certain obligation. The issue of a loan in the USSR is an event of national importance. In government decrees on the release the loan determines the purpose of the loan and contains all the basic conditions of the loan: the term of the loan, the nature and amount of income on the bonds of the loan, loan benefits, etc. are established. At the same time, the People's Commissariat of Finance of the USSR; with the approval of the government, detailed "conditions for issuing a loan" are issued, which establish: the denomination of bonds, division into categories and series, size and number of winnings,

schedule of winnings, terms and procedure for loan repayment, deadlines for obtaining income from a loan, etc. In addition, the USSR People's Commissariat for Finance issues special instructions for each loan that determine the conditions and the procedure for placing a loan in the city and in the countryside.

The graduation amount of the loan is determined in accordance with the tasks of the national economic plan, taking into account the growth in the material and cultural level of the working people and the results of the placement of previous loans.

In the Soviet Union, the implementation of massive loans usually gives a large excess of the graduation amount, which indicates a systematic increase in the well-being and political activity of workers, as well as an increase in patriotism and moral and political unity of the people of the Soviet Union.

The main form of placement of Soviet bonds is the subscription of workers with payment by installments for the bonds purchased. The duration of the installment plan is usually set at 10 months. Each miner participates in a collective subscription to a loan on a strictly voluntary basis.

Workers and employees—members of the collective subscription—give, when subscribing, an order to the accounting department of their enterprise or institution to withhold loan contributions from their wages. On the basis of these orders, loan installments are withheld in equal installments on each payroll.

Collective farmers and peasants—individual peasants pay for their subscription for a loan in cash through the special commissioners of the village councils.

Loan bonds are awarded to subscribers upon payment of the final subscription installment.

Placement of a loan is a large public affair conducted by financial authorities and savings banks with the assistance of the whole public.

Subscription to a loan is preceded by mass agitation, extensive explanatory work among the working people about the goals and conditions of the loan. And what the wider the scope of this massively—explanatory work, the more successful the placement of the loan proceeds.

Repayment of a loan means the redemption of loan bonds by the state at their nominal (indicated on the bonds) price. Bonds of a non-winning issue are redeemed together with the payment of winnings on them, since the winnings are set in such a way that they include the cost of bonds; the bond that falls on winnings are redeemed and excluded from further draws. Consequently, the circulation of winnings on win-win issues of loans is at the same time the circulation of their repayment. Interest-bearing bonds are redeemed by means of special redemption runs.

Conducting draws of winnings is one of the most effective methods of campaigning for government loans. They are held at various points in the USSR, with the participation of representatives from workers and employees, from public organisations. This mobilises the attention of the broad working masses to the circulation, which thus becomes under the control of the public. The results of the draws (tables) of winnings) are published in newspapers and in individual official publications.

Every borrower has the right to receive savings banks secured bonds a loan in the amount of 30 percent cost pledged bonds for up to 6 months. Loans are charged $\frac{1}{2}$ percent per month for the first 6 months and 1 percent for each subsequent month. When accepting

bonds as collateral, the savings banks issue the owner of the bonds with a registered collateral receipt.

In connection with the establishment of unhindered issuance of loans secured by bonds of loans placed among the population in the form of collective subscription, the purchase of bonds of these loans by the savings banks (the Second Five-Year Plan Loan, the USSR Defence Strengthening Loan and the Third Nyatiletka Loan) is not made. Loans are issued on the same terms and secured by bonds of the Internal Winning Loan 1938, but, unlike the above loans, bonds of this loan without any restrictions are bought by savings banks at their face value.

The bonds of all loans are subject to the right of inheritance and donation without any restrictions. Loan bonds and income from them are completely exempt from state and local taxes and duties.

4. Savings Banks and their Importance in the Economy of the USSR

The development of the work of savings banks in the USSR is based on the continuously growing material and cultural level of the country's population, which is a direct result of the Great October Socialist Revolution and the building of a socialist society.

Among the most important indicators of raising the material and cultural level of the working people is the growth of the monetary incomes of the population of the country (wages of workers and employees, monetary incomes of collective farmers, pensions, scholarships, income from state loans, etc.).

Results of the Second Five-Year Plan for the

development of the national economy of the USSR talk about the rapid growth of monetary incomes of the country's population.

During the years of the second five-year plan, the wages fund of workers and employees throughout the national economy increased 2 1/2 times (by 151 percent), while the number of workers and employees increased over the same years by 18 percent. Collective farmers' cash incomes show the same pattern of rapid growth. The plan for the third five-year plan envisages a further increase in the monetary income of the population. The incomes of workers, peasants and intelligentsia during the years of the third five-year plan will grow by more than one and half times.

The growth of incomes of the population under the conditions of the socialist system, quite understandably, creates the preconditions for the growth of monetary savings in the form of money deposited by the savings banks. The Stalinist Constitution guarantees the protection of the rights of citizens of the USSR to their labour income and savings. Savings business in the USSR is by the method of organising national savings. Its essence lies in attracting and storing free funds of the population in state labour savings banks and providing them to the state budget to finance socialist construction.

Thus, the growth of deposits in Soviet savings banks serves as one of the indicators of the rise in the well-being of the population and creates an additional source of financing for the socialist construction.

The main task of the savings banks is the task of attracting free funds of the population for the needs of socialist construction through deposits in savings banks and government loans.

This is inextricably linked with the duties of savings banks to service depositors (in particular, through cash services to the personal budgets of workers) and holders of government bonds.

The success of savings banks in organising and accumulating money savings of the population primarily depends on the service of savings banks to their depositors. Savings banks must be properly organised of all my work to demonstrate in practice all the advantages of keeping money in savings banks.

By organising and carrying out the storage of free funds, savings banks accelerate the turnover of funds, provide the possibility of their use for financing and lending to the national economy. This is achieved primarily by the fact that the circulating cash of the savings bank (that is, funds that must be constantly in a mobile state to ensure the smooth issuance of money at the request of depositors) is placed on the current account at the State Bank. This strengthens the latter's resources and, therefore, allows him to expand his lending operations. On the other hand, the expansion of operations to attract deposits is accompanied by an increase in a constant, stable (i.e., not decreasing over a long period) balance of deposits. The size of this balance increases along with the increase in the average size of deposits per depositor and the lengthening of the period during which the depositor leaves the savings bank keeps your money. Stable balance of deposits can be used for long-term investments¹. Thus, savings banks

¹ To determine the average annual stable balance of deposits, the balances of deposits at the beginning of each month and at the beginning of the year are summed up and the result obtained is divided by the number of summed balances (13). This eliminates

turn part of free funds and short-term investments of the population in sustainable (stable) savings, not in the least delaying the return of deposits at the first request of depositors. Savings banks place this stable balance of deposits in government bonds loans.

The successful implementation of the first and second Stalinist five-year plans and the resulting rise in the material and cultural level of the working people, the growth of the population’s monetary incomes were reflected in a large increase in deposits in savings banks and an increase in the average size of a deposit per depositor. Of particular importance for the growth of deposits was the increase in the incomes of the working people associated with the development of the Stakhanov movement, with the growth of the prosperity of workers and collective farmers.

The increase in household deposits in 1933-1939 are characterised by the following table:

	1933	1934	1935	1936	1937	1938	1939	1940
The balance of deposits on January 1 (mln. Rubles)	974	1182	1638	2461	3539	4515	6061	7057
Inflow of deposits for the year (mln. Rubles)	208	456	823	1078	976	1546	996	—
In % to								

the influence of random and seasonal moments that affect the change in the total amount and the average size of deposits.

the
balance
of
deposits
at the
beginning
of the
year

21,3 38,6 50,2 43,8 27,4 34,2 16,4 —

The average size of the deposit per one depositor is also constantly growing. From 40 rubles by the beginning of the second five-year plan, it had grown to 418 rubles by January 1, 1940, i.e. increased more than 10 times. The average size of the deposit is even higher in large cities of the USSR: for example, in Moscow it is 334 rubles, in Leningrad —602 rubles, in Kiev—630 rubles etc.

Fundamental, fundamental differences between the Soviet socialist state and the exploiting state of the capitalists and the landowners, between the socialist economic system and the capitalist economic system determine the fundamental, fundamental features of the savings business in the USSR: Soviet savings Zhassy contribute to the growth of the national wealth and an increase in the material and cultural level of the working people. Savings banks in capitalist countries are an instrument of capital and are used to enhance the exploitation of the working people.

V. I. Lenin wrote about the role of savings banks in the period of imperialism:

“Paying 4 and 4 ¼ % on deposits, savings banks are forced to look for a” profitable “investment for their capital, to engage in promissory notes, hypothetical and other transactions. The boundaries between banks and savings banks are “increasingly blurred”¹

Between banks, on the one hand, and savings banks, on the other, there is a kind of division of labour and a kind of competition. The peculiarity of savings banks in comparison

¹ V. I. Lenin, *Works*, Vol. XIX, p. 99.

with banks is that they are "... more "decentralised", that is, capture in the circle of their influence a larger number of localities, a larger number of provinces, wider circles of the population"².

Savings banks accumulate billions of dollars in capital, which are controlled by the same tycoons of banking capital. Capitalist savings banks thus increase the power of capital over the working people.

Under capitalism, the masses of the people, crushed by the oppression of want and exploitation, are unable to save. This applies primarily to the workers, whose wages under capitalism provide them with only a half-starved existence and most of whom (not to mention the army of the unemployed) are therefore unable to accumulate. Characterising the activities of the savings banks in pre-revolutionary Russia on the basis of official data, V. I. Lenin wrote that only a sixth, approximately, part of the Russian factory workers had the opportunity to make at least the most insignificant contributions to savings banks, and these contributions meant, in the main, not real savings, but temporarily deferred amounts.

The contributions of workers in capitalist countries are forced. Poverty and unemployment, uncertainty about the future force workers to "save" for a rainy day, cutting their own income, already insignificant expenses. Marx characterized capitalist savings banks as a golden chain, "... on which the government holds a significant part of the working class"³. Increase in the number of such small depositors is an indicator of the growth of poverty and insecurity. The main contributors of capitalist savings banks, with the largest deposits, are: landowners and kulaks, merchants, clergy, officials, officers, etc. In the hands of these strata of capitalist society are the overwhelming majority of deposits. "Their deposits in savings: tills are

² Ibid.

³ K. Marx and F. Engels, *Works*, vol. V, p. 546

driven by aspiration”, to secure an idle life at the expense of interest.

The contributors of the Soviet savings banks are the working people of cities and villages: workers, office workers, and the Soviet intelligentsia.

Contributions to Soviet savings banks represent the real savings of the working people. Already when considering the function of the Soviet money as an instrument of saving, the special nature of savings in the USSR, in contrast to the capitalist countries, was emphasised. Deposit growth in the savings banks of the USSR is one of the striking indicators of the growing material and cultural level of the working people.

“One of the indicators of the rise in the well-being of the population can be such a fact as the increase in deposits in savings banks from 1 billion to 4.5 billion rubles”¹.

The working people of the USSR contribute their free money to the savings banks not only because I guarantee the latter they are completely safe and pay interest on deposits: the greatest incentive is the desire of depositors to help the Soviet state with their savings in building socialism.

As V. I. Lenin pointed out about the capital of the tsarist savings banks, “In Russia, this capital, first of all, strengthens the might of the military and police-bourgeois state. The tsarist government... disposes of these capitals as uncontrollably as everything else that falls into its “hands of the property of the people.”²

The savings banks of the USSR, organising and accumulating the savings of the working people, direct them through the state budget to finance the national economy, contribute to the growth of the national wealth, socialist property, and consequently, an increase in the material and cultural standard of living of the population. This explains

¹ V. Molotov, *Report at the XXIII. Congress of the CPSU (b), Verbatim Report*, p. 286.

² V. I. Lenin, *Works*, Vol. No., pp. 61-62.

the direct interest of the working people of the USSR in the development and strengthening of savings banks.

5. Operations of Soviet Savings Banks

Savings banks perform the following main operations: 1) deposit, 2) government loans, 8) cash services to the population (giro operations, transfers, letters of credit), 4) commissions. The main among them in terms of their importance and specific weight are deposit and loan operations.

The organisation of the inflow of deposits is the main task of the non-regulatory cash registers. Depending on the source of funds, deposits of savings banks are divided into: 1) deposits of the population and 2) deposits of institutions: and organisations. The predominant value of household deposits in the total amount of funds accumulated by savings banks can be seen from the following data:

	1934	1936	1938	1940
Balance of deposits as of January 1 (million rubles)	1529	2715	4719	7264
Including:				
a) population	1182	2461	4515	7264
b) institutions and organisations	347	254	204	207
Specific gravity (in %)				
a) deposits of the population	77,3	90,6	95,7	97,1
b) deposits of the institution and organisations	22,7	9,4	4,3	2,9

Operations on deposits of the population are built in such a way as to provide maximum convenience for the population, to serve depositors as quickly and culturally as possible.

Deposits of the population are divided into deposits: a)

on demand and b) urgent. On demand deposits, the depositor can at any time receive part of the deposit or all of his contribution. Term deposits differ from demand deposits in that they are made by depositors for a period of at least 6 months. A term deposit is beneficial to the population, as it brings an increased interest rate. A fixed-term deposit is also beneficial to the state, since it is precisely known for how long the depositor deposits money, i.e. for how long the state can freely dispose of it.

The main document that draws up a deposit transaction is a savings book, handed out to the depositor. It records all operations on the deposit (receipt, withdrawal, transfer of funds). It enables the depositor to establish the balance of his deposit and the movement of savings. Savings books can be either registered (the most common form); and bearer, that is, without specifying the person to whom it was issued.

By depositing his funds into the savings bank, the depositor can open a current account in his name. In this case, instead of a savings book, he receives a checkbook. The depositor can write a check (or order) to the savings bank for the payment of a particular amount (within the deposited amount) to the bearer of the check, therefore, can settle accounts with any persons and organisations by bank transfer.

Savings banks are also responsible for carrying out operations on government loans and servicing owners of the government bonds. Savings banks carry out all operations for the placement of loans among the population, subscribe, organise the collection of subscription contributions. Savings banks pay bondholders loan income, issue loans secured by bonds, accept loan bonds: for safekeeping. The savings banks are entrusted with the important and responsible work on the registration of all payments on loans between the Soviet state and multimillion dollar loan holders, as well as reference work on loans.

Savings banks provide cash services for personal budgets of workers. This applies to workers who are savings bank depositors; on behalf of depositors, savings banks carry out

transfer and letter of credit transactions, as well as non-cash payments for utility bills, etc.

At the request of the depositor, the savings bank transfers his deposit to another savings bank for storage or for issuance in cash to the person to whom the transfer was made. Bearer transfers are not accepted. Savings banks also accept money for crediting them to the accounts of depositors of other savings banks. Money transfers carried out by savings banks are necessarily associated with the movement of the deposit, its transfer to the account of another cash office, or an increase in the deposit. Savings banks do not make transfers of cash for issuance in cash.

Savings banks also carry out letters of credit. The essence of the letter of credit operation is to provide the population with a reliable and convenient use of money on the way—when moving from city to city, on a business trip, on vacation, when traveling to resorts or rest homes, etc. Instead of transporting cash, each citizen can deposit them in the savings bank for a letter of credit, which is a registered document, upon presentation of which one can receive the money deposited on the accredited at any savings bank. At the request of the depositor, the amount of the already made deposit can be transferred to the letter of credit, and, on the other hand, the money received under the letter of credit can be deposited into the savings bank in the form of a deposit on the savings book. The letter of credit itself can, in essence, be regarded as a kind of deposit for which money can be get in any savings bank.

Among the operations on cash services to the population, non-cash transactions for payments by the population for utilities (for an apartment, gas, telephone, electricity), in other words, fat operations, are of great importance. The essence of fat operation is as follows. Wanting to pay for an apartment or electricity, a worker who has a deposit in the savings bank sends by mail an order to his savings bank (endorsement) to write off the required amount from his account to the recipient's account. Sberbank makes the

corresponding transfers. The whole transaction, therefore, takes place without payment of cash, by way of entries in the books. Fat operations give great saving time for workers, eliminating the need to personally apply to the cashier each time to receive payments for utilities services. Non-cash transactions reduce the need for turnover in money, which contributes to the strengthening of money circulation. It should be noted that fat surgery has not yet become widespread.

Commission operations are performed by savings banks on behalf of other organisations. These include: 1) receiving funds from collectors of membership fees of public organisations for subsequent transfer to the State Bank; 2) payment of personal pensions; 3) payment of money to lines awarded with orders of the USSR; 4) payment of winnings on lotteries of Osoaviakhim, etc.

6. Apparatus For State Loans And Savings Business

As mentioned above, savings banks play an important role in the economic life of the country. In addition to servicing depositors, they are responsible for all the main work on the placement of loans and on servicing the holders of government bonds.

According to their position, composition, number of employees and the range of operations performed, the savings banks of the USSR are divided into: a) central and regional, b) savings banks of I and II categories and c) agencies.

At the head of the entire system of savings banks is the Main Directorate of State Labour Savings Banks and State Credit at the People's Commissariat of Finance of the USSR. Under the People's Commissars of the Union Republics, there are republican departments of the State Labour Savings Bank

and state credit. This is followed by the departments of the savings banks of the autonomous republics, regional and regional departments, combining the activities of savings cash registers within the respective administrative-territorial boundaries.

In all their work, the savings banks rely on help from public organisations and, above all, from the commissions of assistance 'State credit and savings business (komsodov). These commissions are permanent public organisations and have the task of public assistance to the development of government loans and deposits: population in savings banks.

The main functions of the komsodes: 1) subscribing to government loans and control over settlements with subscribers; 2) carrying out collective life insurance; 3) agitation and promotion of loans, savings and collective life insurance; 4) reference and consulting work on loans and savings. Komsomols at enterprises and institutions work under the leadership of factory committee committees, and komsodes in collective farms work under the leadership of collective farm boards. To unite the work of grassroots komsodes, commissions for assistance were organised under rural and district executive committees.

The nefarious subversive activities of the enemies of the people who made their way to the leadership of the People's Commissariat for Finance had a special effect on the state of the network of savings banks. First of all, the enemies of the people have reduced the network of state savings banks. In 1935-1936 over 16 thousand savings banks were closed, that is, about half of the entire network.

Dastardly spies and saboteurs, agents of foreign intelligence, who made their way to the leadership of financial agencies and savings banks, did a lot of harm and mischief in such an important area of the socialist construction, which are the Soviet savings banks. To embitter and alienate the working people from using the savings banks, to ruin them. Soviet financial economy — these are the goals that these vile enemies of the people set for themselves.

In order to eliminate the consequences of sabotage in 1931-1938, the network of savings banks was revised and expanded from the point of view of their correct distribution between the city and the countryside and between individual districts, taking into account the district economy, density and composition of the population; the work on the selection and training of personnel in the entire system of savings banks has intensified. By January 1, 1939, the USSR already had one over 26 thousand savings banks. In 1939, more than 11 thousand new savings banks were opened, mainly in rural areas.

In 1940, it was proposed to open another 4 thousand savings banks.

Complete elimination of the consequences of sabotage is one of the most important tasks facing all employees of savings banks and financial authorities.

Far from everything has been done in this area.

The next challenge is to establish cultural services for depositors and holders of government bonds, loans, expel from savings banks all traces of bureaucracy and bureaucratic attitude to business, establish accounting and reporting and not allow any abuse in the work of savings banks.

CHAPTER XII. STATE INSURANCE IN THE USSR

1. The Essence and Significance of the Soviet State Insurance

The need to ensure the continuity and continuity of the process of expanded socialist production requires the creation of state reserves. Even Marx, in his Critique of the Gotha Program, outlining the scheme of distribution of the social product in the socialist economy, pointed out the need to separate a special reserve or insurance fund from the aggregate social product.

In the economy of the USSR, the need for reserve funds is also caused by the presence of an external capitalist encirclement, an increase in aggressive tendencies of imperialism against the USSR and the tasks of ensuring the needs of the country's defence. Inasmuch as money is needed in the socialist economy and a monetary economy is maintained, reserve funds are formed in the USSR in kind and in monetary form. This chapter is not intended to cover the question of reserves in general. Here only the question of the formation and use of special monetary insurance reserves in connection with the possibility of natural disasters and accidents is considered.

The process of expanded socialist reproduction can be disrupted by the intervention of such destructive forces as unusual natural phenomena, natural disasters (droughts, soaks, freezing, epidemics, fires, floods, etc.) and accidents that lead to the destruction and reduction of part of the productive forces of society. It is clear that losses from natural disasters in the USSR relatively smaller than in capitalist countries. For example, large-scale socialist agriculture, directly planned by the socialist state, is incomparably more protected from the effects of drought

than the scattered, fragmented small-scale peasant economy of the capitalist countries.

Along with general economic measures aimed at preventing severe consequences from the action of a natural disaster through a whole system of special measures, socialist society: a) prevents or prevents the onset of such natural disasters and accidents (takes so-called preventive measures, for example, develops fire-resistant construction, produces anti-epidemic vaccinations, etc.); b) is fighting natural disasters and accidents in order to elimination and reduction of their destructive consequences (takes the so-called measures of “repression”, for example, organises fire-fighters teams, teams to combat epidemics, etc.); c) compensates for damage caused by natural disasters and accidents. The resources required for such a refund can only be obtained from aggregate social product, and money for this purpose is only from a special reserve or insurance fund.

Under the conditions of self-financing, the damage caused by natural disasters must be compensated not only for the entire national economy as a whole, but also for each individual self-supporting organisation. From this, however, it does not at all follow that it is advisable and possible to accumulate insurance reserves by each self-supporting organisation separately. A separate farm, while accumulating a reserve in case of a natural disaster, may not have at its disposal sufficient time for this purpose; in this regard, the possibility of a natural disaster onset before the reserve reaches the required size is not excluded. Finally, and this is especially important, the creation of reserve funds in such amounts that would guarantee full compensation for damage at any time and in relation to the entire aggregate of the means of production, for an individual economy is simply unbearable. In view of this, the insurance fund is created in a centralised manner; this ensures recovery of losses from natural disasters for the entire mass of farms and makes it possible to organise the prevention of natural disasters, etc. fight against them, which significantly reduces the risk of

occurrence and the impact of these disasters.

The insurance fund for the above Purposes is not created by directly separating it from the aggregate social product, but is formed primarily as a monetary fund from special insurance premiums of individual enterprises, organisations and farms, that is, by the method of redistributing part of their income. This task is carried out by the state insurance system is a method of creating a centralised reserve fund of funds to compensate for losses in the national economy from natural disasters and accidents and to facilitate the implementation of measures to prevent natural disasters and combating them in order to ensure the uninterrupted progress of expanded socialist reproduction.

In the socialist economic system, the centralised insurance fund is a national property. Therefore, insurance in the USSR is built as state insurance, and its organisation is the competence of the highest authorities of the USSR. Insurance in the USSR, built on the basis of a state monopoly, is carried out by a single state organisation—the Main Directorate of State Insurance of the USSR (Gosstrakh), which is under the jurisdiction of the People's Commissar of Finances of the USSR.

The state insurance covers the farms of collective farms, public organisations, collective farmers, individual peasants, handicraftsmen and artisans, workers and employees. As for state enterprises and organisations, then state insurance: applies only to certain types of them (public housing stock of institutions and enterprises, leased to private persons, etc.). Basically, the losses of the state economy from natural disasters are reimbursed from the reserve funds formed directly from the state budget of the USSR (without the formation of a special fund).

The Soviet state insurance not only compensates for damage caused by natural disasters and accidents, but also carries out extensive work to prevent and combat natural disasters. It is used as one of the active levers of economic policy of the Soviet state. It contributes in every way to the

growth of the productive forces of agriculture, the development of collective farm production and organisational and economic strengthening collective farms. The system of benefits and discounts on insurance payments stimulates the development of the most important branches of agriculture, an increase in its marketability, an increase in yields, the spread of industrial and special crops, the implementation of state plans for crops and the development of animal husbandry. At the same time, Soviet state insurance promotes the introduction of socialist labour discipline, stimulates a careful attitude towards public socialist property (for losses incurred as a result of mismanagement, negligence and insufficient protection of property are not reimbursed).

Carrying out the accumulation of the insurance fund and compensation for losses, state insurance performs redistribution functions in the interests of the socialist economy as a whole. The nature of the redistribution of funds is most vividly reflected in the differentiation for various categories of farms in insurance payments, benefits and the amount of compensation for losses. For example, collective farms enjoy special advantages in insurance in agriculture; with the lowest insurance premiums and significant benefits, collective farms receive the most complete compensation for losses.

State insurance redistributes funds between territories, regions and districts. This reallocation of funds is reflected in the fact that insurance payments for individual regions are not differentiated in proportion to losses, but taking into account the economic strength of the regions and the need to provide support to less powerful and more prone to natural disasters. At the same time, compensation for losses is not made in accordance with the contributions of individual regions, but from a fund made up of funds mobilised throughout the territory of the USSR.

As a method of redistributing monetary resources, insurance at the same time differs sharply from other

methods of redistribution. The fact is that the funds accumulated by the State Insurance have a strictly targeted purpose: the creation of an insurance fund to compensate for losses caused to the national economy by natural disasters, to prevent these disasters and to combat them. The rest of the methods of redistributing the national income, as a rule, set as their task the accumulation of the general fund of state resources. It goes without saying that unused insurance reserves (savings) serve as a source of financing for the socialist economy generally. And this is also their great significance. Then, in the field of state insurance, there is a kind of repayment of accumulated funds in the form of a direct obligation of insurance authorities to reimburse insured farms for losses from natural disasters. The specific feature of this repayment is, first of all, that all payments of the insured lose their individual character and are depersonalised in the total mass of insurance receipts. From these receipts, in addition to direct reimbursement to insured farms of losses from natural disasters, general measures are taken to prevent and combat natural disasters, and reserve funds are formed. The obligations of the State Insurance to compensate for losses apply to all insured, but they are carried out only in relation to those farms that have suffered from natural disasters, and the amount of compensation for losses is not related to the total amount of payments made by these farms.

This circumstance distinguishes insurance from government loans and from deposits in savings banks, where the return of the mobilised funds is provided unconditionally to each separately depositor of the savings bank and the holder of loan bonds in the full amount of the deposit or the cost of bonds.

Soviet state insurance is fundamentally different in its class character, organisation and tasks from capitalist insurance.

The capitalist insurance is spontaneous, unplanned. Typically, insurance companies in bourgeois states are

private capitalist (joint-stock) enterprises. If in some countries there are state insurance organisations, then this circumstance does not in the least change the essence of the matter, since itself the bourgeois state is only a committee managing the general affairs of the entire bourgeois class. The main goal of capitalist insurance companies is not to carry out in the interests of the working people any measures to prevent and combat natural disasters, but only to to maximise your profits. To this end, they organise accurate accounting of the dynamics of natural disasters and keep insurance rates at a level that would guarantee them the greatest profit. The desire to maintain high profits is clearly expressed in the creation of all kinds of tariff associations, fighting against the reduction of tariffs. The general task of capitalist insurance is to protect private ownership of the means of production. At the same time, the class nature of insurance is clearly reflected in the composition of the insured, on the tariff policy and on the terms of compensation for losses. Joint-stock companies prefer to take for insurance the property of large owners, which is better secured against natural disasters, providing such owners with special tariff and other benefits by increasing payments of small insurers. Thus, capitalist insurance is a means of additional exploitation of small farms using its services. The source of the formation of insurance capital and the profits of insurance companies is surplus value. Capitalist insurance is one of the ways of dividing surplus value between capitalists. In the capitalist economy, damage and destruction of insured property are often encountered in order to obtain insurance amounts, especially if the property is insured in an amount exceeding its value.

Soviet insurance is state insurance, it is carried out in a planned manner on the basis of a unified state national economic plan and closely combines the restoration of damage caused by natural disasters with measures to prevent these disasters and combat them. The insurance is available for all farms covered by it. Soviet state insurance contributes

in every way to a careful attitude towards socialist property.

2. Types and Forms of the Soviet State Insurance

All existing types of state insurance can be classified according to the following criteria: by subjects of insurance, by objects of insurance and their composition, by types of natural disasters (against the consequences of which insurance is provided) and by the form of insurance¹. Organisations of the socialist economy (state, cooperative collective farm, public organisations), workers, employees, collective farmers, individual farmers, artisans and other citizens can act as the subject of insurance or the insured.

Depending on the objects of insurance, it is divided into property and personal insurance. The first includes all types of insurance, where the object of insurance is property, and the purpose is to compensate for losses from its death or damage caused by natural disasters. Personal insurance includes those types of insurance in which the object of insurance is a person, and a certain amount is paid in the event of the death of the insured or his disability.

In order to ensure the main elements of the reproduction process from the consequences of natural disasters, it is divided into: *insurance of buildings, enterprises and material assets, insurance of farm animals (working, cattle and small livestock), insurance of agricultural crops, insurance of vehicles (means of transport and transported goods) and home property insurance.*

The nature of natural disasters, from the consequences of which insurance is made, gives grounds for dividing property insurance into the following main types: 1)

¹ See the diagram on page 357.

insurance of enterprises, buildings, inventory and household property against fire (fires, explosions, lightning strikes), floods, earthquakes, avalanches, landslides, downpours, storms and hurricanes, 2) insurance of agricultural crops against hail, downpours, storms and standing fire and especially soaking, freezing, damping, floods, droughts, plant diseases and pests, and 3) insurance of farm animals against death caused by illness, accidents, natural death, or killed by order of veterinary supervision in order to prevent the spread of the epidemic.

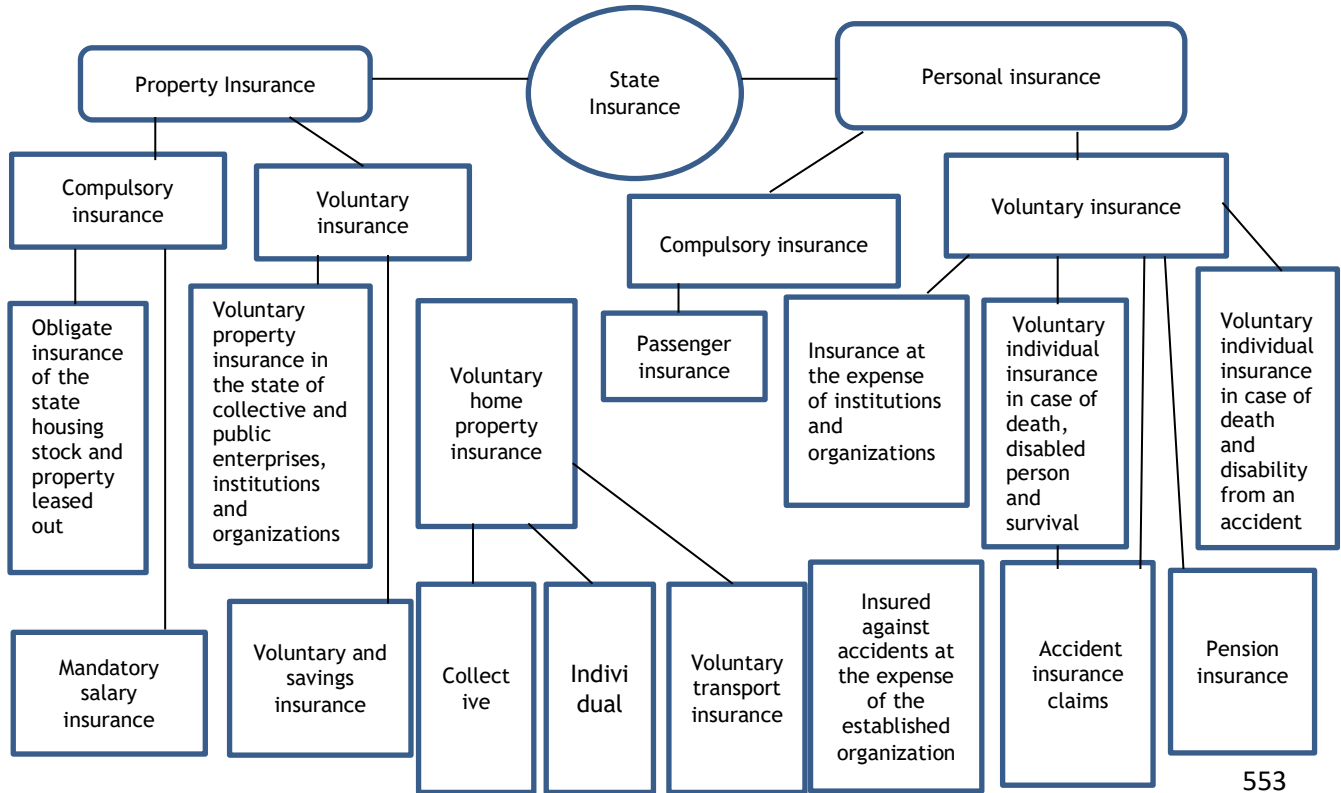
The main type of personal insurance is collective life insurance for workers. Individually concluded life insurance has several subtypes: insurance against death from accidents; insurance in case of death from any cause and in case of disability due to accidents; death, disability and survival insurance; insurance of pensions. Life insurance of accidents is paid by organisations.

Insurance is carried out either by voluntary agreement between the policyholder and the insurer, or in a mandatory manner prescribed by law for a certain range of property and persons. In the latter case, insurance is continuous, massive and covers all objects specified by law. When these objects are present, the insurance applies to the relevant farms automatically, with the imposition of the obligation to make statutory insurance payments. Compulsory insurance (as we will show later) is used as a powerful planned instrument for the protection of socialist property, an instrument for strengthening the socialist economy, developing the country's productive forces and compensating the national economy for damage caused by natural disasters. The compulsory form of insurance is applied in order to induce all farms, without exception, to take the necessary measures to protect themselves from the consequences of natural disasters and thus to ensure the widespread use of measures to prevent and combat these disasters. At the same time, the extensive scope of insurance (the so-called wide insurance field) makes it possible not only to establish generally

accessible rates of insurance payments, but also to completely or partially exempt certain categories of farms from them.

Compulsory property insurance covers losses from natural disasters, usually not at the full value of the property, but only in part, providing a certain minimum of material support that helps a given farm to restore its production process. The size of the insurance fund is determined “depending on the personal strength and resources, partly on the basis of the theory of probability” (Marx). Along with the successes of socialist construction and the growth of the country’s productive forces, the minimum level of compensation for losses is invariably increasing. In order to provide farms with the opportunity to receive full reimbursement of the cost of property lost from natural disasters, as well as to insure certain types of property not covered by compulsory insurance, voluntary property insurance has been organised. All major types of personal insurance (except for insurance of passengers on the way). Voluntary insurance can be concluded either by concluding an agreement with each individual insured (individual insurance), or with a whole group of policyholders (collective insurance).

Types and Forms of State Insurance in the USSR



3. Compulsory Property Insurance

The main type of state property insurance in the USSR is compulsory salary insurance in rural areas and cities. Among other types of insurance, salary insurance ranks first in terms of its political, national economic and financial importance.

“State compulsory insurance of agricultural property, livestock and crops, protecting the farms of collective farms and individual farmers—tomorrow’s collective farmers—from the consequences of fires, deaths and natural disasters, is a powerful tool for strengthening collective farm production and protecting public property”¹.

Compulsory salary insurance, covering all farms without exception in rural areas, is predominantly in nature rural insurance. The total amount of payments for salary insurance, 98 percent are in rural areas. Compulsory salary insurance has been placed entirely at the service of the collective farm system. The salary insurance system has the task of protecting collective farm property, promoting the organisational and economic strengthening of collective farms, socialist education of the collective farm masses, deep instilling the awareness of the need “... to work honestly, divide collective farm income according to labour, protect collective farm goods ...”².

In the salary insurance system, both compulsory and mass, all measures of state insurance for the prevention of natural disasters receive the most vivid and effective expression, for the protection of socialist property, for the promotion of the growth of the country’s productive forces and for the socialist remaking of the small-scale commodity economy.

¹ *From the decree of the Central Committee of the All-Union Communist Party of Bolsheviks dated March 8, 1933 on perversions in the work of insurance in the countryside*, Pravda, 1933, No. 85.

² J. Stalin, *Questions of Leninism*, ed. 10th, p. 530.

Financially, compulsory salary insurance, as already mentioned, is central to: all other types of fucking. Of the total amount of funds mobilised and redistributed by state insurance, the share of compulsory salary insurance accounts for about half.

The range of objects subject to insurance, the list of natural disasters, from the consequences of which insurance is made, and the areas covered by certain types of insurance, are established by all-union legislation. In the same order, and are determined for each union republic. the average amounts in which various types of property are insured, as well as the average rates of insurance payments, the deadlines for their payment and benefits for certain categories of policyholders. The governments of the Union republics have been given the right to differentiate the amounts, rates and terms of payment of insurance payments for individual territories, regions and the USSR, and the SNK of the USSR and krai (oblast) soviets—by rayon¹. Compulsory salary insurance, as a rule, extends to the entire territory of the USSR.

The compulsory salary insurance is subdivided into several different types, depending on the categories of policyholders, the composition of the insured property and the range of natural disasters, against the consequences of which insurance is provided.

Policyholders are divided into three main groups: 1) collective farms, 2) collective farmers, workers, employees and cooperative artisans, 3) individual peasant farms and non-cooperative artisans. For collective farms, higher amounts of compensation for losses incurred by them from natural disasters are established, with lower payments made by them, with the provision of broad benefits. Lower

¹ Salary insurance is currently carried out on the basis of the law on compulsory salary insurance, adopted by the Sixth Session of the Supreme Soviet of the USSR on April 4, 1940.

amounts of payments in comparison with individual farmers are also accepted for collective farms.

The collective farms insure against fire and all other natural disasters (floods, earthquakes, landslides, landslides, storms, rainstorms, lightning strikes, hurricanes) residential and business buildings, inventory, equipment, vehicles, products, raw materials and supplies.

The compulsory insurance on collective farms extends, further, to crops of all agricultural crops, nurseries and crops of orchards, berry and vineyards. Certain types of industrial and special crops (cotton, tobacco, soybeans, rice, castor oil plants, kenaf, hops, etc.) are insured against hail, rainfall, storms, fire, drought, soaking, freezing, damping, frost and flooding. In order to stimulate the fulfillment and overfulfillment of state nasal plans, payments for insurance of winter and spring crops are calculated and collected not from the actual, but from the planned area of crops.

At the same time, the area sown in excess of the plan is insured free of charge, while losses in case of death or damage to crops are reimbursed according to the actual sown area. For all types of crop insurance, losses are reimbursed only for losses in the amount of the crop, while Gosstrakh is not responsible for damage to the quality of products. An exception has been made from this general rule only for insurance against hail damage to orchards, vineyards and berry fields, where losses are compensated not only for the lost crop, but also for a decrease in its quality.

Further, the compulsory insurance on collective farms is subject to the case of death (including the slaughter of livestock by order of the veterinary supervision) all draft animals aged 1 year (breeding—from 6 months), cattle, sheep, goats and pigs aged 6 months.

Finally, on a mandatory basis, fishing collective farms insure against damage and loss of fishing vessels in all seas and largest lakes in which commercial fishing is carried out.

In relation to collective farmers, individual peasant farms, workers and employees and cooperative handicraftsmen,

compulsory insurance covers only buildings belonging to them on the right of personal ownership, field crops of agricultural crops, cattle (aged 6 months), draft animals (aged 1 years) and pigs (from 9 months).

When insuring, a certain amount is provided, within which Gosstrakh is liable to the insured c. cases of death or damage to the insured property, the so-called sum insured or insurance indemnity. In order to combat the intentional destruction of property, it has been established that this amount should not exceed the actual value of the insured property.

When insuring the property of collective farms (buildings, inventory, equipment, vehicles, fishing vessels, products, stocks of raw materials and materials), the insurance indemnity is determined in full the value of the property according to the inventory valuation. When insuring buildings owned by citizens on the basis of the right of personal property, the insurance indemnity is established in the amount of the value of the property according to the assessment, produced by insurance authorities or (in cities) determined by public utilities.

This assessment method, however, is not applicable in relation to mass insurance objects, since it is technically impossible to evaluate each of them separately. In this case, a simplified procedure is applied, namely that each individual object, with its individual characteristics, is not assessed, but instead a normative assessment is applied. The Union-wide law for all homogeneous insurance objects establishes certain group insurance compensation norms (the so-called liability norms), in the amount of which all objects are considered insured this kind of property. These rates are called salary rates, since in accordance with them; the policyholders pay a certain compulsory salary. Hence, compulsory property insurance is called salary insurance. The rates are set either in a certain amount (in rubles) for individual objects insurance (the so-called firm rates), or as a percentage of the estimated amount of property (share

rates). Insurance rates are differentiated by the Union republics, taking into account local economic characteristics, and by the main groups of policyholders¹.

On the basis of these average norms, the Council of People's Commissars of the Union republics establish average norms for the territories and regions, and the latter, norms for the districts. The Council of People's Commissars of the Union republics can specify, based on local conditions, the norms for agricultural insurance. crops and animals, increasing or decreasing them by no more than 20 percent.

With compulsory insurance of buildings, the application of the normative procedure for determining the value of the entire yard as a whole or of its individual buildings would be too rough and inaccurate method. The structure of various holdings may include buildings that are very diverse in their economic purpose, size, internal structure, materials of walls and roofs, quality of building materials, etc. Therefore, in this case, a combined procedure for determining the insurance assessment of each building is applied. The insurance authorities fixed norms for the cost of one cubic meter of buildings typical for a given area for various economic purposes are established, as well as accounting and measurement of buildings are made. If a non-newly erected structure is assessed, then the State Insurance authorities apply a discount for depreciation, taking into account the durability of the building and its quality states.

For property insurance, the policyholder pays to the State Insurance premiums calculated on the basis of special

¹ They fluctuate within the following limits: for grain crops from 1 hectare for collective farms in different republics—from 50 rubles up to 90 rubles, for individual farmers in various republics—from 45 rubles. up to 10 rubles; for cattle and draft animals, insurance compensation is paid everywhere: in the amount of 300 rubles for collective farms and 250 rubles for private households; for sheep and goats—60 and 50 rubles; for pigs—80 and 60 rubles etc.

rates.

The tariff rates applied for insurance (the so-called gross rates) should provide not only compensation for possible losses by the State Insurance to the policyholders. from natural disasters (the so-called net rate); but also all maintenance costs insurance apparatus, the provision of benefits to certain categories of policyholders, the cost of measures to prevent natural disasters, etc.

In order to strengthen the collective farm system, tariffs are differentiated for collective farms, collective farmers and individual farms. Further, individual districts are prone to natural disasters to varying degrees and, at the same time, have unequal economic power. If, when setting tariffs, one proceeds solely from considerations of risk mitigation, then for some areas the payment rates would be unbearable. Therefore, tariffs are structured in such a way that payments are set by district not proportionally to losses, but taking into account the economic power of the district and the need to provide support to less powerful or especially prone to natural disasters¹.

Average tariffs for individual union republics are established by an all-union law. On the basis of these average rates, the Council of People's Commissars of the Union republics determines the rates for the territories and regions,

¹ For example, in the RSFSR for the insurance of buildings, products, raw materials and materials from 100 rubles the sum insured is levied: in rural areas from collective farmers—80 kopecks, from collective farmers—1 rubles, from individual farmers—1 rubles 80 kopecks; in the Uzbek SSR, respectively, 50 kopecks, 70 kopecks. and 1 rubles; in cities, similar figures in all union republics will be 30 kopecks, 50 kopecks... and 50 kopecks; for insurance of cattle in three categories of farms in all union republics—2 rubles, 3 rubles and 5 rubles; for the insurance of agricultural crops against hail, rainstorms, storms and fire-at the root of the RSFSR in collective farms—1 ruble 25 kopecks; in the farms of sole proprietors—2 rubles 50 kopecks, etc.

and the latter approves fixed rates for the regions. The USSR People's Commissariat of Finance was granted the right increase or decrease by no more than 30 percent average rates of payments for insurance of buildings, depending on the fire resistance of buildings, as well as reduce by no more than 50 percent horse insurance payment rates.

The role of state insurance as an active factor in protecting socialist property, strengthening the socialist economy and developing the country's productive forces is clearly reflected in the system of insurance benefits and discounts.

The compulsory insurance makes it possible, as indicated above, in the interests of fulfilling the most important national economic tasks in the field of agriculture, to insure certain types of property without any collection of insurance payments. Losses arising in this case are covered by insurance proceeds from other types of insurance. So, to stimulate the cultivation and preservation of young farm animals, working cattle at the age of one to two years are insured free of charge in all farms soybeans and cattle—6 months to one year old. All over-planned sowing is also insured free of charge.

All other benefits are differentiated by type of farms, with the largest number of them being given to collective farms. Leading farms that overfulfill the state plan for the development of animal husbandry, having the best indicators for the preservation and development of livestock animals receive a discount on payments for insurance of animals in the amount of 25 percent. To encourage collective farms that raise pedigree livestock, a 20% discount on insurance for pedigree animals has been established. In order to stimulate the organisation of commodity farms on collective farms from the socialised livestock they have, a 20 percent discount on insurance payments has been established for the insurance of animals of all types on commercial farms. A good organisation of fire protection and the development of fire-resistant construction are encouraged by a large

discount—up to 50 percent insurance rates for buildings and inventory, equipment, vehicles, raw materials and supplies.

The deadline for the payment of insurance payments is approved by the all-union law so that all payments are made before the beginning of the year for which the insurance is carried out. Payment terms are adjusted to the most convenient time for agriculture (after harvest and sale of the crop). In this regard, the People's Commissariat of Finance of the USSR was given the right to differentiate the timing of payments in individual areas according to their economic conditions.

If the insured property is lost or damaged as a result of a natural disaster, from which insurance is made, then a so-called insured event occurs. At the same time, the obligation of the State Insurance arises to compensate the insured for the losses caused to his property within the limits of the insurance assessment or to pay insurance compensation.

Upon the occurrence of an insured event, the insurance authorities perform the liquidation of losses. Elimination of losses consists in: establishing the fact of a natural disaster from which the insurance was made, in checking insurance documents certifying that this property is insured, in determining the damage to the damaged property, in calculating the amount of losses and amounts of insured compensation, as well as in its payment to the policyholder.

Liquidation of losses should not be carried out "in absentia", but necessarily at the location of the property. In each case loss or damage to the insured property, the liquidation of losses is carried out on the basis of a special act drawn up by the insurance authorities, with the involvement of the veterinary supervision or an agronomist in this case and subject to the general public and publicity¹.

¹ In the event of the death of animals, acts are drawn up by the chairman of the executive committee of the village council or the deputies of the village council authorized by him.

In case of complete destruction or destruction of the insured property, the loss is determined in the amount of the insured amount; in case of partial damage to property, only the corresponding share of this amount is issued. If the property is insured in an amount less than its insurance value, then a system of so-called share security or proportional liability is applied. In the event of complete loss of the insured property in this case the entire insured amount is paid, in case of partial damage, the insurance coverage is calculated from the amount of the insured loss in proportion to the ratio of the insured amount to the insurance estimate.

Compensation for a loss is not made at all if it is the result of obvious mismanagement, gross negligence and sabotage on the part of the policyholders. Therefore, in determining losses, a thorough analysis of the circumstances of the loss of property and verification of the fulfillment by the insured of his obligations to maintain and protect the insured property are of paramount importance. Owners of the insured property must keep it in good order, in strict accordance with agronomic, fire-prevention and veterinary rules and apply all measures depending on them to prevent fires, infection of animals, etc.

Regardless of the onset of natural disasters, insurance authorities systematically check the condition of the insured property in terms of its safety, security and economic relationship to it. In case of non-compliance by the policyholder with the warning rules and disaster management insurance is terminated from now on before putting the farm in order; if mismanagement and sabotage is discovered, the perpetrators are brought to criminal responsibility.

All the most important measures to prevent and combat natural disasters are carried out with the help of the system of mass compulsory salary insurance. Of the gross receipts for this insurance, 15 percent is deducted annually on measures of “prevention” and “repression”. At the expense of these funds, construction and major repairs of veterinary hospitals and outpatient clinics, fire sheds and depots, as well as

enterprises for the production of tiles are carried out; fire equipment is purchased; fire literature is distributed; the best fire brigades are awarded, etc.

Deductions for measures of “prevention” and “repression” are fully transferred with a strictly targeted purpose to the local budgets and budgets of the union republics that do not have regional divisions. Plans and estimates the use of these deductions is drawn up by the land authorities and the fire protection authorities of the NKVD, agreed with the State Insurance and are approved by the regional and regional councils and the Council of People’s Commissars of the union republics that do not have regional divisions.

In addition to salary insurance, property insurance is mandatory in relation to public housing fund and state property in the use of individual citizens or private organisations. Compulsory insurance in this case covers all residential buildings and outbuildings with them, which are under the jurisdiction of state enterprises, organisations and councils of workers’ deputies, as well as buildings and other property belonging to state enterprises and institutions, leased or used on other grounds to individuals or private organisations. State insurance compensates for losses from the death or damage of residential buildings and property from fire, floods, earthquakes, from landslides, landslides, storms, hurricanes, from a lightning strike, explosion of steam boilers, etc.

Rates for this type of insurance are differentiated depending on the type of property (housing stock and state property, leased or used), from the location of the property (in the city or countryside) and from the material of the walls of buildings¹.

¹ For example, when insuring the housing stock, 8 con. from 10 rubles sum insured, from other buildings—15 kopecks; in rural areas 15 and 30 kopecks are charged, respectively.

4. Voluntary Property Insurance

The following types of insurance are carried out on a voluntary basis: a) over-delivery insurance of property insured under compulsory insurance; b) insurance of workers' household property; c) transport insurance; d) insurance of property of institutions that are on the local budget, and enterprises and organisations under their jurisdiction, as well as property of cooperative, professional and public organisations.

By way of voluntary over-budget insurance, collective farms can insure buildings, agricultural and industrial enterprises, equipment, vehicles and implements (except for fishing gear), fishing vessels, crops of special, industrial and leguminous crops, the harvest of orchards, berry fields, vineyards, vegetable gardens and melons, and also farm animals—in case of death or damage from the same natural disasters, as for compulsory insurance.

Buildings, fishing vessels, vehicles, equipment and inventory are insured up to the difference between the inventory valuation and the actual value of the property according to the assessment of insurance authorities, and farm animals—in the amount not exceeding the difference between the compulsory insurance standards and the actual cost at the prices of the collective farm market; agricultural crops, the harvest of orchards, vineyards, vegetable gardens are insured in the amount not exceeding the difference between the total cost of the planned: harvest at procurement prices and at the rates established for compulsory insurance. On collective farms, voluntary insurance also covers bees, breeding birds and queen rabbits according to the standards established by the Council of People's Commissars of the Union republics in agreement with the USSR State Insurance:

Collective farmers, workers, employees, artisans, artisans and individual peasant farms have the right to insure cattle, working cattle, sheep, goats and pigs in the order of

voluntary super-paid insurance¹. Cattle and draft animals insured in the amount not exceeding the difference between the norms for compulsory insurance and state purchase prices. Insurance of sheep, goats and pigs is carried out within the limits of the norms of liability established by the Council of People's Commissars of the Union republics in agreement with the State Insurance. In order to avoid accepting weak and sick animals or property for insurance in an amount exceeding its actual value, insured animals and property must be examined and evaluated by insurance authorities with the participation of specialists (veterinarian, agronomist, technician). Agricultural crops are accepted for insurance according to the planned sowing area.

Insurance premiums for voluntary insurance are levied, by as a general rule, at the tariff rates of compulsory insurance. The liquidation of the loss is carried out in the same manner as for compulsory insurance.

On a voluntary basis, as mentioned above, the property of cooperative, professional and public organisations, as well as institutions that are on the local budget and enterprises and organisations under their control, are also insured against all natural disasters. Creation of special reserves throughout the vast network of local budgets for damages from natural disasters would inevitably lead to an increase in the total volume of these reserves and a freeze of large funds. Therefore, the Soviets of Working People's Deputies are given the right to insure the enterprises and institutions under their jurisdiction in the state insurance bodies. The costs of voluntary insurance of property of institutions that are on the local budget, and their subordinate enterprises and organisations are provided for by the corresponding local budgets. This type of insurance covers all kinds of buildings (except for the housing stock), industrial enterprises,

¹ For individual farms, non-cooperative artisans and artisans, the age of insured animals is limited: for horses—12 years, for cattle—10 years.

equipment, inventory, inventories, vehicles in the period of construction of residential buildings and outbuildings with them, inventory, equipment, fuel, repair and construction materials belonging to house administrations; cattle and crops of agricultural plants, harvest of orchards and vineyards.

Buildings, enterprises, equipment and inventory are accepted for insurance up to their full replacement value or book value without depreciation discount. The sums insured for goods and materials in circulation are determined by the insured. Farm animals and crops, as well as the harvest of orchards and vineyards, are insured under the terms of voluntary overpayment insurance on collective farms.

A special type of voluntary insurance is home property insurance against fire, explosion, lightning, floods, earthquakes, storms, rainstorms, hurricanes, landslides and landslides, as well as against theft and loss of property during a fire or other natural disaster or from death and damage during rescue during a disaster (damage from water, breakdown, etc.). Home property (clothing, linen, shoes, furniture, dishes, musical instruments, books, paintings), agricultural supplies are accepted for insurance. products, fuel, all kinds of vehicles—bicycles, motorcycles, cars, equipment for medical and dental surgeries, etc., belonging to citizens of the Soviet Union, as well as foreign citizens living in the USSR. The responsibility of Gosstrakh also extends to the home poultry and those animals who have not reached the insurance age.

Property can also be insured by pawnshops, thrift stores, transport organisations, laundries, hotels, theatres and other organisations that accept things from individuals for temporary storage, as well as repair and sewing workshops that accept repair and sewing of things from the customer's materials.

Property can be insured in any amount, but not more than its value at state and cooperative prices less depreciation. The value of agricultural products and fuel is

determined at the prices of the collective farm market.

Property insurance is carried out individually and collectively. Insurance of the property of workers, employees and collective farmers in a collective manner is carried out without inspection in the whole enterprise, institution, state farm, MTS, collective farm, industrial cartels or workshops and other production units with the number of people willing to insure the property of at least 20 people. Collective insurance can also be concluded at the place of residence, at the houses with the number of apartment owners who want to insure household property, at least 50 people. Insurance payments are paid in advance for the entire duration of the insurance.

Home property insurance claims are covered by the so-called first risk system. This system is that all losses caused to the insured property by a natural disaster are paid in full, but not more than the sum insured¹.

State insurance does not compensate for losses in cases where the loss or damage to property occurred through the

¹ For example, household property worth 12,000 rubles is insured for 6,000 rubles ... property for 3,000 rubles was destroyed by fire. In case of insurance on the principle of the first risk, the insurance coverage would amount to 8,000 rubles, i.e. the amount of the entire loss, whereas if the principle of equity security was applied, the insurance premium would be expressed in only 1,500 rubles. However, if in a fire, property in the amount of 8,000 rubles perishes, then the insurance coverage is expressed in the amount of 6,000 rubles, i.e. in the amount of the amount in which the property was insured. When determining the amount of insurance coverage, the system of the so-called marginal risk was also applied, which consists in the fact that responsibility insurance organisation for a loss occurs only when the loss reaches a certain level. This procedure, for example, was applied until 1935 for insurance of agricultural crops, when Gosstrakh was obliged to pay for the shortfall in the harvest only if the harvest was below the established size (in centners) from one hectare.

fault of the insured, as a result of gross negligence with fire or as a result of willful action.

Transport insurance compensates for losses from the loss and damage of either the transported goods (the so-called "cargo"), or the means of transport themselves (the so-called "casco"). The USSR State Insurance provides three types of voluntary transport insurance: 1) cargo insurance, 2) insurance of ships on sea routes, and 3) insurance of means of transport.

For the first type of insurance, Gosstrakh accepts for insurance cargo and related property interests (freight, expected profit, etc.) and is responsible for losses incurred from accidents and dangers of transportation. The insured value of the cargo is its full actual value at the place of departure, which is determined by invoices or invoices, and in their absence, at the prices existing at the time and place of departure with the addition of transportation and insurance costs.

On the insurance of ships on sea routes, Gosstrakh accepts for insurance sea ships with their machines, equipment and rigging and is responsible for losses from damage or complete loss of the ship from interconnections and dangers of sea navigation. State insurance also covers all necessary and expediently incurred expenses for the salvage of the vessel and for the elimination and reduction of losses. The sum insured is the current actual construction cost of the vessel at the time of its insurance, taking into account wear and tear.

For voluntary insurance of means of transport, Gosstrakh insures cars, trams, buses, airplanes, motor boats, river boats, etc., owned by state enterprises and institutions (not on the budget), public, trade union and cooperative organisations, collective farms and citizens. State insurance is responsible for losses incurred from damage or loss of insured vehicles. The insurance of vehicles belonging to state institutions and enterprises, public organisations and collective farms is carried out at the book value of the

vehicles (excluding depreciation discounts); vehicles of individual citizens are insured within the limits of their value as assessed by insurance authorities.

To provide insurance for Soviet export and import cargo, Gosstrakh carries out insurance operations not only in the USSR, but also abroad. For this purpose, in a number of countries there are special representative offices of Gosstrakh, and in England and Germany special Soviet joint-stock companies (without the participation of foreign capital) are organised, the predominant participation in which belongs to Gosstrakh (the rest of the shareholders are Narkomvneshtorg and Tsentsosyuz).

In addition to property insurance, Gosstrakh in their overseas operations also carries out the so-called reinsurance. The USSR State Insurance conducts mutual reinsurance operations only with foreign insurance institutions in connection with the export and import of goods. In particular, reinsurance is carried out with the acceptance of offshore objects for insurance, when a very large amount of liability is concentrated in one object (ship and cargo insurance).

In order to avoid large losses, Gosstrakh, having accepted a large object for insurance, leaves on its responsibility a certain share of the insured amount, and transfers the rest to several foreign insurance organisations, giving them at the same time the corresponding part of insurance payments. Thus, liability in the event of natural disasters is distributed between Gosstrakh and its reinsurance contractors. In turn, on the basis of reciprocity, Gosstrakh accepts reinsurance from foreign insurance organisations.

In some cases (in Iran and other countries) Gosstrakh not only insures export and import goods and concludes reinsurance contracts, but also insures property belonging to commercial and industrial enterprises of these countries.

5. Personal Insurance

One of the greatest achievements of the Great October Socialist Revolution is the rights of citizens to a secure, cultural and prosperous life, enshrined in the Stalin Constitution.

“Citizens of the USSR have the right to material security in old age, as well as in the event of illness and disability.

This right is ensured by the extensive development of social insurance for workers and employees at the expense of the state, free medical assistance to workers, and the provision of a wide network of resorts for use”(Article 120 of the Constitution of the USSR).

Citizens who have completely lost their ability to work due to illness or old age, invalids of war, invalids from birth, material assistance is provided in the manner of state social security. The provision of workers who have temporarily or partially lost their ability to work is carried out by state social insurance (see the next chapter).

In order to further improve the material situation of workers and their families and provide them with additional assistance (in addition to social insurance and social security funds) in the event of disability or death, the so-called personal insurance or life insurance has been organised in the state insurance system. This insurance is mostly voluntary.

Of the various forms of personal insurance, the central place is taken both in the breadth of coverage of workers and in its simplicity and accessibility of collective life insurance. According to the rules of this insurance, all workers can be insured. place of work (workers, employees, collective farmers, cooperative handicraftsmen, students of FZU, workers’ faculties, technical schools and universities, the commanding staff of the Red Army and Navy, etc.) without a medical examination and regardless of the age of the insured. Insurance is issued either for an enterprise, institution and collective farm as a whole, or for workshops, shifts, departments, teams and other production units. In one and

the same enterprise or institution, several insurance groups can be organised and employees by profession. (in an educational institution—teams of teachers, students, etc.).

Collective insurance is accepted in the amounts of 500, 1000, 2000, 3000, 4000 and 5000 rubles. for each individual for a period of one year. Insurance is concluded on the condition that the team expresses a desire to insure in the same amount and pay their first the insurance premium, as a general rule, is not less than 40 percent cash composition of employees”¹. The preferential tariff for collective insurance (12 rubles per year for each thousand rubles of the insured amount) makes it extremely affordable for all workers.

Insured persons who have switched to disability due to old age, illness or injury can continuously continue their insurance in the amount in which they were insured at the time of transition to disability, until the end of the insurance year and for as many years and months as they were continuously insured being at work. The insured, who left the work in the team for other reasons, can continuously continue their insurance at the place of their previous work until the end of the insurance year of the team.

In the event of the death of the insured from any reason, Gosstrakh pays the entire insurance amount to the person specified in the application the insured, or his legal heirs. In case of permanent disability resulting from an accident, Gosstrakh pays the insured as many percent of the insured amount as they have lost their ability to work.

¹ All other workers of this collective, who did not want to insure in the same amount accepted by the collective, can in the same collective: insure their lives in any smaller amount. In case of continuous insurance over one year in case of loss of ability to work from an accident, a surcharge of 25 percent is established, and in case of continuous insurance over two years - in the amount of 50 percent of the amount calculated according to the percentage of disability. Regardless of the payment of the sum insured, the full sum insured is issued for the lost ability to work if the insured dies during the insurance period.

The life of all employees of state, cooperative, public enterprises, institutions and organisations or certain categories can be insured against accidents at the expense of the relevant organisations (for example, the composition of research and exploration expeditions, employees of professional fire organisations, police officers, etc.). Insurance is concluded for a period from one month to one year and for any amount. The amount of insurance premiums is set at the rate of the State Insurance for accident insurance and depends on the type of occupation of the insured.

On an individual basis, Gosstrakh carries out accident insurance. Persons aged 16 to 70 are accepted for this insurance. Insurance is made without a medical examination; however, persons who have lost their ability to work by more than 50 percent are not accepted for insurance. Gosstrakh bears insurance liability in cases of death and permanent disability that occurred only from accidents.

Insurance is concluded for a period not exceeding one year and for any amount. The amount of insurance premiums (from 2 rubles 50 kopecks to 12 rubles from 1000 rubles insured) depends on the amount of the insured amount and on the type of occupation of the insured (four tariff classes according to the degree of danger of occupation). Gosstrakh pays the entire sum insured if the accident will result in the death or complete permanent disability of the insured. In case of partial permanent disability, the insurance amount is issued in an amount corresponding to the percentage of disability.

Another type of voluntary individual insurance is insurance against death from any cause and disability from an accident. Persons aged 16 and over are accepted for insurance for a period of one to 20 years, but no further than the insured reaches 60 years of age. Insurance is concluded for any amount with a preliminary medical examination. The amount of insurance premiums is set depending on the age of the insured and the duration of the insurance. The State

Insurance pays out in full the sum insured in the event of the death of the insured from any reason, as well as in the event of complete permanent disability from an accident. In the event of a permanent partial disability from an accident, as many percent of the insured amount is paid as the insured has permanently lost the ability to work.

Finally, in the order of voluntary individual insurance, Gosstrakh carries out the so-called mixed insurance, in case of death, disability and survival. Persons aged from 16 to 60 years old with a preliminary medical examination are accepted for insurance. Insurance is concluded for any amount for a period of 5, 10, 15 or 20 years.

A feature of this insurance is that Gosstrakh pays the insured amount not only in the event of the death of the insured from any reason or disability from an accident, but also if he survives the end of the insurance period.

Gosstrakh also provides insurance for life and temporary pensions. With this insurance, Gosstrakh is paid a lump sum set by a special tariff, at the expense of which Gosstrakh pays the insured pension during the specified period. This type of insurance is usually practiced by enterprises and individuals in cases where, by a court decision, they are required to pay pensions to individuals.

As a compulsory personal insurance is provided only for long-distance railway passengers, water, road and air transport. The insurance covers the event of death and disability of passengers as a result of an accident or disaster in transport. The insurance fee is charged when buying a ticket (in the amount of 25 kopecks to 2 rubles 50 kopecks depending on the cost of the ticket). Each passenger is considered insured for 3,000 rubles within the validity period of the passenger ticket. In the event of a complete permanent disability, Gosstrakh pays the insured 3000 rubles. In case of permanent personal loss of ability to work, a share corresponding to the percentage of loss of ability to work is issued from this amount. Upon the death of the insured, the full sum insured is paid to his legal heirs.

6. State Insurance Financial Plan

State insurance plays a major role in the financial system of the USSR. The funds collected annually by state insurance are directed primarily to compensation for losses from natural disasters (more than 21 billion rubles were paid for the goals of the second five-year plan), to measures of “prevention” and “repression” and to insurance costs. However, state insurance in the USSR cannot be built only on the basis of self-sufficiency, that is, covering losses and costs of doing business, without any savings. In some years, losses from natural disasters can go far beyond the average indicators used as the basis for annual planning calculations. This circumstance requires the accumulation of special spare capital. On the other hand, in the event of natural disasters, the socialist state does not limit itself to covering losses only from state insurance funds, but provides the affected farms with extensive economic assistance from the state’s resources. So, for example, in case of crop failure, the state supplies the population with bread and seeds, writes off arrears of payment in kind by MTS, taxes and fees; in case of epizootics and loss of livestock, the state helps farms to acquire livestock, etc. This assistance from the socialist state is constantly accompanied by insurance coverage in case of massive natural disasters.

State insurance is designed to provide not only monetary support to farms affected by natural disasters, but also to replenish national reserves for broad government assistance to these farms. Therefore, state insurance in the USSR is structured in such a way that insurance receipts not only cover current losses, the costs of preventing and combating natural disasters and insurance costs, but also provide a certain accumulation for the formation of reserve funds and replenishment of state reserves.

State insurance is closely related to the budget and credit system of the USSR. First of all, 50 percent savings for state insurance is deducted for the formation of capital stock.

This capital is held in government bonds.

Making annually significant contributions to the reserve capital, state insurance thereby directly increases the revenues of the union state budget by participating in the implementation of state loans.

On the other hand, the General Directorate state insurance operates on the basis of cost accounting and, like any self-supporting organisation, makes annual contributions to the union budget from its profits (in the amount of 50 percent). Further, local budgets and budgets of union republics that do not have regional division are fully included with the target appointment of 15 percent deductions from income, on compulsory salary insurance for measures of "prevention" and "repression". All funds collected by state insurance are concentrated in current accounts with the State Bank of the USSR. Insurance premiums, as a rule, are levied in advance for the year (with small installments, not counting collective life insurance, where payments are made quarterly) and are usually spent on paying losses and operating expenses throughout the year; in this regard, they constitute a large source in the liabilities of the State Bank, which is used for short-term crediting of production and trade.

The relationship of public insurance with the financial and credit system is based on the financial plan of public insurance. In a concise form, the financial plan for state insurance for 1940 is presented in the following form:

Sources of funds	Mln. rubles.	Direction of funds	Mln. rubles.
I. Receipt of insurance payments:		I. Compensation for damages	1237,1
1. For compulsory salary Insurance	1411,0	II. Deductions for precautionary activity	208,2
2. Housing insurance	52,5	III. Insurance business expenses	273,2
3. Compulsory passenger Insurance	370,2	IV. Deductions from profits to the budget	402,0
4. By vol. over-budget Insurance	519,0	V. Purchase of bond loans	779,0
		VI. Other expenses	15,6
			575

5. Voluntary insurance of movable property	78,0	VII. State Insurance funds on accounts with the State bank on end of the year	120,5
6. Voluntary property insurance institutions and enterprises	197,5		
7. On voluntary life insurance	315,9		
8. Voluntary cargo insurance without cabotage	10,0		
II. Interest on current accounts	2,0		
III. State Insurance funds on accounts with Goebank	79,5		
Total	3,035,6	Total	3035,6

As can be seen from this table, the section “Sources of funds” includes all receipts of insurance payments for certain types of insurance, interest accrued on current accounts and changes in the balance of these accounts, and the section “Direction of funds” includes expenses for reimbursement of losses for each type of insurance in ... separately, deductions for preventive measures, insurance costs—by their individual types (administrative and business expenses, interest payments on voluntary types of insurance, premiums, etc.), payments to the financial system (purchase of government loans and deductions from profits) and changes in current accounts.

7. State Insurance Apparatus

Carrying out all types of state insurance and the implementation of its financial plan is entrusted to the Main Directorate of State Insurance of the USSR (Gosstrakh), subordinate to the USSR People’s Commissariat of Finance. In the union and autonomous republics, as well as in the territories and regions, under the People’s Commissariat for Finance, regional and regional financial agencies, State

Guard departments have been organised, and insurance inspections have been organised under the district and city financial departments. The insurance inspectorate includes a senior insurance inspector, district insurance inspectors, insurance inspector assistants and insurance accountants. In districts and cities there are insurance agents working on voluntary insurance on a commission basis¹.

All areas are divided into insurance areas in accordance with the number of settlements, their territorial location and the conditions of communication with the regional centre. In each section, a local insurance inspector under the financial department is appointed for the direct conduct of insurance work. The local inspector is responsible for the implementation of all types of voluntary and compulsory insurance. On voluntary insurance, the district inspector conducts mass explanatory work, monitoring the activities of insurance agents, accepting payments, recording transactions, drawing up acts on losses and payment of insurance remuneration. For compulsory insurance, the district inspector keeps records of the property of collective farms, state institutions and enterprises, cooperative and public organisations subject to insurance, and also checks on the spot the completeness of accounting for insurance objects in the farms of collective farmers and individual peasants, registers and evaluates buildings. At the same time, the district inspector calculates insurance payments, collects arrears of these payments (according to court decisions), draws up acts on losses in the insured property and pays the insurance premium. For both types of insurance, the inspector is the obligation to periodically check the condition of the insured property.

Senior insurance inspectors supervise and check the activities of district inspectors, insurance accountants and insurance agents, deal with complaints of policyholders and

¹ See diagram on page 375.

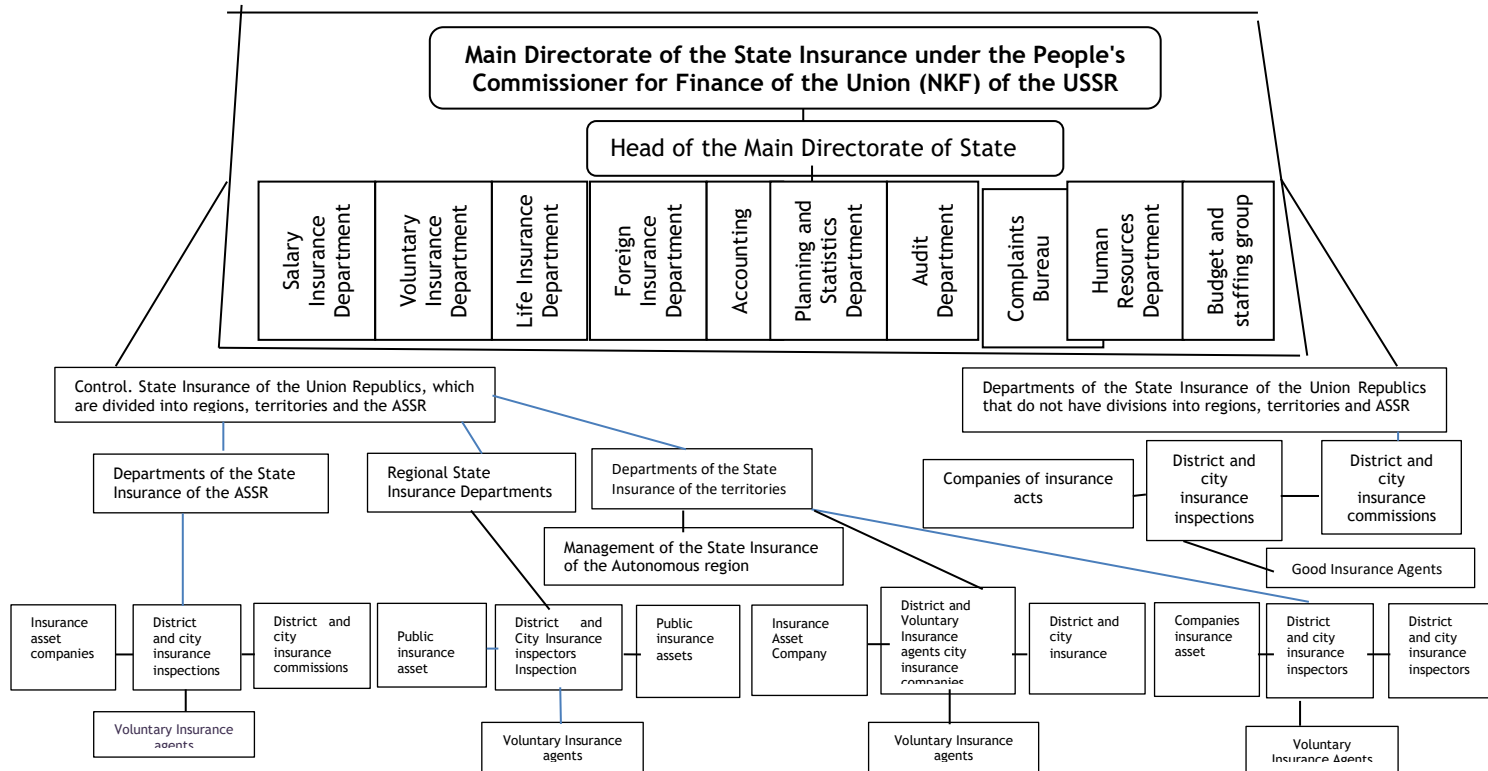
check compliance with legislation on the procedure for collecting arrears of insurance payments.

Registration of losses incurred as a result of the loss or damage of export, import, transport and coastal cargoes, as well as sea vessels insured in Gosstrakh, is carried out by the emergency commissioners of Gosstrakh, available in all ports.

In order to widely develop voluntary insurance for insurance inspectors and accountants of insurance inspectorates, it has been established that bonus and incentive remuneration for the fulfillment and overfulfillment of plans for voluntary insurance (over-delivery, home property insurance, all types of life insurance and property insurance of enterprises and institutions).

To ensure systematic control over insurance work in the regions, permanent regional insurance commissions have been organised. They include the head of the district finance department (chairman), the head of the district land department and the senior insurance inspector. Payment of losses in all cases of death or damage to the insured property is made only by decisions of the district commissions. The Commission examines in detail the reasons for the loss or damage to property, since losses incurred through the fault of the policyholder (as a result of the lack of property protection, explicit mismanagement and gross negligence) are not paid. In addition to considering cases of compensation for losses, regional insurance commissions, based on the materials of insurance inspectors, resolve questions about the termination of property insurance of those farms that admit mismanagement or harmful attitude towards the insured property. The restoration of insurance in these cases when putting the property in order is also carried out by the decision of the insurance commissions. Finally, the competence of the insurance commissions includes the provision of insurance benefits to the leading collective farms for the best quality indicators in animal husbandry and fire protection.

Structure of the State Insurance Apparatus in the USSR



To ensure systematic control over insurance work in the regions, permanent regional insurance commissions have been organised. They include the head of the district finance department (chairman), the head of the district land department and the senior insurance inspector. Payment of losses in all cases of death or damage to the insured property is made only by decisions of the district commissions. The Commission examines in detail the reasons for the loss or damage to property, since losses incurred through the fault of the policyholder (as a result of the lack of property protection, explicit mismanagement and gross negligence) are not paid. In addition to considering cases of compensation for losses, regional insurance commissions, based on the materials of insurance inspectors, resolve questions about the termination of property insurance of those farms that admit mismanagement or harmful attitude towards the insured property. The restoration of insurance in these cases when putting the property in order is also carried out by the decision of the insurance commissions. Finally, the competence of the insurance commissions includes the provision of insurance benefits to the leading collective farms for the best quality indicators in animal husbandry and fire protection.

In their work on collective life insurance of workers, insurance bodies rely on committees for promoting state credit and savings in institutions, enterprises and collective farms. For this work, the comsodes receive a commission of 10 percent. from the sums of insurance premiums received by Gosstrakh for collective life insurance (of which 7 percent are paid to lower-level comsodes of enterprises, institutions and collective farms and 3 percent to district and city comsodes).

The economic and political tasks facing the insurance bodies can be successfully resolved only if the social and political work is properly organised and the broad masses of collective farmers and the rural community are involved in insurance work.

The public asset created around the insurance authorities is directly involved in the insurance business. Signal insurance posts are organised in collective farms and villages. They systematically monitor the correct maintenance and protection of the insured property, actively fight for the prevention and elimination of any shortcomings in this regard, and also fight against mismanagement, sabotage and attempts to deceive the state. At the same time, insurance posts take measures to organise voluntary fire brigades, assist insurance inspectors to establish the causes of losses and participate in mass explanatory work.

Another form of organisation of an insurance asset is public insurance inspectors, allocated by village councils and trade unions from the best members of insurance posts and public specialists. Public inspectors are essentially direct assistants of local insurance inspectors. They unite the work of signal posts and instruct them, assist in organising an insurance asset, help inspectors in accounting for insurance objects and provide benefits, conduct explanatory work on voluntary insurance, etc.

It is quite obvious that the creation, strengthening and growth of an insurance asset require from the insurance inspectorate continuous organisational work, the establishment of a close and constant connection with the asset, systematic assistance to him in the island exchange of experience and improvement of its qualifications.

Directly in contact with the collective farms and the broad masses of the working people, performing extremely important tasks of protection of socialist property, the development of the country's productive forces and the organisational and economic strengthening of collective farms, the state insurance is of great political importance and requires its workers to master Bolshevism and exceptional Bolshevik vigilance. The dastardly enemies of the people who penetrated the insurance bodies took advantage of the insatiability, complacency and political blindness of the insurance workers to distort Soviet laws, disorganise the

country's economic life, undermine the economic power of collective farms and arouse public discontent.

The sabotage in the field of insurance work was expressed in numerous facts of violation of revolutionary legality, in confusing the accounting of insurance objects, in the failure to provide established benefits and discounts, in unjustified mass refusals to compensate for losses in case of natural disasters or in an arbitrary reduction of this compensation. This also includes a formal-bureaucratic attitude towards workers' complaints, red tape in their consideration, an indiscriminate approach to insurance acts without a thorough check of the causes of death, property, unmotivated and unjustified refusals and delays in the payment of insurance losses and, conversely, payment of losses for property that was lost as a result of obvious mismanagement.

Enemies of the people grossly violated the principles of voluntariness of overpayment insurance by withholding payments on voluntary insurance from the amounts due to collective farms for losses on salary insurance. The pests deliberately made up confused instructions, sabotaged the implementation of state insurance plans hindered the development of voluntary insurance. Enough indicate that, despite the enormous political, national economic and financial significance of voluntary insurance, as of January 1, 1937 voluntary property insurance covered only 15 percent collective farms, 2.5 percent cows from collective farmers, and voluntary collective personal insurance-only 31.8 percent workers and employees and only 7.5 percent collective farmers.

In order to eliminate the consequences of sabotage, the Main Board of the State Insurance revised all the rules and instructions for insurance, strengthened the auditor's office, organised a systematic check of the correctness of the calculation of insurance payments and compensation of losses, etc.

The prevention of sabotage in the future should be

carried out on the basis of the implementation of Comrade Stalin's instructions on the mastery of Bolshevism, on the education of cadres and on the elimination of political carelessness.

The Third Five-Year Plan for the development of the national economy of the USSR, approved by the XVIII. Party Congress, provides for a powerful rise collective farms, further growth in the prosperity of collective farmers and material welfare of workers and employees. The tasks of strengthening the public property of collective farms, protecting it and steadily increasing the well-being of the working people open up broad prospects for the tremendous development of all types of property and personal insurance, especially voluntary insurance.

CHAPTER XIII. STATE SOCIAL SECURITY AND SOCIAL SECURITY IN THE USSR

1. The Content and Role of the Soviet Social Insurance

The distribution of the social product in socialist society is carried out not according to needs, but according to the quantity and quality of labour based on the principle: “from each according to his ability, to each according to his work”.

The Stalinist Constitution of the USSR guaranteed every citizen of the USSR the right to work and at the same time established that “labour in the USSR is a duty and a matter of honour for every able-bodied citizen according to the principle: “He who does not work, he does not eat.” Concerning citizens who are incapable of work, the state guarantees them “the right to material security in old age, as well as—in case of illness and disability”.

Outlining the scheme of distribution of the aggregate social product in a socialist society, K. Marx in his “Critique of the Gotha Program” pointed out the need to allocate from his special fund to provide citizens who have lost their ability to work (fund for the disabled). The funds necessary for this in our country, in the USSR, are created in three forms:

1) to provide workers and employees—in the form of state social insurance;

2) to provide for members of collective farms and production cooperation—in the form of organising the respective treasuries of social mutual assistance, the funds of which are formed from contributions of collective farmers or members of production artels and from deductions from income of collective farms and artels;

3) to provide for disabled war veterans and invalids from birth and to provide assistance to mothers with many

children—in the form of a disbursement of funds from the USSR state budget for state social security.

The entire support system is built on the principles of the production-branch organisation in order to establish a close connection with the struggle to increase labour productivity and labour discipline, as well as to create better conditions for direct participation of the working people themselves in the management of security funds.

The Soviet social insurance is a system of state measures for the material support of workers and employees in old age, in the event of illness and disability, carried out at the expense of a special centralised fund of funds, which is formed by the state through interest charges on wages.

The basic principles of the organisation of social insurance are clearly outlined in the resolution of the Prague conference of the RSDLP drawn up by V. I. Lenin:

“The best form of insurance for workers is their state insurance, built on the following grounds:

a) it must provide workers in all cases of their loss of ability to work (injury, illness, old age, disability; for workers, in addition, pregnancy and childbirth; remuneration for widows and orphans after the death of the earner) or in case of loss of earnings due to unemployment; B) Insurance must cover all persons employed, labour and their families; (c) All insured persons should be compensated on the basis of full earnings reimbursement, with all insurance costs being borne by entrepreneurs and the state;

b) all types of insurance should be managed by a single insurance organisation, built on a territorial type and on the basis of full self-government of the insured”¹.

All these basic provisions of the organisation of social insurance were fully implemented by the October Socialist Revolution.

The successes of socialist construction, which provided

¹ V. I. Lenin, *Works*, vol. XV, p. 385.

the working people "... the right to guaranteed work with remuneration for their labour in accordance with its quantity and quality" (Article 118 of the Constitution of the USSR), even in the first five-year plan led to the complete elimination of unemployment in the USSR. This circumstance made insurance against unemployment virtually unnecessary and freed up significant funds for the further improvement of cultural and social services for the working people.

The Soviet state social insurance for workers and employees is one of the most important achievements of the October Socialist Revolution. Conducted entirely at the expense of contributions from institutions, enterprises and organisations, social insurance in the USSR not only serves as a guarantee of the implementation of the right of citizens of the USSR established in Article 120 of the Constitution of the USSR to material security in old age, in case of illness and disability, but also covers numerous aspects of everyday and cultural life of workers. In this respect, social insurance in the USSR is a powerful factor in improving the life, material and cultural situation of workers and employees.

Together with the legislation on labour protection, social insurance also ensures the right of workers to rest (Article 119 of the Constitution of the USSR). Large funds are spent from social insurance funds for sanatoriums and rest homes and for organising tourism. Social insurance is also of great importance in the exercise of the rights of Soviet women (Article 122 of the Constitution of the USSR). This is supported by benefits issued during pregnancy, childcare and feeding, as well as extensive services for children insured.

The social insurance system was built in the USSR on the basis of broad socialist democracy: State Social insurance, which from the first days of the revolution was under the direct control of the workers, from the time of the merger of the People's Commissariat of Labour from the All-Union Central Council of Trade Unions (in 1933) it was completely transferred to the management of trade unions.

In the system of trade unions, social insurance is

organised according to—production and industry, on the basis. The management of the social insurance business is concentrated in the Central Committee of each trade union and in their republican, regional and regional bodies. At enterprises and institutions, payment points for social insurance have been created under factory and local committees, on which the main work lies to service the needs of workers and employees. To attract trade union members to active participation in the work on social insurance and to improve the service of the insured, social insurance councils have been organised at the factory and local committees. These councils determine the amount of benefits for temporary disability, send workers and employees: to sanatoriums and rest homes, and the children of workers and employees to nurseries, kindergartens and pioneer camps, organise control over the correct payment of ballots for diseases, etc.

Broadly serving the cultural and everyday needs of the working people, Soviet social insurance is, at the same time, closely linked to the tasks of socialist construction and production. In the hands of the trade unions, it is a powerful weapon in the struggle against levelling, against the fluidity of the labour force, in the struggle to raise labour productivity and to develop Stakhanov's methods of work; the best performance indicators and greater continuous work experience of the insured correspond to the priority and better provision of their needs with social insurance.

We see a completely different picture in bourgeois countries, where, with the insecurity of the working class inherent in a capitalist economy, the workers and employees are constantly threatened with loss of earnings, the threat of unemployment and hunger. Social insurance exists in capitalist countries by no means everywhere (in case of illness, disability and old age—in 22 countries, against unemployment—in 8 countries). It is introduced only under revolutionary pressure, the onslaught of the proletariat and bears all the traces of a forced concession, being extremely

limited and curtailed in all respects. The main burden of insurance premiums falls on the workers themselves (usually about 2/3) due to a direct reduction in their wages. The workers are removed from the management of the insurance bodies, which are subordinate to the leadership and control of the capitalists and officials. Social insurance is limited only to the issuance of benefits, which are always in exchange for earnings, and does not cover all workers, due to the length of service and the strict deadlines for the issuance of benefits. Tens of millions of unemployed people do not receive any benefits at all, since in the vast majority of countries there is no unemployment insurance, and where it is introduced, benefits are limited to negligible amounts and a short period of issuance. The open attack of capital on the living standards of workers during the imperialist period further reduces the number of workers receiving insurance benefits and the amount of these benefits, while at the same time increasing the insurance payments for workers.

In pre-revolutionary Russia, social insurance was introduced in 1912. It extended only to cases of illness, injury, childbirth and burial. Neither disability, nor old age, nor unemployment was covered by insurance. The amount of benefits was set at only 15-50 per cent of earnings. At the same time, the bulk of the insurance costs (3/5) were borne by the workers themselves. The circle of the insured was extremely limited and covered about 1/6 of the Russian proletariat. The insurance institutions were run by officials and entrepreneurs.

“Only such a law,” says the resolution of the Prague Conference of the RSDLP, drawn up by V. I. Lenin governments with representatives of capital”¹

¹ V. I. Lenin, *Works*, vol. XV, p. 385.

2. The Budget of Social Insurance of the USSR

The source of social insurance funds in the USSR is insurance premiums, which are fully paid by enterprises, institutions and organisations for all workers and employees employed in them. The amount of insurance premiums is regulated by federal law; the rate is expressed as a percentage of the payroll fund.

The social insurance tariffs for differentiation by various trade unions, depending on the working conditions of the relevant sector of the economy. There is a single wage rate for each union; these rates—121, with fluctuations from 3.7 to 10.7 percent.

Social insurance funds are spent according to a single plan. Such a plan is the consolidated budget of social insurance, which is built on the basis of the state national economic plan (the number of workers and employees, wage funds are taken into account).

The consolidated budget of social insurance consists of the budgets of the insurance offices of the Central Committee of trade unions and the budget for social insurance of the All-Union Central Council of Trade Unions. Each union has its own separate social insurance budget. The revenues of this budget consist of the insurance premiums of enterprises and institutions registered with the branch fund.

The expenditure side of the budget for social insurance of trade unions, along with the costs of the respective trade union, also includes deductions to cover the budget of the All-Union Central Council of Trade Unions on social insurance.

The social insurance budget is built on the basis of widespread decentralisation across trade unions.

In the consolidated budget of social insurance, the expenses of the insurance offices of the Central Committee of the trade unions account for over 95 percent, while the expenses, according to the estimate of the All-Union Central

Committee for Social Security, are less than 5 per cent.

In its internal organisation, the social insurance budget of each trade union is divided into independent estimates of individual insurance offices—from the Central Committee of the trade union to the factory and local committees, inclusive. Between individual types of insurance, expenses are distributed according to their value, according to the breadth of coverage of the activities carried out by the insured and according to the expediency of concentrating these expenses in one or another link of the trade union organisation.

According to the estimates of the social insurance of factory and local committees, all expenses are covered by the enterprise or institution from the insurance contributions due from it. The surplus of these contributions in excess of the costs according to the approved estimate is transferred to the State Bank on the current account of the insurance bank of the Central Committee of the trade union.

The costs of all higher-level insurance companies are covered by deductions from insurance premiums transferred to the insurance department of the Central Committee of the trade union. In the same manner, the costs are covered according to the estimate of the All-Union Central Council of Trade Unions.

The estimate for each individual insurance are drawn up by the relevant trade union body and approved by the superior trade union organisation. The summary of estimates of all insurance companies forms the budget of the social union insurance. After a deficit-free balancing, the budget is sent to the Central Committee of the trade union for consideration by the All-Union Central Council of Trade Unions. The latter draws up a consolidated budget for social insurance and submit it to the Council of People's Commissars of the USSR. Upon the approval of the Council of People's Commissars of the USSR, the social insurance budget, in accordance with the decision of the PI session of the Supreme Soviet of the USSR, is included in the union state

budget in the total amount of revenues and expenditures (in 1940 for expenditures—5,822 million rubles); the same part of funds social insurance, at the expense of which certain measures are carried out by the state social security bodies (pensions for non-working pensioners, see below), are included in the republican budgets of the union republics (in 1940—2,022 million rubles in income and costs).

As part of the consolidated budget for social insurance, the Council of People’s Commissars of the USSR considers the general plan for the distribution of social insurance funds for individual activities, the budgets of the insurance offices of each trade union (in total) and the total amount of the All-Union Central Council of Trade Unions (AUCCTU) estimates. After the approval of the social insurance budget as part of the state budget of the USSR, the All-Union Central Council of Trade Unions approves, according to the budget of each trade union, the distribution of total amounts for individual appointments.

The size and direction of funds of the consolidated budget of social insurance in 1940 is characterised by the following table:

Pensions and benefits	5564	million rubles.		
Services for insured children	700	“	“	
Resorts, rest houses and sanatoriums	1044	“	“	
Tourism and mountaineering	46	“	“	
Baking, food	100	“	“	
Parks of culture and rest	15	“	“	
Physical education	130	“	“	
Enlightenment	48	“	“	
Medical control and labour inspection	100	“	“	
Organisational and administrative expenses	82	“	“	
Other expenses	15	“	“	

A total of 7844 million rubles

As can be seen from these figures, social insurance in the USSR penetrates deeply into the life and everyday life of workers and their families. The insured receive benefits from

social insurance funds in all cases of temporary disability (illness, injury, pregnancy). With constant disability and old age, every worker and the employee receives a pension, having the opportunity, in addition, to further improve his financial situation in the order of voluntary life insurance under state personal insurance.

As can be seen from these figures, social insurance in the USSR penetrates deeply into the life and everyday life of workers and their families. The insured receive benefits from social insurance funds in all cases of temporary disability (illness, injury, pregnancy). In case of constant disability and in old age, each worker and employee receives a pension, having the opportunity, in addition, to further improve their financial situation in the manner of voluntary life insurance under state personal insurance.

Social insurance provides a wide range of services to the children of the insured. At the birth of a child, an allowance for feeding and caring for him is issued for him and for the necessary furnishing; older children are placed in pioneer camps and children's sanatoriums.

To provide workers with treatment and rest, trade unions provide workers and employees at the expense of social insurance funds vouchers to sanatoriums and rest homes. In order to improve the health and organisation of recreation for workers, social insurance spends considerable sums on physical culture, tourism, and mountaineering and on parks of culture and recreation.

In the event of the death of the insured, his family receives a funeral allowance, and in the presence of disabled members, a pension.

At the expense of social insurance funds, insurance doctors are maintained, whose task is to control the setting medical and consumer services for the insured, as well as for the implementation of measures to improve their working conditions.

Social insurance also devotes large funds to education, in the line of training and research work on labour and social

insurance and insurance education.

Finally, social insurance provides significant financial support to the mutual aid funds of trade unions. These funds assist their members by issuing non-refundable and repayable loans. The own funds of the mutual assistance funds are formed from the membership funds. to strengthen and develop the activities of the cash registers, their funds are strengthened by the release of subsidies from the budget of the social insurance fund.

In order to combat flyers and truants, disorganisers of work in production and in institutions, as well as in order to reduce staff turnover and stimulating their consolidation at individual enterprises by the resolution of the Council of People's Commissars of the USSR, the Central Committee of the All-Union Communist Party (Bolsheviks) and the All-Union Central Council of Trade Unions of December 28, 1938, the amount of social insurance provision is directly dependent on the duration of continuous work of workers and employees in this enterprise or institution. The assignment of social insurance benefits and the establishment of their size is carried out by factory and local councils, and their payment is assigned to the administration of enterprises and institutions, which pay these benefits at the expense of insurance contributions due from them.

A different procedure has been established for workers and employees who receive social insurance pensions, but no longer work in an enterprise or institution (for old age, disability, etc.); pensions in this case are issued by the social security authorities at the expense of state social insurance funds.

The benefits for temporary disability for workers and employees who are members of trade unions, in all cases of temporary loss of work capacity are paid depending on the continuous length of service in the same enterprise or institution, as a rule, in the amount of 50 percent (experience up to 2 years) up to 100 percent (experience over 6 years) of their wages.

The temporary disability benefits are issued from the first day of its onset until the full recovery of health or until a medical one is established. examination of the fact of disability.

The women workers and female employees during pregnancy and childbirth are granted, in addition to the general annual leave, an additional leave of 85 days before childbirth and 28 days after childbirth, provided that they have worked in this enterprise or institution without interruption for at least 7 months. For the period of additional leave, women are provided with benefits from social insurance funds. The amount of the allowance depends on the total work experience and the duration of work in a given enterprise or institution (from 2/3 of earnings—with a total work experience of at least 7 months, up to 100 percent—with a total work experience of at least 3 years, including at least 2 years in this company or institution).

At the birth of a child, one of the parents, in addition to receiving wages in the amount of more than 300 rubles, is given an allowance for acquiring new-born care items (45 rubles) and for feeding the child (10 rubles per month).

In the event of a disability among workers and employees, they are assigned pensions with a certain minimum length of service of work in different age groups (for example, for men aged 20 to 22 years—3 years of experience, at the age of 50-55 years—16 years). The size of the pension varies depending on the degree of disability (3 groups) and the length of service in one institution or enterprise. In addition, the pension provision for workers and employees is differentiated by sectors of the national economy (3 categories), in accordance with the value and harmfulness of work (for example, category I—workers and employees employed in underground work, category II—workers and employees of metallurgical, machine-building, oil and other industries, category III—the rest of workers and employees).

The size of pensions for disabled workers varies, depending on the category and group of disability, from 33 to

69 percent. earnings, and in case of work injury or occupational disease, from 50 to 100 pr. If the earnings exceed 300 rubles, then the pension is calculated from the earnings of 309 rubles; the minimum pension for various categories and groups ranges from 25 to 15 rubles. per month. For disabled workers of the first two groups, allowances to pensions are established in the amount of 10 to 25 percent, depending on the length of service.

Workers and employees of all sectors of the national economy, regardless of whether they have lost their ability to work or not, are assigned old-age pension upon reaching: for men—60 years, provided that they have worked for at least 25 years, and for women—55 years, provided that they have worked for at least 20 years. For workers engaged in underground work or other hazardous work, the age and seniority requirements are reduced accordingly. Old-age pensions are issued in the amount of 50 to 60 percent of earnings, and their minimum amount is from 50 to 15 rubles.

Family members who are dependent on a worker or employee, in the event of his death, have the right to receive pensions, depending on the number of dependents, in the amount of 50 to 100 percent of pension received by a disabled person of group II.

For those who have worked for at least 35 years (heroes of labour), pensions are paid in the amount of $\frac{3}{4}$ of their earnings, regardless of their state of working capacity, and in cases where the hero of labour continues to work, he is given $\frac{1}{2}$ of the established pension.

Pensions are assigned to certain groups of employees for the length of service. These include educators, medical and veterinary workers and agronomists working in rural areas, and the flight crew of the Civil Air Force. The above groups have the right to receive a seniority pension if they have at least 25 years of work experience in their specialty. Seniority pensions are paid in the amount of half of the average monthly salary for the last 12 months before the appointment of a pension, but not more than 150 rubles. per

month.

3. State Social Security

As indicated in § 1 of this chapter, the formation of centralised funds for the provision of disabled citizens is carried out in the USSR, in addition to state social insurance, by the release of funds from the state budget for state social security.

The tasks of state social security include the provision of invalids of war and military service, as well as members of their families, invalids from birth and from accidents, mothers with many children, families of military personnel who are in the Red Army and navy in wartime, persons with special merits in the field revolutionary, state, social, economic and cultural activities or defence of the USSR, and some other categories of workers.

State social security is provided in the form of: a) employment of disabled people, b) issuance of pensions and benefits, c) placement of disabled people in the appropriate institutions of the social security bodies.

The main form of state support is the employment of disabled people, that is, the restoration (at least partial) of their working capacity and return to work.

The most important principles of the Soviet system of labour placement for disabled people are that it is free of charge, voluntariness and widespread use of the initiative and initiative of disabled people themselves. In this regard, labour costs are covered either directly from budget allocations or from public organisations.

Labour placement under the current legislation is carried out in the form of training and retraining of disabled people in professional schools of the NCC and the organisation of labour associations of disabled people. The most widespread is the creation of disabled people on cooperative principles of production, labour and trade artels and associations, operating with organisational and material support from the

state and public organisations. The cooperation of disabled people has organised mutual assistance funds, which provide their members with benefits for temporary disability, for the birth of a child and the death of family members, as well as additional pensions in excess of those issued by the social security authorities in cases of complete disability by a pensioner.

Depending on the degree of the disabled person's disability and the type of work that he can perform, the same three categories of disability are established for social security as for social insurance. Pensions are established for disabled people of the first two categories. People with disabilities classified in category III receive pensions only if it is not possible to accept them for support through employment.

The size of pensions for disabled veterans depends, firstly, on belonging to the disabled of the civil war or to the disabled of the imperialist war, secondly, on the degree of disability and the need for constant care, and, thirdly, on whether the disabled person has agriculture. ...

To improve the material situation of disabled veterans living in cities and workers' settlements, to the pensions they receive family allowances were introduced in the amount of 10 to 40 percent. for different groups of pensioners, depending on the number of disabled family members. In addition, for pensioners who do not have agriculture, additional benefits are issued for caring for a new-born, for feeding a child and for burial.

People with disabilities who are incapable of work, who require constant care for themselves and who do not have outside help are provided providing in kind by placing them in homes for the disabled, in hospitals for chronic patients.

Persons who have special merits in the field of revolutionary, state, social or cultural activities or the defence of the USSR, in the event of disability or reaching 55 years of age for men and 50 years of age - for women are provided in the manner of assignment of personal pensions to

them; after the death of these persons, pensions are assigned to their family members. Personal pensions are usually established by the NKSO of the union republics, and in some cases, by decree of the Council of People's Commissars of the USSR. The Council of People's Commissars of the autonomous republics, the regional and regional executive committees have been given the right to assign personal pensions for persons with outstanding services of local importance. The expenses for the payment of personal pensions are made at the expense of the relevant budget and from social insurance funds in the amount of 50 percent for each source.

Scientists of higher educational institutions and scientific institutions enjoy the rights to an academic seniority pension (25 years). Lifetime academic pension to these employees is issued, depending on the academic title, in the amount of up to 3800 rubles per month. In the event of the death of a researcher, the pension is provided for the disabled spouse and other dependent family members of academic pensioner. The costs of these pensions are covered by the budgets of the Union republics.

By the decree of the Central Executive Committee and the Council of People's Commissars of the USSR of June 27, 1936, a new major event was carried out in the field of social security, testifying to the great concern of the party and the government for mother and child. According to this decree, benefits are established for mothers with 6 children, at the birth of each next child, 2,000 rubles annually for 5 years, and mothers with 10 children receive a one-time allowance of 5000 rubles at the birth of each next child and from the second year, an annual allowance of 3000 rubles, issued within 4 years from the date of birth of the child. This provision is also extended to those families who had a corresponding number of children at the time the law was passed. The total amount of expenditures for this measure reaches T billion 162 million rubles in the 1940 Union budget.

In order to provide for the families of ordinary and junior

commanding personnel who are in wartime in the Workers' and Peasants' Red Army, the Navy, the border and internal troops of the NKVD, a decree of the Presidium of the Supreme Soviet of the USSR dated October 10, 1939 established the issuance of a monthly allowance to these families from the state. The amount of benefits (from 80 to 160 rubles—in cities and 50 percent of this amount—in rural areas) depends on the presence of able-bodied members in the family and on the number of disabled dependent soldiers. Elderly parents' servicemen and parents with disabilities of groups I and II who live separately from the family of a serviceman in another area receive a separate allowance in full. Benefits are appointed by special commissions at city and district executive committees. The families of killed, deceased or missing servicemen continue to receive the benefits established by them until they receive a pension, part of the benefits established by him pending the appointment of a pension. In addition to the activities of state bodies of social security in the USSR, there is a wide network of special public organisations that involve social forces and material resources in this matter. The state in every possible way promotes the development of their activities by providing a number of benefits and advantages. These organisations include primarily those operating in rural areas of the fund for public mutual assistance of collective farmers. The funds of the public mutual aid funds for collective farmers are mainly made up of deductions from the personal income of collective farmers in the amounts established by general meetings, as well as from deductions from public funds and other receipts. Collective farmers' mutual aid funds provide assistance to collective farmers and women collective farmers in cases of disability, old age, illness, pregnancy, childbirth, as well as in other cases when collective farmers are deprived of the opportunity to participate in production and are in need of public assistance.

The provision of cooperative handicraftsmen and artisans is carried out by public organisations-funds for mutual

assistance and industrial cooperation, the funds of which are formed on a similar basis with collective farm funds for mutual assistance.

CHAPTER XIV. EXPENDITURES OF THE STATE BUDGET OF THE USSR. FINANCING OF THE PEOPLE'S ECONOMY AND MANAGEMENT

The funds of the USSR state budget are spent in the following main directions: 1) financing of the national economy, 2) financing of social and cultural events, 3) financing of the defence of the socialist homeland, and 4) financing of administration.

These four main types of expenditures of public funds are detailed, further, by branches of the economy, culture and management (for example, expenditures on financing the national economy are broken down into financing industry, transport, etc.) and by type of expenditures (for example, capital investments, financing growth working capital, etc.).

While each of these groups of expenditures is unique, they are all closely linked by the unity of a common goal: to ensure the building of a communist society. The spending on financing the national economy strengthens and expands the country's fixed assets, and consequently, strengthens and expands socialist property. At the same time, the growth of fixed assets strengthens the defence might of the USSR. Funding for social and cultural events ensures the training of qualified personnel, the rapid growth of the cultural level of the masses, the improvement of the work and life of members of socialist society. Defence spending is aimed at strengthening the defence of the homeland, at protecting the peaceful labour of citizens of the USSR. Management expenditures ensure the maintenance of the organs of the dictatorship of the working class, organising and directing the process of socialist production and cultural development and guarding the revolutionary order and legality in the country.

Providing all these types of expenses, the financial authorities are guided by the following most important

principles: a) the spending of funds should be made on the basis of the national economic plan; b) the spending of funds should be carried out in compliance with the strictest regime of economy, the decisive elimination of all and all excesses in the use of folk funds.

1. The General Foundations of Budgetary Financing of the National Economy

Budget financing of the national economy at all stages of socialist construction is the most important and the largest type of state expenditure of the USSR in terms of its specific weight. In the budget financing of the national economy, the economic and organisational role of the socialist state of workers and peasants finds its financial expression. By mobilising huge and ever-increasing funds to the budget and directing them to the branches of the national economy, the socialist State strengthens the economic and social stability of the country, the defence power of the country, creates conditions for the incessant improvement of the material and cultural level of the workers of the USSR, provides them with the opportunity to exercise the right to work granted to all workers by the Stalin Constitution.

The concentration of maximum funds for financing the national economy made it possible in the first five-year plan to successfully complete the construction of the foundation of the socialist economy, to transform USSR from a backward, agrarian country into a great industrial socialist power, to carry out a socialist remaking of agriculture. The powerful flow of funds directed to the national economy in the second five-year period played a crucial role in completing the technical reconstruction of our entire national economy, in a tremendous increase in the material and cultural level of the working people, in ensuring the invincible defence might of the USSR.

The elimination in the USSR of private ownership of instruments and means of production, the complete abolition of the exploitation of man by man, the transformation of labour into directly social labour, into a matter of honour, a matter of glory, a matter of valour and heroism have opened up enormous, unprecedented opportunities for growth for the socialist economy of our country. The development of our national economy is constantly moving along the path of planned growth, is carried out in the form of an expanded socialist reproduction.

The nature of socialist reproduction also determines the tasks of budgetary financing of the national economy. It is carried out at the expense of the internal resources of our country, without enslaving loans and borrowings from outside, at the expense of the income and savings of the socialist economy.

The costs of financing the national economy represent a whole complex of costs, the composition of which is determined by the variety of objects of financing for all branches of socialist industry, agriculture, forestry, railway, water, air, railless transport, etc.), communications (post, telegraph, telephone, radio), utilities and housing, Soviet trade, supply and procurement and a number of other economic activities (integrated water-reclamation construction, hydro-meteorological service, etc.). This sectoral differentiation of expenditures for financing the national economy is combined with differentiation depending on the nature of the use of funds. From this point of view, the costs are divided: into costs for the current exploitation of individual economic enterprises (costs. Simple reproduction) and costs for expanded reproduction (an increase in fixed and circulating assets).

The content of each of these groups of expenditures in various sectors of the national economy has its own characteristics. A significant part of the cost of business organisations are covered by their own income and savings. Another part of the costs is financed from the centralised

fund of the Soviet state, from the state budget.

The budget is the most important source of financing for the national economy of the USSR in terms of purpose and size. The costs of the budgetary system for financing the national economy were for the period 1923] 24-1927 / 28. 7.4 billion rubles (38.5 percent of the total budget expenditures), for the first five-year period—54.0 billion rubles (66.2 percent), for the second five-year plan—188.7 billion rubles (52.1 percent). Thus, in comparison with the first five-year plan, budgetary financing of the national economy in the second five-year plan increased 3.4 times. For the first three years of the third five-year plan (1938-1940), budgetary financing of the national economy is expressed in the amount of 168 billion rubles, of which 57.1 billion rubles—according to the plan for 1940.

The main principles of budgetary financing of the national economy are:

a) target direction and use of budget funds: funds are released with an exact indication of their purpose and must be used in strict accordance with the intended purpose and for the established facilities;

b) irrevocability of the disbursement of funds to state-owned enterprises and organisations; material assets formed from economic agencies at the expense of budgetary funding are included in the funds assigned to economic agencies;

c) financing only those costs that cannot be covered by the own funds of economic agencies;

d) the strictest control, which applies not only to funds released from the budget, but also to all the own funds of the economic agency.

The direction and volume of budgetary financing of the national economy are associated with the self-supporting organisation of the work of enterprises and economic organisations of the socialist economy.

Self-financing presupposes granting to economic agencies and enterprises operational independence associated with their material interest and responsibility in fulfilling planned

targets. For each individual enterprise, for each economic agency, certain material and financial resources necessary for the fulfillment of plans are assigned. At the same time, the enterprise is endowed with its own circulating assets only in amounts that meet its minimum needs. Strict implementation of this principle stimulates the struggle for the mobilisation of all internal resources, for the most effective use of funds. Operational independence is ensured by granting enterprises and economic agencies, within the limits of the national economic plan, the right to dispose of resources, to choose specific ways and means of fulfilling and overfulfilling planned targets.

The resources of self-supporting enterprises and organisations are divided into basic and circulating resources. This division is based on features of the functioning and circulation of various types of material values in the process of reproduction. Fixed assets participate in the creation of a product over several production cycles or work periods; in other words, they are partially consumed in each production cycle. Revolving assets participate in only one production cycle, that is, they are fully consumed in each production cycle.

Fixed assets include means of labour: buildings and structures, machinery, equipment, transport and other household inventory; to circulating assets—objects of labour: raw materials, fuel, auxiliary materials, semi-finished products. For a permanent renewal of the production cycle, enterprises must have at their disposal a certain amount of fixed assets and circulating assets in an amount that ensures the normal process of reproduction, continuous renewal of circulating assets (objects of labour) in their natural form.

It should be constantly borne in mind that these differences between fixed and circulating assets are by no means related to material properties of objects. This or that item refers to fixed or circulating assets not because of its natural properties, but according to its purpose in this production process.

These differences between fixed and circulating assets determine to what extent economic entities can dispose of them. The main funds in most cases, with some exceptions, are withdrawn from the sphere of civil turnover, cannot be an object of purchase and sale (Article 22 of the Civil Code of the RSFSR). Circulating assets (raw materials, semi-finished products, finished goods, etc.) are the object of purchase and sale on the basis of economic contracts between 'socialist enterprises and economic agencies. This limitation of the disposal of fixed assets in no way diminishes the responsibility of the heads of economic agencies for the most rational and efficient use of fixed assets in the production process.

Self-financing presupposes a clear delimitation of the resources of economic bodies, assigned to them as their own funds, from resources, granted to them by the state for temporary use (a loan from the State Bank), and resources that must be transferred by economic agencies to the state (payments to the budget).

Under the conditions of self-financing, individual economic enterprises and sectors of the economy, being endowed by the state with their own funds, are obliged to cover their current operating costs (costs of simple reproduction) at the expense of their own income, at the expense of the results of their exploitation activities. As a rule, budget financing of current operating costs of economic entities should not be allowed. The only exceptions are enterprises that have not been transferred to self-financing. They are financed from the budget on an estimated basis. At the same time, all expenses of the enterprise are covered from the budget, on the basis of a special estimate, and, on the other hand, all revenues received by the enterprise are fully credited to the budget. Estimated financing rigidly normalises the volume and content of expenses of an enterprise or a business organisation.

The main directions of budgetary funds going to finance the national economy are: a) financing of capital investments

(costs of creating new fixed assets, expansion and reconstruction of existing ones) and 6) financing of an increase in working capital, (endowing new enterprises with working capital and replenishing the working capital of existing enterprises). In both cases, at the expense of budgetary funds, only those needs are satisfied that cannot be covered by the own savings of enterprises and economic agencies. In addition to these two most important types of costs, budgetary funds can be directed: c) to finance operating expenses of economic entities and d) to finance development costs.

2. Financing of Capital Investments

Reproduction of fixed assets is the leading link in the entire system of extended socialist reproduction.

Reproduction of fixed assets consists of a simple replacement of worn-out fixed assets (simple reproduction) and an increase in existing fixed assets (expanded reproduction).

Simple reproduction of fixed assets can be carried out in the form of: 1) simple replacement of worn out property with a new one, 2) partial restoration of worn out fixed assets; this partial restoration of depreciated fixed assets is called a major overhaul. The costs of replacing worn-out property with new ones and capital repairs increase the cost of fixed assets. Moreover, such an increase occurs only within the limits of the previous replacement cost of fixed assets, which decreased as a result of their wear and tear during production. It is necessary to strictly distinguish from overhaul the costs of current repairs, the purpose of which is to correct and prevent accidental damage to fixed assets, to maintain machinery and equipment in good condition. These costs are included in the cost of production and are not reflected in the cost of property, plant and equipment.

Expanded reproduction of fixed assets is carried out

through new construction, as well as expansion and reconstruction of existing enterprises. The commissioning of new, expansion and reconstruction of existing enterprises means an increase in the fixed assets of the country as a whole, in individual industries and enterprises.

Reproduction costs of fixed assets are called capital investments. Capital expenditures are divided into three types: capital repairs, renovation and expansion costs of existing plants, and new construction costs.

Capital investments occupy the largest place in the total mass of expenditures for financing the national economy. Over the years of the first five-year plan, the volume of capital expenditures amounted to 51 billion rubles. In the second five-year plan, investments in the national economy reached 114.7 billion rubles¹. The majestic plan for the third five-year period, approved by the 18th Congress of the All-Union Communist Party (Bolsheviks), established the total investment in the third five-year period at 192 billion rubles. Thus, the volume of capital investments in the third five-year period will exceed the capital investments in the first and second five-year periods taken together. Swing capital expenditures, planned for the third five-year period, fully corresponds to the one put forward at the 18th Congress of the CPSU (b) by Comrade Stalin the demand "... to make serious capital investments for the all-round expansion of our socialist industry."

In 1940, capital investments in the national economy amounted to 36.1 billion rubles, including from the budget—24.4 billion rubles, or 67.5 percent of all costs.

"Construction issues have always been with us not only economic issues, but also political issues. And this is understandable. Tomorrow the new day of socialism depends, first of all, on the success of the construction that we are carrying out today².

¹ No major repairs and unlimited costs.

² V. Molotov, On construction and the tasks of builders. Speech at a

The enormous national economic and political significance of capital construction determines the importance of the question of the procedure for financing it. This order is based on the planning system of capital works.

The annual capital construction plan, broken down by sectors of the economy with the allocation of the largest objects, is approved by the government. On the basis of this plan, the people's commissariats and main departments (and for the local economy—regional and regional executive committees) draw up sectoral plans for capital works with their breakdown by individual types and objects, establish a list (title lists) of capital construction projects and general maximum amounts (limits) of financing each construction site during the year, indicating the sources of funding.

The list (title list) of construction must clearly indicate: the construction site, design capacity, start and end times of construction, its estimated cost, as well as the amount of capital investments for the planned year.

The Council of People's Commissars of the USSR approves the title lists of construction for individual sectors of the economy if the cost of construction exceeds a certain limit or if the construction is of particular national economic importance. So, for the industry, the Council of People's Commissars of the USSR approves construction, the cost of which, including all costs provided for by the estimate for the technical project, is not less than 1–5 million rubles, depending on the industry (coal, peat, etc.). In agriculture, the Council of People's Commissars of the USSR approves title lists for the construction of new machine and tractor stations, new state farms and a number of other objects of particular national economic importance, regardless of their cost, as well as title lists for construction, the cost of which is above a certain limit. For trade enterprises and

meeting on construction issues in the Central Committee of the CPSU (b). Articles and speeches 1935-1936, Partizdat, 1937, p. 141.

warehouses, the Council of People's Commissars of the USSR approves lists of buildings, the estimated cost of which is not less than 10 million rubles.

The procedure for approving the lower-limit construction of union significance is established by the corresponding people's commissariats, and for construction of republican and local subordination—by the councils of people's commissars of the union republics.

The People's Commissariats of the USSR submit to the Council of People's Commissars of the USSR annual title lists of over-limit construction, plans for launching new enterprises in the corresponding year, and plans for capital expenditures for lower-limit construction in individual industries.

Council of People's Commissars of the union republics submit title lists of over-limit construction and launch plans for each union republic. The People's Commissariat of Finance of the USSR must submit to the Council of People's Commissars of the USSR its conclusions on the title lists and plans for launching enterprises on the basis of an appropriate check of these lists and plans by banks for long-term investments.

The main indicators for determining the amount of financing of capital investments are: a) the volume of capital work, 6) the task to reduce the cost of construction, c) changes in the remains of materials, equipment, etc. as well as accounts receivable. The volume of capital work is set by the government separately for each sector of the economy (and for the largest construction projects), together with a specific task to reduce the cost of construction.

It is quite obvious that if the economic agency has at the beginning of the planning year such stocks of materials and equipment, which in their value exceed the stocks established by the plan at the end of the planned year, then the economic agency can carry out some part of the capital work by using the available stock of materials and equipment; for this part (in fact, for the difference between the cost of

inventories at the beginning and end of the year), the need for financing capital works is reduced. Further, if the implementation of the established amount of capital work is associated, for example, with the installation of equipment partially paid for in previous years (through payments according to the degree of readiness), then the required amount of financing of capital investments will be determined not by the entire cost of this equipment, but only by the unpaid (more precisely, the subject payment in the planned year) part of the cost of this equipment.

The sources of financing for capital investments are sequentially: 1) depreciation funds of enterprises, 2) mobilisation of internal resources, proceeds from the sale of illiquid assets and stocks on transferring construction projects, receipts from accounts receivable for construction, etc., 3) part of the profits of economic organisations that remain after fulfillment of obligations to the state and cover-planned growth of own working capital, and 4) budget financing.

So, for example, according to the People’s Commissariat for Legal Industry (for the Union industry), financing of canal investments by sources of their coverage for 1940 is:

Total capital expenditures	114.1	million	rubles
Sources of coverage:			
a) depreciation for capital construction ...	21.82	“	“
b) savings from reducing the cost of construction	4.8	“	“
c) profit	30.8	“	“
d) appropriations from the budget	56.70	“	“

Depreciation funds constitute a normal source of simple reproduction or, in other words, simple recovery of fixed assets.

Depreciation refers to the gradual accumulation of resources in order to restore fixed assets by including in the cost of goods of a certain percentage of the cost of fixed

assets in amounts corresponding to their wear and tear.

Accounting for the depreciation of fixed assets and the formation of a depreciation fund for their restoration are made on the basis of specially established depreciation rates, that is, rates of depreciation of fixed assets in the production process. Depreciation rates are differentiated for individual sectors of the economy, types of buildings and equipment, service types and the degree of load and use of fixed assets.

Deductions from the cost of fixed assets, corresponding to the established depreciation rates, are included in the cost of production, accumulate as they are sold and form a depreciation fund. The amortisation fund is used to restore worn-out means of production.

The absolute amount of the depreciation fund depends on the volume of fixed assets and the established depreciation rates. The share of depreciation deductions in the cost of all manufactured products and its individual units is determined by the degree of use fixed assets and, accordingly, the number of manufactured products. "Suppose that the cost of fixed assets is 1 million rubles, the average depreciation rate is 6%, and the number of units of production is 100,000. In this example, the total amount of the depreciation fund will be 50,000 rubles, and the amount of depreciation charges to be included in the cost of each unit of production, will be equal to: $50,000 \text{ rubles} / 100,000 \text{ units} = 50 \text{ kopecks}$.

Thus, the size and the share of depreciation deductions in the cost of production depends on the number of products produced. Therefore, any increase in labour productivity, more efficient use of equipment leads to the fact that depreciation deductions, established in certain norms, are included in a smaller share in the cost of each unit of output; accordingly, the cost is reduced, profit. the enterprise is increasing. On the contrary, with the irrational use of equipment and a decrease in production, the share of depreciation charges in the cost price increases, the cost price increases, and the profit decreases.

The need for the formation of a depreciation fund in the Soviet economy is associated with cost accounting.

Cost accounting requires the correct determination of the depreciation rate, that is, the correspondence of the percentage of the value of fixed assets, which included in the cost of finished products, actual wear and tear; cost accounting requires the correct differentiation of these norms by sectors of the economy and elements of fixed assets (wear and tear of fixed assets is not the same in different sectors of the economy and when different means of labour are used). Increased or reduced depreciation rates hinder the correct determination of the efficiency of means of labour; distort the actual results of economic activity. Depreciation rates, reduced against the actually required amounts, reduce the amount of depreciation deductions included in the cost price. The calculated cost turns out to be less than the actual one, and in this regard, the profit increases fictitiously. On the contrary, depreciation rates, exaggerated against those really necessary, increase the amount of depreciation deductions included in the prime cost, increase it and thereby reduce profit.

As already indicated above, depreciation funds are a normal source of simple reproduction of fixed assets. This, however, by no means excludes the possibility of using depreciation funds for expanded reproduction. Depreciation funds as a whole (by sectors of the economy) exceed the current needs for overhaul or replacement of wearing out elements: fixed assets with new ones. This is an excess with irrevocable budgetary financing of capital investments in state-owned enterprises and with significant centralisation (by sector of the economy) of depreciation funds is used for new capital investments, along with savings and budgetary appropriations. In addition, "under certain conditions, depreciation funds can become and become a direct source of accumulation," and thus part of the fund for expanded reproduction of fixed assets.

The amortisation fund can and does turn in practice into

a part of savings in cases where, due to an increase in labour productivity, the costs of restoring fixed assets production decreases. The same happens when the use of fixed assets is improved, when constructive changes are made, either lengthening the service life of a given element of fixed assets, or ensuring an increase in the output produced during the same time with the help of these fixed assets.

Thus, the depreciation fund is used to finance capital repairs and to finance new capital construction. The correct distribution of the depreciation amounts for these two types of costs is of great national economic importance. By directing a part of the depreciation fund in the required size to finance capital repairs, the existing fixed assets are preserved; they are better used and thus the need for new construction and its financing decreases. As noted. in the decree of the Council of People's Commissars of the USSR of January 8, 1938 "On the use of depreciation deductions and on improving repairs in industrial enterprises", the non-allocation of special amounts for repairs from depreciation deductions weakens the responsibility of business managers for repairs in enterprises, and thereby for the safety of existing fixed assets ... This decree introduced a strictly mandatory procedure for the distribution of depreciation amounts between the costs of major repairs and new construction. Along with the establishment of new forms of depreciation for industrial people's commissariats and new principles for their differentiation, the USSR Council of People's Commissars issued a resolution introducing special deductions from the depreciation fund for major repairs in the range from 40 to 65 percent depreciation fund. This part of the depreciation deductions intended for major repairs is left as a trust fund at the disposal of the director of the enterprise. The rest is contributed to special banks to finance capital construction of the corresponding people's commissariat according to the approved state plan.

The source of resources for the expanded reproduction of fixed assets can only be the accumulations of the national

economy.

The need to ensure expanded socialist reproduction requires such an organisation of the activities of each enterprise, which would ensure not only the restoration of worn-out fixed assets, but also accumulation for the expanded reproduction of fixed assets.

The main source of financing for the expanded reproduction of fixed assets is the accumulations of the socialist enterprises and organisations themselves. These savings are directed to finance expanded reproduction or by leaving part of the savings at the disposal of economic organisations (for the investments provided for by the plan), or through the budget and credit systems—in the order of budgetary financing and long-term lending.

In 1940 from the total amount of depreciation deductions of 9.15 billion rubles, 5.25 billion rubles, or 57.3 percent, should be used for capital repairs 3.6 billion rubles are directed to finance new construction.

Budget financing acts as an additional source to its own funds of economic agencies, filling the missing funds for the implementation of the capital work plan. In terms of capital construction of a separate industry or a separate region, budget financing may be completely absent. On the whole, throughout the national economy, budget financing occupies a predominant place in the composition of funds allocated for capital construction.

So, according to the plan of capital expenditures for 1940, out of a total amount of 36.1 billion rubles 3.6 billion rubles are covered by the free part of the depreciation funds (for covering the costs of capital repairs), 1.3 billion rubles—by mobilising internal resources of construction projects. 11.7 billion rubles make up own funds of economic organisations and over 24.4 billion rubles budget financing.

Funding for capital construction is carried out through special banks for capital investments that are part of the USSR People's Commissariat of Finance and are built in accordance with the sectoral characteristics of capital

construction.

The concentration of financing for capital construction in special banks makes it possible to ensure: 1) mobilisation and centralisation in a single financing body of all funds intended for capital construction; 2) strict limitation of capital expenditures; 3) constant and effective control over the use by enterprises of funds provided for by plans for their capital construction (both budgetary and own funds); 4) observance at construction sites of a strict regime of economy, improvement and reduction of the cost of construction work, and improvement of the quality of construction.

The procedure for financing capital investments by special banks will be discussed below.

3. Financing the Increase in Working Capital

As already indicated, the peculiarity of working capital is that they are consumed completely in one production cycle, move completely in the form of new products from the sphere of arbitrariness to the sphere of circulation and, finally, require their renewal at the end of each production cycle.

The mode of use and replenishment of working capital is not uniform. The difference mainly depends on what needs these working capital provide. Most of the circulating assets that are constantly needed for the enterprise must meet the current normal needs of the enterprise (the minimum stock of raw materials, materials, fuel, etc.). The other part of the working capital is necessary for enterprises temporarily in order to cover costs in excess of these minimum requirements. This implies the need to divide the working capital of the enterprise into its own and borrowed working capital. At the expense of the former, constant and minimum necessary needs for funds should be covered, at the expense

of the latter, temporary needs. This division is based on differences in the conditions of production, supply and marketing of products and the requirements of cost accounting.

Differences in production and sales conditions products are reduced to the following: firstly, a number of enterprises and sectors of the national economy are formed (in accordance with the plan) accumulation of seasonal stocks in excess of the current normal demand of an enterprise or economic organisation; secondly, some industries and enterprises have to make seasonal production costs due to the characteristics and duration of the production cycle (agricultural enterprises); third, for individual enterprises, the length of time during which the goods are on the way from the manufacturer (supplier) to the buyer, is different.

Self-accounting requires dividing working capital into own and borrowed funds so that the costs of each organisation are directly dependent on its income and that the turnover of resources of each enterprise is maximally accelerated.

Own working capital must cover the standardized stocks of raw materials and materials (basic and auxiliary), fuel, work in progress, semi-finished products and finished products, as well as some settlement items, namely "Expenses of future years" (expenses that are made at the expense and in the interests of the activities of future years) and "Debtors by degree of readiness".

The question of rationing the circulating assets of economic organisations and enterprises is extremely important. Its correct decision should ensure the normal course of the production cycle, accelerate the turnover of funds, and strengthen the responsibility of the heads of economic organisations for the task entrusted to them. The regulations must be strictly tailored to the needs.

The size and structure of own circulating assets differ greatly in individual sectors of the national economy, in economic organisations and enterprises in connection with

the peculiarities of the organisation of production and the conditions of supply and sale.

The amount of working capital required by the enterprise is influenced by the nature and organisation of production, the duration of working hours and production time, the rates of consumption of materials, raw materials, fuel, etc. per unit of production. It is quite obvious that the shorter production time and working time (production cycle) and the lower the rate of consumption of raw materials and materials, the less will the need for working capital. It follows that a reduction in production time and production cycle, as well as a decrease in the consumption rates of raw materials, materials, etc., reduce the amount of required working capital and increase their turnover.

The conditions and organisation of supply and marketing determine how often the stocks of fuel, raw materials and ancillary supplies must be renewed materials. They also determine the speed with which finished products are sold. All this, of course, affects the size of the required circulating funds.

When calculating the need for working capital for the coming year, the required volume at the end of the planned year is taken into account, that is, according to the data of the production plan and the production estimate, the cost of the minimum stocks of commodity values in December is established. The difference between the working capital required at the end of the year and their availability by the beginning of the year will determine the amount by which the working capital should be increased in the coming year.

An approximate calculation of the need for working capital of an industrial enterprise can be presented in a simplified form as follows.

Suppose that according to the production estimate and production plan, a one-day supply of raw materials, materials and purchased semi-finished products in the last month of the financial year (December): is estimated at 400 thousand rubles, the fuel supply is 15 thousand rubles and a stock of

auxiliary materials—40 thousand rubles. Suppose that according to the nature of the enterprise, according to its geographical location, transport conditions and supply conditions for the normal course of the production process, stocks are established (in days): for the first group of inventory items—by 60, for the second—by 40, for the third—for 65 days. Under these conditions, the amount of working capital required to cover the stocks of this part of inventory will be equal to $(400 \text{ thousand rubles} \times 60) + (15 \text{ thousand rubles} \times 40) + (40 \text{ thousand rubles} \times 65) = 27,200 \text{ thousand rubles}$. If for this enterprise the volume of work in progress at the end of the year is 15,000 thousand rubles, the standard for the stock of finished products is 10,000 thousand rubles and expenses for future years are 3,000 thousand rubles, then the total amount of required working capital at the end of the year will be 55,200 thousand rubles (27,200 thousand rubles + 15,000 thousand rubles—10,000 thousand rubles + 3,000 thousand rubles). If at the beginning of the year there were circulating assets in the amount of 50,000 thousand rubles, then the required increase in own circulating assets will amount to 5200 thousand rubles (55,200 thousand rubles—50,000 thousand rubles).

The need for circulating assets of agricultural organisations is determined in connection with the originality of individual branches of agriculture.

A feature of agriculture is the duration of the production cycle and a slower turnover of funds than in industry.

In field cultivation, the costs are restored when the harvest is sold, therefore the entire amount of costs of working capital, compensated harvest of a given year, provided to enterprises in the form of loans, working capital includes only the amounts necessary: a) to cover the permanent balances of marketable products, seeds, fuel, lubricants and 6) the costs of field cultivation, which can only be covered by the harvest of the next year (autumn agricultural work).

The volume of the minimum stocks of inventory items

and, accordingly, the volume of own circulating assets are not constant values. Development of the national economy, increase of goods circulating in the country, growth of production programs of individual enterprises make it necessary to increase the volume of working capital. Accelerating the production process based on the development of the Stakhanov movement, improving the organisation of labour on the basis of rationalisation and inventions, and improving the conditions for supply and sale accelerate the circulation of material assets and thereby reduce the need for circulating assets. Therefore, it is necessary to periodically revise the working capital standards. Revision of standards, their reduction in connection with the acceleration of the turnover of inventories are of great importance both for reducing the need for working capital in the national economy and for mobilising excess (in a number of enterprises) inventories. This task is especially important at the present time due to the fact that the standards established in 1981 are outdated and do not correspond to modern conditions.

The correct allocation of enterprises with their own circulating assets and the expedient use of circulating assets are of tremendous national economic importance. The fulfillment of the national economic plan with the minimum required volume of working capital is achieved by the release of additional resources for the expansion of fixed assets. The oversaturation of certain industries and enterprises with excessive circulating assets entails their inappropriate use leads to the formation of excessive, unnecessary stocks of inventories, leads to a violation of cost accounting and disorganisation of the financial economy.

The lack of working capital slows down the process of circulation of commodity assets, leads to interruptions in the production process, to the disruption of economic ties between individual organisations, to the formation of illegal accounts receivable and payable.

The task of the most effective and expedient use of

working capital requires not only their rationing, a strict determination of their volume, but also the provision of sufficient independence to the heads of economic organisations at the disposal of and. the use of working capital, ensuring the implementation of the plan.

In order to make the best use of working capital, the people's commissars of industrial commissariats have been given the right to redistribute surplus working capital between the main administrations, economic bodies and enterprises. In addition, at the beginning of the year, the amalgamations have at their disposal a 10% unallocated reserve, which can be used during the year to further increase the own circulating assets of the individual enterprises of the amalgamation.

The development of the socialist economy on the basis of expanded reproduction necessitates a constant increase in the circulating assets functioning in socialist enterprises.

The need for an increase in working capital in the economy of the USSR is determined by two main factors: a) new capital construction on an enormous scale; and (b) the growth in the workload of existing plants. Commissioning, commissioning of new capital construction projects presuppose, as a prerequisite, the endowment of these enterprises with their own working capital. The enormous scope of capital work in the USSR thus predetermines the need for the annual allocation of large sums as their own circulating assets to new enterprises. Along with the vesting with negotiable means of new enterprises are constantly increasing the working capital of operating enterprises (additional endowment with working capital). The need for this is caused by the increase in the volume of work enterprises, expansion of the production program.

The satisfaction of the needs of business enterprises for borrowed working capital is achieved by lending them by the State Bank in the form of issuing targeted, term and repayable loans for the temporary expansion of working capital. The principles and procedure for bank lending for

the growth of working capital are set out in Chapter XVIII.

The sources for the formation and replenishment of the own circulating assets of economic organisations are their accumulations (profits) and the resources of the budget system, directed to increase the circulating assets in the socialist economy in the manner of budget financing.

The main source of replenishment of the own circulating assets of economic agencies is their own profits, “remaining at the disposal of economic agencies after they have paid deductions to the budget. The enterprise must work in such a way as to, firstly, timely repay borrowed funds, and secondly, to ensure not only recovery spent own working capital, but also the possibility of an increase in these own funds in connection with the growth of production programs.

The current legislation directly obliges to turn the profit ‘of the enterprise, first of all, to replenish the shortage of its own circulating assets. Budget financing of growth is allowed only in cases where the amount of profit and other internal resources is insufficient to meet the need for an increase in own working capital. As for the newly created state-owned enterprises and economic organisations, budget allocations are the main source of formation of their working capital.

So, in 1939 (according to preliminary data) working capital was increased by 8.6 billion rubles, including at the expense of budgetary funds by 5.6 billion rubles.

According to the plan for 1940, the state budget allocates 10.4 billion rubles to replenish its own circulating assets of economic organisations, which ensures bringing the total amount of their working capital to 71.1 billion rubles.

Of the indicated 10.4 billion rubles released from the state budget 5.4 billion rubles, including 4.6 billion rubles—for an increase in standards in connection with the expansion of production and 0.8 billion rubles—to replenish the lack of own circulating assets at the beginning of the year.

The amount of budget financing for the increase in own working capital is established on the basis of sectoral financial plans, taking into account the planned need for

working capital and all the possibilities of economic bodies to cover this need with their own savings and mobilisation of internal resources.

As mentioned earlier, the required increase in working capital is calculated primarily 'as the difference between the need for own working capital at the end of the planning period and the availability of own working capital at the beginning of this period, identified by analysing economic activity on the balance sheet of an enterprise or industry. Then, amendments are made related to changes in the estimated relations and with the mobilisation of internal resources. From the calculated in this way the need for an increase in working capital is deducted: a) the minimum increase in unpaid amounts of wages and social insurance (due to normal payment terms), b) an increase in creditors on degree of readiness, c) income for future years and d) an increase in the amount of taxes, temporarily (before the transfer of these amounts to the budget) used in circulation.

After the gap is established between the planned need for working capital and their actual availability and determined the amount of the required increase, according to the financial plan, all internal possibilities of covering this increase with the resources of the very enterprise or industry. The missing amount is an object of budget financing and is provided for by the budget in the form appropriations for the replenishment of the working capital of the relevant sector of the economy.

The appropriations approved in the budget for increasing the working capital are released to the disposal of the people's commissariats and the main departments in charge of the sectors of the economy, quarterly through the State Bank. The State Bank transfers these funds to the settlement accounts of economic agencies at the direction of the People's Commissariats and Central Administrations, as indicated above, the people's commissariats and main directorates were granted the rights: reserve at its disposal a part (10 percent) of the funds allocated to finance this

industry, redistribute working capital between individual economic agencies, withdraw if necessary, excessive working capital. General supervision over the release and use of working capital released in the order of budgetary financing is assigned to the financial authorities. The latter establish the amount of funds issued for the coming quarter, and are required to monitor the use of budget funds for their intended purpose, not allowing the use of working capital for the needs of capital construction, as well as their immobilisation in illiquid assets and in accounts receivable.

The control over the use of working capital in the economy is one of the most important functions of the entire financial and credit system. Financial authorities control the need for working capital and the necessary replenishment of them. The State Bank controls the state and movement of its own circulating assets when lending to economic entities.

In the process of monitoring the use of working capital by economic organisations, financial and credit authorities are obliged, on the basis of a deep and comprehensive analysis of the financial and economic situation of economic sectors and individual enterprises, to constantly fight for the mobilisation of internal resources in the economy, for accelerating the turnover of working capital, for financial and planning discipline, for the further strengthening of cost accounting.

The struggle for the correct use of working capital by economic agencies is the most important responsibility of the financial apparatus. The circulating assets of economic agencies are socialist property.

Any squandering of these funds, their irrational use, their use for goals not provided for in the plan are anti-state actions and undermine the principles of planning and cost accounting—the basis of the economic activity of socialist enterprises in the USSR.

4. Other Expenses on Budgetary Financing of the National Economy. Financing of MTS

The capital expenditures and replenishment of working capital of economic entities are the main types of expenditures for budget financing of national economy.

The budgetary resources, as mentioned above, are directed to the national economy also by paying the so-called operating expenses of economic agencies and to cover costs for the development of production. With regard to MTS and economic entities that have not been transferred to self-financing, all operating expenses are covered from the budget.

The operating expenses of economic entities include those expenses that, by their nature, do not fit the terms of financing established for capital construction and replenishment of its own working capital. The operating expenses of self-supporting organisations covered by the budgetary system include the costs of these organisations that are not directly related to their direct current operating activities. These costs are not included in the estimates production and are not included in the calculation of the cost of goods or services. In terms of their content, operating expenses are mainly expenses for training personnel for economic agencies, for research work, expenses for geological exploration, prospecting and experimental activities. These expenses are not being directly expenses for expanded reproduction; they are, however, a very important condition for ensuring the possibility of uninterrupted expanded reproduction in the country's economy. The amounts allocated from the budget to cover the operating expenses of economic agencies are carried out according to the budget estimates of the people's commissariats and central administrations, which are subordinate to these economic agencies. The spending of these amounts is carried

out in the manner prescribed for the budgetary institutions.

The budgetary financing of the expenses for the development of new industries covers the temporary gaps provided for by the plan, which are formed at individual economic agencies as a result of exceeding the planned cost of selling prices established for the given economic agency. Financing of expenditures for the development of new production is done in relation to newly created, not yet fully developed enterprises.

The financing of development expenditures is the issuance of planned subsidies from the budget to individual economic agencies. The purpose of these subsidies, their meaning is to strive to keep the amount for each economic agency the circulating assets provided to him, to prevent a decrease in the latter due to planned losses, to strengthen the financial economy of this economic body. Establishing selling prices in accordance with the high cost of the development period would be wrong, since it would not stimulate cost reduction and did not set would be before the enterprise the question that the cost of its products is excessively high for the national economy.

The budget funds to cover development costs are transferred to the relevant economic agencies through the State Bank on a quarterly basis. The State Bank and financial authorities are charged with the responsibility control the correctness of the use of budget subsidies by economic agencies for the development of new industries. This control is carried out by a machine of analysis of reporting and direct audits of economic agencies.

It is necessary to distinguish from the development costs the so-called start-up costs, which are directly related to the commissioning of new fixed assets. Start-up costs do not constitute a special type of budgetary funding and are included in the total capital costs.

Paying from the budget for operating costs, business enterprises that are not allocated for independent business accounting are made on the basis of approved estimates;

such enterprises are subject to a special budgetary financing regime, similar to the regime used in financing socio-cultural institutions and events, as well as in the financing of the management apparatus.

The estimated procedure for budgetary financing of economic organisations has been applied to MTS since 1938. Budget financing of MTS is carried out on the basis of the decree of the Council of People's Commissars of the USSR dated February 5, 1938 "On the financing of machine and tractor stations under the state budget" and the decree of the Council of People's Commissars of the USSR and the Central Committee of the All-Union Communist Party (b) of 13 January 1939.

Until 1938, MTS, despite the significant specificity of their financial economy, were financed on a basis similar to the procedure for financing other state economic organisations. This procedure for financing MTS not only did not contribute to their further strengthening, but, on the contrary, confused the financial economy of MTS, freezing their funds, caused an increase in accounts receivable and wage arrears. The plurality of funding sources (MTS were financed from six different sources) and the plurality of funding organisations actually did not allow for effective financial control over the work of MTS. All this weakened the economic might of the MTS, played into the hands of the enemies of the people, the Trotskyite-Bukharin wreckers, who strove to disrupt the great achievements of collective farm development in the USSR by breaking up the work of the MTS.

In 1938, the methods of financing MTS were radically restructured. The financing of all costs of MTS is fully transferred to state union budget; funding has become estimated. The new procedure for financing MTS is aimed at radically improving their financial economy, at eliminating the consequences of sabotage in their work.

All MTS revenues are credited to the state budget; all their expenses are paid from the budget also according to

appropriately approved estimates. Payment of all MTS costs from budget funds (except for capital investments financed and controlled by Selkhozbank) is entrusted to the State Bank.

The estimated financing of MTS differs, however, from the usual one. The estimated financing of budgetary institutions with a number of significant features, in relation to other budgetary institutions, the role of the State Bank is reduced only to receiving and issuing budgetary funds and to the most general control over the observance of the requirements of budgetary discipline by these institutions. In relation to MTS, the role of the State Bank is much wider: the State Bank is entrusted with a responsible duty of in-depth and detailed control over the targeted use of MTS of the budget funds allocated to it. This control is carried out for certain types of costs: for fuel, repairs, wages for production workers, wages for the MTS apparatus, for administrative and management expenses.

MTS is financed by the State Bank on a quarterly basis in accordance with the implementation by MTS of its annual production and financial plan in order to issue an advance for the forthcoming quarter. MTS quarterly reports to the relevant branches of the State Bank on the implementation of the quarterly production and financial plan (monthly reports are also submitted). In the event that MTS overfulfills its quarterly production plan, the State Bank will additionally finance this overfulfillment of work at the expense of the annual plan. The state bank was granted, along with this, the right offset the overspending by MTS in comparison with the amount of work performed, withhold the amount of overspending from the next quarterly advance. The final settlement between MTS and the State Bank is made no later than December 1 of the corresponding year.

Thus, the budget financing of MTS, carried out by the State Bank, provides an opportunity for constant and effective control over the implementation of the quantitative and qualitative indicators of the plan by MTS.

The fact that the functions of budget financing and

control over the financial economy of MTS are entrusted to the State Bank, that is, the centralisation of these functions in the State Bank creates all the conditions for strengthening the financial base of MTS. The importance of improving the work of the MTSs is perfectly clear, for they play an outstanding role in organising further victories in collective farm development, in the successful struggle for Stalin's harvests.

In order to improve the work of MTS and to intensify the struggle for the fulfillment of the qualitative and quantitative indicators of their work plan, the government has established a whole system of bonuses for MTS executives. In addition, MTS, which has fulfilled the plan, will be given 15 percent of the total savings achieved within the approved budget. Since the MTS is financed at the expense of the state budget, all receipts from in-kind and cash payments by collective farms for the work performed for them by the MTS have been included since 1938 in the revenues of the state union budget. Payers to the budget of income from MTS are:

- a) collective farms for cash payments;
- b) procurement centres that pay the budget the price of grain and industrial crops they have accepted from the collective farms in payment for the work of the MTS. Income from MTS for 1940 is projected at 2,623.4 million rubles.

The transfer of MTS financing to the State Bank, however, it does not relieve responsibility for the financial condition of the MTS either from the organs of the People's Commissariat for Land, or from the financial organs.

Financial agencies, in particular, are entrusted with the most responsible duty to carry out surveys and documentary audits of the financial economy of MTS, to fight against mismanagement and violations of budget discipline in MTS. The largest amounts are invested in financing MTS by the state. In 1940, the budget provided 8028.1 million rubles for this purpose. In these conditions, the revision work of financial agencies becomes especially important.

The importance of restructuring the financial work of

MTS was vividly characterised by Comrade Molotov at a meeting of leading land workers on February 21, 1938 Comrade. Molotov pointed out that:

“With the transfer of MTS to the state budget, a whole stage in the development of MTS is completed. From now on, the state will fully assume the maintenance of MTS, and the costs of MTS in 1938 will amount to about 1 billion rubles. The income of MTS, which they should receive as payment in kind and in money,” this year will not yet cover the specified costs. The state will have to give the missing part of the funds for the maintenance of MTS from its budget. This measure is carried out in order to raise the work of MTS and strengthen their assistance to collective farms. This is not only a financial measure, but also a large organisational measure MTS are now becoming Soviet organisations in their finished form. They have been given the proper state authority and from them we have the right to demand a serious improvement in all work”¹.

5. Content and Composition of Expenses for Social and Cultural Events

Expenditures on social and cultural events are of great national economic and political importance. They are associated with the implementation of the cultural revolution.

Marxism-Leninism teaches that without the victory of the proletarian revolution a real rise in the cultural level of the broad working masses is impossible. This has been fully confirmed by the experience of socialist construction in our country. The victory of socialism in the USSR ensured an unprecedented disintegration of culture, fully guaranteed for citizens of the USSR, along with other rights, the right to

¹ “Pravda” dated February 24, 1938, No. 54.

education and recreation, legislatively enshrining them in the Stalin Constitution.

Socialist culture should instill in the masses a socialist attitude towards labour and social property, contribute to the strengthening of socialist discipline, the creation by the working class of its own production and technical intelligentsia and the complete overcoming of the remnants of capitalism in the minds of people and their education in the spirit of internationalism and friendship of peoples.

The successes of the cultural revolution over the past 20 years of the socialist revolution are truly enormous. Comrade Molotov said that

“... every step along the path of a truly socialist culture not only yields its immediate results, but also creates the preconditions for the development of socialism into communism”².

The working class has grown in numbers and has risen immeasurably in its cultural level. Under the Soviet system, workers have everything opportunities to secure sufficient general and technical education. The rise of the cultural and technical level of the working class to the level of workers in engineering and technical labour and the growing Stakhanov movement are a solid basis for the elimination of the opposition between mental and physical labour. An army of hundreds of thousands of people who have mastered the new agricultural technology—tractor drivers, combine operators, chauffeurs, etc.—has been created in the collective farm village. A new Soviet production and technical intelligentsia has been created and is growing. For two five years the number of engineering and technical workers in industry has increased more than 6 times (from 92 thousand to 518 thousand people).

The development of culture among the nationalities

² V. Molotov, *Report “To the Twentieth Anniversary of the October Revolution”*, Partizdat, 1937, p. 28.

backward in the past is characterised by tremendous achievements. The number of students in 1936-8317 increased as compared to 1914-15: in the Kirghiz SSR—112 times, in the Armenian SSR—68.6 times, in the Uzbek SSR—53.2 times, while on average in the RSFSR it increased 17.5 times.

At the XVIII. Party Congress, Comrade Stalin summed up the results of the remarkable gains with which the Bolshevik Party and the entire Soviet people for this historic convention:

“From the point of view of the cultural development of the people, the period under review was truly a period of the cultural revolution. Implementation in life universal compulsory primary education in the languages of the nationalities of the USSR, an increase in the number of schools and students at all levels, an increase in the number of specialists graduating from higher schools, the creation and strengthening of a new, Soviet intelligentsia—this is the general picture of the cultural upsurge of the people.”¹

In the USSR, a wide network of hospitals, outpatient clinics, dispensaries and other institutions has been created to maintain and restore the health of workers. For example, the number of maternity beds in hospitals and maternity hospitals increased from 6.8 thousand in 1914 to 81.4 thousand beds; the number of places in nursery schools has increased, respectively, from 550 to 628 thousand places. The Soviet state provides enormous assistance to families with many children. For the payment of benefits to mothers with many children in 1940, 1162 million rubles were allocated.

The basis of all these successes is the victory of Stalin's plans for the socialist industrialisation of the country and the

¹ J. Stalin, *Report On the Work of the Central Committee of the All-Union Communist Party of Bolsheviks at the XVIII. Party Congress. Verbatim Report of the Congress*, p. 24.

collectivisation of agriculture.

It would be a mistake to assume that the flourishing of culture is achieved only at the expense of the resources that the state directs to finance social and cultural events.

The successes of the cultural revolution are also ensured by other costs of the Soviet state, for example, costs in the line financing the national economy, strengthening the material the basis of the cultural revolution and contributing to the restructuring of the life of the 'working people, improving their cultural and everyday services. Expenses on the country's defence directly aimed at ensuring the peaceful and free labour of Soviet citizens in order to repel an enemy attack on the working people's homeland at any moment. Our glorious Red Army is at the same time a school for the preparation of politically and technically qualified personnel, especially for work in the countryside.

Directly spending on social and cultural activities consists of the costs of education, training, preservation and increase of the main productive force of society - labour.

Comrade Stalin, the leader of the peoples, teaches a caring, sensitive attitude towards people, teaches how to cultivate personnel, as a gardener grows a tree of his choice, for of all capital, the most valuable capital is people. This concern for people is imbued with the Stalinist Constitution; it finds its expression, in particular, in a huge increase in costs of the state on social and cultural events.

The social and cultural expenditures made by the Soviet state ensure the rights of citizens of the USSR to rest, to education, and also on the material provision in old age, in case of illness and disability.

Social and cultural expenditures are extremely diverse in their composition. They consist of spending on education, health care, and physical expenses of culture, social security and social security. Each of these sections covers a variety of related activities.

Universal compulsory primary education was established as early as 1930-31 by a decree of the Central Executive

Committee and the Council of People's Commissars of the USSR of August 14, 1930. In the second five-year plan, general education was carried out in the amount of incomplete secondary school in villages and complete secondary school (ten-year) in cities. The number of students in the USSR for 1938-39 increased against 1914 by 5.8 times: from 8137 thousand people. up to 47452 thousand people, including: in primary and secondary schools—from 8025 thousand people. up to 33965 thousand people; in higher education — from 112 thousand people. up to 601 thousand people (before the revolution in Russia there were only 91 higher educational institutions, while in the USSR there are 700 of them); libraries in 1914 were 1200, and in the USSR in 1938-39 their number reached 70,000; the number of clubs and reading rooms increased from 222 to 15,600.

The section of expenditures for “Education” includes expenditures: 1) for general education and upbringing of children and adolescents (this includes: preschool education, orphanages, primary, lower secondary and secondary schools and a system of activities for the out-of-school education of adolescent children; houses and pioneer camps , excursion and tourist stations, houses of artistic education of children, theatres for young spectators, puppet theatres, etc.); 2) for general education and political educational work among adults (elimination of illiteracy and illiteracy, advanced schools, etc.; expenses for mass political educational institutions, such as: clubs, libraries, collective farmer's houses, reading rooms, the party education system etc.); 3) for personnel training (costs for the construction and maintenance of universities, institutes, technical schools, soviet schools, workers' faculties, course system); 4) for research institutions and events (scientific institutes and libraries, experimental stations and laboratories, reserves, museums, etc.); 5) for printing; 6) for art (theatres, cinema, circuses, music, variety art, amateur art, etc., and 7) for radio broadcasting.

The expenditures on “Healthcare” include the costs: 1)

for the construction and maintenance of medical and preventive institutions and events (hospitals, clinics, outpatient clinics, first-aid posts, ambulance help etc.); 2) for the construction and maintenance of sanatorium and preventive institutions and measures (bacteriological and sanitary-hygienic institutes and laboratories, sanitary-epidemic and sanitary-educational activities, sanitary inspection); 3) for events in the field of sanatorium business (resorts, sanatoriums, different types of rest homes); 4) on the organisation of working rest (maintenance and construction of rest homes, holiday camps, proletarian tourism, etc.); 5) for events and institutions for the protection of mothers and infants (children's and women's clinics, maternity hospitals, obstetric centres, nurseries, children's homes, etc.); 6) measures and institutions for the protection of the health of children and adolescents (school doctors, children's hospitals, clinics, outpatient clinics, special children's sanatoriums and resorts); 7) for pharmacy.

The section of expenditures "Physical culture" covers the costs: for the organisation of mass physical culture, the arrangement of stadiums, for the organisation of sports competitions and for agitation and propaganda work in the field of physical culture.

Under the section "Labour protection and social security," the Soviet state spends enormous amounts of money: a) on the payment of pensions and benefits to workers who have lost their ability to work due to illness, old age, accidents, as well as pensions and benefits for war invalids and persons with congenital disabilities; b) for employment of disabled people, organisation and maintenance of homes for disabled people; c) for the issuance of benefits to mothers with many children, etc. In addition to the funds allocated for budget, huge funds for labour protection and safety measures are spent from the funds of enterprises and economic organisations.

6. Financing of Social and Cultural Events

The above list of socio-cultural events alone shows that they cover the entire population of our country, people of all ages. This diversity of socio-cultural expenditures is combined with a multitude of funding sources.

The main source of funding for social and cultural events is the state budget of the USSR, include since 1938 also means of the social insurance system. According to the plan for 1940, the total expenditures of the USSR state budget for social and cultural events amounted to 43 billion rubles, including 7.8 billion rubles from social insurance funds.

Within the budgetary system, the dominant role in these costs, local budgets play, which spend 22.1 billion rubles on culture in 1940; 14 billion rubles are allocated for the union budget, and 6.9 billion rubles for the republican budgets.

Of the 48 billion rubles spent on social and cultural events, 23.3 billion rubles go to education, health care and physical education—9.8 billion rubles, social insurance—5.8 billion rubles, social security—2.9 billion rubles. and for benefits for mothers with many children—1.2 billion rubles.

The budgetary system of the USSR directs a quarter of its funds to finance culture, while in pre-revolutionary Russia the share of “cultural” expenditures was (in 1914) in the state budget only 4.8 percent, and in absolute sum, the state: and local budgets, taken together, only 396 million rubles were spent on this matter. This is the law of bourgeois society, for “... in bourgeois society, the bourgeoisie could not rule if it did not spend the jackpot to ensure its domination as a class, leaving a penny for cultural expenses”¹

In addition to funds from the budgetary system (including social insurance), social and cultural events are also directed to funds from a number of other, smaller sources, either fully

¹ V. I. Lenin, *Works*, Vol. XI, p. 429.

covering the costs of individual activities, or being in addition to budgetary appropriations. These sources include: a) funds of self-supporting socio-cultural organisations (pharmacies, resorts, printing, etc.) - in that part of their profits, which is used to replenish working capital or to finance the capital expenditures of these organisations; b) special funds of budgetary social and cultural institutions; c) bank loans for resort construction (through Tsekombank); d) funds of trade unions and cooperative organisations allocated for cultural and educational purposes, for the organisation of recreation of union members and services for their children; e) the director's fund—in that part, which is directed to the cultural and everyday needs of workers and employees of enterprises; f) funds of economic agencies intended for the costs of paying for research work under contracts and for training; g) special funds of collective farms for cultural and household needs; h) means of self-taxation of the rural population, directed by decisions of general meetings of citizens for social and cultural events. Most of the listed sources are of a local nature: the funds generated in individual enterprises and institutions, on collective farms, in rural settlements, as a rule, should be spent on the spot - to finance activities to service this collective (children's institutions, cultural and educational institutions for adults, physical education, etc.).

All of the above sources of funds allocated to finance social and cultural events (with the exception of part of the funds of economic agencies), and all of the above types of costs are covered and mutually linked by the *consolidated financial plan of social and cultural events*.

The basis of the consolidated financial plan of social and cultural activities is the state national economic plan, which the government approves of all the main material and production: indicators for these activities (network, contingents, capital investments, etc.). In accordance with these indicators, a consolidated financial plan is drawn up both by *departments and by territorial breakdown* (by each

district, territory, region, and republic—according to the branches of social and cultural work subordinate to them). Each financial plan brings together the financial plans of the subordinate administrative units. *In the direction of funds*, all branches of social and cultural work (education, health care, social security, physical education) are given with the allocation of all the main activities for education (general education and upbringing of children, political education among adults, personnel, science, art, print, radio). *The sources of funds* indicate all of the above sources of funding for social and cultural activities. The calculation of costs for each indicator of the master plan is based on a number of private plans that are drawn up for all the main types of socio-cultural activities (schools, preschool education, general educational work with adults, training, scientific institutions, libraries; medical network, etc.) in accordance with material and production indicators and limits of the national economic plan.

The financial plan of social and cultural events usually reflects the gross amounts of expenditures for individual events, i.e. all the amounts of expenditures for a particular event.

The costs of social and cultural activities are divided into capital investments and operating expenses. Capital investments in the field of social and cultural activities are planned and financed in the same manner as capital investments in all other sectors of the national economy. Planning and financing of operating expenses is different from planning and financing of expenses of self-supporting organisations. When planning operating expenses, a special regulatory method for determining the amount of costs is used.

The operating expenses are planned separately for each activity based on the established contingents and cost rates per planned unit. By multiplying the norms by the contingent the total planned amount of expenses is obtained.

The contingents are established by the national economic

plan (the number of students in schools, the number of hospital beds, etc.). When planning contingents, it is of great importance to have the correct initial calculation base, that is, accurate data on the actual implementation of the plan for the previous year. Lack of verified data on the cash contingents can lead to either over-financing or underfunding of the network.

Rationing of operating costs consists in the establishment of uniform measures of costs for homogeneous objects of financing that have the same production characteristics (primary school, hospital, etc.). By rationing, the same qualitative level of satisfaction of the same needs in the same type of institutions is achieved; at the same time, the norms are a method of planned influence on the structure of expenditures of institutions, bringing it in line with the general guidelines of the national economic plan. Moreover, rationing facilitates the analysis of costs and a qualitative assessment of the designed object when considering financial plans and budget, as well as control and monitoring of the implementation of financial plans and budget.

Operating cost rates are set taking into account the characteristics of a given institution (or a given type of institution) and in the regional context, depending on local conditions (climatic conditions, zone prices, etc.). Operating expenses include: a) wages and salaries, b) clerical and household expenses, c) business trips and service travel, d) expenses for the purchase and repair of inventory and operating equipment, e) special operating expenses, which differ depending on the nature of the given socio-cultural institution or event (for example, educational expenses, purchase of books for libraries, medicines and dressings, food for the sick, etc.), and f) scholarships for students.

Wage rates and scholarships are regulated by law. For teachers, doctors and other employees of social and cultural institutions, fixed salaries have been established, taking into account the length of service of these employees, their educational qualifications, the amount of work, the location

of the institution, etc. For all other expenses, certain average rates are developed. Since the quality of the work of institutions and the production effect of the funds spent are directly related to the size of the norms, special care and attention are required when developing the norms. The calculation of the norms is based on scientific and technical data, direct study activities of institutions and their costs, materials of reports on the execution of estimates, the results of documentary audits of institutions; in addition, a systematic reconciliation of existing planning norms with the actual costs and needs of institutions is carried out.

Rationing is based on material norms (the amount of food per patient, fuel per cubic meter of a building, water per student, etc.). Recalculated at prevailing prices, they are converted into individual financial norms for "certain types of expenses. However, for planning calculations for a number of social and cultural events, it is difficult to use these norms, due to their plurality and diversity. Therefore, for such calculations, more consolidated, so-called combined norms are used, which are the sum of individual norms recalculated for a certain unit that characterises the production activities of this institution (for example, per student in an elementary school, per one bed in a hospital in the city, etc.).

The use of calculations in accordance with the norms by no means relieves the financial authorities from analysing the costs of institutions in essence. This analysis is the basis for amendments to the rules in relation to individual specific institutions.

Funding for social and cultural events (with the exception of enterprises) is carried out on an estimated basis.

This procedure consists in the fact that all gross expenses of institutions and activities financed from the budget are included in it in full. If institutions administer any revenue sources, then all proceeds from them are completely transferred to the budget, and the institutions have no right to make any expenses from them.

Expenses and incomes are included in the budget on the

basis of special budget documents drawn up by institutions – estimates. The costs of a budgetary institution is a list of expenses of this institution compiled in a single form, with their distribution, in strict accordance with the budget classification, for individual types and with detailed calculations and justifications for each of them. The approved estimate serves as a solid plan for financing institutions and the basis for spending the funds allocated under the budget.

The release of budgetary funds is carried out throughout the year not under the approved estimate in general, but as the institution actually fulfills production plans, depending on the coverage of the established contingents. At the same time, expenses that are not provided for by the estimate or exceed the estimated appropriations are absolutely not allowed, and increased expenditures from other sources or from reduced coverage of contingents.

The most important task of financial control in the field of social and cultural expenditures is to ensure the fulfillment of production plans in terms of timely network deployment and coverage of contingents. At the same time, financial control is obliged to fight for compliance with the quality indicators of the work plan of social and cultural institutions, against the deterioration of the quality of services and a decrease in the level of satisfaction of the needs of workers. In this regard, it is of paramount importance to check the established norms of costs and their matching the actual costs and needs of the institution. Financial control data serve as a source material for compiling budget to clarify planning norms, for their changes, as well as a starting point for financial planning. Properly implemented financial control should prevent violations of the planned and financial discipline, in particular underfunding (in comparison with the approved plan) of the most important social activities. Such underfunding under the guise of “saving” on expenses for cultural events often hides the formation of illegal sources for all sorts of super-

estimated, unnecessary expenses, primarily administrative and managerial ones. Therefore, ensuring the volume and timing of financing social and cultural expenses in accordance with the plan, timely payment of wages of teachers and other employees of social and cultural institutions, etc. are one of the most responsible tasks of financial control in the field of social and cultural expenditures.

7. Content and Procedure for Financing Management Expenditures

The expenditures of the budgetary system for administration represent the costs of maintaining the central and local government bodies and state administration. These expenses are divided into four groups: a) general management, b) management and regulation of the national economy, c) administration of social and cultural events, and d) maintenance of justice and prosecutors.

Expenses for general administration include expenses for the election and maintenance of the highest bodies of State power (Supreme Soviets of the Union, Union and Autonomous Republics), bodies of State administration (councils of People's commissars with permanent commissions and committees attached to them), as well as local bodies of state power (councils of workers' deputies). This group also includes the costs of maintaining the apparatus of the People's Commissars of the Union and the Union Republics and their local bodies. The group of expenses for the management and regulation of the national economy covers the maintenance of central and local bodies that are entrusted with the management of the relevant sectors of the economy: industry, trade, agriculture, transport, public communications, public utilities and housing. The expenses for the administration of social and cultural events include

the maintenance of the central and local bodies of the People's Commissariat of Education, the People's Commissariat of Health, and the People's Commissariat of Health. Finally, the expenses for the maintenance of justice bodies include allocations for the People's commissariats of justice of the Union, the Union and autonomous republics, for central and local judicial institutions, the prosecutor's office and the notary office.

The Soviet socialist state is an entirely new type of state, unprecedented in history. At the present stage of its development, its main task within the country is peaceful economic-organisational and cultural-educational work. At the same time, the socialist state performs the functions of protecting socialist property from thieves and plunders of the people: goods. Due to the presence of a capitalist encirclement, it remains function of military defence against external attack. The army, punitive organs, intelligence with their spearheads are already turned not into the interior of the country, but outside of it, against external enemies.

The bourgeois state, on the contrary, is an organisation created to protect private property, the capitalist mode of production, the wealth and privileges of the exploiting minority and is a purely parasitic superstructure, an apparatus of suppression and oppression by an insignificant minority of owners of the means of production of a huge mass of working people.

The bourgeois state apparatus does not manage the economy, it plays primarily a police-regulatory role, protecting the interests of the capitalists against the revolutionary workers, while the economy is run by the capitalists. The interference of modern capitalist states in economic life for the most part leads to destruction. productive forces of the country and intensifies decay. The large expenditures of the bourgeois states on the administrative and police apparatus, on class justice and on the armed forces are completely unproductive.

The costs of administration in the Soviet state are

inextricably linked with its economic-organisational and cultural-educational functions, as well as with the function of protecting socialist property.

This is one of the fundamental features of the administrative expenses of the socialist state in comparison with the administrative expenses of the capitalist state.

In a capitalist encirclement, the socialist state requires its maximum strengthening and strengthening. If the capitalist encirclement continues, the state will also remain under communism.

The Soviet budget must satisfy all maintenance needs. a state apparatus that maintains revolutionary order, legality and protects the Soviet people from the intrigues of enemies. Attaching great importance to the strengthening of the state apparatus, the Soviet government is fighting for its improvement and cost reduction. A mode of economy and a reduction in administrative expenses are by no means a simultaneous campaign, but a constant and inseparable part of the Party's struggle to improve the state apparatus and to accumulate resources for socialist construction. The reduction in the cost of the state apparatus and its rationalisation, at the same time, contribute to the eradication of all kinds of elements of bureaucracy and red tape in it, the expulsion from the apparatus of unsuitable elements—the thugs, etc.

Such a rationalisation of the state apparatus is also associated with the involvement of the broad masses of the Soviet activists in this matter. The increasing involvement of the masses in the management business is one of the most important, decisive moments in the further rationalisation of the state apparatus in comparison with the administrative expenses of the capitalist state.

As a result of the decisive struggle of the party and the government to improve and reduce the cost of the state apparatus, the share of management costs in the budget system of the USSR is systematically decreasing, as can be seen from the following data (in million rubles):

	1924-25	1928-29	1938	1940
Total expenditures of the state budget USSR	3348,7	9281,4	39,905	179913
Incl. management costs	433,2	577,8	1736,3	7161
In %	12,2	6,9	4,4	3,9

In the USSR, Karl Marx's instruction in his "*Critique of the Gotha Programme*" is fully implemented that in a socialist society the aggregate social product will be distributed in such a way that the share of total and non-related management costs in production will immediately be significantly reduced in comparison with what they represent itself in a capitalist society, and will gradually decrease as the new society develops¹.

The increase in the absolute amount of expenditures for management is primarily due to the tremendous growth of the national economy of the USSR. This growth complicated the tasks of managing the socialist economy and social and cultural development. To strengthen operational management and bring it closer to enterprises, the management of industry, agriculture, transport, construction, etc.; People's Commissariats are being broken up and new ones are being organised. With regard to local government bodies, for the same purpose, the disaggregation of the territories, regions and districts is carried out, regional divisions are introduced in the republics that previously did not have it, the lower apparatus is being rebuilt and strengthened. To improve the quality of the work of the Soviet apparatus and to improve the qualifications of its workers, wage rates are repeatedly raised, especially in the countryside. In recent years, the administrative apparatus has grown significantly, while along with its natural increase in connection with the development of the economy, superfluous links have appeared in some sectors of the

¹ K. Marx and F. Engels, *Works*, vol. XV, p. 273.

economy and the staff has grown enormously; from the beginning of 1940 the party and the government carried out a lot of work to improve and reduce the cost of the state apparatus. Measures to streamline the structure of the management staff should provide significant savings in public funds; according to the USSR state budget for 1940 approved by the USSR Supreme Soviet; this savings should reach 1950 million rubles.

Management expenditures, like social and cultural expenditures, are planned according to the normative method. The main elements of the calculation are the staffing contingent, the payroll and other expenses.

The central place in the composition of administrative and managerial expenses (about 70 percent) is occupied by wages, the fund of which is primarily in direct correspondence with the staff of the institution. The size and composition of the staff depend on the range of functions assigned to the institution, on the volume of work and the organisational structure. The structure of the people's commissariats and central institutions is established by the regulations on them, approved by the government of the Union or union republics. The typical structure of local government bodies and their departments is approved by law.

The work on streamlining the staffing and organising constant control over the observance of the established staffs is entrusted to the staff commissions under the USSR People's Commissariat of Finance and the People's Commissars of the Union republics.

The Central Staff Commission under the USSR People's Commissariat of Finance, on the basis of instructions from the Council of People's Commissars of the USSR: a) establishes firm staffing (staffing tables) for the central administrative apparatus of the people's commissariats and other central institutions of the USSR; b) determines the staff contingents of employees for each department as a whole, separately—for economic agencies, enterprises, socio-cultural institutions and local bodies of union subordination,

as well as for republican and local bodies of union-republican people's commissariats and departments of the USSR (for union republics); c) in the necessary cases, approves the standard staffing of the management apparatus (MTS, state farms, branches of credit institutions, etc.).

The staff commissions under the NKF of the union republics approve: a) the summary schedules of the central administrative apparatus of the union republican and republican people's commissariats and other central institutions and organisations of the union republic; b) staff contingents of employees for each republican department for economic organisations and enterprises, research institutions, educational institutions and other social and cultural institutions; c) regular contingents for local bodies of the Union-republican and republican people's commissariats with a subdivision for the ASSR, territories and regions; d) if necessary, standard staff of the management apparatus individual institutions (schools, state farms, etc.).

Within the approved staffing contingents for each People's Commissariat and the central institution of the USSR or the Union Republic, the People's Commissar or the head of the central institution of the Union or Union Republics approves: 1) the states for each subordinate local body of the Union. or republican subordination, research institute, educational an institution or other social and cultural institution, as well as for the management of each trust and association and for the management apparatus of each enterprise directly subordinate to the people's commissariat or central institution; 2) staff contingents for the management bodies of enterprises included in the trust or association, as a whole for each trust or association; 3) the staffs of the management apparatus for each of these enterprises are approved by the head of the trust or association within the established staffing contingent.

The staffing tables for the departments and administrations of the regional and regional councils and the people's commissariats of the ASSR, which are on the local

budget, as well as the staffing contingents of the administrative apparatus of institutions and enterprises of local importance, are approved by the SNK of the ASSR, the regional and regional councils. Within these contingents, the staffs for each individual enterprise or institution are approved by the appropriate department of the regional (regional) council or the People's Commissariat of the ASSR.

The staffs of institutions financed from the district budget are approved by the regional (regional) councils and councils of people's commissars of the union and autonomous republics that do not have regional divisions, and the staffs of institutions financed from the rural budget are approved by district executive committees.

To increase the interest of institutions and enterprises in the struggle to rationalise the apparatus, 50 percent is left at the disposal of their leaders for bonuses to employees, savings achieved as a result of reductions in established staffing levels.

The second element in the calculation of the payroll is its rate for the respective positions in the staffing table. For individual groups of employees of the administrative and managerial apparatus, wage rates are established in a different manner. For a number of categories of workers of the Council of People's Commissars of the USSR, fixed salaries have been approved (responsible political workers of the central and local apparatus, people's judges, chairmen and secretaries of village councils, heads of higher educational institutions, technical schools, schools, medical institutions, etc.).

The salary rates for employees of state institutions are regulated by a special law of the state salary regulation. This rationing is carried out on the basis of a single firm nomenclature of positions, approved firm staffs and the established salary scheme. In order to create material incentives to increase labour productivity, improve the quality of work and strengthen labour discipline, as well as to eliminate equalisation in pay for employees of public

institutions, salary schemes are built with significant differentiation. For each position, several rates are established, depending on the experience and qualifications of employees, the volume of work they perform and the quality of this work. Employees of institutions whose work lends itself to accurate accounting and rationing are transferred to piecework pay (typists, rotators, counting workers, etc.). Without the permission of the Economic Council under the Council of People's Commissars of the USSR, it is forbidden to introduce new tariff rates, establish new rates, official salaries, and introduce substantially revised production rates and rates.

For specialists who are especially valuable for a given institution or enterprise, who have been promoted to managerial work and have proven themselves special initiative and knowledge of the matter, personal rates are established.

The right to assign personal salaries was granted only to the Council of People's Commissars of the USSR for institutions, enterprises and organisations of union subordination and the Council of People's Commissars of the Union republics—for institutions, enterprises and organisations of republican and local subordination.

Personal salaries can be set in the amount of up to one and a half months of the official salary approved for the position held by a specialist, but not more than 1400-2000 rubles. for various People's Commissariats of the USSR and 1400 rubles for institutions of republican and local subordination. The number of persons for whom a personal salary is established is determined by the Council of People's Commissars of the USSR.

For persons working in remote areas of the USSR, special salary benefits are provided in the form of 10 percent salary increments after a year or three years, depending on the location. The total amount of the allowance cannot exceed 100 percent of the salary.

The general wage fund for each institution is determined

in accordance with the approved PMA and wage rates, as well as including the salary of the staff and non-staff contingent of the institution, paid before October 1, 1939 at the expense of other budget items. To ensure the 'strictest discipline in the spending of payroll funds and to carefully monitor their correct use, a firm, mandatory procedure for planning payroll funds has been established. The annual and quarterly funds for each department (and for the local economy — for each Union republic) are specially allocated by the USSR State Planning Committee in annual and quarterly national economic plans. Within the limits approved by the Council of People's Commissars of the USSR, the limits of fixed wage funds (with a monthly breakdown) for all-Union institutions are determined by the heads of union departments and people's commissariats, and for republican and local institutions—by the SNK of the union republics. Similar work is carried out, on the basis of the limits established by the Council of People's Commissars of the Union republics, by the regional and regional councils. Each council then approves firm annual and quarterly payroll funds for its subordinate institutions.

For all institutions that are on the union, republican and local budgets, wage funds are planned by the relevant financial bodies, which allocate them especially when presented their budgets and quarterly plans for their implementation for approval by the government and local councils.

Any excess of the wage fund established by the national economic plan and budget is punishable under criminal law, and responsibility for the correct use of wage funds entrusted to heads of institutions and enterprises and chief accountants.

In order to control the observance by all institutions, enterprises and organisations of the states and official salaries approved for them, mandatory registration has been established with the city and district financial authorities of the states, funds and salary rates of employees of all institutions, enterprises and organisations.

In the event that institutions and enterprises do not comply with the states and wage rates established for them, the financial authorities are given the right to close budget loans for them pending the elimination of the violations noticed; in addition, the perpetrators are held accountable. State Bank institutions issue funds for wages (based on the actual availability of employees and accrued wages) only upon presentation of certificates of registration of states, funds and wage rates and a certificate from the institution about the number of employees and the monthly wage fund.

All work on staffing and rationing of wages is concentrated in the NKF of the USSR and the NKF of the Union republics in staff departments, which are the working apparatus of staff commissions. The staff offices are responsible for: a) preparation of materials on states and salaries for the state commissions; 0) organisation of control over the observance of established staffs and official salaries; c) development and accounting of staff contingents and salaries of employees in all sectors of the economy; d) development of issues of state regulation of wages of employees; e) gas processing of a consolidated plan and a report on administrative and management expenses; f) management of the work of lower financial bodies on state issues and state rationing of wages.

To organise work on the registration of states, funds and wage rates in the NKF of the republics that do not have a regional division, and in the regional and regional financial departments, special registration offices have been formed. In addition, staff departments are organised as part of the same financial agencies, which, without fulfilling the duties of direct registration of states, manage staffing in the territory of the krai or oblast.

In the largest districts and cities, as part of the financial departments, special positions of state inspectors are established, who register states, funds, wage rates and check the state of staff discipline on the spot, in the institution and the enterprise.

Enemies of the people, agents of the capitalist states, who had crept into the leadership of the USSR People's Commissariat for Finance and local financial authorities, deliberately disorganised the staffing. They obfuscated state accounting, failed to comply with state registration laws, thwarted the development of model states, failed to enforce established rates and wage funds, patronised state bloat, and so on.

The financial authorities have a responsible task - to completely root out the consequences of sabotage in a regular business, establish firm state discipline in it and achieve accurate compliance with state laws.

The elimination of the consequences of sabotage and its prevention in the future require the complete elimination of underestimation of the value of regular work, vigilant monitoring so that the registration of staffing tables does not turn into their stamping, active control over the observance of staff discipline and Bolshevik insistence in eliminating violations.

The rest of the expenses for the maintenance of the management apparatus (office, household, travel, etc.) are determined in the normative manner; capital investments are planned for the same grounds as in other sectors of the economy.

Funding for management costs is carried out on an estimated basis, that is, on the basis of strictly justified and approved estimates—for each institution. These estimates are the material for planning management costs, and once approved, a “solid” financing plan. On the basis of the estimates, consolidated plans for administrative expenses are drawn up for departments and individual links of the budget system. For departments, consolidated plans are submitted to the State Planning Committee of the USSR by the people's commissariats, and for the union republics—by the NKF of the union republics. These plans provide indicators: on the number of institutions, on their staff, the total amount of administrative costs and on the payroll. In the national

economic plan, the total number of employees, the wage fund and its average level are established for the administrative staff.

To ensure the regime of savings on administrative costs of institutions that are on the republican and local budgets, when planning these budgets, a firm limit of these costs is established, that is, the maximum, maximum level for the year. The fulfillment of the limits is carefully checked when the republican budgets are considered by the union bodies, and in relation to the budgets autonomous republics, territories and regions—the governments of the union republics. At the same time, special attention is paid to preventing hidden increase in administrative costs by attributing any part of them to allocations to other sectors of the economy.

CHAPTER XV. THE BUDGETARY SYSTEM OF THE USSR

1. The Essence and Significance of the Budget of The USSR

The state budget of the USSR is central to the entire financial system, playing a critical role in the distribution people's income through money. In the budget, all separate channels merge into a single whole, through which the state draws into its centralised accumulation fund of the socialist economy and a certain share of the population's income (state revenues, taxes, state loans, state insurance, deposits in savings banks). Through the budget, these funds are redistributed, in accordance with the state national economic plan, between the branches of the national economy and within them—between town and country and between different regions of the country. Thus, the state budget of the USSR is a powerful instrument of the economic policy of the party and government. He will provide finances the development of the country's productive forces with financial resources, the Bolshevik rates of industrial construction, the strengthening of the collective farm system in the countryside, the elimination of the opposition between town and country, the implementation of the Leninist-Stalinist nationality policy, the cultural revolution and the strengthening of the defensive power of the Soviet state. In the previous stages of socialist construction, the budget actively contributed to the restriction and displacement, and then the complete elimination of capitalist elements in the country.

The state budget of the USSR, as mentioned above, is the main financial plan of the socialist state. The revenues and expenditures of the state budget of the USSR, like the entire economic life of the USSR, are determined and directed by

the state national economic plan. Since the budget is based on the quantitative and qualitative indicators of the national economic plan, the implementation of the budget is impossible without the implementation of the national economic plan. On the other hand, since the budget directs its resources to finance the most important sectors of socialist construction and, in terms of the amount of concentrated funds, plays in relation to the decisive role, the implementation of the national economic plan is impossible without the implementation of the state budget. In this regard, the state budget of the USSR is one of the most important instruments for fulfilling the national economic plan.

In its revenue part, the state budget relies in the overwhelming mass (over 90 percent) on the accumulations of the socialist economy. The basis of Soviet budget revenues is the growth of production of socialist enterprises, an increase in labour productivity, a decrease in production costs and an increase in the profitability of these enterprises. The attracted funds of the population make up only about 9% of the state budget of the USSR. (1940). More than half of these funds go to the budget through the voluntary placement of workers' savings in government loans and deposits in savings banks. These savings reflect the steady growth in the material well-being of workers and employees in a socialist state and the growth in the prosperity of collective farmers.

In the expenditure side, the USSR state budget is the main and decisive source of financing for expanded socialist reproduction—the construction of socialist enterprises, the formation and replenishment of their working capital, social and cultural events, the country's defence, the administrative apparatus and the formation of state reserves. Of the 120.1 billion rubles allocated for socialist construction in the first five-year plan, 84.1 billion rubles, or 10 percent, fell on the budget; of 414 billion rubles, constituting the execution of the financial plan of the second five-year plan,

362.1 billion rubles, or 16.8 percent, were mobilised through the budget.

On the basis of the victories of socialism in our country, the state budget of the USSR is steadily developing in the direction of transforming it to the budget of the entire national economy as a whole. The funds concentrated by the Soviet budget, returning to the national economy, stimulate an increase in the national income and an increase in the material and cultural level of the working people. The socialist budget of the USSR is the people's budget. welfare, the prosperity budget of a country that has eliminated all exploitation of man by man.

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The state budget does not include all revenues and expenditures of the state economy. The successful solution of one of the central tasks of financial policy—the strengthening of profit-and-loss accounting—requires ensuring the economic independence of economic agencies and leaving at their disposal a certain part of savings. The budget is faced with the task of ensuring the fulfillment of the national economic plan with finances; therefore, the budget should provide for an increase in revenues, the search for new revenues the implementation of the maximum regime of savings in expenditures. The budget releases funds only under the condition of exhaustive use of all other sources of covering the costs of economic agencies, first of all, the own accumulations of branches of the economy. At the same time, the budget takes into account all the legal

possibilities for increasing the profitability of enterprises (increasing savings, conducting maximum thrift). The relationship of the budget with the sectors of the economy is organised in such a way as to ensure the strengthening of the budget as a powerful instrument for deepening cost accounting, actively promoting the fulfillment and overfulfillment of the quantitative and qualitative targets of the production plan. In relation to all other financial plans, the state budget of the USSR is the leading, coordinating link. The budget determines both the financial obligations of the sectors of the economy to the state, and the amount of their financing from public funds. The budget cements all sectoral financial plans into a single coherent system, giving them firmness, sustainability and directive character. In this respect, the state budget of the USSR is the main pivot of the entire financial economy of the USSR.

In view of the largest national economic and political significance of the state budget of the USSR, it is approved by the Supreme Soviet of the USSR as a law. Assigning the force of law to the budget is essential. All elements of the state budget are subject to common goals and objectives for the entire Union. A unified procedure for drawing up and executing the budget and financial plans is being established about new revenues and expenditures into the budget is conditioned by the presence of the corresponding decree of the legislative bodies. At the same time, the appropriation of the force of law to the budget greatly increases its firm and decisive influence on the content and course of fulfillment of all other financial plans. All payments to the budget of various sectors of the economy acquire the force of firm obligations to the state: a solid foundation is being created for the establishment of the strictest budget discipline, which is one of the most important foundations budgetary organisations. This discipline should ensure the comprehensive and timely receipt of all budget-approved revenues and their fully expedient, efficient and economical use in strict accordance with the budget plan.

Thus, the state budget of the USSR is a state financial plan for the formation of a single fund of monetary funds at the disposal of state authorities for each economic year approved by the Supreme Soviet of the USSR for each economic year and the direction of these funds, in accordance with the economic plan, in the manner of irrevocable financing, in order to carry out the functions of the Soviet state, in the interests of expanded socialist reproduction.

The state budget of the USSR is fundamentally different from the budgets of the capitalist countries.

The bourgeois state, as comrade Stalin pointed out, acts only as an institution for organising the country's defence, organising the protection of "order", as an apparatus for collecting taxes. But the economy in the proper sense has little to do with the capitalist state—it is not in its hands. On the contrary, the state is in the hands of the capitalist economy. The bourgeois state is only a committee for managing the general affairs of the bourgeoisie, an organ for the protection of capitalist exploitation, an instrument of oppression and enslavement of the working people.

The parasitic nature of the capitalist state also determines the unproductive use of funds collected by the capitalist budget. These funds are spent almost exclusively on the maintenance of the apparatus for the suppression and oppression of the working people, on the maintenance of the army, gendarmerie, police, prisons, bureaucratic apparatus, church, etc. In the revenue part, the budgets of the capitalist countries are based on the direct robbery of the working people with taxes, in the name of the interests of finance capital: At the same time, the bourgeoisie seeks to hide from the masses the true purpose of the budget, portraying it as if the budget funds are going to meet the needs of the people.

2. Fundamentals and Principles of the Budgetary Structure of the USSR

All the basic principles of organising the budgetary system of the USSR were established by the Stalinist Constitution of the USSR. These main principles are: 1) the state structure of the USSR as a socialist state of workers and peasants; 2) the state structure of the USSR as a union state based on the principles of the Leninist-Stalinist nationality policy; 3) consistent democracy inherent in the socialist state; 4) complete unity of the entire budgetary system of the USSR; 5) approval of the state budget of the USSR, taxes and revenues received for the formation of the union, republican and local budgets—by the highest authorities of the USSR.

The Constitution of the USSR establishes three main links of the budgetary system of the USSR: union, republican and local budgets.

“The Union of Soviet Socialist Republics is a union state formed on the basis of a voluntary union of equal Soviet socialist republics” (Article 18 of the Constitution of the USSR). The Soviet Union, as the declaration on the formation of the Union says, is a union of the union republics into one union a state “capable of ensuring both external security, and internal economic prosperity, and the freedom of national development of peoples”. In this way,. the goal of the USSR is to ensure the unity of the Union republics along the lines of economic and political, as well as along the line of defence.

The tasks set before the Union of Soviet Socialist Republics require the unification of the material and financial resources of the union republics for their fulfillment. It is this association that finds its expression in the formation of the union budget of the USSR.

Having liberated and made equal all nationalities, populating the USSR, ensuring their state independence, Leninist-Stalinist nationality policy aims to help the labouring

masses of the non-Great Russian nationality should catch up with Russia, which has gone ahead, both in the field of economic construction and in the development of culture — national in form, socialist in content. For this purpose, we need appropriate financial resources, the adaptation of the financial system to directly serve the needs of the economy and culture of nationalities. This task is solved by the organisation of independent republican budgets of the union and autonomous republics. Republican budgets are the financial basis for the union and autonomous republics in all those areas of economy, culture and management that are not attributed to the jurisdiction of the USSR by the Constitution of the USSR and where the union and autonomous republics, according to Art. 14 and 15 of the Constitution of the USSR, independently exercise their state power. The presence of independent budgets, approved by the highest bodies of state power of the union republics, is one of the characteristic features of the state sovereignty of these republics.

At the same time, the Soviet budget system is actively contributing to the elimination of the remnants of the former economic and cultural backwardness of the national regions of the USSR. The financial support of the Union budget ensured in the national republics and regions higher rates of economic and cultural growth than the average for the USSR. Thanks to the rapid economic and cultural development, the face of the national regions has completely changed.

The bulk of the funds allocated for the economic development of the national republics and regions come from the union budget. Expenditures on social, cultural and everyday activities are covered mainly by the republican and local budgets of the union and autonomous republics. Struggling to raise the cultural and economic level of the national regions to the level of the advanced regions of the USSR, the Party and the government ensured a faster growth of the budgets of the economically backward republics in comparison with the advanced ones. Thus, over the years of

the two Stalinist five-year plans, with the growth of the republican and local budgets of the RSFSR by 8.4 times (from 2.3 billion rubles to 19.4 billion rubles), these budgets in the Turkmen SSR increased by 10.3% (from 38 million rubles to 391 million rubles), the Uzbek SSR 9.8 times (from 119 million rubles to 1165 million rubles), etc.

Consistent socialist democracy, clearly expressed in the Stalinist Constitution of the USSR, deeply penetrates the entire budgetary structure of the USSR. It was reflected primarily in the fact that without exception to all councils of workers' deputies (territorial, regional, autonomous regions, district, district, city and rural) granted the right to establish their own local budget. Thus, they receive funds to guarantee the exercise of the rights granted to them by the Constitution.

The allocation of independent local budgets contributes to:

1) the most complete accounting and satisfaction of various local needs; 2) active participation and manifestation of the creative initiative of the broad working people in economic, cultural and financial development; 3) better organisation of the economy, subordinate to local councils, and 4) strengthening the interest of local councils in the implementation and overfulfillment of the plan of state revenues, some of which are transferred to local budgets.

The consistent democracy of the Soviet budget system is reflected, further, in the full transparency and publicity of the budget and in the scope of the rights of the popularly elected bodies of state power.

The Supreme Soviet of the USSR, unlike the bourgeois parliaments, as a true owner, examines in detail the entire state budget of the USSR without any restrictions on its competence and budgetary initiative; the same, accordingly, applies (within the limits of the budgetary competence established by the Constitution) to the Supreme Soviets of the Union of the autonomous republics and to the Soviets of Working People's Deputies.

The main beginning of the budgetary structure of the USSR is the complete unity of the entire budgetary system. This unity is defined before. the whole unified class nature of the socialist state of workers and peasants and the unified tasks of all organs of state power. Soviet power is a state form of the dictatorship of the proletariat; all the constituent parts and organs of the Soviet state are under the leadership of a single monolithic communist party, which is "the leading nucleus of all organisations of workers, both public and state (Art. 126 of the Constitution of the USSR). The unity of the budgetary system is due to the unity of the political foundation of the USSR, which consists of the Soviets of Working People's Deputies, which have grown and strengthened as a result of the overthrow of the power of the landlords and capitalists and the conquest of the dictatorship of the proletariat. In the USSR, the opposition, typical for bourgeois states, of the bodies of state power to the bodies of self-government, with the division of competence between them, with the utmost limitation of self-government and its subordination to active control by the bodies of state administration, has been eliminated. Soviets of Working People's Deputies, built on the basis of genuine democratic self-government, are the single and only carriers of state power at the local level, therefore the budgets of the councils as bodies of state 'power are parts of a single state budgetary system. "The unity of the budgetary system of the USSR rests, further, on the unity of the economic basis of the USSR, which is constituted by the socialist economic system and socialist ownership of the instruments and means of production. The unity of tasks and the common interests of all the union republics united in the USSR, the moral and political unity of the peoples of the USSR and their unity around the Lenin-Stalin party in the struggle to build a communist society, for their part, strengthen the unity of the budgetary system of the USSR.

The entire budgetary system of the USSR, taken as a whole, is finally cemented by a single state national

economic plan, which determines and directs the entire economic life of the country. The unity of the plan requires the unity of financial policy and the unity of the budgetary system.

The Constitution of the USSR establishes that the entire network of budgets of the USSR is united into one whole—the state budget of the USSR.

The consolidation in the state budget of the entire budgetary system of the USSR is carried out on the following principles: the union budget and the state budgets of the union republics are included in the state budget of the USSR; the state budgets of the union republics include: the republican budget of the union republic, the state budgets of the autonomous republics and the budgets of local government bodies; the state budgets of the autonomous republics cover the republican budget of the republic and the budgets of local government bodies. The division of the budget system into separate links and the assignment of sources of income and financing objects to certain types of budgets do not in any way violate the unity of the budget system; this structure of the state budget vividly reflects the true democracy of the socialist state, which ensures the budgetary independence of the union republics and the strengthening of the initiative and initiative of the Soviets of Working People's Deputies; republican budgets are included in the state budget of the USSR in the totals by sectors of the economy, local budgets are included in the state budget of the USSR only in total amounts, without subdivision expenses by branches of the economy and activities.

The state budget of the USSR, covering the entire budgetary system of the USSR, is approved by the Supreme Soviet of the USSR by a legislative act. The law on the budget imparts integrity to the entire budgetary system, reflecting the tasks of national economic and cultural development and financial policy that are common for the entire budgetary system.

The unity of the budgetary system of the USSR was

expressed and the fact that all income and taxes received for the formation of the budgets of the union, republican and local, in accordance with Art. 14 of the Constitution of the USSR, are under the jurisdiction of the USSR and are established and distributed among separate budgets by the Supreme Soviet of the USSR.

The state budget of the USSR built on the basis of these principles in 1940 has the following structure in terms of expenditures (in million rubles):

Budgets	Amount	%
Union	137054	76,2
Republics	12368	6,9
Autonomous republics and local	30491	16,9
	<hr/> 179913	<hr/> 100

Due to the fact that all Soviets of Working People's Deputies, without exception, have independent budgets, the system of local budgets consists of numerous links, which occupy the following position in their general set (according to the report on the execution of local budgets for 1938 in terms of expenditures, in millions of rubles):

Budgets	Amount	%
Republics ASSR, regional, and district	6627	24,5
Urban and workers' settlements	10460	38,4
District	8400	30,8
Rural	1696	6,3
	<hr/> 27223	<hr/> 100

Thus, over 75 percent of the total amount of local budgets is concentrated in the jurisdiction of city and village councils and district executive committees; the local budget has been set directly facing the working

masses and the collective farm village.

As can be seen from the above figures, more than 3/4 of all budgetary resources are concentrated in the Union budget of the USSR, which occupies the leading place in our entire budgetary system and being a centralised resource fund of the entire socialist state. This situation is entirely determined by the tasks of the formation of the USSR. The centralisation of funds requires the unity of the state national economic plan. Only when resources are concentrated in the hands of the USSR can the correct direction of the development of the productive forces be carried out in accordance with the tasks of socialist construction, Leninist-Stalinist nationality policy and strengthening the defence power of the USSR.

The concentration of funds in the union budget provides the necessary flexibility in their redistribution and creates a common material base and organic unity for the entire budget system.

The unity of the national economic plan requires not only the concentration at the disposal of the USSR of the bulk of budgetary resources, but also the centralisation of budget planning and management in order to direct the entire budget system, from top to bottom, in the mainstream of a single financial policy.

The centralisation of funds, the centralisation of planning and directive leadership by no means violates the principle of consistent democracy in the budgetary structure of the USSR, but, on the contrary, by the very close way is combined with its implementation.

With democratic and socialist centralism, neither templating nor enforcing uniformity from above has anything to do with it. Unity in. basically, fundamentally, not fundamentally violated, but is

provided by a variety in details, in local peculiarities, in methods of approach to business, in methods of exercising control, in ways of exterminating and neutralising parasites...”¹

3. Budgetary Rights of the Union, Union and Autonomous Republics and Local Government Bodies

The budgetary structure of the USSR, the procedure for drawing up, considering, approving and executing budgets, as well as reports on their implementation, the procedure and forms for attracting funds to budgets and their spending are established by budgetary legislation. The most important issue of budgetary legislation is the definition of the budgetary rights of the union, republican and local bodies of state power and government.

The foundations of budgetary rights are established by the constitutions of the USSR, union and autonomous republics. According to the Stalinist Constitution of the USSR, the approval of the unified state budget of the USSR, as well as taxes and revenues received for the formation of the budgets of the union, republican and local, is subject to the jurisdiction of the USSR in the person of its higher authorities and government bodies (Article 14).

The Council of People's Commissars is responsible for taking measures to implement the USSR state budget. USSR (Art. 68).

¹ V. I. Lenin, *Works*, Vol. XXII, p. 166.

The budget of the union republic is approved by its Supreme Soviet (Art. 60). The budgets of local councils are established by the relevant state authority (Art. 97).

The higher authorities of the USSR approve the state national economic plan of the USSR, on the basis of which all budgets are drawn up, and also establish the basic principles in the field of education, health care and labour legislation (Article 14 of the Constitution of the USSR). Thus, the republican and local budgets {the overwhelming part of them are expenditures on social and cultural events) receive a directive direction in all their main elements from the union centre.

The approval of the set of all budgets of the USSR as part of the state budget of the USSR requires the establishment of complete unity of the timing of budgeting and budget classification, forms of budgets, estimates and financial plans and the procedure for drawing up, considering, approving and executing the budget, therefore, all the basic principles in this regard are established by the supreme bodies state power and state administration of the USSR.

Finally, the authorities of the USSR, represented by the Presidium of the Supreme Soviet of the USSR, have the right to supervise compliance with the Union legislation, including in the field of the budget, as well as the right to cancel decisions and orders of the Council of People's Commissars of the Union republics in the event of their inconsistency with the law.

The sovereignty of the union republics is limited by the limits of Article 14 of the Constitution of the USSR. Outside these limits, each union republic exercises state power independently, and the sovereign rights of the union republics are protected by the USSR. Thus, in the field of budgetary competence, the Union republics are

limited in terms of expenditures by a circle of economic sectors assigned by the Constitution of the USSR to the jurisdiction of the USSR, in terms of income—by the list of incomes and taxes approved by the USSR for the formation of republican and local budgets, and in terms of total resources their distribution is determined by the state national economic plan and the state budget of the ASSR established by the USSR.

On the basis and within the limits of union legislation, the union republics (as established by their constitutions) independently approve the national economic plan, the state budget of the republic and a report on its implementation; establish, in accordance with the legislation of the USSR, state and local taxes and fees and non-tax revenues; manage the implementation of the budgets of the autonomous republics and local budgets of territories and regions.

All constitutions of the union republics have a special chapter on the budget of the republic, which specifies the general principles established by the Constitution of the USSR. Thus, the constitutions of the union republics indicate that the state budget of the republic is drawn up by the council of people's commissars of the union republic and submitted by him for approval by the Supreme Soviet of the republic. The Supreme Soviet of a union republic elects a budget commission, which reports to the Supreme Soviet its opinion on the state budget of the republic.

The report on the execution of the budget of the republic is approved in the same manner as the budget, that is, by the Supreme Soviet of the republic. The constitutions of the union republics establish the principle of publicity of the budget: the state budget approved by the Supreme Soviet of the republic... and

the report on its implementation are subject to publication for general information. Finally, the constitutions of the union republics determine the main revenue base for the budgets of the autonomous republics and local budgets; these budgets include revenues from the local economy, deductions from state revenues received in the relevant territory, as well as revenues from local taxes and fees in the amounts established by the legislation of the Union and the union republics.

The jurisdiction of the union republics within the framework of union legislation is subject to: distribution between certain types of local budgets: income and expenses attributed by union legislation to the local budget as a whole; determination of the procedure for covering the deficits of republican, ASSR and local budgets of territories and regions when it is impossible to cover absolutely necessary expenses and balancing budgets in the process of drawing them up on the basis of income assigned to them; redistribution for this purpose of funds transferred by union legislation to the state budgets of the union republics generally; determination of the procedure for covering the deficits of the republican ASSR and local budgets of territories and regions in the event of a shortfall in the process of executing these budgets of the revenues provided by them; establishment of the procedure and terms for the submission, consideration and approval of estimates and financial plans for republican budgets, as well as budgets of the ASSR and local budgets, also the budgets of the ASSR and local budgets.

The Presidium of the Supreme Soviet of the Union Republic was granted the right to cancel decisions and orders of the Council of People's Commissars of the

ASSR and the regional and regional councils of workers' deputies in the event of their inconsistency with the law, and the Council of People's Commissars of the union republic - the right to suspend the decisions and orders of the Council of People's Commissars of the ASSR and cancel the decisions and orders of the regional and regional executive committees.

Similar rights within the legislation of the Union and the Union republics also belong to the autonomous republics.

The constitutions of the union and autonomous republics have given local government bodies the right to establish their own local budget and approve a report on its implementation. At the same time, the Soviets of Working People's Deputies introduce local taxes and fees permitted by federal and republican legislation and determine, within the limits and on the basis of republican legislation, the terms and procedure for drawing up, considering and approving estimates and financial plans for the local economy.

Since the Soviets of Working People's Deputies manage on their territory all cultural and economic development, and the executive committees and departments of the councils are subordinate in their activities not only to the corresponding council, but also to the higher body of state power, the budgetary rights of the councils also include: 1) management of activities in the field of the budget all subordinate councils; 2) taking measures to implement all local budgets on the territory of the council; 3) planning of lower-level budgets, that is, approval of the total planned volume of these budgets and the distribution of their funds: among the sectors of the national economy; 4) regulation of lower-level budgets, that is, providing

them with additional funds in excess of those assigned to them by law, in order to balance them at a level that ensures the implementation of the national economic plan subordinate to the councils; 5) consolidation of all budgets and reports on their execution in their territory into general codes; 6) subsequent consideration, from the point of view of compliance with legislation, of the national economic plan and planning directives and the feasibility of the approved subordinate budgets and reports on their implementation.

4. Distribution of Expenses between the Union, Republic and District Budgets

In the implementation of the budgetary rights of the Union, union and autonomous republics and local authorities, a significant distribution between the links of the budgetary system of revenues and expenditures is important, which predetermines the internal content of certain types of budgets.

The distribution of expenses between the union, republican and local budgets is mainly derived from the distribution of functions of state administration and from the demarcation of the economy on the basis of its subordination to the bodies of the Union, union and autonomous republics and local councils of workers' deputies. This jurisdiction rests entirely on the competence of the Union, union and autonomous republics and local government bodies established by the Constitution of the USSR.

A number of public administration functions, and branches of the economy, according to the Constitution of the USSR, is completely transferred to the

jurisdiction of the USSR and is governed by it through the allied people's commissariats.

Individual branches of the economy are wholly concentrated under the subordination of the union republics and are governed by republican people's commissariats.

The distribution according to jurisdiction between the Union, union republics and local councils of all other industries under the jurisdiction of the union-republican people's commissariats is made in accordance with the importance of enterprises, institutions, organisations and events. This value is determined by their functions, area of activity, and boundaries of the territory to which they apply measures, and the most appropriate organisation of management of this sector of the economy in accordance with its role in socialist reproduction. According to Art. 76 of the Constitution of the USSR, the Union republican people's commissariats, as a rule, manage the corresponding sectors of the economy through the republican people's commissariats of the same name and directly manage only a limited number of enterprises according to the list approved by the Presidium of the Supreme Soviet of the USSR.

In accordance with the competence of the USSR established by the Constitution: the union budget finances: 1) the economy and economic events of all-Union significance (industry under the jurisdiction of the union people's commissariats, railway and water transport, communications, foreign trade, procurement), as well as a certain range of enterprises under the jurisdiction of the union-republican people's commissariats according to the list approved by the Presidium of the Supreme Soviet of the USSR (state farms, trade, food industry, light industry, forestry,

road economy); 2) social and cultural institutions of all-Union significance (the bulk of higher educational institutions, research institutions, major clinics, benefits for mothers with many children, social insurance); 3) the defence of the socialist 'homeland; 4) expenses for the maintenance of the highest authorities and state administration bodies of the USSR, the apparatus of the union people's commissariats, the union bodies of the court and the procurator's office and the union apparatus of the union and republican people's commissariats; 5) expenses on government loans; 6) the formation of state reserves.

The republican budgets of the union republics finance: a) economy and economic activities of republican significance (local industry and communal services), as well as of the Union-Republican significance, not assigned by the Presidium of the Supreme Soviet of the USSR to the jurisdiction of the union bodies of the Union-Republican People's Commissariats (food industry, light industry, forestry, film industry, agriculture, state farms); b) social and cultural institutions and events of republican significance (higher educational institutions and technical schools under the jurisdiction of the republican people's commissariats, the largest hospitals; pensions and benefits for disabled workers, old age and seniority, etc.); c) maintenance costs. higher bodies authorities and public administration bodies of the republics, judicial bodies on the territory of the republics, the apparatus of the republican people's commissariats and the republican part of the union-republican people's commissariats.

The budgets of local government bodies are responsible for financing: 1) households and economic

activities of local importance (industry, agriculture, trade, road construction, local transport, utilities and housing); 2) public education (primary, incomplete secondary and secondary schools, preschool and out-of-school institutions, political and educational institutions and events, training of mass cadres, local press, art); 3) health care (a mass medical network, institutions and measures for the protection of mothers and infants, for the protection of children's health, the fight against epidemics, etc.); 4) social security (pensions and benefits for disabled veterans and disabled people from birth, homes for the disabled, employment of disabled people, etc.); 5) physical education activities; and 6) maintenance of district government bodies.

In accordance with this distribution of expenditures, the expenditure side of the union, republican and district budgets has the following structure (in million rubles according to the budget for 1940):

	Union budget		Republican budgets		District budgets		State budget of the USSR	
		%		%		%		%
Financing of the national economy	48893	35,7	3749	30,3	4,567	15,0	57,209	31,8
%	85,5	—	6,5	—	8,0	—	100	—
Social and cultural events	13942	10,2	6974	56,4	22072	72,4	42988	23,9
%	32,4	—	16,2	—	51,4	—	100	—
Office, judge the prosecutor's office	2279	1,7	1598	12,9	3284	10,8	7161	4,0
%	31,8	—	22,3	—	45,9	—	100	—
Defence	57061	41,6	—	—	—	—	57066	31,7
%	100	—	—	—	—	—	100	—
NKVD	7045	5,1	—	—	—	—	7045	3,9
%	100	—	—	—	—	—	100	—
Other expenses	7829	5,7	47	0,4	568	1,8	8444	4,7
%	92,8	—	0,4	—	6,8	—	100	—
Total	137054	100	12368	100	30491	100	179913	100

The concentration of defence spending and the overwhelming part of financing the national economy in the union budget is of exceptional importance for strengthening the country's defence capability, for the correct location and development of the country's productive forces and for bringing economically backward regions to the level of advanced ones. The republican and local budgets concentrate mainly on social and cultural events, which make it possible to most fully satisfy the cultural and everyday needs of the working people.

In the financing of the national economy, the share of the Union budget is especially high in expenditures on industry (92.7 percent), on transport (98.0 percent), on trade and procurement (95.3 percent), on agriculture (about 80 percent); it accounts for only 24 percent of financing for education, and about 11 percent for health care. Local budgets, on the contrary, cover 60 percent all expenditures of the budgetary system for education and 18.3 percent for health care; in financing the national economy, they play a decisive role in the field of public utilities and housing (97.6 pron.).

The entire set of costs attributed to the local budget is distributed, further, between the individual types of these budgets. The union legislation assigns this distribution to the competence of the union republics. The legislation of the latter establishes a typical distribution of expenditures by types of local budgets.

All local budgets are subdivided into two groups – basic and regulatory budgets. Core budgets include budgets of districts, cities, townships and village councils, where funding for institutions and activities that meet the cultural, everyday and economic needs of the broad working masses should be concentrated.

Regulatory budgets of territories, regions and districts are intended to cover the costs of institutions and activities serving subordinate administrative units or having

significance for the entire territory of the territory, region or district. In addition, these budgets are intended to distribute funds among the lower-level budgets; necessary to balance them.

When distributing costs between local budgets, the same general provisions are adopted that are given above. Everyone's budget of the council should cover, of the entire composition of funding objects assigned to local budgets as a whole, only those institutions, enterprises and events, the area of activity of which and the boundaries of service do not go beyond the territory of this council; institutions, enterprises and activities assigned to the local budget that have a broader significance, going beyond the boundaries of a given administrative unit, should be transferred respectively to the higher budget.

According to the report on the execution of the budgets of the ASSR and local budgets for 1938, the structure of expenditures of certain types of local budgets is as follows (in million rubles):

	Republic of in the ASSR, regional, regional and okrug.		Budgets of cities and workers' settlements		District budgets		Rural budgets		Total	
	Amount	specific gravity	Amount	spec ific grav ity	Amount	specific gravity	Amount	spec ific grav ity	Amount	spec ific grav ity
1. Financing of the national economy	1239,7	18,6	2641,3	25,3	669,5	8,0	120,8	7,1	4671,3	17,1
%	26,5	—	56,7	—	14,2	—	2,6	—	100	—
2. Social. cultural events	4165,1	62,5	7071,8	67,7	6595,5	78,5	1189,3	70,2	19021,7	70,0
%	21,9	—	37,1	—	34,7	—	6,3	—	100	—
3. Management	610,3	9,1	454,4	4,3	1047,7	12,4	374,4	22,1	2482,8	9,1
%	—	—	—	—	—	—	—	—	100	—
4. Other expenses ¹	657,0	9,8	292,4	2,7	91,1	1,1	11,2	0,6	1051,7	3,8
									100	—

¹ Including: the balance of the funds regulation—428.3 million rubles (of which 408.9 million rubles—for the (Autonomous Soviet Socialist Republics) ASSR, regional and district budgets of the republics) and payments on loans and borrowings—265.6 million rubles.

%	52,4	—	27,7	—	8,8	—	1,1	—		
Total	6672,1	100	10459,9	100	8399,8	100	1695,7	100	27227,5	100
%	24,5	—	38,4	—	30,8	—	6,3	—	100	—

“The largest share of spending on financing the national economy is concentrated in the regional (territorial) and city budgets; this is due to the concentration in the regional (krai) budgets of local industry and trade and the concentration of more than 4/5 of all expenditures on public utilities in cities and workers’ settlements. In the same budgets, expenditures on the national economy have the highest specific gravity.

Expenditures on social and cultural activities are central to all local budgets, but they are mainly concentrated in city and district budgets.

Management costs are concentrated predominantly in the krai (oblast) and district budgets, but they have the greatest share in the rural budget.

5. Distribution of Income between the Union, Republic and Local Budgets. The Budgetary Regulation

The distribution of all revenues of the USSR state budget between its individual constituent parts is based on the complete subordination of the budget system to the national economic plan. The distribution of income between the budgets is subordinated to the solution of the following main tasks: 1) providing each budget with stable funds, sufficient for the full and deficit-free coverage of all its expenses due to the national economic plan; 2) creation of conditions for the most efficient and complete use of all income sources; 3) ensuring the necessary flexibility in the reallocation of funds between individual budgets; 4) achieving the greatest possible uniformity of income during the year in order to avoid cash interruptions in the execution of budgets.

The distribution of non-tax revenues is based primarily on

the principle of the jurisdiction of revenue sources. Deductions from profits and gross revenues from state enterprises and property go to the union, republican and local budgets, depending on the jurisdiction of which bodies—union, republic or local—these property and enterprises belong to and under which budgets they are financed. On a similar basis, the various fees established by law are also distributed, levied by Soviet institutions in the performance of the functions assigned to them (see below the income distribution scheme).

From this general provision, the resolution of the CEC and the SNK of the USSR of December 21, 1931 on republican and local budgets made an exception in order to strengthen local budgets. By this resolution, all revenues from peat bogs, subsurface resources, fishing and hunting grounds of not only local but also national significance were fully transferred to local budgets. The same should be said about the forest revenues that go to the local budgets for forests of both local and state significance (customs fees, income from secondary use, fines).

Further, in order to strengthen the stability of republics and local budgets, a number of state taxes and fees were completely transferred to these budgets under the tax reform, instead of unified in the turnover tax revenues. The republican budgets are directly credited (in the full amount of receipts) with the income tax of cooperative enterprises and economic bodies of public organisations of federal significance; to the budgets of the ASSR and local budgets—income tax from cooperative enterprises and economic bodies, public organisations of local importance, as well as income tax from individuals, a single state duty, tax on property transferred by inheritance and donation, fishing and ticket fees.

All other taxes—turnover tax, income tax on collective farms, agricultural tax, cultural collection in cities and villages, income tax from cooperative enterprises and economic bodies of public organisations of union significance

—as well as state loans constitute the union budget revenues.

Since, however, all the funds listed above and assigned to separate budgets are not enough to cover the planned expenditures of republics and local budgets, the union budget transfers to them a part of all-union taxes and revenues in the form of percentage deductions from their receipts on the territory of each republic or council.

These deductions are transferred either to the republican budget with their subsequent distribution between the republic and local budgets by resolutions of the Supreme Soviets of the Union republics, or directly to local budgets.

The system of transferring funds to the republican and local budgets in the form of deductions creates the material interest of the republics and advice on the implementation of the revenue side not only of their budgets, but of the entire state budget of the USSR as a whole, since the implementation of republic and local budgets is in direct dependence: on the implementation of the all-union plan for mobilising state revenues and funds of the population. At the same time, this system helps to strengthen the connection of each budget with the economy of the corresponding region and provides the necessary flexibility in the redistribution of funds between the budgets.

Deductions from state revenues and taxes are established by the Union Government primarily in the form of the same fixed interest for all republics or soviets. These are the deductions from state loans, from the village cultural collection, from the tax on non-commodity operations, from the tax on the turnover of collective farm trade and from the turnover of rural agricultural enterprises on decentralized procurement, as well as from the tax on the horses of individual farms.

The amount of revenues coming to the republican and local budgets depends on the assignment of subordinate revenues, taxes and fixed deductions from state taxes and revenues to them by law, and, ultimately, on the economic power of individual republics, territories and regions.

At the same time, the measures and capital investments provided for by the national economic plan, as well as budget expenditures related to their coverage, are allocated to republics and administrative units not in accordance with their economic capacity and the size of the fixed budget expenditures, but proceeding from the general tasks of developing the country's productive forces, defence of the Union, wide cultural construction, etc. implementation of the tasks of the Leninist-Stalinist national policy.

The task of bringing the revenue side of all budgets in line with the costs imposed on the budgets by the national economic plan, that is, balancing all budgets, is carried out by budgetary regulation with the help of additional reallocation of resources between individual links of the budget system.

Those sources of revenue that are involved in budgetary regulation are called regulatory, in contrast to the firmly fixed income that goes to all budgets of this link in full or in the amount of the same percentage of deductions.

Budgetary, regulation of republican budgets and the total volume of local budgets in the union republics is carried out by the Union of the SSR. Regulation of certain types of local budgets is carried out by the union and autonomous republics and by the higher councils of workers' deputies.

The main form of budgetary regulation is deductions from state taxes and revenues. The advantages of deductions as a form of budget regulation lie in the flexibility of this method, in combination of this flexibility with the material interest of the republics and councils in the successful implementation on their territory of the entire state revenue plan, with the direct and full responsibility of the republican and local authorities themselves for providing them with funds for the expenditure plan budgets.

If the provision of all 100 percent regulatory sources still does not achieve a deficit-free balancing of lower-level budgets, then the missing amount can be transferred from the higher-level budget in the form of a direct allowance in a

fixed amount (the so-called subsidy). However, the subsidy is not activates the activities of lower-level bodies to mobilise resources in the area that is replenished by subsidies, reducing the material interest of these bodies in the implementation of territorial economic and financial plans. At the same time, a subsidy, especially if it has a large share in the budget, deprives the budget of sustainability, increases its dependence on the higher budget and lowers the overall responsibility for fulfilling the expenditure side of the budget.

Regulation of the republics and local budgets of the union republics is carried out upon approval of the state budget of the USSR. The Supreme Soviet of the USSR approves: a) the total amount of expenditures for both republican and local budgets of each union republic, b) the total amount of revenues of the republican budgets and own revenues of local budgets and budgets of the ASSR, and c) the amount of funds transferred from the budget of each union republic to balance its local budgets.

So, when approving the state budget of the USSR for 1940 the Supreme Soviet of the USSR established: the volume of expenditures of republics budgets—12368 million rubles and the budgets of the ASSR and local councils—30491 million rubles, the volume of revenues of the republic budgets—28 266 million rubles and own revenues of the budgets of the ASSR and local councils—14,593 million rubles. To balance local budgets, the Supreme Soviet ordered the union republics to transfer 15898 million rubles to local budgets.

Having established the amount of deductions necessary to balance the state budgets of the union republics, the union bodies transfer corresponding sources of income to the state budget of the union republics as a whole. The Union republics have been given the right to establish the sources of regulation of local budgets themselves and the amount of deductions from them, depending on local conditions. This procedure gives the entire regulatory system special flexibility and provides broad budgetary rights for the union

republics.

Regarding the state budgets of the union republics, the regulatory sources are: turnover tax, agricultural tax, income tax on collective farms and cultural collection in cities. The main and most powerful of these sources are sales tax deductions. In order to strengthen the funds of the republican and local budgets, strengthen their ties with the local economy and stimulate the interest of local authorities in the development of local natural resources, special deductions from the turnover tax of enterprises of union significance that develop the most important types of natural resources on the territory of a given union republic. Of these deductions, the republican budgets transfer part of them to local budgets in the amount established by the Supreme Soviets of the Union republics. Such deductions are made from cotton, oil and tobacco.

Union republics in relation to local budgets use as regulatory means and differentiate according to the ASSR and regions the percentage of deductions only for the turnover tax, transferring the rest of the regulatory taxes to local budgets in full in the amount of deductions established by the USSR.

In accordance with the above-mentioned distribution of incomes, the revenue part of the state budget of the USSR in 1940 has the following structure (in million rubles):

	Union budget	Republics budgets	Local budgets	State budget of the USSR
Sales tax	98272	3694	6643	108609
Deductions from profits	14633	3856	3942	22431
Enterprise Payments ¹	1392	145	261	1798
Corporate and organisational taxes	185	11	3061	3257

¹ Due to a decrease in deductions for cultural work of trade unions, the abolition of deductions for personnel training, the transfer of part of the standardized stocks of finished goods and work in progress to bank lending, etc.

Population taxes	2069	10	7643	9722
Local taxes and fees	—	—	2148	2148
Government loans	6958	1903	3155	12016
MTS income	1312	524	787	2623
Income from property of local councils	—	—	749	749
Forest income	—	—	590	590
State funds, social, insurance	7114	2022	—	9136
Customs revenue	2500	—	—	2500
Miscellaneous income ²	5185	107	911	6203
Remaining budgetary funds	1475	96	601	2172
Total	141095	12368	30491	183954

The central place in the revenues of the state budget of the USSR is occupied by the turnover tax (almost 60 percent), and its share, reaching 70 percent in the union budget, is reduced in republics budgets to 30 percent, and in local budgets to 22 percent. The second largest source of income is deductions from profits, which account for 12.2 percent in the USSR state budget as a whole, 10.4 percent in the Union budget, and 31 percent in the republics budget and in local about 13 pron. State loans account for 6.5 percent of the USSR state budget, including: for the union budget—4.9 percent, for the republican budget—15.3 percent and for local residents—10.3 percent.

Population taxes occupy only 5.3 percent of the USSR state budget, and their bulk goes to local budgets, where they account for about 25 percent the total volume of these budgets.

The bulk of the revenues of the republican (about 50 percent) and local (53 percent) budgets consist of deductions from state taxes and revenues, and the decisive role among them is occupied by deductions from turnover taxes. At the same time, for a number of state taxes, the amount of

² Including: savings in connection with the reduction of administrative staff 1950 million rubles, fees and various non-tax revenues — 3214 million rubles.

deductions is established annually when the state budget of the USSR is approved.

The distribution of income between certain types of local budgets is referred to the legislative competence of the union republics by the current legislation.

According to established practice, revenues from local industry, trade and housing and communal services are transferred to certain types of local budgets under the jurisdiction of enterprises and property. Income from agricultural property, mineral resources, peat bogs, hunting and fishing grounds, from local taxes and fees, from tax from inheritances and donations, fishing and ticket fees and a single customs duty are credited to the budget of the council in whose territory the property is located or the specified taxes are levied. The tax on horses of individual farmers is included: in the amount of 25 percent—in the regional “regional” budgets and in the amount of 50 percent—in the district budgets. Deductions from government loans are assigned to cities, districts and village councils. Salary insurance contributions are included in the regional (district) budgets, and for smoking alcohol—to the regional and district budgets.

As for all other revenues (taxes, forest revenues), all of them are regulating either in the system of regional (regional) regulation, or. in the system of intra-district regulation. The territorial (regional) and district executive committees are completely free in their distribution between separate budgets, with only one exception. In order to strengthen the lower budgets of the Central Executive Committee and the Council of People’s Commissars of the USSR, on January 4 and June 28, 1936, resolutions were issued to expand the income sources of rural and regional budgets, which assigned them a certain minimum list of income. According to these decrees, special deductions for the procurement of agricultural products are fully credited to the district budgets’ products, as well as a part of special deductions from the turnover tax on cotton and tobacco and receipts

from local forests in the amounts established by the Council of People's Commissars of the ASSR, regional and regional executive committees.

The rural budgets are fully assigned, in addition to income from property and enterprises under the jurisdiction of the village council: local taxes and fees received on the territory of the village council, a unified state duty collected by the village councils, as well as the turnover tax on collective farm trade received on the territory of the village council, tax on non-commodity transactions, tax on property transferred by inheritance and donation, fishing and ticket fees and deductions for timber exported from forests. In addition, from the transferred to local budgets in the order of deductions of taxes and fees, certain minimum deductions are applied to the budgets of each village council¹.

This decree obliges, therefore, the Council of People's Commissars of the ASSR, the regional and regional executive committees to transfer to the regional budgets deductions from all state taxes and revenues in the amount not lower than the percent established for the rural budget. The rest of these income can serve for the purposes of intra-regional and intra-district regulation².

In addition to the listed sources of budget regulation, within the system of local budgets, one should also point to the so-called regulation funds. These funds can be applied

¹ Of the agricultural tax—not less than 10 percent., the cultural tax collection in the village—not less than 30 per cent., from the cultural collection of workers and employees—not less than 25 per cent., state loans sold among the rural population—not less than 25 per cent., and among workers and employees—10 per cent., etc.

² It should be noted that the above list of revenues assigned to the rural budget is outdated and significantly exceeds the expenditures currently allocated to these budgets. This circumstance greatly complicates the relationship between district and rural budgets and complicates intra-district regulation.

when there is a large difference in the capacity of individual administrative units. There may be cases when the deficit of individual, the weakest budgets persists even when deductions from regulatory sources are established for them in the amount of 100 percent. At the same time, it is possible that in the most powerful budgets a surplus of funds is formed even if only minimal percentages of deductions from regulatory sources are established for them.

To replenish regulation funds, higher regulatory budgets establish deductions from the total budgets of lower administrative units that have surplus funds according to the plan.

The amount of these deductions is determined by: 1) the amount of excess income over the planned expenditures in powerful budgets, 2) the degree of need for additional funds for a deficit-free balancing of the budgets of those administrative units to which all 100 percent of the budget was transferred to regulatory funds and which still lack funds to cover planned costs. From the fund thus established direct allowances to budgets, in which the planned income and expenses are not balanced in any other way.

The actual distribution of income between local budgets according to the report on execution of local budgets of the USSR for 1938 as follows (in million rubles):

	Republic of in the ASSR, regional, regional and okrug. budgets		Budgets of cities and workers' settlements		District budgets		Rural budgets		Total	
	Amount	fishin g weigh t	Amount	fishin g weigh t	Amount	fishing weight	Amount	fishing weight	Amount	fishing weight
1. Local income %	1401,5 28,7	22,0 —	2633,7 54,0	24,7 —	701,6 14,3	8,1 —	143,3 3,0	7,8 —	4880,1 100	17,4 —
2. Deductions from the state. taxes and government. income. %	4407,9 25,4	64,6 —	5291,4 30,5	49,6 —	6361,6 36,6	73,5 —	1308,7 7,5	72,0 —	17369,6 100	62,2 —
3. State. taxes directly credited. to local budgets %	109,7 3,4	2,6 —	2299,5 72,2	21,5 —	583,3 18,3	6,7 —	188,4 6,1	10,2 6,1	3180,9 100	11,4 —

4. Other income ¹	906.1	11,8	454,7	4,2	1005,3	11,7	180,9	180,9	2547,0	9,0
%	35,6	—	17,8	—	39,5	—	7,1	7,1	100	—
Total	%	6825,2	100	10679,3	100	8651,8	100	1821,3	27977,6	100
		24,4	—	38,1	—	30,9	—	6,6	100	—

In all levels of local budgets, deductions from state taxes and revenues are the decisive source of revenue. Only in the city budgets, where more than half of all local revenues are concentrated (including 96 percent of revenues from municipal property and 89 percent local taxes and fees) and more than 70 percent state taxes that are not directly credited to local budgets, the role of deductions is significantly reduced. Income from local industries are mainly concentrated (over 75 percent) in the republican (ASSR), regional and regional budgets. Deductions from taxes and fees are distributed almost evenly among all “budgets, except for rural ones (in the latter, the turnover tax takes only 0.3 percent). Deductions from the income tax on collective farms, from the agricultural tax and the cultural tax collection in rural areas almost entirely go to the district and rural budgets; deductions from state loans in the bulk of them (about 85 percent) are credited to the city and rural budgets.

With the revenues listed above, the budgets of the union and autonomous republics and local budgets must be balanced without a deficit.

In case of non-receipt of income provided by the republican and local budgets, deficits that may arise are covered by a corresponding reduction in expenditures and a possible increase in revenues.

If, during the budget year, the Supreme Soviet of the USSR: or the Union republics issues a law entailing a decrease

¹ Including: the balance of the funds of regulation—416 million rubles, subsidies from the funds of regulation of the union republics and from the republican budgets—981.8 million rubles, the balance of budgetary funds—708.2 million rubles. and funds transferred to economic agencies—235.9 million rubles.

in any income in the republican and local budgets or an increase in expenditures, then the publication of this law should be accompanied by the simultaneous provision of additional income sources that compensate for the decrease in income and covering the increase in costs. In order to encourage the struggle for the implementation of the financial plan and to ensure budgetary independence of the republican and local councils excess of actual receipts over estimated assumptions on the revenue side of each individual budget is completely transferred to the disposal of the union and autonomous republics and local councils of workers' deputies (unless this excess is caused by the expansion of income by virtue of union legislation). Up to 50 percent the amount of excess can be spent in the current budget year, but not earlier than the second half of the year, when it turns out that the execution of the revenue side of the budget provides an excess of revenue in the annual budget as a whole.

Appendix 1 to Chapter XV.

Scheme for the Distribution of Income between the Union, Republics and Local Budgets in 1940

From the amounts of income receipts are credited				
No. order	Name of income	To the union budget	To the state budgets of the union republics	To the republics budget of the ASSR and local budgets
1	1 A. Income of the socialist economy Turnover tax of enterprises of socialist economy of all-Union, republican and local significance (except for the receipts specified in the following paragraph) (item 2)	The bulk of the amounts of tax receipts, except for the part of tax deductions that was transferred to the state budgets of the union republics in the amounts established by the Supreme Soviet of the USSR when approving the state budget of the USSR	The amount of tax receipts in the amounts established by the Supreme Soviet of the USSR when approving the state budget of the USSR. In accordance with these amounts, the Council of People's Commissars of the USSR establishes in relation to each individual union republic the amount of percent of tax receipts on the territory of the corresponding union republic, credited to its state budget. Of the tax	The amount of tax revenues in the amount (percentage) established by the Council of People's Commissars of the Union republics

			amounts credited to the state budget of the union republic, a part of these amounts in the amount (percentage) established by the Council of People's Commissars of the union republic is transferred to the republican budgets of the ASSR and local budgets (with spending on the budget of the union republic)	
2	Turnover tax from collective farm trade in rural areas and rural consumer cooperatives for decentralised procurement, as well as from enterprises of the same cooperative for processing agricultural products.	—	100 percent the amounts of tax revenues with the subsequent full transfer of all these amounts (with the posting on the expenditure side of the state budget of the republic); to the budgets of the ASSR and local budgets.	100 percent tax receipts
3	Special deductions to local budgets from the amounts of turnover tax	—	100 percent the amounts of these special deductions with their subsequent full transfer (with their posting on	100 percent the amounts of these special deductions

			the expenditure side of the budget of the republic) to the budgets of the ASSR and local budgets	
4	Deductions from profits of state enterprises	Fully paid by enterprises of all-Union significance (registered with the NKF of the USSR)	Fully paid by enterprises of republican significance (registered in the NKF of the union republics)	Fully paid by enterprises of local importance and subordinate to the ASSR (registered with the NKF ASSR and local financial authorities)
5	Income tax on collective farms	25 percent amounts of tax receipts on the territory of the RSFSR, the Ukrainian SSR and the BSSR	75 percent the amounts of tax receipts on the territory of the RSFSR, the Ukrainian SSR and the BSSR and 100 percent its receipts on the territory of the remaining union republics with the subsequent transfer (with the expenditure of the budget of the union republic) part of these amounts to the budgets of the ASSR and local budgets	Differentiated deductions established by the governments of the Union republics
6	Income tax from cooperative enterprises and	Fully paid by enterprises of all-Union significance	The full amount of tax receipts from enterprises and organisations of	The full amount of tax revenues from enterprises and organisations of

	economic bodies of total enterprises	(registered in the NKF of the USSR)	republican significance (registered in the NKF of the union republic)	local importance and subordinate to the ASSR (registered with local financial authorities and the NKF ASSR)
7	Tax on non- commodity transactions	—	100 percent the amounts of tax revenues with the subsequent full transfer (with the posting of the expenditure side of the budget of the union republic) of all these amounts to the local budgets and budgets of the ASSR	100 percent tax receipts
8	Proceeds from the placement of free funds of economic and credit organisations in state loans	100 percent receipts	—	—
9	Local non-tax revenues, deductions from profits, rent and gross income from the industry, agriculture, forestry (all income coming to the budget system from forests of both national and local significance),	—	—	The amount of income receipts

	public and housing and trade.			
10	Revenues of machine-tractor stations	50 percent of receipts	50 percent of receipts with the direction of them up to 30 percent to local budgets.	Part of the proceeds in the amount determined by the governments of the union republics, but not more than 30 percent.
11	B. Income from government loans and taxes and fees from the population Proceeds from placement of state loans among the population	50 percent amounts of placement of a loan among workers and employees of the city and village and other urban population and 10 percent. amounts of placement of a loan among collective farmers and individual farmers	50 percent the amounts of the implementation of the loan on the territory of the Union republic among the workers and employees of the city and village and other urban population and 90 percent. the sums of the implementation of the loan among collective farmers and individual farmers with the subsequent transfer (with spending on the expenditure side of the budget of the union republic) to the local budgets and budgets of the ASSR 25 percent. from the amounts of loans realised among workers and employees	25 percent the amounts of the implementation of the loan among workers and employees of the city and village and other urban population and 90 percent. the amount of the sale of the loan among collective farmers and individual farmers

			of the city and village and other urban population, and 90 percent. the amount of the sale of the loan among collective farmers and individual farmers	
12	Agricultural tax on collective farmers and individual farmers	25 percent amounts of tax receipts on the territory of the RSFSR, the Ukrainian SSR and the BSSR	75 percent the amounts of tax receipts on the territory of the RSFSR, the Ukrainian SSR and the BSSR and 100 percent. its receipts on the territory of the rest of the Union republics with the subsequent transfer (with the expenditure of the budget of the union republic) part of these amounts to the local budgets and budgets of the ASSR.	Differentiated deductions established by the governments of the union republics
13	Levy for the needs of housing and cultural and social construction in cities	50 percent the amount of collection receipts on the territory of the RSFSR, the Ukrainian SSR, the Byelorussian SSR, the	50 percent the amount of collection receipts on the territory of the RSFSR, the Ukrainian SSR, the BSSR, the Azerbaijan, Georgian, Armenian and Uzbek SSR and 100 percent.	Part of the collection proceeds in the amount determined by the government of the corresponding union republic

		Azerbaijan SSR, the Georgian SSR, the Armenian SSR, the Uzbek SSR	amounts of receipts for all other union republics with subsequent transfer (with the expenditure part of the budget of the union republic) to the budgets of the ASSR and local budgets of a part of these receipts in amounts determined by the governments of the union republics		
14	Levy for the needs of housing and cultural and social construction in rural areas	—	100 percent the amount of collection receipts with the subsequent transfer (with the posting on the expenditure side of the budget of the union republic) part of these amounts to the budgets of the ASSR and local budgets	Differentiated deductions established by the governments of the union republics	
15	Personal income tax	—	—	Fully percent receipts	100 tax
16	Trade tax	—	—	Fully percent receipts	100 tax
	B. Other income				
17	Customs revenue	100 percent amounts of income receipts	—	—	

18	Unified state fee	—	—	100 percent the amount of receipts of the duty
19	Local taxes and fees	—	—	100 percent the amount of tax receipts and fees

CHAPTER XVI. BUDGET PLANNING

1. Fundamentals of Budget Planning

One of the basic properties of the socialist economic system is that all economic life is determined and directed the state national economic plan.

The spontaneous nature of the capitalist economy excludes the possibility of budget planning. The budgets of capitalist states are based only on probable income and expenditure; execution of budgets depends entirely on the spontaneous processes inherent in capitalist economy.

In complete contrast to this, the fundamental feature of the Soviet budget is its planned nature, its state-directive nature. The revenues and expenditures of the Soviet budget are determined and directed by the national economic plan, thereby contributing to the fulfillment of the national economic plan.

The national economic plan establishes in the sectoral and regional context all the main economic indicators: the volume of capital work, commissioning of new facilities, the size of products, indicators of reducing its cost, the number of workers, the wage fund fees, contingents and a network of socio-cultural institutions, etc.

Guided by these indicators, the financial authorities determine the size of socialist accumulation by industry and enterprise, contingent-payers and the size of state taxes and revenues, the amount of funding for capital work and the increase in working capital, the amount of expenses for the current maintenance of the network of social and cultural institutions, etc.

Along with budgets, their own savings, attracted funds from various organisations, bank loans, etc., take part in financing various sectors of the national economy.

The size of budget revenues and expenditures cannot be

established without taking into account all these sources. Therefore, in all branches of the national farms are drawn up covering all sources of coverage sectoral balances of income and expenses (financial plans), as a result a detailed analysis of which budget indicators of income and expenditures for the relevant industry are determined.

The balance of income and expenditure is the financial expression of the system of indicators of the national economic plan in each sector of the economy. Checking the relationships between the individual branches of the national economy and the analysis of inter-branch and intra-branch ties is carried out in the national economic plan by the system of material and synthetic balances. The set of sectoral balances of income and expenditure (consolidated financial plan) is one of the organic parts of the national economic plan.

The consolidated financial plan does not serve, however, as a passive reflection of the quantitative and qualitative indicators of the national economic plan; it is an active factor that reveals bottlenecks and lagging areas, helps to outline measures to eliminate the latter, to reveal reserves and to establish the correct proportions within the plan. Since the budget takes up more than its volume in the consolidated financial plan, its role in synthetic planning is extremely large. Therefore, in the process of national economic and financial planning budget, financial plans of industries and the national economic plan are in close interaction.

In budget planning, the financial authorities are faced with a responsible task—to achieve an optimal solution to the issue of financial support of the national economic plan, to establish in the planning targets the maximum level of the economy's own savings on the basis of the most productive and most economical use of funds.

Thus, the budget is not a passive result of the fulfillment of quantitative and qualitative indicators of the material plan. On the contrary, the budget is a powerful factor in the

struggle to fulfill and overfulfill the entire national economic plan.

In the unity of national economic and financial planning, guarantees of the reality of the budget and its successful implementation are laid.

This applies equally to both the expenditure and the revenue side of the budget, between which there is a close organic connection and mutual conditionality, since they rely on the same sectoral financial plans.

Budget planning includes the preparation, consideration, approval, execution and control over the execution of the union, republic and local budgets. Consequently, the budgeting process is only part of budget planning.

For budget planning, the period for which the state budget of the USSR is drawn up is of great importance. In the USSR, the budget period coincides with the calendar and economic year, that is, it begins on January 1 and ends on December 31.

All budgets of the USSR state budget are based on the principles of completeness (universality) and unity. The completeness of the budget means that it covers all government revenues and expenditures, without exception, attributed to the competence of the relevant state or administrative unit. The principle of the unity of each budget is that all government revenues and expenditures of each state or administrative unit are combined into a single balanced plan, approved by a single legislative act or council resolution. The completeness and unity of the budget is of great political importance, giving the legislature, the councils of workers' deputies and all working people a complete picture of all sources of state revenue and the direction of expenditure, and makes it easier. control of both the Supreme Soviets and Soviets of Working People's Deputies, and financial bodies.

An exception to the general provision on the unity and completeness of the USSR budget are only estimates of special funds. Special means are the sums that are formed

from those revenues of institutions that are on the budget, which, on the basis of special resolutions of the legislative bodies, can be spent by institutions for certain purposes, without spending them on the income and expenditure parts of the budgets.

One of the features of the budgetary organisation of the USSR is the absence of securing separate budgetary sources to cover certain expenses; receipts from all budget revenue sources are depersonalised and directed in a planned manner to ensure the entire set of expenses. Exceptions are allowed only in individual cases where the source of income (for example, a local wastewater discharge fee or a one-time fee levied in markets and bazaars) has a specific purpose.

The concept of gross budget (gross) and net budget (net) is closely related to the issue of budget completeness. The budget, in which all gross, circulating and transit amounts are shown for all sectors of the economy, passing in equal amounts in income and expenses and not affecting their real volume, is called the gross budget. The net budget contains, for individual sources and activities, only the net balance of income and expenses, that is, either the amount of income minus costs but their collection and 'administration, or the amount of expenses not covered by the income of institutions, etc. enterprises. To determine the real size of the budget as a whole and individual revenues and expenditures, as well as in all comparisons and studying the dynamics of the budget, the net budget is used. For the analysis of the effectiveness of individual sources of income and the actual cost of activities, as well as for planning and implementation of financial control, the gross budget is important, which is a detailed list of all income and expenses without mutual offsets.

The budget of the USSR is based on a mixed system. All income from taxes, fees, government loans and property is shown in them in gross amounts; wholly according to the budget and expenses for institutions, enterprises and activities that are not transferred to business accounting. At

the same time, for all enterprises that are on a business account, the budget includes not gross incomes and expenses and not the total amount of their profits, but only deductions from profits and their financing from the budget.

In order to ensure the correct spending by the executive bodies of public funds, both in the direction of expenditures and in their volume, in full accordance with the state national economic plan, budgets are drawn up and approved not in the total amount, but with their subdivision by departments, branches of the economy, institutions and measures. This subdivision of the budget into certain parts and the firm assignment of appropriations to each separate subdivision are called budget specialisation. This procedure for approving the budget gives it the character of a specific directive plan, providing for the expenditure of state funds in strict accordance with the national economic plan; control over the execution of the budget is carried out both by the legislative bodies when considering and approving reports on the execution of specialised articles, and by the financial authorities.

With budgetary specialisation, executive bodies have the right to direct budget funds only for their intended purpose and cannot spend them on needs not included in the budget (so-called non-credit expenses), or increase those allocated by the budget appropriations. The allocation of budget funds for non-budgetary needs or a change in the direction of allocations established by the budget is a violation of planning and budgetary discipline. The same violation is the underutilisation of the amounts allocated according to the budget, if it is not caused by their economical spending, but by the failure to fulfill the measures planned according to the plan. The boundaries and directions of budget specialisation are determined by the budget classification of income and expenses.

2. Budget Classification

The budget classification is a mandatory grouping and a firm location in the union, republican and local budgets of the state revenues and expenditures included in them.

Only if this mandatory grouping is observed, it is possible to combine budgets in. the corresponding codes, as well as the comparison of budgets of the same name with each other for their comparative analysis, which is one of the essential elements of correct budget planning.

The budget classification based on government directives is established by the People's Commissariat of Finance of the USSR in agreement with the State Planning Committee of the USSR.

Changes and additions to the classification can only be made in the same order.

The content of the individual subdivisions of the budget classification and the general order of their arrangement must fully meet the requirements put forward by the Soviet planned economic system. The first of these requirements is that the budget subdivisions adopted in the classification correspond in their content to the hundredth elements of sectoral financial plans (balances of income and expenses), providing both the possibility of linking these plans with the budget and the possibility of a detailed financial and economic analysis of individual parts of the budget plan.

All parts of the Soviet apparatus and wide circles of the Soviet public are involved in the development and execution of the budget.

Hence, the second requirement for the budget classification: it should give a clear and comprehensive idea on the content and structure of the budget, while ensuring the availability of understanding of the entire budgetary mechanism for every citizen. A clear system in the location and grouping of income and expenses is also one of the basic conditions for the correct setting of control and prevention of all kinds of abuse. A sufficiently deeply developed budget

classification ensures the correct targeted financing of individual activities and facilitates the struggle for financial and budgetary discipline in all links and sectors of the economy.

The construction of the budget classification is based primarily on the content of income and the subject (purpose) of expenditures. Income and expenses are divided into such component parts according to the subject-target criterion, so that each division contains elements that do not need further fragmentation. Broken down on this basis, income and expenses are grouped, further, either on a departmental basis, or on a sectoral basis.

With the departmental classification system, the basis for dividing expenses into groups is the sign of their departmental accessories. Departmental grouping shows the position occupied by an individual department in the expenditure of public funds, and the amount for which these departments are responsible. Such a grouping gives a complete description of the budgetary and financial economy of each department and facilitates the corresponding control over it.

With the sectoral classification system, the basis for grouping costs is the sign of their assignment to certain sectors of the economy. The classification built on these principles provides a link between the budget and the state national economic plan, drawn up on a sectoral basis.

In the classifications of the union, republican and local budgets, the following main divisions of income and expenses are adopted: a) sections, b) paragraphs and c) articles. In addition, there is one more type of subdivisions in the expenditures of local budgets—chapters. For the convenience of review and analysis, all expenses of the union and republican budgets are combined into eleven sectoral groups: a) national economy, b) social and cultural events, c) defence, d) People's Commissariat of Internal Affairs, e) People's Commissariat of Justice, court and prosecutor's office, f) maintenance costs government bodies, g) borrowing

costs, h) reserve funds, i) funds transferred to republican and local budgets, j) settlements with banks, k) return of income and other expenses.

The largest budget subdivisions are sections that are generally numbered for the budget as a whole.

In the expenditure part of the union and republican the budgets section covers all budgetary expenditures for financing a certain sector of the economy, which is included in one of the indicated eleven groups; at the same time the expenses of each department. for financing the national economy (industry, agriculture, etc.) are separated from its expenditures on social and cultural events and for management and are carried out in various sections. In addition to the sections established for the costs of financing the national economy and socio-cultural events, as well as defence and management, the budget classification provides for a number of sections for such expenses as, for example, borrowing costs, subsidies to lower budgets, etc. Sections in the union and republican budgets are subdivided into paragraphs that have a special numbering within each section. The paragraph covers the costs of institutions of the same type, as well as activities of this sector of the economy.

In the local, the sections combine all, without exception, the costs related to a particular department, department or People's Commissariat. To combine, in each section of the local budget, all the expenses of a given People's Commissariat or department for a particular sector of the economy, the sections are subdivided into six chapters. The chapters are divided into paragraphs that combine the costs of the same type of institutions, enterprises and events and in each section have a special numbering and title.

Paragraphs in all budgets are divided into items that provide targeted funding in terms of subject matter (wages, capital investments, administrative expenses, etc.).

The classification of expenditures, for example, for 1940 provides for fifteen general items for all institutions on the budget for the union, republican and local budgets. In

addition, to account for the costs of financing the national economy under the union and republican budgets, fourteen more items have been established that are common to all sectors, and seventeen additional items for individual sectors of the national economy.

In the budgets of the autonomous republics and local budgets, there are three special items for individual sectors of the national economy, as well as a special item for rural school construction. A detailed list of expenses to be attributed to each item is regulated by a special instruction of the USSR People's Commissariat of Finance. The items in the budget classification represent a solid standard grid; having a single serial numbering, they are repeated in all paragraphs under the same numbers and titles. This procedure allows you to establish the total amount of costs of the same name for the entire budget as a whole, for a particular section or chapter.

The budgetary classification of income of the union, republican and local budgets has the same system of subdivisions: sections, paragraphs, articles. However, the use of these subdivisions in the union and republican budgets, on the one hand, and the local budget, on the other, is completely different. This difference arises from the different composition and significance of individual income sources. So, for example, while in the union and republican budgets the accumulations of state-owned enterprises (except for the turnover tax) are accumulated only in the form of deductions from profits, in the local budget, revenues from state-owned enterprises come in the form of rent and gross income.

Therefore, if the non-tax payments of all enterprises in the union and republican budgets are combined in one section "Deductions from profits", the paragraphs in which are used to indicate the People's Commissariats from which these payments are received, and the articles are applied: for individual payers, then in the local budgets the branches of the economy appear as sections, and separate as

paragraphs, types of enterprises, and as items of types of income.

According to tax revenues, the classification distinguishes in the union and republican budgets an independent section on turnover tax, combining all other taxes of the socialist economy in one section and using paragraphs for certain types of taxes. All taxes from the population are combined into one section "Taxes and Fees" indicated in it by paragraphs; the articles are assigned to certain categories of taxpayers. For other large types of income (loans, MTS income, customs duties, etc.), separate sections are allocated.

In local budgets, state taxes and revenues are grouped into two sections, depending on the procedure for transferring them to local budgets. "Deductions from state taxes and income and State taxes directly transferred to the local budget." A special section is devoted to local taxes and duties. To each individual state and local tax and levy have been assigned a special paragraph. In addition to this, the sections "Funds transferred by economic agencies", "Loans" and "Subsidies from the republics and local regulation funds" are highlighted.

For rural budgets, a general classification of expenditures by local budgets, built on the allocation of special sections by department advice, not applicable: rural budgets, in accordance with their range of expenditures, require only a small part of those subdivisions general classification, which is established for other types of local budgets. Therefore, the USSR People's Commissariat of Finance has recommended a simplified Typical Classification for rural budgets, containing nine sections by industry. In the sections, only those paragraphs of the general classification (with the preservation of their numbering) are highlighted, according to which there are institutions and events in the village council.

3. Drawing Up, Consideration and Approval Of Budgets

Budgeting is the beginning of budget planning. In the process of drawing up the budget, the following must be ensured: a) the implementation in the entire budget system and for each budget separately of the party and government directives, b) complete and comprehensive coordination of budgets with the national economic plan and all sources of funding, and c) a deficit-free balance of each budget separately.

The drafting of the union budget is entrusted to the People's Commissariat of Finance of the USSR, the draft state budgets of the Union republics are developed by the People's Commissars of the Union republics. Consolidation of the union budget with the state budgets of the union republics into the state budget of the USSR, approved by the Supreme Soviet of the USSR, carried out by the People's Commissariat of Finance of the Union. Local budgets are drawn up by the respective finance departments, and in village and settlement councils—by the chairman and secretary of the council.

The development of the draft budget, as well as of the national economic plan, is preceded by work to establish the initial basis for planning. This initial base is the results of the implementation of plans for the current year, their assessment and identification of production and financial resources of each sector of the economy. Therefore, budget planning in all financial agencies begins, first of all, with a deep analysis of the report and audit materials for the past time of the current year (with its subsequent refinement as new reporting data are received).

All work on drawing up the national economic plan and budget is carried out under the direct leadership of the Party and government. The national economic plan is drawn up by the State Planning Committee of the USSR on the basis of the

directives of the Council of People's Commissars of the USSR; these directives ensure the implementation of the general line of the party in the national economic plan. In accordance with the five-year plan for the development of the national economy of the USSR and the specific conditions of each year, these directives define the most important economic and political tasks for the coming year and outline the main lines and rates of development of individual industries.

Based on these directives and the results of the analysis of budget execution for the first half of the year, the People's Commissariat of Finance of the USSR for 4-5 months before the start of the economic year gives the Union departments and the People's Commissars of the Union republics directives on the construction of the budget for the coming year. "These directives provide instructions on shortcomings in the practice of drawing up and executing the budget of the current year, on the measures that should be taken adopted to eliminate them, on the expected overall growth of the budget, on the main directions of distribution of the increase in funds, on the volume of capital investments, on the amount and volume of the work of cultural institutions, changes in norms, etc. The People's Commissars of the Union Republics, in turn, communicate these instructions to the republican departments and local financial bodies, introducing the necessary details and additions in them in relation to the local conditions of individual ASSR, territories and regions. Regional and regional financial organs and the NKF of the ASSR in the same manner communicate directives to the regional and city financial departments.

Directives are directives that are binding on the budgetary authorities on the direction of funds. In addition to these instructions, the directives also contain limits for individual incomes in numerical terms, that is, the maximum amount of costs. As a general rule, in budgetary planning, all capital investments are limited, with the exception of those

specifically stipulated in the law cases (unlimited costs), as well as a number of operating costs: staffs, rates, payroll funds and the total amount of expenses for the management apparatus.

On the basis of the directives of the USSR People's Commissariat of Finance, all financial agencies begin to draft budgets for the coming year. With the unity of the methodology for constructing the union, republics and local budgets, the content of the work on their compilation is different. The work on drawing up the union budget consists in consistently clarifying and linking income and expenses with the national economic plan based on the analysis of the calculations of departments and materials on the execution of the budget of the current year. As for the republican and local budgets, the work goes through a greater number of stages in connection with the need to be linked with the unified state national economic plan in a territorial context. There are three of these stages: 1) determination of the planned volume and structure of budgets, 2) drawing up on their basis a plan for financing lower budgets and 3) budgeting.

Budgetary expenditures are distributed among individual union and autonomous republics and administrative units in accordance with the territorial section of the state national economic plan, regardless of the actual volume of own revenues of individual budgets. In order for the republics and local councils under these conditions to be able to timely draw up their budget, the size of additional revenues required to balance their budgets at the level determined by the national economic plan must be established in advance. To do this, it is necessary to preliminarily calculate the volume, on the one hand, of the expenditures of the republican and local budgets, and on the other hand, the incomes firmly assigned to each budget. At the same time, in order to link the republican and local budgets with the national economic plan, it becomes necessary to establish not only the volume, but also the structure of these budgets.

All these tasks are carried out by determining the planned volume, structure and content of republican and local budgets and drawing up on their basis a plan for financing these budgets. Funding plan matches target volume of budgets with the sum of their own revenues of each budget and establishes the size and sources of funds to be transferred from higher budgets to lower ones to balance them. Planned calculations for the republican and local budgets are started simultaneously by all the links of the financial bodies both for the corresponding budget and for all lower-level budgets (as a whole and for individual units).

The planned volume and structure of republican and local budgets are determined on the basis of indicators of the national economic plan, an analysis of the budgets of the current year and the results of their implementation, as well as projects of republics, councils and people's commissariats and council departments.

In order to facilitate calculations and provide the republics and local councils with the opportunity to differentiate them in relation to local conditions, planned calculations are usually carried out not according to individual norms, but according to enlarged meters.

For a detailed specification of the initial base and taking into account specific local conditions and needs, the projects of the volume and structure of budgets are consistently coordinated by the financial authorities with the subordinate authorities. The People's Commissariat of Finance of the USSR coordinates the draft state budgets of the union republics with the governments of the union republics;

The People's Commissars of the Union Republics, on the basis of these materials, refine their calculations for the republican budget and for local budgets both as a whole and for individual ASSRs, territories and regions, and coordinate them with the governments of the ASSR and regional (regional) councils. In the same order, the agreement is made by the NKF of the ASSR, regional, regional and district councils for all lower budgets. All disagreements arising in

the process of this agreement are resolved in the future upon approval, respectively, of the state budget of the USSR, state budgets of the union republics and local budgets.

After agreeing on the planned volume and structure of the republican local budgets, the financial authorities proceed directly to the preparation of budgets, informing the people's commissariats (for republican budgets) and council departments (for local budgets) all the established planned elements of the budget (networks, contingents, capital investments, norms, etc.).

Expenses and revenues are included in the budget only if they are sufficiently substantiated, both formally and in substance, and are grouped by divisions of the budget classification. Such a grouping of income and expenses, their justification and related calculations are made for institutions and enterprises that are on estimated financing, in estimates; for enterprises that are self-supporting, in the balance sheets of income and expenses.

Estimates compiled by individual institutions are called individual. Individual estimates, grouped by sector of the economy, constitute a sectoral estimate. The balances of income and expenses of individual enterprises are combined in the consolidated balance of income and expenses of the corresponding sector of the economy.

To make it easier to check and make vodka technically feasible for individual budget documents, the latter, starting with the primary link—individual estimates—and the balance of income and expenses, should be drawn up in a single form, with the same name and location of homogeneous elements and according to a single methodology of budget calculations. This consistency is achieved precisely observance of the budget classification and the rules for drawing up the balance of income and expenditure, developed by the People's Commissariat of Finance and the State Planning Committee of the USSR. Forms of budget documents are established for republican budgets by the People's Commissariat of Finance of the USSR; for the estimates of

institutions that are on the union and republican budgets – by the People’s Commissariat of Finance of the USSR and the People’s Commissars of Finance of the Union republics; for institutions that are on the local budget, the People’s Commissars of the Autonomous Soviet Socialist Republic and regional (regional) financial departments.

The timing and procedure for submitting consolidated estimates and balances of income and expenses to the financial authorities are established according to the corresponding budget of the Council of People’s Commissars of the USSR, the Council of People’s Commissars of the union and autonomous republics and local councils. Within these terms, the people’s commissariats and council departments establish the terms and procedure for submitting to them individual estimates and balances of income and expenses by individual institutions and enterprises. Explanatory notes are attached to all estimates and balances of income and expenses, characterising the working conditions of the institution or enterprise, the results of the execution of the estimate and the balance of income and expenses of the current years, planned activities for the next: year and justification of certain deviations from the norms in connection with the individual characteristics of institutions.

Drafts of individual estimates and balances of income and expenses are drawn up directly by each institution or enterprise and submitted to the appropriate people’s commissariat or council department (in accordance with the subordination of the enterprise), and for institutions that are on the village and township budgets, to the village or settlement council.

People’s Commissars and council departments consider the submitted estimates and balances of income and expenses in the presence of representatives of institutions and enterprises, checking the fulfillment of all directives, data on drawing up the production plan, estimates and balances of income and expenses, the legality, expediency and validity of all income and expenses.

Upon approval by the People's Commissariat and the council department, individual estimates are included in the consolidated estimates of subordinate institutions; these estimates are submitted to the appropriate financial agency, together with estimates for the content of the People's Commissariat itself or a department and for the centralised measures it carries out. In the same manner, the consolidated balance sheet of income and expenses for the department is drawn up and submitted to the financial agency.

When considering estimates and balances of income and expenses (with the obligatory participation of interested departments), financial authorities check and clarify all elements of plans and calculations without exception, checked compliance of estimates and balances of income and expenditure with directives of the party and government, current legislation and indicators of the national economic plan. At the same time, the financial organs in detail and to the point: analyse all calculations in order to combat understatement of income and overstatement of expenses. This is necessary, since there are still quite a few managers of enterprises and institutions who, instead of pursuing a regime of saving in costs, achieving maximum cost efficiency, mobilising reserves and increasing profitability, while fulfilling all qualitative and quantitative indicators of production plans, enter the unacceptable path of creating for themselves "Quiet life" at the expense of hidden reserves. Here, the organising role of the budget is manifested in its entirety, both in ensuring the targeted direction of funds, preserving them from dispersal, and in stimulating the maximum accumulations necessary for the fulfillment and overfulfillment of the national economic plan.

An indiscriminate, uncritical application when considering estimates and balances of income and expenses of average standards, which leads either to excessive financing, or to the violation of the legitimate interests of certain sectors of the economy; it is also inadmissible to

substitute a thorough check of all calculations and justifications by consideration of estimates and financial plans "for disagreements". Such a substitution generates impersonal and irresponsibility, testifies to the divisional approach to this responsible area of work on budgeting. In the same way, the separation is extremely harmful for the case: consideration of estimates. and financial plans from the review of performance reports and audit materials. This leads to a waste of public funds and to incorrect consideration of the needs of individual institutions and enterprises.

When considering estimates, especially for the local budget, it is of great importance to attract a wide range of the Soviet public (councils' commissions, trade union activists, etc.). The main form of public participation in this work is a survey of institutions and enterprises in order to identify the actual compliance of the accepted norms with the actual costs, the implementation of the economy regime, etc.

In case of insufficient justification of expenses, financial authorities have the right not to include them in the draft budget. If the department concerned objects to this, then the issue is resolved when considering the draft budget, respectively, by the Council of People's Commissars of the USSR, the Council of People's Commissars of the Union and autonomous republics and local councils.

Sectoral estimates are combined by financial authorities with the corresponding elements of the balances of income and expenses (deductions from profits, financing) and with the calculations of the financial authorities themselves for the administered their income and expenditures (taxes, government loans, reserves, etc.) in the sets of budget revenues and expenditures. All income and expenses are included in the codes in the amounts adopted by the financial authorities when considering estimates and balances of income and expenses. Codes of income and expenses for their balancing form a draft budget, which is

drawn up in two forms: in the form of a general balance sheet of the budget by industry or department and in the form of a budget list which is deployed across all estimated divisions.

On the basis of the draft union budget and the draft state budgets agreed with the governments of the union republics, the People's Commissariat of Finance of the USSR draws up a draft of the state budget of the USSR. The collection of revenues of the USSR state budget includes all revenues from individual sources of the union and republican budgets (with the allocation of the total amount of funds transferred to the budgets of the ASSR and local councils) and the total amount of own revenues of the budgets of the ASSR and local councils. The set of expenditures of the state budget of the USSR includes all expenditures by branches of the economy of the Union and republic significance and the total amount of expenditures of the budgets of the ASSR and local councils with the allocation of appropriations for these budgets for education and health care.

Attached to the state budget of the USSR are: 1) the union budget, drawn up according to separate sources of income and expenses by departments; 2) state budgets of all Union republics indicating the sources of income and expenditures by sectors of the economy; 3) balances of income and expenditure of the allied people's commissariats and departments; 4) an explanatory note characterising both the state budget as a whole and the budgets of the union republics.

The explanatory note should reveal the political and economic content of the budget, show the fulfillment of the directives of the party and government and the state national economic plan, give an economic justification for the expenditure allocations and income calculations adopted in the budget, and reveal the dynamics of the budget and all sectors of the economy in comparison with the previous year.

Drafts of the state budget of the USSR, the union budget and the budgets of the union republics are submitted by the

People's Commissariat of Finance of the USSR to the Council of People's Commissars of the USSR, which considers them according to the report of the People's Commissariat of Finance of the USSR and the conclusion of the State Planning Committee of the USSR and at the same time resolves all disagreements between the union departments and union republics with the People's Commissariat of Finance of the USSR that arose when considering the estimates, financial plans and budgets of the union republics.

The projects of the USSR state budget, the union budget and the state budgets of the union republics adopted by the Council of People's Commissars of the USSR are submitted to them for approval by the Supreme Soviet of the USSR. For preliminary thorough preparation of the draft law on budget before it is submitted for discussion by the Supreme Soviet of the USSR, each of the chambers of the Supreme Soviet of the USSR—the Council of the Union and the Council of Nationalities—elected standing budget commissions (on 13 people). The budget commissions check the economic and political aspects of the draft state budget of the USSR and the report on the execution of the budget for the previous year, as well as all calculations of income and expenditure for the previous year, as well as all calculations of income and expenses. The Supreme Soviet of the USSR hears the report of the Council of People's Commissars of the USSR on the state budget at a joint meeting, and the People's Commissar of Finance of the USSR usually acts as the rapporteur of the Council of People's Commissars of the USSR. The discussion of the budget is conducted by the Supreme Soviet of the USSR at separate sessions of the chambers and opens with a co-report of the Budget Commission.

The state budget of the USSR is approved by the Supreme Soviet of the USSR in terms of income, according to separate sources, in terms of expenditures, according to branches of the economy; the union budget is approved in the revenue part by separate sources, and in the expenditure part by departments. The state budgets of the union republics are

approved for each union republic in the total amount of revenues and expenditures with the allocation of from their volume of the republican and local budgets. At the same time, the Supreme Soviet of the USSR approves the percentage of deductions to the state budgets of the Union republics from all-Union state taxes and revenues, and for the turnover tax, the absolute amounts of these deductions, instructing the Council of People's Commissars of the USSR to establish for each republic the percentage of deductions from this tax (depending on territorial distribution of tax contingents). At the same time, the Supreme Soviet of the USSR establishes for each union republic the total amount of deductions from state taxes and revenues to be transferred from republican budgets to the budgets of the ASSR and local councils to balance them. The distribution of these amounts according to individual sources of income is within the competence of the union republics themselves.

On the basis of the draft republican budgets and the draft republican ASSR and local budgets agreed with the ASSR and the regional (regional) councils, the People's Commissariat of Finance of the Union republics draw up projects of the state budgets of the union republics. The state budgets of the union republics include revenues from individual sources of the republican budget (with the allocation of the total amount of funds transferred to the budgets of the ASSR) and the total amount of own revenues of the budgets of the ASSR and local councils. The set of expenditures of the state budget of the union republics includes the expenditures of the republican budget for individual sectors of the economy and the total amount of expenditures of the budgets of the ASSR and local councils. The same appendices are drawn up to the state budget of the union republic as to the state budget of the USSR (the budget of the republic, local budgets of individual ASSR, territories and regions, financial plans, an explanatory note).

After the approval of the planned volumes and structure of the state budgets of the union republics by the Supreme

Soviet of the USSR, the People's Commissars of the Union republics introduce appropriate clarifications into the state budgets of the union republics, republican budgets and the vaults of local budgets and submit them to the Council of People's Commissars of the union republics. The SNK of the Union republics consider these budgets in the same manner as the SNK of the USSR, that is, according to the report of the People's Commissariat of Finance of the Union Republic, the co-report of the State Planning Committee of the republic, and with the resolution of the disagreements between the People's Commissariat of Finance of the republic with the republic departments, ASSR, territories and regions.

The state budget of the republic, its republican budget, sets of budgets for each adopted by the Council of People's Commissars of the Union Republic, ASSR, krai and oblasts are submitted for approval by the Supreme Soviet of the union republic. According to the constitutions of the union republics, their Supreme Soviets elect for preliminary consideration of the draft budget standing budget commissions. The state budget of the union republic is discussed by the Supreme Soviet of the republic on the basis of the report of the Council of People's Commissars of the republic (the speaker is usually the people's commissar of finance) and the co-report of the budget commission.

The Supreme Soviet of the republic approves the state budget of the republic and its republican budget for each source of income, and for expenditures, for each branch of the economy. The budgets of the ASSR and local councils are approved in total amounts of income. and spending, with funding allocated to education and health. Together with the budget, the Supreme Soviet of the Union republic approves the amount of funds to be transferred from the republican budget to the budget of each ASSR, territory and region for balancing, as well as the percentage of contributions to these budgets from state revenues and taxes. The state budgets of the ASSR are approved by the Supreme Soviets of the

Autonomous Republics in a similar manner.

After the approval by the Supreme Soviets of the Union republics of the volume of local budgets for each territory and region and the amount of funds transferred to these budgets from republican budgets, the regional and regional councils clarify the draft budgets for the region and the region as a whole and in the regional context, as well as plans for the financing of the subordinate budgets. After resolving all disagreements between the regional and regional departments and district and city councils with the regional (regional) financial department, the planned volumes of budgets, as well as the amounts and sources of regulatory funds and the amount of deductions from them are communicated by the regional and regional councils to the districts and cities allocated as independent units. Similar work is carried out by district and city councils in relation to the budgets of their member councils. On this basis, all financial agencies finalise the draft lists of the corresponding budgets and submit them for consideration by the executive committees of the councils, which at the same time resolve the disagreements between their departments and the financial authorities.

Local budgets are approved by the plenum of the respective council. District, regional and regional councils (as well as city councils with regional divisions) approve not only their budget, but at the same time a set of all lower-level budgets. This set is compiled in an abbreviated form for the main budgetary subdivisions (sections, chapters, the most important paragraphs and articles) for individual types of budgets, and expanded—for the entire classification as a whole for the district or region (region). When approving a set of budgets, district and territorial (regional) councils make corrections to individual budgets if they were drawn up in violation of legislation, but indicators of the national economic plan, limits and financing plans.

The sets of budgets approved by the regional and regional councils are submitted to the People's Commissariat

of Finance of the Union republic within a month after their approval; these vaults are combined in turn. in the vaults of the republic and submitted to the People's Commissariat of Finance of the USSR. The submitted codes of local budgets are considered by the People's Commissariat of Finance of the Union republics in order to supervise the observance of laws, directives, national economic plan and financing plans. If necessary, the People's Commissars of the Union Republics submit their proposals on making certain changes to the approved budgets of local councils for approval by the Council of People's Commissars of the Union Republic.

In relation to rural budgets, there is a special procedure for their approval, established by the decree of the Council of People's Commissars of the USSR of August 3, 1935 "On measures to improve the financial work of village councils." In order to timely approve these budgets by January 1 of each year, the Council of People's Commissars of the Union republics 3-4 months before the start of the budget year approve special directives for the preparation of rural budgets. On the basis of these directives and plans for financing the rural budgets, established by the district councils, the village councils independently make up their own budgets. After their consideration by the finance section and the plenum of the village council, the village budgets are presented to the district council. The executive committee of the latter considers and approves each the village budget separately according to the report of the chairman of the village council and the conclusion of the head of the district federal district. The approval of the village budget is made necessarily in the presence of the chairmen of the financial section and the audit commission of the village council.

The directives of the state national economic plan are the guidelines for the production activities of millions of working people. In order to organise this activity and the creative initiative of the broad masses of the working people, the plan assignments are communicated to each executor: to

factories, factories, councils, collective farms, etc. In this case, the plan is acquiring ever more operational, concrete and refined forms.

A similar process finds its place in the area of the budget planning. After the approval of the budget, the annual individual estimates and balances are specified and approved on its basis and within its limits, income and expenses of all institutions and enterprises as mandatory income targets and firm financing plans. Estimates and balances of income and expenses of enterprises and institutions that are on the union and republican budgets are approved by the people's commissars or, on their behalf, by the heads of the departments of the people's commissariats. Estimates and balances of income and expenditure of institutions and enterprises that are on local budgets are approved, as a rule, by the heads of departments of councils, and for the largest institutions, directly by councils.

Financing of institutions and enterprises is also carried out in accordance with the approved estimates and balances of income and expenses and to the extent of the actual fulfillment of production plans.

4. Execution of Budgets. Loan Managers

Once approved, the budget is sent for execution. When executing the budget, on the one hand, an exhaustive and timely mobilisation of the resources provided for in the budget must be ensured, and on the other hand, uninterrupted financing of all sectors of the economy, cultural events, defence and management in accordance with the appropriations provided for in the budget.

The execution of budgets is carried out through the relevant financial authorities (rural budgets are executed by the village councils themselves).

These bodies are responsible for all measures to organise the receipt and expenditure of budgetary funds, their

accounting, control and monitoring of the correctness of spending in strict accordance with the laws in force and approved budgetary assignments, as well as administration of the main sources of income (taxes, government loans, deductions from profits, etc.). At the same time, the execution of the budget is carried out by the cash register, which directly accepts budget funds and issues them for their intended purpose, as well as a wide range of institutions that administer certain revenue sources and spend budget funds.

In order to ensure the implementation of the budget plan, eliminate the possibility of interruptions, as well as all kinds of abuse, the process execution of budgets is precisely regulated: a clear procedure for budget execution is established, the relationship of those involved in it institutions and individuals, the range of their rights, duties and responsibilities.

Budget execution by no means consists in mechanical execution, various kinds of operations for receiving, spending and accounting for budget funds, but is one of the main and decisive stages of budget planning. The fulfillment of the revenue side of the budget does not go by gravity. The continuous strengthening of old sources of income and the search for new ones to accelerate the pace of socialist construction and to better satisfy the growing cultural and everyday needs of the working people are the guiding principle in the struggle to fulfill the planned targets. On the other hand, the execution of the expenditure side of the budget cannot be reduced to financing individual sectors of the economy and institutions by means of automatic release during the year at their request of budget funds. This funding is not made impersonally (under the approved plan in general), but for certain specific activities and facilities, taking into account the feasibility and efficiency of using previously allocated funds. The release of funds is directly dependent on the progress of the actual implementation by the financed organisation of its production plan.

The annual plan for the development of the national

economy and social and cultural construction, and on its basis and operational plans for individual sectors of the economy are concretised during the year with the help of quarterly plans that take into account the progress of the plan, seasonal changes, etc. This circumstance requires the preparation of quarterly plans for the execution of budgets. Uneven receipts of revenues and expenditures, the need for timely provision of funds for uninterrupted financing require the preparation of cash plans for budget execution, taking into account the timing of receipts and expenditures.

Quarterly plans for the execution of budgets are drawn up by financial agencies based on the analysis of applications from the people's commissariats, departments and departments of councils, accompanied by justifications and calculations, which provide the quantitative and qualitative indicators underlying the plan. Quarterly plans are approved: according to the union budget, the Council of People's Commissars of the USSR, according to the republican budgets, the Council of People's Commissars of the Union republics, and according to the budgets of local councils, by the respective councils. On the basis of quarterly plans, the People's Commissariat of Finance of the USSR, the People's Commissariat of Finance of the Union republics and local financial bodies (for rural budgets—village councils) establish monthly cash plans for spending funds for the union, republican and local budgets.

All incoming budgetary funds are, respectively, under the direct jurisdiction of the government of the USSR, the union republics and local councils. These funds, according to the approved budget and cash plans, are administered on behalf of the government and councils by the People's Commissariat of Finance of the Union, the People's Commissariat of Finance of the Union republics and financial departments, and where there no village and settlement councils)—the councils themselves.

The functions of regulating the national economy, administering social and cultural institutions and

administration are distributed among the people's commissariats, council departments and individual institutions. In this regard, the Soviet bodies must be provided with the necessary financial resources, without which the tasks of management, administration and regulation cannot be carried out. Therefore, the people's commissariats, departments and departments of councils are given the right to dispose of the funds allocated under the budget for the corresponding branches of the economy, and to individual institutions—on their maintenance and on the measures they carry out. Involvement of departments and institutions in the management of budgetary funds is necessary in order to establish clear responsibility for the economical, most efficient, timely and budgetary use of the funds allocated, as well as for their accurate accounting.

The amounts assigned according to the approved budget for the implementation of certain expenses are called estimated loans, and the heads of institutions who have been given the right to dispose of certain budget appropriations are called loan managers. According to the scope of the granted rights, credit managers are divided into main (first degree), second degree and third degree.

The main administrators of loans for the union and republican budgets are the people's commissars and persons who are at the head of central institutions that have independent estimates, and for local budgets, they are heads of departments of councils.

The main managers of loans have the right not only to spend the loans granted to them, distribute and redistribute them among subordinate bodies. The main managers of loans have the right to delay the opening and suspend the operation of loans already opened to subordinate managers in cases of violation of budget discipline, untimely submission of reports and obvious inexpediency of the expenses incurred. In accordance with the granted rights, the main managers of loans are responsible for the correct, economically expedient and timely distribution of loans (according to local budgets

and cash) between subordinate institutions, as well as for compliance with the rules of budget discipline, for the correct setting of accounting and reporting at home and in subordinate institutions, as well as for the timely submission of reports on the costs incurred.

The managers of second-degree loans are the heads of institutions, at whose disposal the main managers open loans both for the expenses of these institutions and for distribution among third-degree managers (not having direct contact with the main manager). Differentiation of local budgets makes it possible not to resort to the division of credit managers on a territorial basis according to local budgets, as it is necessary to do according to the union and republican budgets; therefore, as a rule, second-degree loan managers are local, the budget is not available. In relation to loans opened at their disposal and to subordinate institutions, second-degree loan managers have the same rights and bear the same responsibility as the main loan managers.

The managers of third-degree loans are the heads of institutions and officials who receive, in their disposition of loans from chief stewards or stewards the second degree only for the direct expenditure of funds to meet the needs of the institution or to carry out specified activities. These managers have the right only to make expenses in accordance with the loans opened to them and have no right to spend the funds provided to them for other purposes; they are responsible for the correct and accurate maintenance of records and for the timely submission of established reporting.

The right to receive budgetary funds and to incur expenditures for individual estimated divisions, credit managers receive from the moment the loans are opened. The basis for opening loans is the approved quarterly plans for budget execution and monthly cash plans. Loans are opened by financial institutions; they are managed by the main managers of loans; according to their instructions, the credits are then distributed among the subordinate managers.

The essence of opening loans is the granting by the financial authorities of powers to cash institutions (the State Bank) to issue budget funds to loan managers within certain limits and in accordance with budget assignments. Payment of amounts from the budget is made only in the presence of appropriate loans. Only some special types of expenses, the list of which is established by the People's Commissariat of Finance of the USSR or the People's Commissariat of Finance of the Union republic, are made without preliminary opening of loans and are covered in a centralised manner (for example, the cost of issuing pensions, etc.).

Loans opened to managers must be spent in strict accordance with the estimated assignments. Circulation of funds to needs foreseen by other budget units, or for expenses not included in the estimate at all, is an unacceptable violation of budgetary discipline. In those exceptional cases when, in the course of budget execution, it becomes necessary to clarify the budget plan and partially change the direction of funds, the legislation allows the so-called movement of loans. The movement of loans consists in increasing the credit for the estimated division, the allocations for which are insufficient to fulfill the plan, with a simultaneous decrease by an equal amount of credit for the division, where the allocated funds can be reduced without prejudice to the business.

The movement of loans in the union and republican budgets within a paragraph of the estimate from one item to another can be carried out by order of the main managers of loans according to the estimate. At the same time, however, without the consent of the USSR People's Commissariat of Finance or the People's Commissariat of Finance of the Union Republic, it is not allowed to move loans to increase the salary fund, administrative expenses, capital expenditures and scholarships for students. Moving loans from paragraph to paragraph of the same estimate made only in agreement with the relevant People's Commissariat for Finance. The movement of loans from estimate to estimate can be made

only with the permission of the Council of People's Commissars of the USSR or the Council of People's Commissars of the Union republic. The movement of credits in the local budget is carried out only in accordance with the decisions of the relevant council, which are special in each individual case, in accordance with the legislation of the union republics¹.

If, during the budget year, the people's commissariats, departments and institutions, which are on the union and republican budgets, have the urgent need to make an expense that was not provided for in the budget and cannot be covered by savings on other types of expenses, the main credit managers are given the right to initiate a petition to the Council of People's Commissars of the USSR or the Council of People's Commissars of the Union republic for the release of oversized loans from reserve funds of the Council of People's Commissars of the USSR or the Council of People's Commissars of the Union Republic. Allocations from the reserve funds are made in each individual case only by a special resolution of the Council of People's Commissars of the USSR or the Council of People's Commissars of the Union Republic on the preliminary conclusion of the People's Commissariat of Finance of the USSR or the NKF of the republic.

Local councils, in the event of new urgent local costs arising during the budget year, not provided for by the approved budget, are given the right to draw up additional (to the current budget) estimates, which are included after their approval in the main budget. The drawing up of

¹ According to the legislation of the RSFSR, it is not allowed to move loans to local budgets into the "salary" and administrative expenses from other items and from the "salary" article to other items. The transfer of loans from section to section is allowed as an exception for the krai and regional budgets within 25 percent, and for other councils (except for rural)—10 percent section sums.

additional estimates is allowed subject to the full satisfaction of the needs provided for in the main budget. The sources of coverage of expenses for the additional estimate may be: 1) no more than 50 percent. receipts from newly identified sources of income during the year that were not provided for by the budget, 2) no more than 50 percent. excess of actual receipts over the estimated assumptions on the revenue side of the budget as a whole, 3) funds released due to the termination of any expenses provided for in the budget. Since the actual results of the execution of the revenue side of the budget are being clarified only after the end of the budget year, then during the year, the overfulfillment of revenue targets for the budget as a whole can be established only approximately. Therefore, the use of the excess of income over the estimated assumptions is not allowed earlier than the second half, when based on data for the first half of the year and analysis. the plan for the second half of the year, it will become clear with all certainty that the implementation of the revenue side of the budget will undoubtedly provide an excess of revenues for the annual budget as a whole.

The unspent balances of the amounts received from the budget are returned to the cash departments executing the budget. If a this balance is paid before the end of the budget year, then the corresponding amount is restored to the corresponding loans, reduced earlier when the funds were disbursed. Amounts surrendered after the end of the budget year are credited to the income of the current year as miscellaneous income.

Expenditures from loans for the union, republican and local budgets are made until December 31; after that day, all remaining unused loans are closed, and from January 1, budgetary funds are issued only from appropriations under the new budget, which also includes all payments received after December 31. An exception has been made from this general rule for the most remote northern regions of the RSFSR, where a 10-month grace period is set for loans.

5. Cash Execution of Budgets

Cash execution of state and local budgets, that is, reception, storage and spending of budgetary funds, is based on the principle of the unity of the cash desk. This principle is that all revenues of each budget are fully concentrated on one current account with the cash authority executing the given budget, from where cash payments are made to institutions and enterprises on the budget in accordance with the established procedure. The institutions administering budgetary revenues have no right to withhold the sums they collect and make any expenditure from them. All revenues received must be fully surrendered to the cash authority executing the budget. Only such an order of concentration of all budgetary funds guarantees the completeness and unity of their accounting and makes it possible to manoeuvre in a planned manner with all available funds on the basis of the approved budget.

The unity of the cash desk ensures the direction of budgetary resources (territorially and by branches of the economy) in accordance with the quarterly plan for budget execution, and not depending on the place and timing of the receipt of income. In addition, with the unity of the cash desk, the possibility of systematic financial control over the correctness of expenses (as intended) and income generation is ensured.

The main body of cash execution of budgets at all levels of the budget system are the institutions of the State Bank. Only in certain cities (Moscow, Leningrad, Sverdlovsk, etc.), with the permission of the USSR People's Commissariat for Finance in each case, the functions of the cash register for the local budget are performed by local communal banks. Investments for all budgets are implemented through the system of the corresponding special banks.

Local institutions of the State Bank pay all expenses for the union budget (throughout the Union) and budgets union republics (on the territory of a given republic), regardless of

the receipt of income in this branch of the bank. Based on the principle of the unity of the cash office, the regulation and balancing of income and expenses under the union budget is carried out in Moscow, according to the budgets of the union republics—in their republican centres on the basis of special agreements of the USSR People's Commissariat of Finance with the board of the State Bank and the People's Commissars of the Union republics with the corresponding republic of the office of the State Bank. Revenues of local budgets are credited by executing credit institutions to current accounts opened for each budget separately to the respective financial departments, managing the funds of local budgets on behalf of the councils. Payments of the expenditures from local budgets are made only within the limits of the available funds for each individual local budget. For institutions that are on the local budget and independently manage the funds allocated to them from the budget, current accounts are opened in the institutions of the State Bank, to which funds allocated for budget expenditures are credited.

The execution of rural budgets is carried out directly by the village councils themselves. To ensure current expenses for the village council the right to keep the income of his budget and other amounts belonging to this village council within the total cash limit set for each village council by the presidium of the district executive committee, depending on local conditions (distance from the cash office, the state of railways and means of communication, etc.). The surplus cash in excess of the established limit must be immediately handed over or sent by the village council to the institutions of the State Bank or to the State Labour Savings Bank for storage in its current account. The administrator of the current account is the chairman of the village council. Reception of monetary taxes and insurance payments in connection with the release of village councils from these duties is entrusted to the tax agents of the regional financial departments.

In addition to the indicated cash register, cash operations for receiving income are also carried out by the so-called cash desks of special pickers and postal and telegraph offices that accept payments by postal transfers. Spence collectors' cash desks are an auxiliary apparatus for receiving state and local revenues and are organised at institutions and enterprises that, on the basis of special decrees of the government or local councils, are given the right to collect certain types of income. She has no right to accept any other income.

The existence of cash collectors is due to the special nature of the work of individual institutions (customs, ports, secretariats of local councils, communal authorities, judicial institutions, etc.), as well as convenience for payers. Each such cash desk is attributed by the financial institution to a specific institution of the State Bank, to which it must deposit all the collected revenues, without making any expenses from them, as a rule.

Supervision over the work of cash institutions for the execution of the union, republican and local budgets is entrusted to the corresponding financial authorities. Financial authorities check compliance with cash registers bodies of the rules for receiving and spending budget funds and accounting and reporting on budget execution.

6. Drawing Up And Approval Of Reports On Budget Execution

A necessary condition for the planned and operational work of all bodies executing budgets, the implementation of targeted funding, systematic control over the financial economy, prevention of all kinds of violations of budgetary discipline is correct and timely accounting of budgetary funds and their spending.

Accounting for budget execution should, on the one hand,

register all the current operations of budgetary institutions for the implementation of the income and expenditure side of the estimate and ensure the preparation of periodic reporting on these operations, and on the other hand, systematise the reporting of budgetary institutions and combine it into a consolidated report on the execution of this budget as a whole and the set of budgets (local) of each administrative-territorial unit. These tasks are performed by the institutions of the State Bank, loan managers and financial institutions.

All loan managers keep a detailed record of the loans they open for the state budget, the budgets of local councils (local budgets also keep records of the budget funds provided to them) and expenditures made at their expense, as well as all special funds, funds, capital and other extra-budgetary funds at their disposal.

Accounting in financial institutions performs a double role: on the one hand, it keeps a detailed record of expenses at the expense of those loans on the budget, the manager of which is the financial institution, and on the other, it takes into account in a consolidated form the execution of the budget as a whole, that is, the current accounts of the budget and the costs and revenues of this budget.

Institutions of the State Bank for the income of the union and republican budgets maintain detailed accounting for all estimated divisions; on local budgets the current accounting is carried out by financial agencies. The accounting of individual obligations and their fulfillment for each payer is separately kept by the financial authorities in relation to taxes and by individual institutions in relation to the incomes administered by them.

The institutions of the State Bank submit monthly and annual reports on the expenditure of open loans to the higher branches up to the board of the State Bank, and the latter to the People's Commissariat of Finance of the USSR and the People's Commissariat of Finance of the Union Republic. The managers of loans for the union and republican

budgets submit quarterly and annual reports, and for local budgets, in addition, monthly.

The accounts of the managers of credits are presented along the departmental line: the managers of the third degree to the managers of the second degree, the latter in a consolidated form - to the chief managers. The central departments and institutions of the USSR and the union republics submit summary reports on all institutions to the People's Commissariat of Finance of the USSR or the People's Commissariat of Finance of the Union republic, and the chief administrators of the local budget to the corresponding financial organ.

A detailed check and analysis of the reports of the managers of loans and banks is one of the methods of operational control of financial authorities over the execution of budgets, estimates and financial plans. Careful monitoring of the financial economy of enterprises and institutions on the data of periodic reporting ensures the active influence of financial authorities on these enterprises and institutions to carry out the strictest financial discipline and austerity regime, fulfill financial obligations to the state and make expenses directly dependent on the implementation of production plans. Monitoring the progress of the implementation of estimates and financial plans according to reporting data serves as one of the main materials for the development of operational measures by financial agencies aimed at eliminating breakthroughs, as well as for signalling them to the government or local councils.

Based on the reports of the State Bank, special banks and loan managers of the People's Commissariat of Finance of the USSR and the People's Commissariat of Finance of the Union, the republics prepare consolidated reports on the implementation of the federal budget and the budget of the Union Republic.

Annual reports on the execution of the budgets of the union republics upon consideration of their Council of

People's Commissars of the Union republic and upon approval by the Supreme Soviet of the republic are sent to the Council of People's Commissars of the USSR and, on its behalf, are combined by the People's Commissariat of Finance of the USSR with a report on the execution of the union budget in the report on the execution of the state budget of the USSR. This report is considered by the Council of People's Commissars of the USSR according to the report of the People's Commissariat of Finance of the USSR. The report on the execution of the state budget of the USSR approved by the Council of People's Commissars of the USSR is submitted for approval to the Supreme Soviet of the USSR.

The third session of the Central Executive Committee of the USSR of the VII. convocation in a resolution of January 13, 1937 on the report on the execution of the state budget of the USSR for 1935 established the following procedure for approving annual reports on the execution of local budgets: a) annual reports on the execution of rural budgets after consideration and approval of them by plenums village councils are approved by the district executive committees on the report of the chairman of the village council and the conclusion of the district financial department; b) annual reports on the execution of district and city budgets, subject to approval by district executive committees and city councils, are approved by the presidium or plenum, regional executive committee and councils of people's commissars of the ASSR based on the report of the chairman of the district executive committee or city council and the conclusion of the relevant financial department; c) annual reports on the execution of the regional (regional) budgets and budgets of the ASSR, after their approval by the region (oblast) executive committee or SNK ASSR, are approved by the SNK of the Union republics on the report of the chairman of the krai (oblast) executive committee or SNK of the ASSR and the conclusion of the People's Commissariat of Finance of the union republic.

The consolidated report on the execution of local

budgets in the Union republic is submitted by the Council of People's Commissars of the RSFSR no later than July 1, and the Council of People's Commissars of the other Union republics—no later than June 15 of the following reporting year to the Council of People's Commissars of the USSR and in a copy to the People's Commissariat of the USSR. On the basis of these reports, the People's Commissariat of Finance of the USSR submits to the Council of People's Commissars of the USSR by August 1, a consolidated report on the execution of local budgets for the USSR.

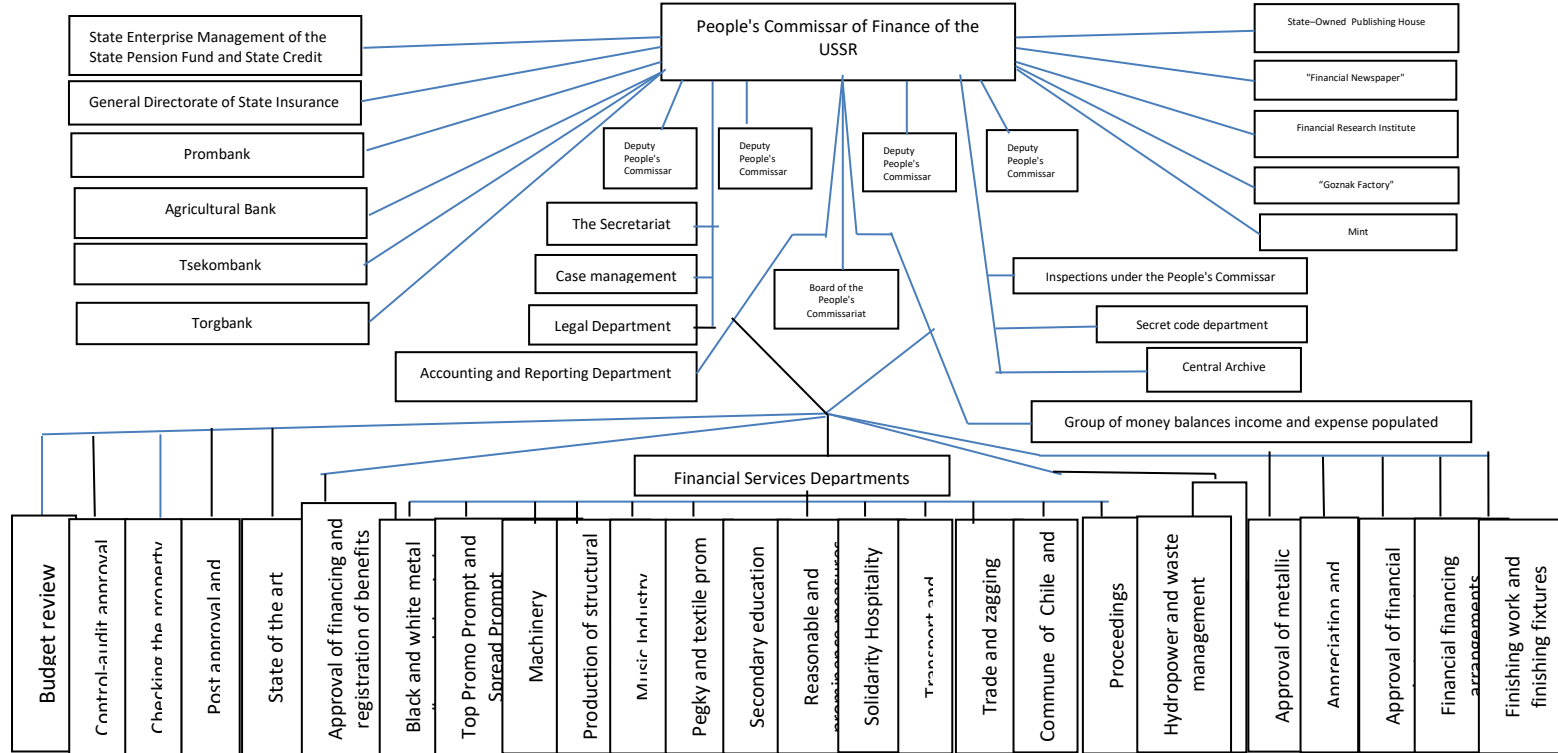
7. Apparatus For Drawing Up And Executing The Budget

All directorates, departments, sectors and groups of the USSR People's Commissariat of Finance, the People's Commissars of the Union and Autonomous Republics and local financial bodies are directly and actively involved in the preparation and execution of the budget¹. The savings banks and state credit, the General Directorate of State Insurance and similar subdivisions of the republican and local financial bodies draw up annual and quarterly plans for the receipt of the corresponding state revenues to the budget and organise the collection of mandatory payments and the mobilisation of voluntary receipts. The departments for financing the branches of the national economy and cultural events consider annual and quarterly financial plans of economic organisations, establish the amount of deductions from profits to the budget and the amount of budget financing, develop plans for financing social and cultural events, check estimates for them and finance the branches of the national economy, cultural institutions etc.

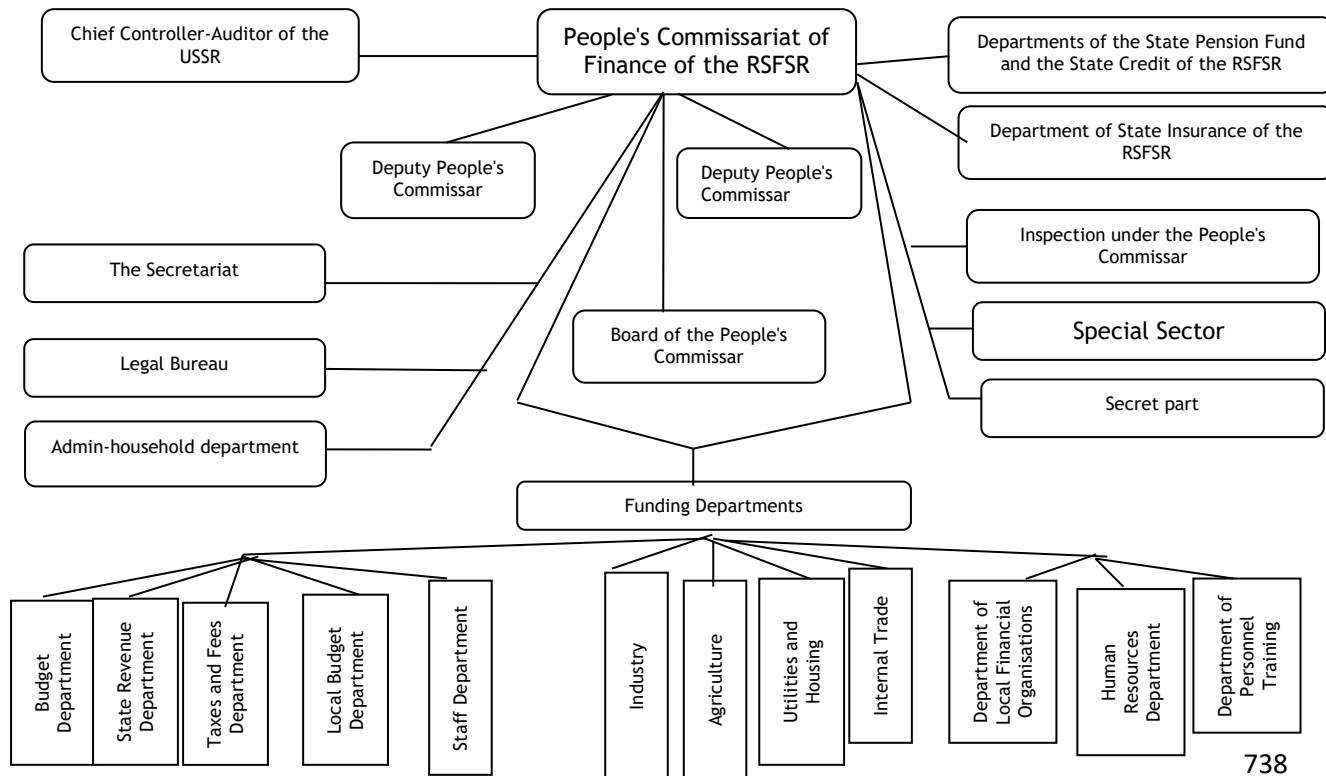
¹ See on pp. 476-419 diagrams characterizing the structure of apparatus of the NKf USSR, NKf RSFSR, NKf ASSR and regional (krai) fo, district financial department.

The consolidated work on the preparation of the budget as a whole, on its execution and on the accounting of execution is carried out in the system of financial bodies by a special budgetary apparatus. For this purpose, the People's Commissariat of Finance of the USSR has organised the Budget Department, which is entrusted with: 1) drafting the Union and state budgets of the USSR; 2) execution of the union budget; 3) development of legislation, rules and instructions on the procedure for drawing up and executing union, republican and local budgets; 4) drawing up annual reports on the execution of the union budget and the state budget of the USSR; 5) development of statistical materials on the union, republican and local budgets; 6) instructing the budgetary work of the People's Commissars of Finance of the Union and Autonomous Republics and local financial authorities. In accordance with these assignments, the Budget Department of the USSR People's Commissariat for Finance has the following subdivisions: 1) the consolidated planning department, 2) the republican and local budgets department, 3) the budget execution department, and 4) the financial and budget statistics sector.

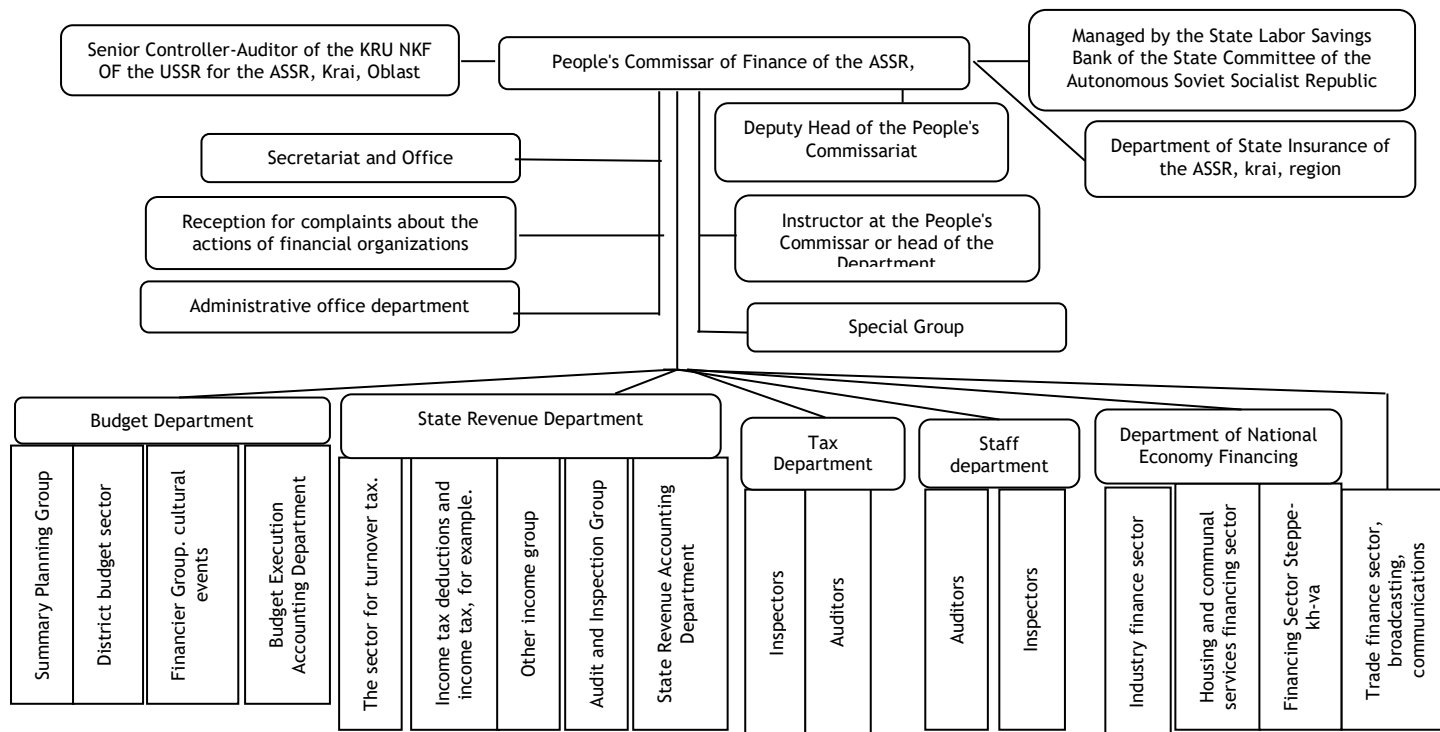
Structure of the Central Apparatus of the NKF of the USSR



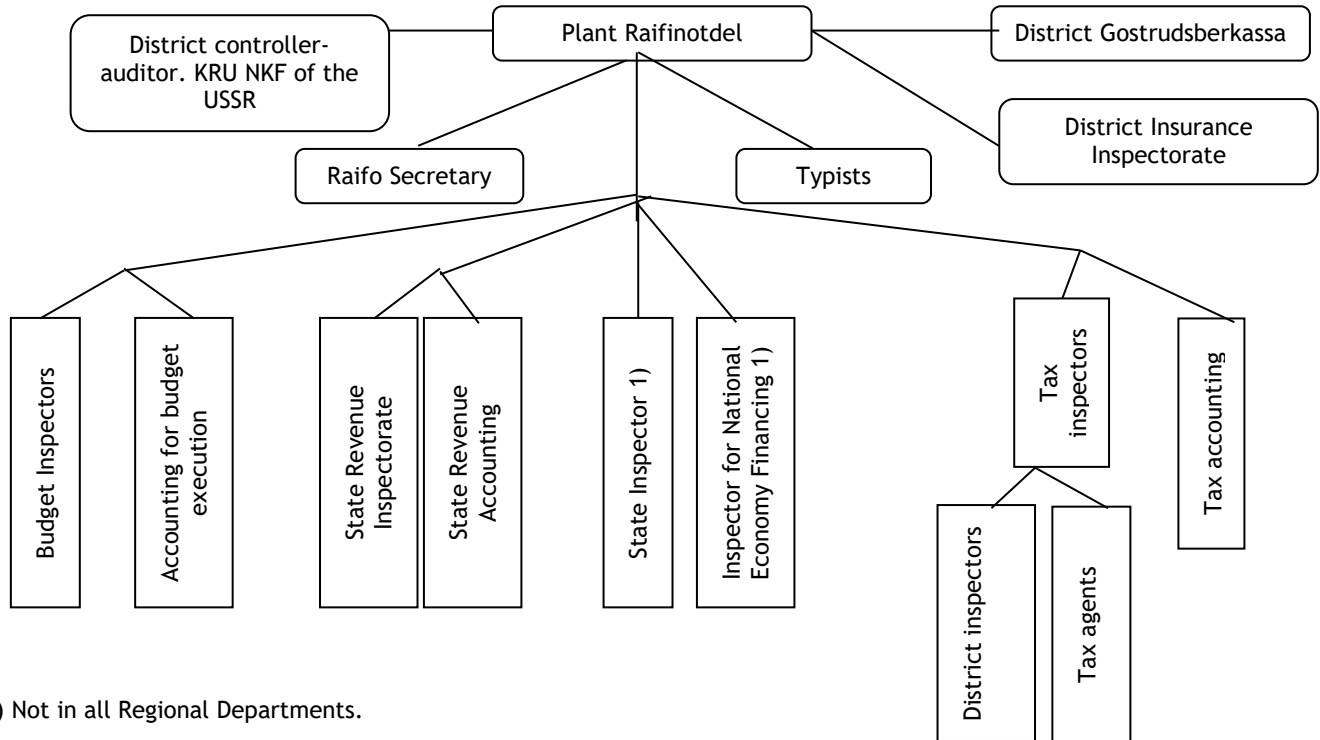
Structure of the Central Office of the NKF of the RSFSR



Structure of the Apparatus of the People's Commissariat of Finance of the ASSR, Region (Region) of the Financial Department



The Structure of the Device Graphics Models



1) Not in all Regional Departments.

In the People's Commissars of the Union Republics, similar work is carried out in relation to the republican budgets and state budgets of the Union republics as a whole by the budget departments, and in relation to local budgets - by the administration of local budgets. These directorates are especially distinguished in contrast to the People's Commissariat of Finance of the USSR due to the large number of administrative-territorial units of major importance that are part of the union republics, which are on the local budget.

The local budget departments ensure the strengthening of local budget planning and operational management of the budgetary work of local financial bodies.

In the People's Commissars of the Autonomous Soviet Socialist Republic and the regional (regional) financial organs, budget departments are organised, consisting of a consolidated planning group, a district budget sector, a group for financing cultural events (financing of the national economy is allocated to an independent department) and accounting for budget execution.

In the district financial departments, all work on the preparation and execution of the budget for financing the national economy and cultural events lies with budget inspectors (consideration of estimates and financial plans, drawing up a draft budget of the district executive committee, consideration of lower-level budgets, drawing up a set of district budgets, drawing up quarterly and monthly plans for budget execution and cash distribution plans, financing of enterprises and institutions, consideration of reports from loan managers and subordinate execution councils estimates and budgets, etc.), and accounting for the execution of the district budget—for the accounting department for budget execution.

The clarity of the work of the financial authorities is of paramount importance for the execution of the budget. This was taken into account by the penetration into the Soviet apparatus, including financial organs, enemies of the people,

who sought to confuse budget work, reduce its quality, reduce all budget calculations to simple arithmetic and impose a superficial consideration of all budget materials (“on differences”) without a detailed check of their justification. The harmful activities of the enemies of the people aimed to introduce impersonal, irresponsibility and disorder into budget work, which were supposed to cover up their counter-revolutionary machinations, embezzlement and waste of state funds, lead to the disruption of socialist construction and arouse the discontent of the working people.

A high cultural and technical level of budgetary work is a necessary condition for eliminating the consequences of sabotage and preventing it in the future. Sloppy compilation of budget materials, lack of correct documentation and execution, acceptance of budget calculations (estimates, financial plans, etc.) or checking them only by technical workers is a convenient loophole for sabotage work and for embezzlement of public funds. It expresses at the same time the lack of Bolshevik vigilance of budget workers.

Budgetary work, in which threads from all branches of the national economy and cultural construction converge, which sets as its task the exhaustive use of all sources of income, the opening of available reserves in the economy and the most efficient and economical spending of public funds, is unthinkable without a deep knowledge of the specific economy of the relevant branches of the economy and districts. This circumstance requires a decisive struggle against the mechanical, arithmetic approach to budget planning; it is necessary to reduce in every possible way the level of economic work of budgetary bodies, to systematically work on strengthening the theoretical armament of budget workers, it is necessary to ensure that they master the Marxist-Leninist teaching.

The budget includes only such incomes and expenses that are provided for by the current legislation; therefore holding the strictest planning and financial discipline and the prevention of sabotage are feasible only if every budget

worker strictly observes revolutionary legality. The close connection of these workers with the Soviet public in the process of both drawing up and executing the budget is absolutely indispensable. Without taking into account the experience of the masses, without direct help from them, as Comrade Stalin teaches, it is impossible to find the correct solution to the problem, to ensure the fulfillment of one or another task, to check the fulfillment. Close communication with the Soviet public equips the budget worker with the life experience of the working masses, knowledge of the actual life of institutions and enterprises, their needs and individual characteristics, helps to generalise the facts and make the necessary decisions in order to streamline the budgetary economy and is the most important weapon against bureaucratic stereotyping of plans.

Finally, the main condition for the correct organisation of budgetary work is a political approach to each issue and to each figure. Budget planning is the concretisation of the general line of the party, the translation of party directives into the language of financial figures. Behind any number you need to see living people, developing economy and the implementation of the Party's directives, we must constantly remember the instruction of Comrade Stalin that "politics cannot be separated from economy."

The tasks of improving budgetary work set by the Eighteenth Party Congress to the financial system strongly demand that every budget cadres not only with excellent knowledge of business technology and economic economics, but also deep mastery of Bolshevism, political education and Bolshevik vigilance in all areas of work.

8. Budget Discipline and Budget Control

In national economic and financial planning, execution control is of great importance. "We need our plans in order to check how our economic work is being conducted. If the

plan is not connected with the execution check, then it turns into a piece of paper, into a dummy¹.

This fully applies to the budget plan, without strict implementation of which is impossible to implement economic plans in any branch of the national economy and cultural development.

The national economic and political significance of the budget necessitates the strictest verification of execution both in the field of mobilising budget revenues and in relation to the direction of budget funds in accordance with the approved plan.

The financial resources of the socialist state are national property, which is the sacred and inviolable foundation of the Soviet system. The protection of this property from thieves and plunders of the people's property is one of the main functions of budget workers. Comrade Stalin teaches that

“... the struggle for the protection of public property, the struggle with all measures and all means at our disposal by the laws of Soviet power—is one of the main tasks of the party”².

The most important element of verification of the implementation of budgetary and financial plans is therefore to ensure the greatest frugality, strict economy and maximum cost efficiency.

The approved budget is the law, the implementation of which requires compliance the strictest budgetary discipline.

Only under this condition is it possible to ensure the fulfillment of the plan for mobilising resources for socialist construction and the use of all means in strict accordance with the approved plan. Compliance with budgetary

¹ V. Molotov, *Report at the XVIII. Party Congress on the Third Five-Year Plan for the Development of the National Economy of the USSR, Verbatim Report*, p. 293.

² J. Stalin, *Questions of Leninism*, ed. 10th, p. 509.

discipline also stimulates the maximum efficiency in spending and strict adherence to the economy.

The main requirements of budget discipline cover: 1) unconditional implementation of the approved budget plan, i.e. complete and in due time the fulfillment by all institutions and enterprises of their financial obligations to the state, the direction of budget funds only for the needs provided for by the budget (prevention of so-called non-credit expenditures), and for the direct purpose of allocations, strict adherence to the qualitative and quantitative indicators of the budget plan (states, rates, salary funds, cost standards, investment limits, etc.); 2) taking the necessary measures to protect folk remedies, that is, correct and timely accounting for them, observance of the rules for the unity of the cash desk, a mode of economy and frugality in expenses; 3) the implementation of strict revolutionary legality in the execution of the budget, that is, the exact implementation of the size and procedure for collecting taxes and fees and other payments established by law, the formation of extra-budgetary funds only, in cases permitted by law, compliance with the rules for spending budget funds (supporting documents, their execution, the procedure for issuing advances, cashless payments, etc.).

The violation of the requirements of budgetary discipline is a crime for which both the heads of institutions and enterprises and their accountants are brought to trial and disciplinary responsibility. The latter are mandated by law to monitor compliance with all requirements of financial legislation and instructions of the USSR People's Commissariat for Finance in the financial sector of the respective organisations.

The ruble control of all the activities of institutions and enterprises, the struggle for a mode of economy, for the observance of financial and budgetary discipline, for the correct, economical and expedient use of public funds are the main tasks of the financial apparatus at all stages of its work. Financial control is carried out in the preparation of

the budget and balances of income and expenses, and in their execution, in the process of financing institutions and enterprises and, finally, when checking the results of the financial activities of enterprises and institutions.

When building a budget, estimates and balances of income and expenses, control is expressed in checking each budget assignment, the correctness of the actual use of funds for the previous year, the compliance of applications with the directives of the party and government, the correctness of the calculation and the appropriateness of both the allocation itself and its size.

The operational control of the actual use of funds in the process of budget execution begins from the moment the funds are released.

It is expressed in targeted financing: funds are issued for a specific purpose, for a specific type and subject of expenditure in strict accordance with the purpose indicated in the budget and only as the production program is actually fulfilled, on the basis of a report on the use of previously opened loans, the actual state of the network, states and contingents. In the area of financing capital construction, systematic financial control is exercised by special long-term investment banks subordinate to the USSR People's Commissariat for Finance.

Finally, the consideration by financial agencies of reports and balances of economic bodies and institutions is of the greatest importance. Control exercised only when funds are disbursed and when considering reports and balances is insufficient. This control should be supplemented by comprehensive audits of the correctness of spending and accounting of funds allocated under the budget, as well as the fulfillment by institutions and enterprises of their obligations to the budget. "Checking the execution of assignments means checking them not only in the office and not only on formal reports, but above all checking them at the place of work according to the actual results of the

fulfillment”¹.

The implementation of the functions of the financial apparatus for monitoring the observance of financial and budgetary discipline by the method of audits of institutions and enterprises is entrusted to the Control and Auditing Department of the USSR People’s Commissariat of Finance and its republican and local bodies.

The main tasks of the Control and Auditing Directorate of the USSR People’s Commissariat of Finance and its bodies are: 1) checking compliance with the laws on the budgetary rights of union and autonomous republics and councils of workers’ deputies, both by republican and local bodies, and by the people’s commissariats and institutions of the USSR; 2) control over the execution of the union, republican and local budgets by budgetary institutions; for the correct and economical use of funds allocated under the budget; over the observance of the established staffs, official salaries and payroll funds; for the correct education and use of off-budget (special) funds; 3) control over the timely fulfillment by state and cooperative organisations of their obligations to the budget; 4) checking the work of financial bodies, state insurance bodies and state labour savings banks; 5) verification of compliance by the institutions of the State Bank with the established rules for the execution of the unified state budget; 6) checking the setting of the intra-departmental financial control in the people’s commissariats, institutions and organisations; 7) verification of the exercise by chief and senior accountants of the rights and obligations assigned to them by law. In addition, the Control and Audit Directorate of the USSR People’s Commissariat for Finance and its local bodies check the use of budget funds by economic and public organisations (and, if necessary, their

¹ J. Stalin, *On the shortcomings of party work and measures for the elimination of Trotskyist and other double-dealers*, Partyzdat, 1937, p. 34.

own funds), and check the work of long-term investment banks and their branches.

The system of control and auditing bodies of the USSR People's Commissariat of Finance is built on the basis of complete centralisation. Supervision of control and audit work in each Union republic is carried out by the chief controller-auditor, who is appointed by the People's Commissar of Finance of the USSR and reports directly to the head of the Control and Auditing Department. In the ASSR, territories, regions and large cities, the management of control and audit work is entrusted to the senior controller-auditor, who is appointed by the head of the Control and Auditing Department and reports directly to the chief controller-auditor of the Union republic. In districts and other cities (not having a regional division), control and audit work is carried out by controllers-auditors appointed by senior controllers-auditors who are directly subordinate.

The strict centralisation of the control and audit bodies ensures the objectivity of the audit and raises the financial and budgetary discipline to the proper height. However, this centralisation by no means excludes the necessary coordination of the work of the control and audit bodies with the corresponding financial bodies, but, on the contrary, presupposes the closest coordination of their activities. The plans of audits of the control and auditing bodies are coordinated with the management of financial bodies. Audit materials are necessarily involved in the preparation of the budget, in the consideration of estimates, financial plans and subordinate budgets; financial authorities allocate their employees to help controllers-auditors in carrying out comprehensive audits, etc.

The following distribution of functions has been established between the individual links of the control and auditing apparatus of the USSR People's Commissariat for Finance; 1) The Control and Auditing Department of the People's Commissariat of Finance of the USSR audits the Union People's Commissariats and the central institutions of

the USSR, as well as the republican and local budgets of the Union republics; 2) inspectors-inspectors of the Union republics audit the republican people's commissariats and central institutions of the union republics, as well as the budgets of the ASSR, territories, regions; 3) controllers-auditors of districts, regions, territories.

The Autonomous Soviet Socialist Republics and union republics that do not have regional divisions are audited, respectively, by district, regional and republican (in the ASSR) institutions, as well as district budgets and budgets of cities of district subordination; 4) district auditors-controllers audit district institutions and rural budgets.

The main method of work of control and audit bodies is documentary audit, which consists in comparing accounting data with genuine primary vouchers and in the analysis of these documents. This is in contrast to a survey, in which a performance check is usually performed based on consideration of reports, accounting books, statistical summaries, etc. In documentary audits, secondary documents (reports, etc.) are only auxiliary material.

Documentary audits are carried out by either a continuous or random check of primary documents. With the continuous method of all documents, without exception, are checked since the moment of the previous revision, and in the case of a selective revision, only some of them (for certain types of operations for a certain period, etc.). The volume of audited documents. is determined by the tasks and the audit program and by the controller-auditor himself, depending on the need arising in the course of the audit. However, a solid check of the set small documents should not turn into an end in itself and obscure the main task of the audit—to find out the correctness of the organisation and management of the financial economy and the fulfillment of all the requirements of financial and budgetary discipline.

If necessary, a documentary audit is accompanied by an actual audit, i.e. checking the availability of cash, property and materials in kind, an on-site inspection of the work being

done, etc.

In carrying out its tasks, the Control and Auditing Department of the USSR People's Commissariat of Finance and its bodies have the right to require the audited institutions and organisations to submit all monetary documents, accounting books and other types of financial statements in accordance with established forms, plans and estimates, as well as the presentation of monetary amounts and securities. At the request of the control and auditing bodies, credit and other institutions are obliged to issue them certificates and copies of documents related to the operations and settlements of the audited institutions. According to the results of audits, the Control and Auditing Department of the People's Commissariat of Finance of the USSR gives the heads of the audited institutions mandatory instructions for them to eliminate the revealed violations and shortcomings.

In all cases of violation of financial and budgetary discipline and illegal spending of public funds, the Control and Auditing Department and its local bodies represent to the people's finance commissioner of the USSR and the heads of the relevant financial bodies, their proposals on measures of financial influence on the audited institutions and on the establishment of a financing regime that ensures the prevention of further violations of financial discipline. If during audits violations of laws, state financial discipline, embezzlement of public funds and other crimes are revealed, then the Control and Auditing Department and its local bodies put before the relevant People's Commissariat, the head of a higher organisation, the question of dismissing the guilty officials from work with the transfer of the relevant materials to the judicial and investigative authorities to bring the perpetrators to justice. When embezzlement and embezzlement are established, the auditor, without waiting for the end of the audit, transfers the materials to the prosecutor's office for taking appropriate measures.

The effectiveness of audits and the achievement of

certain practical results to improve the financial economy of the audited institution or enterprise is an indispensable condition for control and auditing work. Therefore, the most important factor in this work is to verify the accurate and timely implementation of the instructions based on the results of the audit. All controllers-auditors, when drawing up instructions to audited institutions and enterprises on measures to improve financial performance and on correcting violations committed must set deadlines for the implementation of each instruction, indicate the persons responsible for the implementation of these instructions and carry out systematic monitoring of the implementation of audit materials.

The third session of the Supreme Soviet of the USSR noted that the People's Commissariat of Finance of the USSR and its local bodies are unsatisfactorily fulfilling their obligation to control the correct and economical spending of state funds allocated to the People's Commissariats and other institutions and enterprises. The Supreme Soviet of the USSR ordered the People's Commissariat of Finance of the USSR and its local bodies "decisively improve the work on control over the financial activities of the people's commissariats and other institutions and organisations, preventing violations of financial and budget discipline and mismanagement of funds allocated by the state."

The main measures to improve the work of the control and audit bodies of the USSR People's Commissariat for Finance should be aimed at strengthening coverage by audits of economic organisations, to deepen the study of the financial and economic activities of institutions and enterprises, to broaden the use of comprehensive audits, to increase the effectiveness of audits, to check the execution of audit instructions, to improve the qualifications of the personnel of controllers-auditors, as well as to develop forms of preliminary control.

Control over the spending of funds can be effective and operational only if it is carried out systematically and covers

all the numerous budgetary institutions and economic organisations. In this regard, it is necessary, at least once a year, to audit every institution and every organisation. It is impossible to carry out this task successfully and completely with the help of the apparatus of financial organs alone. The control of financial bodies should be complemented by intradepartmental control on the part of higher authorities over the financial and economic activities of institutions and enterprises subordinate to them.

The January 1936 session of the USSR Central Executive Committee of the VII. convocation suggested that all the people's commissariats, the SNK of the union and autonomous republics, the regional and regional executive committees organise intradepartmental control over the institutions and enterprises subordinate to them and ensure full documentary revision of them at least once a year.

The main tasks of this audit are: 1) verification of the legality of operations carried out by the institution and the enterprise, and compliance of financial and budgetary discipline; 2) the fight against the plundering of socialist property and the illegal spending of funds and materials; 3) checking the correctness of accounting, the soundness of the documents processing the transactions, and the correctness of the records; 4) checking the correctness of the material accounting of the warehouse farms.

For this purpose, special groups of inspectors-auditors are organised in the people's commissariats, central departments and council departments, who check on the spot on the basis of primary documents the financial work of institutions and enterprises. According to the act of each audit, the relevant departmental body makes decisions indicating the detected violations of financial discipline, specific measures for their elimination and prevention and penalties imposed on the guilty ones. Bodies of the Control and Auditing Directorate of the USSR People's Commissariat for Finance also check the organisation of work of intradepartmental control.

Financial control of departments and control and auditing bodies of the People's Commissariat of Finance of the USSR, as a rule, is a follow-up control, that is, the actions of institutions and enterprises for use. funds are usually checked after these actions have been performed, and funds are used up TOY or otherwise. Control in the form of a documentary audit for each individual institution is not routine, since an institution can be documented no more than once or twice a year. In the interval between audits, although the institution is subject to control at the time of funding, there is no documentary verification of its actual costs. Various forms of mass public control are used to prevent misuse of funds and promptly signal to higher authorities about noticed violations of financial discipline.

In connection with the liquidation of the RKI bodies, the functions of the Workers' and Peasants' Inspectorate for grass-roots primary institutions and enterprises, according to the resolution of the XVII Party Congress, were transferred to the trade unions. Professional organisations exercise public control over the activities of institutions and enterprises by creating grassroots control teams in various areas of economic and financial activity. One of the most common forms of direct participation of trade unions in the control of the correct and the economical expenditure of public funds is the creation of control (signal) posts or groups.

Control posts are organised at the factory committees of enterprises, as well as at local committees of institutions that are on the state and local budgets. Their main tasks are: daily monitoring of the correctness of spending public funds, a systematic struggle for austerity regime and for the prevention of violations of financial and budgetary discipline (staffs, funds and wage rates, administrative and management expenses, accounting and use of property, the unity of the cash office, etc.) ... They carry out their work by actually checking the financial economy of institutions or enterprises, involving representatives of the production meeting of the audited sector, shop, etc., in their work.

Direct management of control posts entrusted for the bodies of intradepartmental control and for financial authorities. Each control post, financial agencies or internal control bodies, on a monthly or quarterly basis, give specific task plans with an indication of the methods of work. At the same time, one of the main tasks of financial agencies and intradepartmental control is to help control posts in the implementation of survey materials.

One of the most important forms of involving the public in financial control is the creation of an institution of public inspectors under the control and auditing bodies. Public inspectors are selected by local council sections and trade unions from among the best shock workers and excellent activists. They check directly on the spot the correctness of the spending of public funds, participate in audits and surveys carried out by financial authorities, in meetings of employees of control posts, etc. With the help of public inspectors, control and auditing bodies carry out instructions and verification of the work of control posts. To this end, public inspectors are assigned to a specific department or economic system, in the institutions and enterprises of which they organise, together with factory and local committees, control posts.

Of great importance in the field of public control are the commissions of local councils. One of the main functions of these commissions is a systematic check on the spot of the correctness of spending public funds, primarily in the institutions subordinate to this council. The supervisory functions of the councils' commission performed by sending teams from council members to institutions. These brigades check the fulfillment of production plans and estimates, compliance with established norms, states, funds and wage rates.

In all mass control work, the press is of exceptional importance. Coverage in newspapers of the results of the most important revisions, showing the best examples of public control work, sharing the experience of the best

public controllers—all this helps to raise the authority of public control and intensify the struggle for budget discipline and economical spending of public funds.

Appendix to Chapter XVI

SCHEMES FOR THE CLASSIFICATION OF INCOME AND EXPENDITURES OF THE STATE BUDGET OF THE USSR IN 1940

Main sections	Paragraphs	Articles
1. Classification of income of the union and republics budgets		
1. Sales tax	1. People's Commissars or departments	1. Industries or product groups
2. Deductions from profits	2. People's Commissars and Departments	2. In § 30 - types of state. insurance In § 33 - individual credit institutions
3. Income tax and other taxes from enterprises and organisations	3. Types of taxes (collective farm income tax, income tax on cooperation, tax on non-commodity transactions)	3. On income tax from cooperation - separate cooperation systems
4. Taxes and fees from the population	4. Separate payments	4. Certain categories of payers
5. Government loans	5. Types of loans	5. For loans distributed among the population—population groups
6. MTS income	6. Certain types of receipts (payment in kind, cash receipts,	6. —

	etc.)		
7. Social insurance funds	7. —	7.	—
8. Customs revenues	8. —	8.-	—
9. Repayment of loans	9. —	9.	—
10. Special tax deductions from turnover to republican and local budgets	10. 1. Cotton processing enterprises 2. Oil refineries 3-10. Groups of procured goods (tobacco raw materials, bread and oilseeds, beets, etc.)	10.	—
11. Tax on the turnover of collective farm trade and consumer cooperation in rural areas	11. 1. Collective farm trade in rural areas 2. Rural consumer cooperation	11.	—
12. Other income	12. Certain types of income (coin fines and etc.)	12.	—
13-14. Proceeds from revaluation of stock balances	13-14. —	13-14.	—
15. Balances of budgetary funds	15. —	15.	—

Main sections	Paragraphs	Continuation Articles
2. Classification of expenses of the union and republican budgets		
A. National economy	Main departments, associations, self-supporting offices, groups of the same type of events (for example, according to section 24:	General articles on the estimates of institutions that are on the state budget
1-38. Separate economic commissariats and departments (for example, Section 1- People's Commissariat of the Fuel Industry, Section 24 - NKPS etc.)	§ 1 railways, exploited network, § 2 — new railway construction, § 5 — trust of steam locomotive repair factories, § 11 — railway transport security it. etc.)	1. Salary 2. Accruals for wages. 3. Office and office expenses 4. Business trips and business trips 5. Research and development work and invention 6. Study costs and practical training of students 7. Purchasing books for libraries 8. Scholarships for students 9. Food (in medical institutions, homes for the disabled, orphanages, kindergartens and nurseries) 10. Purchase of medicines and dressings 11. Purchase and repair of teaching aids 12. Purchase and repair of equipment
B. Socio-Cultural Activities	Types of institutions and events (for example, on education — elementary schools, high schools, etc.; on health care — health centres, hospitals, etc.)	
40. Enlightenment		
41. Healthcare		
42. Physical education		
43. State social insurance		
44. Social security		

		and inventory 13. Investment 14. Out-of-limit costs 15. Other expenses
B. Defence		General items for accounting for the costs of financing the national economy ¹
45. People's Commissariat of Defence		
46. People's Commissariat of the Navy		
G. NKVD (section 47)		21. Capital costs (industrial construction and other costs production value)
D. NKYU, Courts and Prosecutor's Office (Sections 48-50)		22. Housing, cultural, household and communal construction
E. Organ maintenance costs public administration (section 51)	Central and local institutions and main types of costs (conducting electoral campaigns, expenses for the implementation of parliamentary powers by members of the Supreme Soviet of the USSR and the Supreme	23. New school construction 24. Capital investments by personnel 25. Investment in science 26. Capital costs of labour supply

¹ In order to preserve for individual articles those numbers by which they were designated earlier, Nos. 16-20 are omitted.

Soviets of the Union
republics)

27. Other capital
costs

14. Extra-limited
costs

28. Financing own
circulating
funds (except for
those accounted for
under Art. 28)

29. Financing of
working capital for
work supplies

30. State subsidy

31. Operating moves

32. Other costs

33. Bonuses-
allowances for forest
workers and other
workers in logging

Special clauses
additionally
established for
specific industries
national economy,
No. 34-50

For example,
according to sect. 22
—NKZem: according
to § 1 MTS,

G. Government Borrowing Costs

52. State borrowing costs

Types of expenses (payment of interest, payment of winnings, etc.)

Art. 37— fuels and lubricants, according to sect. 24 — NKIS: Article 48 — acquisition and construction of new rolling stock, etc.

3. Reserve funds of the Council of People's Commissars of the USSR and the Council of People's Commissars of the union republics

—

53. I. Funds transferred to republican and local budgets

—

54. Deductions from state taxes and income

Certain types of taxes and income

55. Grants to the budgets of union and autonomous republic and local budgets

—

K. Settlements with banks (Section 56)

Individual banks

L. Reimbursement of income and other expenses

57. Return of income and miscellaneous payments

Types of payments (return of income of previous years,

payment of
discounts on
turnover tax, etc.)

58. Other expenses Types of expenses
(cash payments
awarded by orders
and medals of the
USSR, etc.)

3. Classification of income by the budgets of the ASSR and local budgets

Sections	Paragraphs	Articles
1. Local industry	1. Industry of the Republics (ASSR), regional and regional subordination	1. Deductions from profits
1.1 Local fuel industry		2. Gross income
		3. Rent
		3. 1]. Withdrawal of surplus working capital
2. Food industry	2. Industry of city and district subordination	
2.1] Fishing activity	Certain types of enterprises. or sources of income (for example, in section 5: 1 - gardens, vegetable gardens and vineyards; 2 — peat bogs; 3 - bowels etc.; in sect. 8: 1 - power plants; 2 — gas factories; 3 - trams; 13 — construction	
2.2] Meat and dairy industry		
3. Light industry		

3.1] Textile industry organisations, etc.)
industrial production

4. Timber industry

4.1] Building
materials industry

According to sect. 6
(forestry): Art. 4—
fee
for wood; Art. 5 -
additional payment
use; Art. 6 — fines
for forest violations;
Art. 7 — deductions
for timber removed
from forests during
logging.

5. Agriculture

6. Forestry

7. Housing

8. Utilities

9. Utilities and
improvement

9.1] Road transport

10. Trade

10. —

11. Miscellaneous
local non-tax
revenues

11. Selected sources
of income

12. Local taxes

12. Certain types of
taxes, fees and non-
tax revenues

13. Deductions from
state taxes and non-
tax revenues

14. State taxes, fees and duties directly credited to the local budget

15. Funds transferred by economic agencies

16. Loans

17. Omitted

18. Subsidies from the republican budgets and from the funds of regulation of the union republics

19. Subsidies from the funds of regulation of the ASSR and local councils

20. Balances of budgetary funds

15. Types of funds

16. Types of loans (long-term from utility banks, short-term inter-budgetary).

18. 1. Subsidies from the republican budget of the union republic
2. Subsidies from the Union Regulatory Fund republics.

19. 1. From the fund of regulation. ASSR, regions. and area.
2. Regulated from regional funds.

20. 1. According to the execution of the budget for the previous year
2. Remains of funds from a one-time fee and from fees for

16. Appointment of loans for housing construction, for the needs of utilities, for other events

services in the
markets
3. Remains of
wastewater
collection funds

4. Classification of expenditures by ASSR budgets and local budgets

Sections	Chapters	Paragraphs	Articles
1. NK Mestprom ASSR, local industry departments			
2. NK Pishcheprom ASSR, ex. (departments) food industry			
3. NK Legprom ASSR, ex. (departments) of the timber industry			
4. NK Lesprom ASSR, ex. (departments) of the timber industry			
5. NK Zem ASSR, land department			
6. NK Kommunkhoz. ASSR, department of communal services			
7. NK Torg ASSR,			

trade
department

8. NKF ASSR,
financial
department

9. NKPros ASSR,
department of
public education

10. Archives

11. Department
of Arts

12. Broadcasting
Committee

12. 1. Control.
cinification

13. NKZdrav
ASSR, health
department

14. Committee
for Physical
Culture and
Sports

15. NKSobes
ASSR,
department of
social security

16. Local bodies
of NKVnudela

17. Supreme

**5.
Management
(according to
sections 1-17
and 23-29)**

**6. Other
expenses
(according to
sections 6
and 17)**

Cost types

By sources
and purpose

17. Education
strengthening
of working
capital and
strengthening
of working
capital

18. State
subsidy

19. Funding
Trusts for
Operating
Costs

Soviets and Sovnarkoms of the ASSR, regional, regional, district, district executive committees, city, settlement, village councils	— — —	of loans Regulatory funds (union republics, ASSR, territories and regions; district funds)	— — —
18. Omitted	—	—	—
19. Omitted		—	—
20. Reserve for the local budget and the budget of the ASSR	— —	— —	— —
21. Payments on loans and borrowings	—	—	—
22. Contributions to regulatory funds	—	—	—
23. Road administration under the Council of People's Commissars of the ASSR, road departments	—	—	—
24. Office of the construction materials industry			
25. Management of the local fuel industry			
26. People's Commissars and departments of the fishing			

industry

27. People's

Commissars and

departments of

meat and dairy

industry

28. People's

Commissars and

departments of

the textile

industry

29. Department

of road transport

5. Typical classification of expenditures by rural budgets

Sections	Paragraphs	Articles
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5. Agriculture	Separate types of activities or institutions (for example, according to section 5-agricultural network, pest control of agricultural enterprises, veterinary medical departments, zootechnical network, etc.; according to section 9-kindergartens, elementary schools, secondary schools, libraries, cinemas, etc.)	According to the instructions of the regional financial departments - within the general grid of articles established for the entire system of local budgets (see above)
6. Utilities and communes.		
enterprises		
7. Trade		
9. Enlightenment		
13. Healthcare		—
15. Social security		
17. Village councils		
22. Contributions to regulation funds	—	
23. Road facilities		

CHAPTER XVII. CREDIT SYSTEM OF THE USSR

1. The Role of Soviet Credit. Functions of Banks in the USSR

Soviet credit in its content and purpose is fundamentally different from capitalist credit. Through capitalist credit, the capitalist—the owner of the loaned capital—participates in the exploitation of the working class and appropriates a part of the surplus value in the form of interest.

By facilitating the transfer of capital from one branch of the economy to another, capitalist credit contributes to the equalisation of the rate of profit. Expanding the boundaries of capital use, credit enhances the power of a small group of tycoons of capital over all social labour. The financial oligarchy takes full advantage of all the benefits of credit development: reduction of distribution costs, acceleration of the process of reproduction, reducing the amount of necessary reserve funds.

Capitalist credit is thus a powerful instrument for the concentration of capital, for the intensification of the exploitation of the working masses. Credit accelerates the development of capitalism, but at the same time intensifies its contradictions, intensifies the anarchy of capitalist production.

In the USSR there is no category of loan capital and exploitation in general. Soviet credit is based on the planned development of the socialist economy, is a lever of the struggle for the fulfillment and overfulfillment of the national economic plan, for an increase in wealth and power the socialist homeland, for the growth of the well-being of the working people of the city and countryside.

Soviet bank credit is a method of planned redistribution of temporarily free funds and savings in order to ensure the fulfillment of the plan and control by the ruble over the course of production and circulation of goods.

Temporarily free funds include:

a) temporarily free funds of state and cooperative enterprises and economic organisations, which are both temporarily released working capital in monetary form and temporarily settled unallocated and still unused savings;

b) free cash, funds and savings of collective farms; the size of these funds increases especially during the period of the crop production process—before the distribution of income by workdays; the rest of the time, these funds consist of non-distributable cash balances and savings ‘intended for capital expenditures and current expenditures of collective farms;

c) free funds of trade unions and other public organisations;

d) free funds of budgetary institutions receiving funds from the budget on a monthly basis, these institutions spend them throughout the month, as a result of which temporary free balances);

e) free balances of funds of the state and local budgets, formed as a result of a general excess of revenues over expenditures and a mismatch in the timing of current budget receipts and current payments from budgets.

Since all of the above resources are temporarily free funds of economic agencies or savings and savings of collective farms, cooperative organisations and the population, their accumulation cannot be carried out using the methods that are practically are forged when collecting taxes. Here, other, credit methods of accumulating funds are used: raising funds for storage on accounts and deposits in credit institutions. Since the resources accumulated on the accounts of credit institutions are temporarily free funds, they cannot be directed to the national economy in the manner of non-returnable financing, since such a method

would not provide the possibility of returning funds from current and settlement accounts. Feature of the credit redistribution method consists in the fact that the funds are transferred only for temporary use, that is, for a certain period, with the obligation to return after the expiration of the period.

This form of providing funds is based on the entire system of cost accounting and, as we will see later, creates special opportunities for ruble control.

The entire lending process is subordinated to the tasks of the national economy plan and credit plan corresponds to the planned targets for production and turnover.

Soviet credit in the hands of the dictatorship of the working class is a powerful instrument of control and planning. It is necessary, as already it was pointed out in the chapter as long as money and the system of cost accounting exist. Soviet credit is necessary as a construction tool communism until the end of the first phase of communism—the socialist stage of development.

The systematic use of money and credit in the Soviet economy requires the existence of a special apparatus, which has the task of directly carrying out credit operations and regulating money circulation. Banks are such an apparatus.

Taking into account the instructions of V. I. Lenin, the Soviet government, after the implementation of the socialist revolution, placed the banking apparatus inherited from the bourgeois system at the service of the working class. The history of the development of the socialist banking apparatus was described in the previous chapters.

The current Soviet banks perform the following functions:
a) organise non-cash payments, b) redistribute funds, c) control the ruble execution of plans for the production and circulation of goods, plans of savings; influence economic agencies with the ruble in order to strengthen cost accounting.

The development of cashless payments is of great importance for the national economy. The links established

between banks and business organisations are bilateral. Banks not only lend to business organisations, but also carry them out errands on transfers of monetary amounts. The development of cashless payments is of great importance: firstly, it leads to savings cash—given the huge turnover of economic organisations, it is possible to get by with a relatively small amount of cash, which is necessary mainly for the payment of wages, partly for settlements with peasants for agricultural products and for the production of household expenses. Secondly, reducing the need for cash facilitates planning and allows you to better organise control over cash turnover. Thirdly, non-cash payments contribute to the transformation of the State Bank into a nationwide apparatus for accounting for the production and distribution of products. Fourthly, non-cash payments contribute to the acceleration of the circulation of goods. Transactions concluded by business organisations are executed faster. Businesses and organisations that act as salespeople have the ability to use money to purchase the goods they need more efficiently. Non-cash payments can be greatly developed only if there is a banking apparatus in the country with an extensive network.

The second function of the Soviet banks is the redistribution of the country's monetary resources. It was indicated above what temporarily free funds are redistributed through a loan. The most important place among them is occupied by free funds of economic organisations and collective farms.

Business organisations have working capital at their disposal. These funds can be used for education stock of various kinds of goods. Having been converted into monetary form, working capital can be partly in the cash desks at the organisations and mostly at the cash desks of banks. Usually cash balances at the cash desks of business organisations and the balances in bank accounts are small. This is the temporarily settled proceeds that have not yet been spent on salaries, payments to the state, for goods and other expenses.

The value of inventories is usually much higher than the amount of cash balances, but still it cannot be concluded from this that cash balances are not important for business organisations. These organisations must have money for the production of business expenses, for the issuance of wages, for the acquisition of raw materials, fuel and other materials. Immediately after the sale of the next batch of finished products, the enterprise does not purchase the necessary raw materials on the same day. The trade organisation, having completed the sale of one batch of goods, must find other goods and purchase them. Consequently, there is a movement of money from one branch of the economy to another, accompanied by the settling of money in banks. Using temporarily free working capital, short-term credit banks provide them in the form of loans to economic organisations.

Along with economic organisations, budgetary institutions have cash balances. They are provided with funds from the budget, and the allocation is made on a monthly basis. Due to the fact that money is spent throughout the month, credit institutions can use these funds for lending.

Of greatest importance is the work of credit institutions to attract free funds belonging to collective farms to current accounts in credit institutions. At the expense of these funds, credit institutions are able to provide loans to other collective farms and enterprises.

It should be noted that the redistribution of funds is carried out mainly by the State Bank. The possibilities of special banks are very limited. The budget allocation cannot be reallocated because the money earmarked for capital construction is usually used in full during a quarter or year. But even if the enterprise does not fulfill the capital construction plan and does not receive all the funds, then the unused balances cannot be redistributed, since having given them to another enterprise, it will no longer be possible to get them back. This means that special banks can redistribute only funds intended for short-term lending, and

only partially those amounts of money that can be used for long-term lending. For example, at the expense of a part of the remainder of the indivisible funds of the collective farms, it is possible to carry out long-term crediting of those collective farms that, according to the plan, must carry out construction work and have indivisible funds in a smaller amount than is necessary to fulfill the plan.

The control function of Soviet banks is especially important for the national economy. In the USSR, the development of all branches of the national economy takes place on the basis of a plan. The significance of the plan is emphasised by the Constitution of the USSR.

But planning requires a systematic check through the cash flow of the implementation of plans and the stimulation of their implementation and overfulfillment. The socialist banking apparatus is not guided by the desire to obtain the highest profit, which is typical for capitalist banks, but seeks, in accordance with the lending plan, to intelligently and economically manoeuvre the money that is deposited in settlement and current accounts. When issuing loans, banks check how much additional working capital is needed by the enterprise in accordance with the implementation of the economic plan, for what purposes the loan is supposed to be used, how the economic agency observes payment discipline and implements the savings plan. After issuing a loan, the bank systematically checks economic activities, monitoring the use of the amounts issued to the economic agency. The repayment of loans is also the moment when the control function of the bank is manifested. If the enterprise does not return the funds received on credit, and then the bank is obliged to identify the reasons for the delay and as a result of familiarisation with the activities of the enterprise, it may find significant shortcomings in production or trading activities, in the organisation of cost accounting at the enterprise. Thus, by lending, the banking apparatus stimulates the strengthening of cost accounting, stimulates the implementation and overfulfillment of the national

economic plan.

2. Organisational Structure of the Credit System of the USSR

The credit system of the USSR consists of a number of banks, among which the main one is the State Bank.

The specialisation of banking institutions is carried out mainly in the line of separate servicing of operational activities and capital construction. The beginning of this specialisation was laid back in 1928 through the creation of the Bank for long-term crediting of industry and electrical facilities (BDK), reduction of short-term lending operations of other sectoral banks and concentration of short-term lending in the State Bank. This principle of specialisation was finally consolidated by the credit reform of 1930 and the creation in 1932 of special banks for financing capital investments.

The existing system of banks in the USSR is divided into two groups: 1) banks serving operating enterprises and mainly engaged in short-term lending; 2) banks serving construction and construction contractors and performing financing operations, long-term and partly short-term lending.

The first group includes the State Bank and the Bank for foreign trade directly related to it. The second group includes: 1) Prombank, 2) Selkhozbank, 3) Torgbank, 4) Tsekombank and 5) local communal banks.

The main banking institution of the USSR is the State Bank of the USSR. Comrade Molotov at the 1st session of the Supreme Soviet of the USSR in January 1938 said:

“Nang State Bank is already a huge organisation, which has no equal in any other country in this area. The State Bank has in all republics, territories and regions and in almost all districts have their own institutions. This is a huge, ramified apparatus of our financial system. His work is of paramount importance for the development of the national economy,

especially for the development of trade, for the development of trade, for the supply of industrial and food products to both cities and villages. Along with the growth of the national economy, along with the rapid growth of the needs of the working people of town and country, the tasks of the State Bank are also growing.”

Considering this strengthening of the role and significance of the State Bank, the session of the Supreme Soviet of the USSR gave it the necessary independence, subordinating it directly to the Council of People’s Commissars.

The State Bank of the USSR is the main institution for short-term lending and settlements. The importance of the State Bank in this matter, the enormous scale of its activities can be judged by the following data (in billion rubles):

	1934	1938	1939
Turnover of the State Bank (without intra-bank settlements)	1034	2745	3330
Turnovers of the State Bank by settlement accounts	375	682	864
Turnovers on loans issued to economic bodies	140	475	655
Credit investments (as of January 1)	14,2	40,2	45,0

The State Bank is the main institution for short-term lending and settlements.

The tasks of the State Bank are determined by the resolution of the Council of People’s Commissars of the USSR of March 20, 1931; in this decree it is said that “the role of the State a national bank in the development of a socialist economy is to: a) become a settlement organisation for a socialised economy, a nationwide apparatus for accounting for the production and distribution of products; b) provide a valid daily control by the ruble over the course of implementation of plans for the production and circulation of

goods. over the implementation of financial plans and the course of savings in the socialised sector of the national economy; c) to ensure the strengthening of the cost accounting of enterprises and economic associations, as the main lever in the implementation of plans (quantitative and qualitative targets) in the entire socialised sector.”

In addition to credit and settlement operations, the State Bank carries out:

a) emission operations (is the body that issues money into circulation, withdraws it from circulation, plans monetary appeal);

b) transactions for settlements with capitalist countries (concentrates all foreign exchange resources in its cash offices, establishes correspondent relations with foreign banks, receives foreign loans and credits Soviet export and import organisations);

c) operations for cash execution of state and local budgets (receiving all tax and non-tax payments, issuing budgetary funds within the limits of appropriations and estimates of budgetary institutions);

d) execution of orders of special banks for financing. and long-term lending for capital construction and direct financing of organisations and institutions for unlimited costs and capital repairs;

e) special operations for financing machine and tractor stations.

The tasks of the Bank for foreign trade include servicing, based on the division of labour with the State Bank, export and import organisations, and the implementation of credit operations. Vneshtorgbank is an additional institution to the State Bank, created for the smooth organisation of settlements in foreign trade.

The task of special banks is to control the use of funds allocated by the budget for capital purposes of construction, as well as provided by banks in the form of long-term lending.

3. Staff of the State Bank

The apparatus of the State Bank is built on the basis of: a) delimitation of functions between it and special banks for capital investments, b) industry specialisation that meets the requirements of differentiation of forms and methods of lending and settlements, and c) creation of a wide network of branches of the State Bank with strict centralisation of management and management of them.

The main task of the State Bank is to carry out short-term lending and settlements. The tasks of special banks include monitoring the implementation of capital construction plans. The State Bank fulfills the instructions of special banks, but does not develop principles for financing capital construction.

In order to improve lending methods and strengthen control over the ruble, the State Bank's staff is pursuing industry specialisation. The need to differentiate lending and settlement operations is envisaged by the USSR Council of People's Commissars of May 25, 1932. On the basis of this decree, special structural divisions were created in the State Bank's staff to serve one or another sector of the national economy.

The concentration of lending and settlements requires the correct territorial placement of banking institutions. It is known that industrial, commercial and transport enterprises, Soviet farms and agricultural artels, budgetary institutions and public organisations exist in every region of the Soviet Union. Therefore, in order to contribute to the development of the country's economic life, the State Bank must have a network of branches.

The State Bank accumulates temporarily free circulating assets of economic organisations and savings. Accumulated funds are provided by the State Bank in the form of loans to those economic organisations that are currently in need of them. The resources available in the bank can be most effectively used only if the bank is an institution with

branches throughout the country. But these should be precisely the branches of the bank, which are necessarily subordinate to its central apparatus; not independent local banks, subordinate local authorities and only instructed by the State Bank. If the credit system of the USSR consisted of a large number of local banks, insufficiently connected with each other, then the accumulated funds would not be used as fully as in a centralised apparatus.

The centralisation of the banking apparatus is also required by the organisational structure of industry, trade and transport. Management of the most important enterprises in all sectors of the economy is carried out in a centralised manner. People's Commissars establish not only plans for the production or sale of commodity-material values, but also approve financial plans. Consequently, credit plans for each sector of the national economy can be drawn up only when mandatory participation of the people's commissariats. If the State Bank had no branches and carried out operations on the basis of contractual relations with local credit institutions, there would be no full guarantee that the credit plans would be fulfilled in the prescribed amount.

The State Bank is the issuing authority. The planning of money circulation, the issue of new banknotes and the withdrawal of money in the sphere of circulation—all these operations can be carried out by the State Bank only if there are branches subordinate to the central office.

The management of all branches of the State Bank is carried out by the management board headed by the chairman, who is a member of the USSR Council of People's Commissars as a People's Commissar.

The structure of the administrative apparatus is determined by a government decree of May 25, 1932. The most important links of the central one of the apparatus are the branch credit departments, the economic planning department, the cash operations department, the issuing department, the office of the chief auditor and the central accounting department.

By the end of 1939, there were sectoral departments for lending to the following industrial and other organisations: 1) heavy industry, 2) machine-building, 3) defence, 4) forestry, 5) light and textile, 6) food (fish, meat and dairy industry is served by the same administration), 7) local industry and handicraft cooperatives, 8) state farms, 9) collective farms and financing of MTS, 10) transport and communications, 11) state trade and consumer cooperation; 12) procurement organisations of the Narkomzag. The tasks of the sectoral departments include: determining the types of credit and objects of credit in accordance with the characteristics of the economy of individual sectors of the national economy, organising settlements, drawing up sectoral credit plans and allocating credit limits jointly with the People's Commissars, instructing branches in the field of credit and settlement services for the respective industries, implementing monitoring the implementation of the credit plan, checking the implementation of government decisions and directives of the Board of the State Bank on issues of credit and settlement work.

In order to unite the work of sectoral departments in the structure of the board of directors, an economic planning department was organised. The tasks of this department include: development of general issues of credit and settlement work, drawing up a consolidated credit plan, drawing up a consolidated cash plan, organising information on credit, finance and cost accounting and organising statistical records in the State Bank.

The execution of the cash plan and the execution of operations related to the circulation of money is entrusted to three departments: the cash operations department, the issue department and the cash collection department.

Having a huge network of branches, the board of the State Bank should not only develop instructions, give instructions on certain issues of credit and settlement work and monitor the implementation of the credit plan, but at the same time it must systematically and carefully check the

fulfillment of the tasks assigned to the State Bank by branches. ... The Audit Department carries out audits of branches, identifies shortcomings in the work and develops measures to eliminate them. In addition to the staff of the audit department, each branch of the State Bank has senior auditors who are directly subordinate to the chief auditor.

The branches of the State Bank, according to the nature of the work they perform, are divided into offices, branches, settlement cash desks, income and expense cash desks and registered cash registers. Bank offices, in turn, are divided into two categories. In the republican, regional and regional centres, offices were created directly subordinate to the board. In the largest cities, along with the regional and regional offices, there are city offices that are also subordinate to the government. Moreover, there are offices of the second category or sub-offices, subordinate not to the board, but to large offices. Offices of the second category are created in the regional centres of the union republics that have regional division, or in the areas that make up the edges.

The functions of the offices are reduced to providing loans to all sectors of the national economy, organising and making settlements between organisations and institutions, participating in drawing up a credit plan, planning money circulation by drawing up cash plans, performing emission operations, fulfilling orders of special banks as in the field of settlements, and in the field of control over the use of funds intended for capital construction, and carry out budget operations.

The next link in the State Bank's office is the branch. The branch is the main unit through which the tasks facing the State Bank are carried out in practice. The functions of the offices include: a) lending to economic organisations located in the territory of the branch area, b) organisation of settlements, c) participation in the preparation of a credit plan, d) execution of operations for planning money circulation, issuing and withdrawing money, e) execution of

operations on behalf of special banks (control in the field of capital construction), f) cash and settlement services for budget institutions, g) execution of operations for accepting payments 3) the purchase of gold and other precious metals and the exchange of foreign currency for Soviet money. According to the volume of operations, the departments are divided into three categories. Departments with a staff of more than 175 people belong to the first category; departments of the second category have a staff of 21 to 75 people; departments with a staff of up to 20 people belong to the third category. In addition, the branches of the State Bank are divided into stock and non-fund branches. Stock departments have at their disposal reserve and exchange funds, from which they have the right, with the permission of the office, to use the amounts to replenish their cash register for the purpose of issuing salaries, for settlements with the deliverers of agricultural products and for other needs.

The settlement offices of the State Bank 'are organised by a large part on the territory of the district in those cases when the creation of a district branch of the State Bank does not seem expedient. The settlement office is subordinate to the nearest branch (which in banking practice bears the name of the patronising branch) and performs settlement functions, collects proceeds from trade and other organisations, issues cash for payroll settlements and for other purposes; she is not engaged in lending. Therefore, if the district has only a settlement cash desk, then all district organisations in need of a loan apply for a loan to a bank branch, that is, to the "patronising branch". The department gives permission for lending, establishes the required amount of the loan and gives instructions to the clearinghouse about the procedure and forms of making settlements.

In addition to the above-mentioned branches, there are two more types of banking institutions: registered cash desks and receipts and expenditures cash desks.

The registered cash desks of the State Bank are opened at individual economic organisations and replace their own

cash register economic organisation. They are divided into permanent and temporary; temporary cash desks are opened mainly for the period of agricultural procurement.

Since 1935, in some districts, receipts and expenditures have been set up under the district executive committees. Their operations are limited to: cash execution of the district budget, the accumulation of funds received by the state and local budgets, servicing the institutions that are on the district budget, storing and issuing extra-budgetary funds from district institutions, and receiving. and the issuance of state insurance funds. If in the regional centre, where the income and expense office operates, there is also a village council, then the cash office also carries out cash execution of the rural budget. In 1936, income-and-expense offices were granted the right to issue funds to budgetary institutions at the expense of higher (regional or regional) budgets.

As of January 1, 1940, the composition of the network of branches of the State Bank is characterised by the following data:

Offices. Subordinate to the board	90
Including:	
City offices	6
Sub-offices	66
Departments	3355
District settlement offices	88
Registered cash registers are permanent	767

4. Special Banks For Long-Term Investments

Special banks for financing capital investments are differentiated by industry. Prombank finances the construction of state industrial enterprises (except for enterprises of non-industrial people's commissariats),

transport and communications, Inossei roads, as well as housing construction carried out by industrial people's commissariats. Selkhozbank is entrusted with financing capital investments in state farms and MTS and long-term lending to collective farms. Torgbank is engaged in financing capital investments of state trade organisations and long-term lending for capital construction of consumer and handicraft cooperatives. Tsekombank and local communal banks are entrusted with financing and long-term lending of communal, housing and cultural and household (schools, hospitals, clubs, etc.) construction, as well as (since 1938) financing of industrial construction carried out by non-industrial commissariats (industrial enterprises of the People's Commissariat of Health Committee for Cinematography).

Special banks carry out: a) non-repayable financing, capital investments at the expense of budgetary funds, b) long-term lending, c) short-term lending and d) settlements.

Long-term lending functions are performed by only three banks: Selkhozbank, Torgbank and Tsekombank. Prombank, which deals only with state-owned enterprises, does not engage in long-term lending, since funds for capital investments of state-owned enterprises are irretrievably released from the budget (see Chapter XIV).

The Agricultural Bank issues long-term loans to collective farms for: a) measures related to increasing yields; b) strengthening and development of animal husbandry; c) development of special and industrial crops; d) construction of buildings and structures. Sources of long-term lending to collective farms are state funds and savings in the indivisible funds of collective farms.

To fulfill the established lending plans, the Agricultural Bank must carry out systematic work to accumulate the accumulations of collective farms. The main form of savings on collective farms is the formation and increase of indivisible funds. The accumulation of these funds by the Selkhozbank makes it possible to expand long-term lending to

collective farms, at the same time ensuring the unconditional safety of funds and their return at the first request of the collective farms. When issuing loans, the Agricultural Bank checks the use of indivisible funds, since loans are issued only for needs that are not covered by the funds of the indivisible fund available to the collective farm.

Torgbank issues long-term loans to cooperative organisations for capital construction and to replenish its own working capital. To carry out operations on long-term lending, Torgbank has special funds, which are formed from deductions and special deposits of cooperative organisations.

Until 1938, Tsekombank and local communal banks provided long-term loans mainly to housing-rent and housing-construction cooperatives. In connection with the liquidation of housing rent cooperatives and most housing construction cooperatives, Tsekombank and local communal banks from 1938 provided long-term loans only to individual developers and the remaining housing construction cooperatives. In addition, long-term loans for capital repairs are provided to those transferred to self-financing households.

Carrying out long-term lending, special banks control the correct use of funds. The control of special banks should stimulate a reduction in construction costs when implementing the construction plan. The content of control for long-term development is the same as for financing.

The tasks of special banks in financing are: a) control over the correct spending of budgetary funds, b) mobilisation for the purposes of capital construction of all the resources of economic agencies intended for these purposes, c) strengthening of cost accounting in construction, and d) struggle for the utmost improvement and reduction in the cost of construction.

The Party and the government of the USSR attach great importance to the question of the most expedient and economical use of state funds allocated for capital construction.

A number of party and government decisions taken in

recent years emphasise that special banks have not yet achieved the correct organisation of financing and control. Essentially, control was often replaced by formal, paper-based control, petty trusteeship over construction sites. In the practice of financing construction, special banks did not sufficiently contribute to its improvement and cheapening, did little to stimulate advanced methods of organising construction work, and mobilised little business executives to maximise the use of all resources intended for construction. Enemies of the people, Trotskyist-Bukharin agents, who made their way to the management of the financial apparatus and, in particular, to special banks, trying to disrupt capital construction, in every possible way, hindered the restructuring of the work of the Spenbanks. They tried to discredit the contracted method of conducting construction work, distorted and complicated the practice of financing it by deliberately imposing mismanagement and lack of planning on construction sites, and tried to deaden public funds.

After exposing and eradicating the despicable enemies of the people who settled in special banks, the restructuring of the work of special banks began on the basis of Decree of the Council of People's Commissars of the USSR of February 26, 1938 "On improving the design and estimate business and on streamlining the financing of construction."

According to this resolution, financing of capital construction is carried out by special banks on the following grounds:

All resources intended for capital investments, regardless of their origin (profit, depreciation funds, budget funds, resources from the liquidation of fixed assets, used for capital work, and other funds received in order to mobilise internal resources) should be concentrated in special banks and can directed to the financing of capital investments only through special banks (except for small capital investments, funds for which can be kept in current accounts with the State Bank). Compliance with this principle greatly

contributes to the strengthening of financial control over capital investments.

Special banks carry out financing on the basis of annual and quarterly plans drawn up by the people's commissariats, central administrations, autonomous economic agencies and councils and approved in the prescribed manner.

Operations for financing individual construction projects are carried out by a special bank on the basis of a specific construction financial plan, within the limits approved for construction, and in accordance with the budget resources transferred to the appropriate bank, as well as profits concentrated in the Spenbank, depreciation deductions and other funds intended to finance a particular construction ... Such a detailed list of funding sources is developed by the enterprise, the commander-in-chief and the people's commissariat, agreed with the financial authorities and sent to the bank. The special bank is obliged to ensure that the own funds for capital works are contributed by the economic agencies to the special banks in accordance with the established financing plan for this construction. Financing the construction, the bank concentrates all the calculations of the construction organisation with suppliers, contractors, and transport organisations. It allocates funds to the construction site for wages, administrative expenses, personnel training, start-up, research and other work.

A special bank at all stages of financing is obliged to carry out continuous financial control over the construction site. The bank has no right to start financing without checking whether the construction site has an approved title and an estimate for the technical project. Direct financing (issuance of funds) is carried out in accordance with the actual volume of work performed. In the case of a contract construction method, the bank pays the monthly invoices of the contractors accepted by the customer for the work performed. For construction sites conducted in an economic way, the issuance of funds is also carried out according to monthly acts of acceptance of construction work. For

construction projects conducted in an economic way and 'not transferred to funding in accordance with the volume of work performed, funding is made the bank for individual cost elements. With this financing procedure, the bank is obliged to check the compliance of prices with the government or agreements on the invoices presented for payment for equipment, construction materials and transportation. The release of funds for salaries should be made only within the salary funds, and for all other expenses, within the approved estimates.

The totality of these control actions of the bank is measures for current, preliminary control. Along with it the special banks are entrusted with subsequent control, which is carried out by analysing the reports of construction projects, surveys, control measurements of construction on the spot. Subsequent control is aimed at identifying the state of accounting and reporting at construction sites, storage conditions for material assets of the construction site, reasons for deviations from the plan, etc.

The management of the special bank is obliged to immediately inform the higher organisations about all noticed shortcomings and violations. The current legislation grants special banks the right to approve sanctions in relation to construction projects that are carried out inappropriately, in violation of the principles of financing capital investments. But the termination of funding for a construction site can be applied only with a warning from the head of a higher organisation in relation to the construction site 10 days before the termination of funding.

The overwhelming part of capital construction is carried out within the limits of funds established for each enterprise and economic agency, for each construction site. Consequently, capital expenditures are limited. Exceptions were made by the decree of the Council of People's Commissars of the USSR of September 19, 1935 only in relation to small objects. So, for example, by this decree, unlimited costs for the purchase of equipment, apparatus

and inventory are allowed within 300 rubles per unit, extra-limited costs for repairs and small devices—within 5000 rubles per enterprise, provided that these works are fully carried out within one year, and so on. Out-of-limit costs can be made at the expense of excess savings, mobilisation of internal resources and at the expense of the director's fund.

By order of the Council of People's Commissars of the USSR dated September 13, 1936, "On the procedure for the production of extra-limited capital investments "unscheduled capital investments can be made: a) by order of the director of the enterprise, if the total estimated cost of the construction object does not exceed 100,000 rubles; b) with the permission of the head of the main department of the People's Commissariat, if the total estimated cost of the construction project does not exceed 500,000 rubles. (and for the People's Commissariat for Tyazhprom—up to 1 million rubles); c) with the permission of the People's Commissar with subsequent communication to the Council of People's Commissars, if the total estimated cost of the construction project exceeds these amounts.

All funds intended for unscheduled capital investments must be kept in the State Bank if the total estimated cost of the construction project does not exceed 100,000 rubles, and in the appropriate special bank if the total estimated cost of the construction project is above 100,000 rubles. At the same time, banks issue funds and exercise control over their spending on the general grounds established for financing capital construction. These extra-limited costs (in the part covered by planned sources) should it is obligatory to be shown in the industrial financial plans of the economic organisation, that is, they are planned in the same way as the limit costs are planned, although the degree of manoeuvring with these costs, their mode, differs from those applied in relation to the limit costs.

The settlement operations of special banks are related to the implementation of plans. capital investments. They are

divided into the following groups: a) settlements with construction contractors, b) settlements for construction materials and equipment, c) settlements for transportation, and d) settlements for capital construction with exploitation.

Making settlements, special banks control the activities of economic organisations in the field of capital investments.

The main forms of payment are acceptance and letter of credit. With the acceptance form of settlements, special banks are obliged to check the implementation of the plan to reduce the cost of construction. Therefore, the invoices attached to payment requests must indicate on what basis certain prices (agreement, price list) are established and from which elements the cost of carriage by car is composed. A feature of settlements by acceptance is the granting of the right to special banks to pay in a centralised manner the bills of suppliers who do not receive money for equipment due to the carelessness of the payers.

Resolution of the SNK USSR and the Central Committee of the All-Union Communist Party (Bolsheviks) in 1936 special banks were entrusted with the functions of short-term lending to contractor construction organisations. Loans are issued: a) for the formation of a stock of building materials, fodder and fuel, and 60) for the repair of construction mechanisms and vehicles. Utility banks, in addition to short-term lending to construction organisations, issue short-term loans for seasonal savings, for settlement documents: on the way and for temporary needs to utilities and enterprises subordinate to local councils for the production of building materials. Carrying out short-term lending, special banks are guided by the same principles that are established for lending operations of the State Bank. All loans must be targeted, urgent and repayable.

Special banks for long-term investments are institutions of union significance and subordinate to the USSR People's Commissariat of Finance. The organisational structure of special banks has a number of features in comparison with the organisational structure of the State Bank and is different

in relation to individual special banks.

By a decree of the Council of People's Commissars of the USSR and the Central Committee of the All-Union Communist Party of Bolsheviks in 1936, special banks were entrusted with the functions of short-term lending to contractors of construction organisations. Loans are issued: a) for the formation of a stock of building materials, fodder and fuel, and b) for the repair of construction mechanisms and vehicles. Utility banks, in addition to short-term lending to construction organisations, issue short-term loans for seasonal savings, for settlement documents in transit and for temporary needs to utilities and local council enterprises for the production of building materials. Carrying out short-term lending, special banks are guided by the same principles that are established for lending operations of the State Bank. All loans must be targeted, urgent and repayable.

Special banks for long-term investments are institutions of union significance and subordinate to the USSR People's Commissariat of Finance. The organisational structure of special banks has a number of features in comparison with the organisational structure of the State Bank and is different in relation to individual special banks.

Branches of Prombank are divided into offices and branches. Offices are organised in regional and regional centres. In the duties of the offices includes: a) participation in the preparation of annual and quarterly financing plans, b) preparation of monthly plans, c) implementation of financing based on plans, projects and estimates, d) organisation of settlements for construction, e) short-term lending to contractors, f) accumulation of economic savings organisations, g) management of the work of departments. Branches carry out the same functions as offices, with the exception of the management of lower levels. In those points where, due to the small size of construction, it is unprofitable to create branches, the operations are entrusted to be authorised by Prombank. The commissioners carry out only control work; for settlement and cash

transactions, they use the apparatus of the State Bank .. However, they have authorised representatives. in each settlement where construction is carried out, also impractical, since in the presence of a small number of financing objects, the authorised person will not be fully loaded. Therefore, instead of sending an authorised representative, Prombank negotiates with the State Bank that the latter, on its instructions, carry out control functions and make settlements.

The grassroots network of Selkhozbank consists of offices, branches and inspection groups. Selkhozbank offices, except for work management of branches, carry out financing operations, make plans financing, lending and raising funds and carry out instructions of a settlement nature. Branches are divided into district (serving one district) and inter-district (serving two or more districts). Where it is impractical to open branches, inspection teams carry out financing and lending operations. The creation of inspection groups instead of commissioners, as, for example, in Prombank, is explained by the fact that the commissioner could not cope with such a difficult task as servicing a significant number of collective farms located on the territory of a particular region, especially since the responsibilities of Selkhozbank and its network includes helping collective farms to establish their financial economy.

The Torgbank has offices and representatives, the tasks and functions of which are similar to those of the offices and representatives of Prombank.

Tsekombank has no branches. His orders are carried out by local communal banks, subordinate to the krai or oblast councils. The general management of the operational activities of communal banks is carried out by Tsekombank: it develops the rules for financing, lending and making settlements; he was given the right to audit communal banks, etc. The effectiveness of the leadership and control by Tsekombank is enhanced by the fact that local banks receive loans from him to replenish their resources. In addition,

Tsekombank entrusts local banks with financing and long-term crediting of construction projects of Union significance at the expense of its own funds. Utility banks have branches consisting of branches, agencies and collection points. Branches and agencies carry out financing, lending and settlement operations. Cash collection points accept rent, telephone, electricity, gas, etc. from the population.

By the end of 1939, special banks had the following number of offices and branches:

	Branch	Offices
Prombank	80	81
Tsekombank	1	—
Selkhozbank	107	396
Torgbank	63	—
Local communal banks ...	(82)	120

Special banks have permanent ties with the State Bank (this has already been mentioned in part above). With the exception of communal banks, special banks do not carry out cash transactions; cash withdrawal money to contractors for construction organisations, as well as construction projects conducted in an economic way, is made by the State Bank on behalf of the special banks from their correspondent accounts. The State Bank, in addition, carries out, on behalf of the special banks, a number of settlement operations both in those points where there are offices and branches of special banks, and where there are only their authorised representatives. In the first case, the execution of settlement operations is explained by the fact that many settlements under business agreements cannot be completed without the participation of the State Bank. Payments for building materials are a typical example of this. Commercial contractors or construction sites purchase construction materials from industrial enterprises. Since the latter have current accounts with the State Bank, so that. pay for the materials received, the special bank must write off the

money from the account of the construction organisation or construction site and ask the State Bank to credit it to the supplier's account. The volume of settlement operations of the State Bank is expanding in the places of work of authorised representatives; here the branches of the State Bank make all transfers for the work performed and settlements with construction projects.

Links between the State Bank and special banks are also established in relation to cash planning. The cash plans drawn up by special banks are included in the cash plan of the State Bank. Executing cash plans, the State Bank monitors the work of special banks. In addition, the State Bank checks how cash transactions are conducted by municipal banks, and ensures that the movement of money from the cash registers and to the cash registers of banks occurs in accordance with the basic rules for conducting issuing operations.

CHAPTER XVIII. SHORT TERM LOANS AND SETTLEMENTS

1. Principles of Short-Term Lending and Types of Loans

The basic principles of short-term lending were established by the credit reform of 1930 and laws issued in 1931, in the process of eliminating harmful perversions in the practice of carrying out credit reform.

The main principles of lending are: urgency, repayment, target nature of the loan and its security with material values. Each loan is issued for a specific period, after which it must be repaid. To ensure the steady application of this principle, the State Bank has the right to write off funds from the current account, without the owner's order, to repay the overdue loan. Further, each loan has a specific purpose. In case of violation of this principle, the bank has the right to demand early repayment of the loan. Loan security is of the greatest importance to implementation of the principle of repayment and purpose of the loan. If a bank loan is used to create seasonal stocks of goods, it means that the purchased goods, which are collateral for the loan, confirm the need for credit; the sale of these goods ensures the timely repayment of the loan. The security of bank loans is, moreover, of the greatest importance for ensuring the stability of Soviet money with commodity funds in circulation, sold by the state at stable prices.

Lending to business organisations is possible only if there are bank lending facilities. The objects of crediting are those types of material assets, the reserves of which can be formed at the expense of bank funds, or those expenses that are covered by the loaned money.

First of all, the State Bank provides funds for education seasonal stocks of inventories. Then, at the expense of bank

funds, seasonal expenses may be incurred. So, for example, in agriculture, they are produced in the spring and in the summer, significant costs before receiving products. Own working capital of state farms cannot be used to cover all seasonal costs, and therefore bank funds supplement their own funds. Further, the funds of the State Bank are used to finance the process of promoting goods from producer to consumer. The object of crediting is the turnover. Trade organisations have their own working capital, but in a smaller volume than is necessary to fulfill the turnover plan, therefore, the purchase of goods is made by trade organisations partly at their own expense, and partly at the expense of the bank. Finally, bank funds cover the costs caused by various kinds of difficulties that have arisen through no fault of the economic organisation.

Consequently, the State Bank issues loans: 1) for the seasonal accumulation of inventory, 2) for seasonal costs, 3) for goods turnover, 4) for settlement documents in transit (travel loans) and 5) for other temporary needs.

The need for seasonal accumulation of inventory items can be due to various reasons. Industrial enterprises receive loans for seasonal accumulation of agricultural raw materials (sugar beets, cotton, etc.), as well as for building up fuel reserves in the summer, when cheaper water transport can be used. State farms and MTS create fuel reserves before the start of spring field work. Trade organisations are stocking up in the fall in large. the amount of vegetables and fruits, they sell them evenly throughout the year. A number of trade organisations form stocks of summer assortment in winter, and stocks of winter goods, for example, furs, in summer.

In all cases, stocks are formed in the interests of fulfilling the national economic plan. This accumulation of goods has nothing to do with the capitalist speculative delay in the sale of goods for the purpose of gouging prices, waiting for favourable conditions or in connection with crises of overproduction.

The State Bank lends to the formation of stocks of

inventories of a seasonal nature only if it is provided for by the plan, and only within the limits of the plan; Consequently, if the enterprise's seasonal stocks exceed the size established by the plan, then the bank, despite the availability of material assets, does not issue loans.

The most important condition for lending is the observance of the principle of differentiation of circulating assets into own and borrowed ones. When issuing a loan for seasonal accumulation, the State Bank must check the state of its own circulating assets of the credited organisation. The State Bank credits the planned excess accumulation of material assets. To illustrate the application of this principle, the following examples can be given:

1. According to the plan, the economic organisation was supposed to have stocks of raw materials in the amount of 100 thousand rubles; of which the minimum stocks of raw materials, in accordance with the standard, for 50 thousand rubles. In fact, there are residues of raw materials for 120 thousand rubles. The economic organisation asks for a loan in the amount of 10 thousand rubles, that is, in the amount of the difference between the actual balances of raw materials and the minimum stocks of raw materials in accordance with the standard (120 thousand rubles—50 thousand rubles). The state bank, observing the above lending conditions, can issue a loan only in the amount of 50 thousand rubles, since out of 10 thousand rubles excess stocks of raw materials (120 thousand rubles—50 thousand rubles) 20 thousand rubles go to the over-planned accumulation of raw materials.

Consequently, if the actual stocks of raw materials exceed those established by the plan, the State Bank issues a loan only within the difference between the cost of planned stocks of raw materials and the cost of the minimum standard stocks prepared for its own circulating assets (100 thousand rubles—50 thousand rubles = 50 thousand rubles).

2. The economic organisation was supposed to have reserves of raw materials in the amount of 200 thousand rubles, of which the minimum reserves in accordance with

the standard are estimated at 100 thousand rubles. The cost of the actual reserves of raw materials is 120 thousand rubles. In this case, although the economic organisation has the right to receive a planned loan in the amount of 100 thousand rubles (200 thousand rubles—100 thousand rubles), the State Bank can give her a loan only in the amount of 20 thousand rubles, that is, only for the actual excess stocks of raw materials. Therefore, if the actual stocks of raw materials less than envisaged by the plan, then the State Bank issues a loan only within the difference between the cost of actual stocks and the minimum standard stocks covered by its own circulating assets (120 thousand rubles - 100 thousand rubles = 20 thousand rubles).

3. The economic organisation plan provided for the accumulation of raw materials in the amount of 200 thousand rubles, of which 100 thousand rubles—normative, i.e. covered by their own circulating assets. The actual reserves of raw materials are estimated at 80 thousand rubles. (below normative). In this case, the State Bank issues a loan to the economic organisation to pay bills of raw material suppliers only if the cost of a new batch of raw materials received exceeds the difference in the cost of standard and actual raw materials reserves, that is, more than 20 thousand rubles. (100 thousand rubles—80 thousand rubles), since the increase in the size of stocks of raw materials to the standard (100 thousand rubles) must be covered by the own circulating assets of this economic organisation.

Requiring the use of own circulating assets of economic organisations within the limits of the standard, the State Bank should take into account in each case, the financial condition of the credited organisation. Wreckers from the anti-Soviet bloc of Rights and Trotskyites, who worked at one time in the leadership of the State Bank, tried to create difficulties for the work of economic organisations, preventing the issuance of loans at the slightest lack of their own funds the latter. And it turned out that many economic organisations could not get a loan amounting to millions of

rubles, due to the fact that they lacked several thousand rubles to replenish stocks to the norm.

At present, the State Bank has been granted the right to lend to economic organisations with an incompletely paid standard. A prerequisite for obtaining a loan with an incompletely paid standard is the preservation of its own working capital. If an economic organisation has no losses and does not use working capital for capital construction, then it can get a loan from the State Bank, although the standard for the object lent by the bank has not been paid in full. The presence of unpaid standards with the safety of its own working capital, it arises either because material values are incorrectly distributed, or because buyers did not pay for the finished product and thereby diverted part of the working capital.

When lending at an incompletely paid standard, the State Bank does not allow deviations from one. from the basic principles of direct bank lending, namely, from the delimitation of circulating assets into own and borrowed ones. The State Bank does not issue a loan to replenish its own working capital, but only provides a loan for excess stocks. Let us explain this feature of lending with an unpaid standard with an example. Suppose that the enterprise has a balance of raw materials estimated at 150 thousand rubles, the standard for raw materials is set at 100 thousand rubles, and paid raw materials are equal to 80 thousand rubles. In this case, the State Bank issues a loan to the enterprise in the amount of 50 thousand rubles, and, therefore, stocks of raw materials in the amount of 20 thousand rubles. will remain unpaid.

Lending at an incompletely paid standard creates conditions for business organisations that facilitate the implementation of the production program, and eliminates those formal obstacles which did not allow the State Bank to use the resources at its disposal for the benefit of the national economy.

Loans for seasonal savings are very important for business

organisations. Bank funds are used here to settle accounts with suppliers, which should eliminate the possibility of mutual indebtedness and increase the confidence of suppliers that their bills will be paid and, therefore, their financial situation will not be shaken. With the help of loans of this kind, the State Bank can exert influence on economic organisations in order to eliminate the mutual debts of economic bodies that have arisen.

Loans related to seasonal requirements also include loans for seasonal production processes or seasonal costs. Seasonal spending refers to cash expenditures that are incurred only at certain times of the year. So, in agriculture, there are costs associated with sowing, caring for growing crops and harvesting. In the timber industry, the costs of harvesting and removal of timber are made unevenly throughout the year: timber rafting is mainly in spring, timber harvesting and its transportation to the rafting site in winter, etc. to cover seasonal costs is impractical because after the completion of seasonal work, part of the turnover; they will have surplus funds. Therefore, in the interests of the planned development of the national economy and the strengthening of cost accounting, it would be more correct, instead of increasing its own circulating assets, to concentrate crediting of seasonal production processes in the banking apparatus.

The procedure for granting loans for seasonal costs is largely similar to the procedure for granting loans for seasonal inventories.

The State Bank issues loans of this type only if the work of a seasonal nature is outlined in the plan. Loans are issued within the limit and subject to the investment by the economic organisation of its own funds at least in the minimum amount.

Loans for seasonal expenditures are not secured by material assets in the form of loans for seasonal accumulation, since material assets arise only after a series of works. So, in agriculture, costs are made in spring and summer, and the harvest is harvested in the fall. In the peat

industry, the production of finished peat is also preceded by work over a long period. The state bank must ensure that the loan is used for its intended purpose and thus the appearance of goods that secure the loan would be guaranteed. As a rule, the State Bank grants loans for seasonal costs as compensation: an economic organisation can receive money to pay wages and to pay other expenses only after the work has been done.

The turnover is credited by the State Bank on the basis of the USSR Council of People's Commissars decree of June 4, 1936. Loans to trade organisations are issued for differentiated periods in accordance with different periods of goods turnover and depending on the type of trade organisations. For urban trade, turnover times range from 15 to 85 days, for rural retail trade—from 15 to 80 days, and for rural wholesale trade—from 71 to 42 days.

When lending to trade organisations, the State Bank requires that its own working capital be used to purchase goods. A system of equity participation in payment for goods purchased by trade organisations has been established. Equity participation requires the use of own circulating assets in the purchase of goods. The amount of equity participation is differentiated for individual trade organisations and ranges from 15 to 30 percent.

When lending to trade organisations, the State Bank pays for all incoming settlement documents related to them in full, and then makes settlements with trade organisations once every six days. All paid settlement documents are grouped to determine the terms of crediting, and trade organisations issue urgent obligations to the bank in the amount of paid goods, minus the amount that must be paid from their own funds. The trade proceeds received by the bank are used to pay off debts and to reimburse the bank for those payments that the bank made for the trade organisation within the limits of its own share of participation established for it.

With the introduction of a new system of trade turnover crediting, the limits for each trade organisation were

cancelled. This is done in order to remove all obstacles that hinder the development of trade. If earlier one trade organisation overfulfilled the plan, and the other did not fulfill, then the branch of the State Bank could not transfer unused funds to a well-functioning organisation without the special permission of the State Bank's board. But it often happened that by the time permission was received to increase the credit limit, the need for bank funds disappeared. Now the branch of the State Bank has the right to increase lending to those organisations that overfulfill their turnover targets.

Cancellation of lending limits for individual trade organisations does not mean the termination of the planning of the State Bank's lending operations. The total amount of crediting for trade in the Soviet Union is set quarterly. In addition, limits are also set for the offices and branches of the State Bank. Thus, while maintaining as an unshakable principle of credit planning, the abolition of credit limits for individual trade organisations creates for the State Bank great opportunities for more efficient use of banking resources.

The need to issue loans to business organisations for settlement documents on the way arises due to the fact that goods are paid not at the time of sending them by the supplier to the buyer, but only after the acceptance of the invoice by the buyer. Meanwhile, the supplier, having shipped the finished product, must, in order to continue the production process, acquire raw materials, auxiliary materials, pay for workers and employees. It is inexpedient to meet these needs by increasing our own circulating assets. Normalising sizes the amount in transit is extremely difficult, since not only the size of the shipment is constantly changing, but also the time spent on the way. Therefore, the need for working capital in this case is covered by bank resources. Unlike other types of loans, travel loans are provided without the obligatory attraction of their own working capital, but, like other types of loans, they are targeted, urgent and

secured by material values. Loans are issued for the duration of the movement of documents, not goods; they are called loans for settlement documents in transit, although they are provided with the shipped goods. This is explained by the fact that according to the existing rules, the buyer is obliged to pay the invoices presented within a certain period, without waiting for the arrival of the goods.

The term of the loan depends mainly on the distance travelled by the documents and is determined as follows: the time required for processing documents at the branches of the State Bank and for accepting and paying the invoice is added to the double term of the document's run.

The size of the loan is set depending on the amount for which amount there are settlement documents in the branch or office of the bank¹. Consequently, the issuance of loans against settlement documents in transit is not limited, which, however, does not mean that there is no control over the organisation of settlement relations. Documents handed over for collection cannot all the time ensure travel loan debts. If the due date for a certain group of documents has expired, and no new documents have been received, then the amount of collateral is thereby reduced, and therefore, a partial repayment of the debt must be made. Thus, based on the urgency of the loan, the State Bank controls the activities of

¹ Until 1935, the State Bank issued one-time loans for amounts in transit. This complicated the banking technique and forced economic organisations to repeatedly arrange loans for small amounts. In order to eliminate this, as well as in order to ensure the return of issued loans on time and: strengthen bank control over the state of document flow (since the timely repayment of a loan depends not only on the state of the payer's working capital, but also on the accuracy and precision of the work of the communication authorities and branches State Bank) since 1935, the State Bank began to accept documents for collection from suppliers, that is, to carry out their instructions to receive money "from buyers and lend to a special loan or call account of the suppliers.

economic organisations.

Loans against settlement documents in transit are received mainly by suppliers, but loans can also be provided to buyers (in cases where settlements between suppliers and buyers are made under a letter of credit).

In addition to the types of loans listed above, the State Bank provides loans in cases where business organisations have temporary difficulties. This includes loans issued when there are surplus balances of production materials, if they are not the result of poor performance of the enterprise. Excessive balances of goods and finished products can serve as the basis for obtaining loans in such cases as overfulfillment of the production program, the inability to send finished products to the buyer earlier than the contractual deadlines, the termination of the shipment of finished products to those organisations that violate financial discipline and do not systematically pay presented invoices, transport difficulties (failure to provide wagons or other vehicles, muddy roads), etc. Loans associated with the formation of excess residues of production materials are issued for a period of 45 days. The terms of loans for surplus balances of finished products and goods are differentiated depending on the reasons for the formation of these balances: if the balances were formed due to the lack of containers or approved prices, then the loan is issued for 15 days, in the presence of transport difficulties—for 30 days, in all other cases the maximum loan term is 45 days.

As indicated, temporary difficulties for business organisations are possible even if the invoices sent to the buyer's address are not paid. An economic organisation can stop further shipment of goods to the address of the defaulter and receive a loan for finished goods. However, she will still feel a shortage of working capital until the invoices are paid or her goods are sold to another buyer.

Granting loans to suppliers related to non-payment of buyers requires great care on the part of the bank to discourage a poorly performing enterprise. Therefore, the

issuance of this type of loan is possible only if a number of conditions are met. The bank refuses to issue a loan if the supplier has shipped the goods to a careless payer who systematically violates contractual and financial discipline.

The right of the State Bank to issue loans to government agencies for various temporary needs does not mean at all that the State Bank can give money to anyone and how much he wants. The provision of these loans is highly regulated. The strictest observance of credit discipline by the State Bank apparatus both in relation to loans for temporary needs and all types of credit is one of the most important conditions for eliminating the consequences of sabotage and strengthening cost accounting.

Providing loans to business organisations, the State Bank is obliged to exercise control over the course of production and sale of goods in rubles. This obligation of the bank is determined by law of March 20, 1931.

When issuing planned loans for the formation of seasonal stocks of inventories or for seasonal costs, the State Bank controls the availability of inventories, as well as the actual implementation of the work plan, credited by the bank in the order of seasonal costs.

Thus, the control of the State Bank is primarily aimed at creating the necessary conditions for the implementation of the production program. If the State Bank issued planned loans without taking into account the available inventory, then this would create an opportunity, in the absence of the necessary stocks of raw materials, the use of money for other purposes and at the same time the failure to fulfill the planned production program.

Further, the bank's control is expressed in the fact that the bank requires the return of the issued loans after the expiration of the terms established by the credit plan. Difficulties arising in the process of fulfilling the production program, leading to a delay in the release of products, are immediately reflected in the relationship of economic organisations with the State Bank.

An economic organisation that has not released its products within the planned timeframe cannot timely repay the debt to the State Bank. Therefore, control over the fulfillment by economic organisations of their obligations to the State Bank on time is at the same time control over the progress of the production program.

When issuing loans against settlement documents, the State Bank controls the implementation of the implementation plan. As stated above, loans against settlement documents in transit are issued for the period necessary for making settlements between two business organisations. If the buyer does not pay the supplier on time for the goods purchased from him, then the State Bank, which issued the loan against the settlement documents in transit, must collect the debt from the supplier.

Thus, the control of the State Bank in lending amounts in transit allows you to check the implementation of the plan for the sale of commodity values.

The issuance of loans for temporary needs is also the moment when the role of the State Bank as a supervisory authority manifests itself. First of all, the emergence of the need to obtain loans for temporary needs allows the State Bank to draw a conclusion about the difficulties encountered in the economy. Coming with your loan to the rescue of this or that economic organisation, the State Bank at the same time checks what measures are taken by this organisation for the shipment of finished products or for increasing the consumption of raw materials brought in above the plan. If a business organisation received a loan for temporary needs, does not care about increasing the sale of finished products or an increase in the production program, allowing the company to use raw materials in large quantities, then the State Bank, when the loan is due for repayment, requires an immediate repayment of the loan.

The importance of banking control over the state of finances and payment discipline of economic organisations that receive loans from the State Bank is especially

important.

Lack of concern for the strengthening of finances and the timely fulfillment of their obligations to the State Bank and suppliers leads to the emergence of overdue debts and non-payments to suppliers.

The State Bank's fight against delinquencies is going in several directions. First of all, the State Bank refuses to provide further loans to those enterprises that do not fulfill their obligations on time. Termination of lending can be partial or complete. In case of partial termination of lending, the State Bank, as a rule, does not issue planned loans, as well as loans for temporary needs, while retaining the right for economic organisations to receive loans against settlement documents on the way.

Complete termination of lending is applied in two forms:

- a) with early collection of previously issued loans,
- b) without early repayment of the old debt.

In addition to these measures, the State Bank can reduce the amount of funds issued for urgent needs from the current account of an economic organisation. Currently, there is a procedure under which business organisations outside the established order of priority of payments can receive up to 5 percent from the current account. the amount of receipts. In case of violation of payment discipline, the State Bank may lower the percentage of expenses for urgent needs.

With regard to organisations that are credited on a special loan account, the State Bank cannot stop lending even if there are overdue loans. This feature in credit relations between the State Bank and economic organisations, credited under a special loan account, is explained by the fact that suppliers of agricultural raw materials must receive money on time, regardless of the state of finances of a procurement organisation or an industrial enterprise. Therefore, the State Bank, without stopping the issuance of loans, establishes such a procedure in which all monetary funds received from the sale of harvested raw materials, come in some cases to pay off debts on a special loan

account and current account are not credited.

In addition to the application of sanctions, the State Bank, in order to create the possibility of repayment of overdue debts, studies the financial condition of the lending organisations and takes measures to improve finances. Usually, failure to meet obligations to the State Bank on time is the result of unprofitable activities of economic organisations, leading to the “consumption” of their own circulating assets. Having established the presence of losses that cause delays, the State Bank requires higher economic organisations (central administration or people’s commissariat) to replenish its own circulating assets. For the same purposes, the State Bank submits proposals to government bodies on replenishing circulating assets at the expense of budgetary appropriations in that case, if the people’s commissariats and chapters do not have the necessary reserves.

While striving for timely repayment of loans, the State Bank at the same time is obliged to contribute by all means at its disposal to eliminate non-payments to suppliers. As you know, by a government decree of January 30, 1930, mutual lending by economic organisations to each other is prohibited. Therefore, the growth of non-payments in the national economy may indicate a weakening of payment discipline, as well as a weakening of the control functions of the State Bank:

In order to combat non-payments to suppliers, the State Bank is taking a number of measures. First of all, the State Bank requires the termination of the shipment of goods to sloppy payers. Organisations that have stopped the shipment of goods use loans from the State Bank for stocks of inventories, generated by the supplier in connection with the termination of shipment to customers.

The next measure recommended by the State Bank is transfer to a letter of credit settlement. Further, in relation to sloppy payers, the State Bank applies the safekeeping regime, i.e. it does not allow spending the received buyer for

the goods before paying for them. As well as in the presence of delinquencies, the State Bank checks the financial condition of organisations that allow long-term non-payments to their suppliers, and takes measures to improve their finances.

The distribution of loans from the State Bank by individual sectors of the national economy is characterised by the following data:

Credit investments as of January 1, 1940 by People's Commissars and branches of the economy (in million rubles)

NK Coal Industry	611
NK Oil Industry	433
NK Ferrous Metallurgy	1167
NK Non-Ferrous Metallurgy	1106
NK Chemical Industry	534
NK Building Materials Industry	271
NK Electrical Industry and Power Plants	179
NK Heavy Engineering	218
NK Medium Engineering	475
NK General Engineering	216
NK Forest Industry	1663
NK Food Industry	5327
NK Meat and Dairy Industry	2117
NK Fish Industry	1697
NK Textile Industry	8495
NK Light Industry	1854
NK Blanks	3070
State and Collective farms	1127
NKPS	1048
NK Marine Fleet	33
NK River Fleet	65
NK Trade	3897
Centrosoyz	5665
Other trade organisations	523
Local industry and handicraft cooperation	1111

The principal amount of debt to the State Bank accounts to on trade organisations, on the food, meat, dairy, fish, and

light and textile industries and on blanks. It is explained by the presence in the above-mentioned industries of significant stocks of material assets of a seasonal nature. Relatively small lending to heavy and machine-building industries due to the fact that its seasonal stocks are small, and the minimum balances of production materials are covered by its own working capital. The enterprises of the heavy and machine-building industries receive mainly travel credits.

Establishing credit ties with various sectors of the national economy, the State Bank must take into account the economic characteristics of a particular sector. You cannot issue loans in one and the same forms to industrial enterprises and trade organisations. Even industrial enterprises have different objects of lending, and therefore, the proportion of different types of loans is not the same.

In the heavy and machine-building industries, the share of loans for seasonal savings and seasonal expenses is small, but here there are loans for settlement documents in transit and loans for temporary needs are given out very often. In the above-mentioned industries, agricultural raw materials are almost not used, and industrial raw materials, semi-finished products and fuel are supplied to the majority of enterprises evenly throughout the year.

The large size of loans under settlement documents in transit, provided to enterprises of the heavy and machine-building industries, is explained by the fact that the products of these enterprises are distributed over a long distance throughout the Soviet Union, and the size of each loan is significant due to the high cost of products. So, for example, an engineering plant located in Leningrad, having shipped a turbine or steam boiler to the Far East, it receives a loan for a significant amount and for a significant period.

Only the peat industry, which is part of the fuel industry, receives significant loans for seasonal costs and for seasonal savings (during the period of peat harvesting). Enterprises of the peat industry do not work all year round. The greatest expenses are associated with the harvesting season. It is

impractical to endow them with their own working capital in the amount necessary for the implementation of the production program, since they will not need working capital after the end of the procurement season. Therefore, seasonal costs and reserves of harvested peat are credited by the State Bank.

In order to strengthen ruble control over the course of production of means of production and over the state of self-financing and finance in the sectors of heavy industry, primarily mechanical engineering, the State Bank is expanding lending to work in progress and finished goods. In the second half of 1939, a number of machine-building plants received loans for work in progress. The State Bank also carried out lending to machine-building enterprises until 1939, but the main flaw of the previous lending system was the provision of loans for the remains of work in progress. In practice, it turned out that the amount of loans can be increased only with an increase in the balance of work in progress. As a rule, the remainders of the work in progress increase due to interruptions in the fulfillment of production plans and with a delay in the release of finished products.

If the State Bank increased loans against the remainder of the work in progress, then by doing so it would encourage the poor performance of enterprises with its credit. Therefore, crediting should be made not for the balance of work in progress, but for the turnover of work in progress.

The State Bank is currently issuing loans against work in progress, given the length of the production period. This means that work-in-progress should turn into finished goods after a certain period of time, but at the same time, new work-in-progress should appear.

By lending work in progress in terms of turnover, the State Bank participates with its own funds in a certain share of the costs of the enterprise. The share of bank credit in the cost of work in progress was 20 percent in 1939 of the amount of own circulating assets, intended for the formation of the standard for work in progress. The loan is provided for

the period necessary to convert the work in progress into finished goods. If we assume that the work in progress in a machine-building enterprise is 100 thousand rubles. and the turnover is 45 days, then the State Bank is obliged to issue a loan of 20 thousand rubles. with the condition of repayment after 45 days.

Along with lending to work-in-progress by turnover, the State Bank lends to finished products of a machine-building enterprise.

The participation of bank funds in lending to finished products is set at 50 percent. Loans for finished products are issued by the State Bank for the period when finished products are in the warehouse of the enterprise.

The enterprises of the light, textile, food, fish, meat, dairy and local industries receive loans mainly for the seasonal accumulation of material assets. Enterprises in these industries process mainly agricultural raw materials; which is harvested once or twice a year. To fulfill the production plan, enterprises must have large stocks of raw materials, and they can only accumulate such stocks with the help of the State Bank.

Procurement organisations also use loans, mainly for seasonal savings. Enterprises and organisations that form seasonal stocks of raw materials of agricultural origin receive a loan in a special procedure provided for by the decree of the Council of People's Commissars of the USSR dated June 20, 1935. The essence of this procedure is that the State Bank opens a special loan account for each credited organisation and pays everything received from this account. raw materials. Consequently, there is no need to issue one-time loans. Lending in the form of a special loan account has a great economic sense and testifies to those special relationships which have developed in our country between two friendly classes—the working class and the peasantry. In contrast to the position of the peasantry in the capitalist world, the collective farm peasantry of the Soviet country lives prosperously, without fear of crises, these constant

companions of bourgeois society. The Soviet state purchases all agricultural products. The State Bank, as an exponent of state interests, has created a system for issuing loans that ensures uninterrupted payments for agricultural products.

Lending on a special loan account has advantages and technical order. Instead of issuing one-time loans, the State Bank pays for all raw materials coming to the warehouses of the economic organisation, and then once every six or ten days regulates its relations with the economic organisation. If at the time of regulation it turns out that the bank has issued more money than there is raw material available, then the amount of the loan that is not secured by material values is classified as overdue loans that are collected in an undisputed manner and earlier claims of suppliers. In the presence of material assets for a larger amount than the loans provided the bank issues additional money to the economic organisation.

The presence of technical advantages in lending in the manner of opening a special loan account does not provide grounds for extending this procedure to all sectors of the national economy. Moreover, even in the branches of the national economy, credited from a special loan account, it is impossible to take into account all the loans received. on this account. It is known that enterprises and organisations, in addition to stocks of raw materials, also have other material values (fuel, auxiliary materials, etc.) that can be credited by a bank. If you credit the balances of all material assets available in the economy and take into account all the resulting debt to the bank on a special loan account, then the principle of urgency and repayment of the loan is eliminated. Sabotage in the system of the State Bank expressed itself, in particular, in the fact that the enemies of the people tried to spread everywhere the system of lending on a special loan account and to eliminate the differences in lending of certain types material values. The fight against the consequences of sabotage consists in giving the lending system according to a special sworn account the role that is

based on the economic and political relations between town and country in the USSR, and in clearing this, the system of lending against perversions, which essentially eliminated banking control by the ruble. A special loan account is maintained for the future, but along with this form, credit relations should develop, formalised in the form of one-time planned loans.

In the forestry industry, loans for seasonal stocks of commercial timber and fuel and for seasonal expenditures rank first. By lending to forest trusts and forestry enterprises, the State Bank strives to ensure that the wood reaches the consumer as soon as possible. Therefore, loans are issued mainly for wood transported from the forest to places of rafting or places of dispatch by rail, and the issuance of loans for wood in the forest is limited.

Lending to agriculture has its own peculiarities, which consist primarily in the fact that credit is used mainly by Soviet farms and, on a much smaller scale; loans are received by collective farms. Soviet farms receive loans for seasonal expenditures and seasonal savings. Crop farms receive loans in the spring and summer, and livestock farms in the fall and winter. As the number of machine and tractor stations increases, the proportion of field work carried out on the lands of collective farms by tractors and other agricultural machines owned by the MTS increases. In the spring and summer periods, the collective farms do not need a loan to cover seasonal costs, because settlements with the MTS for the work performed are carried out in the fall, after the harvest, and the MTS pay for labour and make other cash expenditures from budget allocations.

For settlements with collective farmers in the spring and summer periods, the collective farms also do not need credit resources, which is explained by the special nature of accounting for labour costs. Collective farms keep records of labour costs in workdays. Cash on collective farms is issued on the basis of an advance payment, and not as a final payment for the work performed. The final settlement in

cash in accordance with the monetary value of the workday is usually made in the IV quarter or in the next calendar year. Therefore, the collective farms use credit only for purchase of seeds, for replenishment of stocks of feed for livestock, for the purchase of small implements, fuel, means for combating agricultural pests, etc.

Loans for turnover prevail in trade; in addition, traders are eligible to receive seasonal savings loans.

Organisations that sell food products must procure a large amount of vegetables and fruits in the fall. Stocks of this kind are credited by the bank.

Then, trade organisations have the right to receive unscheduled loans when they have surplus balances of goods that were formed through no fault of theirs.

In addition to the State Bank, short-term lending is carried out by special banks. All special banks issue loans to contractors of the construction organisations. The object of crediting is stocks of building materials, fodder and fuel. In addition, construction companies are eligible for short-term loans for the production of work on the repair of construction machinery and transport.

Utility banks, in addition to short-term lending to construction companies, provide loans to utilities and building materials enterprises subordinated to local councils. When lending, communal banks are guided by the same laws and regulations as the State Bank, they provide seasonal savings loans, transit loans, and temporary loans.

2. Credit Planning

Lending to economic agencies and the organisation of settlements between economic organisations are carried out by the State Bank on the basis of a credit plan. Credit planning and settlement is one of the most important distinguishing features of Soviet credit.

The credit plan is an integral part of the national

economic plan. The task of credit planning is to ensure the most complete accumulation in the State Bank of temporarily free funds of economic organisations and budgetary institutions and the most expedient, planned use for lending to economic organisations in accordance with the state national economic plan.

The enemies of the people—the Trotskyite-Bukharin bandits—strove to disrupt credit planning, to distort its content and significance. During the development of the struggle for socialist industrialisation of the countries, enemies of the people, sought to narrow the financial and credit resources of the Soviet state. Disguised as bourgeois “theories” about the alleged “impossibility” of credit planning (since it is difficult to “calculate” in advance how much money will go to bank accounts), they tried to undermine national economic planning in general, and slow down the implementation of the Stalinist plan for the socialist industrialisation of the country. Later, when all financial resources were directed to the implementation of the tasks of the socialist offensive along the entire front, the Trotskyite-Bukharin gang took the path of denying any significance of credit planning. Hiding behind “leftist” phrases about the “withering away” of money, credit and finance, these agents of the capitalist states tried to present the matter as if it was possible to expand resources without limit credit plan due to the issue of money into circulation and it is necessary to unconditionally satisfy any requirements of economic organisations to the bank, covering with a loan all breakthroughs in the implementation of the plan by individual economic organisations. These statements were aimed at disrupting cost accounting and planning and financial discipline, at weakening the stability of the Soviet currency. These counterrevolutionary “theories” were used by the enemies of the people to carry out their sabotage purposes and in the practice of credit reform in 1930. By encouraging breaches of credit discipline by economic agencies and local institutions of the State Bank,

Trotskyist-Bukharin gang tried to undermine the value of credit plans approved by the government. Dastardly enemies of the people pursued at the same time the nefarious goal—to disorganise the country's economic power to undermine the successes of socialist construction.

The Party under the leadership of Comrade Stalin exposed and defeated the wreckers, raised the role of credit and credit planning in strengthening cost accounting and expanding Soviet trade.

The State Bank has been planning a loan since its inception. However, in the presence of a commercial loan, it was impossible to accurately take into account all temporarily free funds and give them expedient direction. Business organisations, in addition to the State Bank, lent to each other, and very often credit transactions were completed without the participation of bank funds. Only in the case when enterprises or organisations accounted for promissory notes in the bank, the latter had the opportunity to control the development of credit operations.

After the credit reform, the opportunity for planning is created credit transactions in full. But due to sabotage, the practice of credit planning was perverted, the State Bank began to replace policymakers and engage in production planning. Only after the decree of January 14, 1931 was issued, the tasks of the State Bank in the field of credit planning were clearly defined.

The basis of credit planning is credit plans drawn up by the main departments, trusts and independent enterprises of the economic commissariats. Credit plans are drawn up on the basis of industrial and financial or commercial and financial plans of enterprises and organisations. These plans are submitted to the State Bank, which analyses them, makes adjustments to them, and brings them together. The credit plan of the State Bank is approved by the Economic Council under the USSR Council of People's Commissars.

The summary table of the credit plan indicates the resources of the State Bank and their direction according to

the following scheme:

Resources	Resource channelling
1. Capital and profit of the State Bank	1. Scheduled loans for inventories
2. Current accounts	2. Scheduled loans for goods and finished goods
3. Current accounts	3. Scheduled loans for work in progress
4. Funds of economic organisations in the calculations	4. Scheduled loans for seasonal costs
5. Balances on correspondent accounts of banks	5. Scheduled loans for the issuance of contractual advances
6. Balances on the current account of the union budget	6. Loans by trade turnover
7. Balances on current accounts of republican budgets	7. Loans against documents for goods in transit
8. Balances on current accounts of local budgets	8. Loans for temporary needs
9. Other resources	9. Off-season (blank) loans
10. Emission	10. Other assets

The income part of the consolidated credit plan is drawn up by the State Bank on the basis of data on the execution of the credit plan, as well as materials of the relevant institutions, the expenditure part, mainly on the basis of departmental credit plans. The bank's funds, which are used to finance seasonal stocks and turnover, are distributed among the people's commissariats and cooperative organisations. Funds allocated for lending against documents for goods in transit and temporary needs are shown in total amounts without breakdown by commissariats. The balancing item in the credit plan is the issue of money or the withdrawal of money from circulation. This, of course, does not mean that any balance is accepted in the plan. If the amount of money required under the credit plan does not correspond to the need for turnover (more, for example), then this is the only means of the need to find additional

resources, save, etc. Therefore, the balance of the credit plan is not just an arithmetic value, mechanically set on based on other payment items.

In credit plans, only changes in the balances of funds on settlement or current accounts and the amount of debt on loans are shown. The turnovers on current, settlement and loan accounts in the credit plan of the State Bank are not shown, since this would greatly complicate and complicate the preparation of a plan and at the same time would not give accurate calculations, since the company can receive loans several times during the quarter and repay them, although the debt. it to the beginning, and the end of the quarter may remain unchanged.

After the approval of the credit plan, the economic people's commissariats and central cooperative bodies are obliged, together with the State Bank, to distribute loans between the enterprises and organisations subordinate to them. For every enterprise or organisation, a credit limit is set; limit notifications are sent the corresponding branches of the State Bank. The amount of indebtedness of individual enterprises and organisations is determined only for loans for seasonal savings and for seasonal expenses. Credit limits for trade turnover are established only for branches of the State Bank, and not for trade organisations. Also, the limits on travel credits and loans for temporary needs are not distributed among organisations.

Setting limits is essential to all work of the State Bank for short-term lending. The presence of limits confirms the right to receive a loan, serves as the basis. to receive it, if all other lending rules are followed. A state bank, for example, only grants a seasonal savings loan up to the limit; over-planned, over-limit accumulations of raw materials are not credited by the bank. Loans for turnover, for amounts on the way and for temporary needs are issued within the limits received by each office and each branch of the State Bank from its reign. The branches of the State Bank can provide additional loans only after the total lending limit for the

branch is changed by the Board of the State Bank. Limits are also important for ensuring the repayment of loans to the bank. But after the limit is exhausted, a subsequent loan can be issued only if previously issued loans are repaid on time. Repayment of previously issued loans is an indispensable condition for a business organisation to receive new ones—within the limit.

The offices and branches of the State Bank take a relatively small part in drawing up the credit plan. They, at the direction of the board, give opinions on loan applications of some business organisations. The conclusions of the branches are compared with departmental materials, and as a result of the comparison, amendments are made to the credit plan.

The execution of the credit plan is carried out exclusively by the branches. The Board of the State Bank systematically monitors the implementation of the plan, using accounting and statistical reporting for this.

The fulfillment of the credit plan requires the State Bank to fight for resources. It is not enough to fulfill the plan for lending to the economy, but it is necessary to fulfill it so as not to exceed the emission plan, so that the fulfillment of the credit plan is due to the planned inflow of resources. The more successfully the bank influences the strengthening of cost accounting, the savings, the more it stimulates the growth of savings from economic agencies, the more successfully the plan for the bank's resources is fulfilled, the greater the inflow of funds to bank accounts.

3. Organisation of Settlements Carried Out by the State Bank of the USSR

The credit reform of 1930-31 marked the beginning of a new period in the organisation of settlements. The concentration of all settlements in the State Bank, the reduction of settlements with the help of cash to an insignificant value in terms of specific weight, and the strengthening of control over the state of money circulation—these are the results of the reform in the field of settlements.

When organising and carrying out settlements, the State Bank first of all takes into account the state of the country's economy and the level of planning. Before the credit reform, the creation of such a system of payments as is currently in place would, of course, be impossible due to the fact that the state of the economy was different.

In addition to taking into account the state of the economy and the level of planning, one should also take into account the specific features of individual sectors of the national economy. Robbank has striven and is striving to organise this settlement relations between economic organisations, so that the features of the movement of goods and materials, differences in the organisation of supply and sales and the state of cost accounting. Taking into account the specifics of individual sectors of the national economy has led to the fact that calculations made by special bureaus of mutual settlements, planned calculations, settlements with transport organisations have become widespread.

Economic organisations are given the right to choose the form of organisation of settlements. Business organisations have the right to settle either by means of acceptance, or by means of a letter of credit, or by means of a special account. The law only says that one of these forms, acceptance, is the preferred form, but the law does not say that acceptance is the only one and compulsory form of payment. In system settlements, flexibility is needed, and therefore the right to

choose certain forms of settlement should not be limited.

Keeping control of the settlement process for the State Bank is one of the principles of the current settlement system.

The bank seeks to organise settlements in such a way that the independence of economic organisations is preserved, that contractual relations between them are observed, but at the same time, the strengthening of cost accounting is ensured and that the State Bank's control over the movement of funds in the national economy is ensured.

Settlements between economic organisations should not lead to mutual debt. The fight with mutual debt is the responsibility of the State Bank. Credit reform in the interests of strengthening cost accounting has banned economic organisations mutual lending. A business organisation that does not require timely payment for goods sold, she herself ceases to accurately pay bills of their suppliers, thereby undermining the financial position of other related economic organisations. Enemies of the people from the Trotskyite-Bukharin gang tried to increase the mutual indebtedness of economic agencies by entangling the settlement system in order to disrupt the system of planned crediting. To disrupt the planned nature of the Soviet economy and restore capitalism—that was their nefarious goal.

The settlement system should be organised in such a way that it prevents the emergence of mutual debts of economic agencies to the maximum extent possible.

It is important to organise the settlement system that would help relieve the banking apparatus from small transactions that do not give a significant economic effect and at the same time increasing the staff of the bank.

Calculations carried out with the help of the State Bank apparatus are divided into two groups: a) non-resident and i) intra-city.

The main forms of non-resident settlements are: acceptance, letter of credit and special account.

The advantage of the acceptance form prevailing in settlements between economic organisations, consists in the fact that when it is applied, direct relationships are established between economic organisations. In the case of an acceptance form, the buyer himself directly verifies the supplier's actions, which strengthens contractual relations as a necessary condition for strengthening cost accounting. No other organisation acts as a substitute for the purchaser. Buyer himself checks whether the contract has been fulfilled, whether the goods that he should receive have been shipped, whether the prices of the goods and other conditions of the contracts have been met. The acceptance form obliges the supplier to constantly take care of the quality of the goods. However, the acceptance form does not exclude the possibility of mutual indebtedness. If the buyer, having received the goods from the supplier, does not have the means to pay for the goods and at the same time, for a number of reasons, the goods cannot be shipped back to the supplier's address or sold at his order to another buyer, then unpaid invoices and unpaid goods appear.

To strengthen bank control over the state of document circulation and to increase the responsibility of the State Bank for the timeliness and accuracy of settlements, a document collection system was introduced in 1935. The branch of the State Bank serving the supplier is obliged to accept payment documents from him and then forward them to those cities where the buyers are located. Thus, from the moment the documents are received for collection and until the money is credited to the current account of the supplier The State Bank oversees the implementation of settlements in a timely manner.

Of great importance for the correct organisation of settlements is the establishment of a mandatory deadline during which the buyer is obliged to accept the supplier's invoice or reasonably refuse to accept.

Until 1936, the order was applied, according to which the buyer was obliged to pay it within two or three days after

receiving the invoice. As a result, there were frequent cases when even well-performing organisations could not pay suppliers on time. As a result, the number of unpaid invoices grew.

In 1936 (on the basis of the decree of the Council of People's Commissars of the USSR dated April 4, 1936) the procedure for paying bills was changed. The acceptance of the invoice must be made within three days, and the payment of the invoice within no more than ten days after its receipt; therefore, a gap of seven days is allowed between acceptance and payment of the invoice. This event significantly increased the manoeuvrability of business organisations. Each organisation that has non-resident suppliers, that is, making settlements for non-resident turnover, has the opportunity to draw up a payment calendar and prepare funds for paying bills.

At the same time, by a decree of April 4, 1936, the gap between the receipt and use of the goods was eliminated, due to the fact that all goods received by the buyer, but not paid for, were in the so-called "custody" and could not be used until the invoice was paid... Currently, responsible storage of goods is applied only in relation to inaccurate payers. The buyer has the right to use the goods immediately after the acceptance of the invoice, that is, before the actual payment, which contributes to the acceleration of the turnover of goods.

Payment requests received by buyers are paid in the negative acceptance procedure. If business organisations do not receive a refusal of acceptance within the specified period (3 days from the date of receipt of the invoice), the bank, after ten days from the date of receipt of the invoice, debits the funds from the buyer's current account to the supplier's current account. Consequently, economic organisations do not have to inform the bank of their consent to accept, they only inform the bank of their refusal to accept the account.

Negative acceptance was introduced to simplify banking

techniques. Practice has shown that most organisations accept goods and accept invoices. The cases of refusal of acceptance and partial acceptance are few and the share of such transactions is small; obligatory acceptance messages created unnecessary workflow. The cancellation of positive acceptance (i.e., the requirement for acceptance in each individual case) relieved the bank of unnecessary operations, made it possible for business organisations to notify the bank about the refusal of acceptance only if disagreements arise between them.

With regard to individual organisations, acceptance-free payment of bills is allowed in cases where one economic organisation provides another various kinds of indisputable services. Without acceptance, for example, bills for electricity, gas, heat energy are paid.

In addition to direct write-offs, partial acceptances are also applied. The right of partial acceptance has now been granted to all economic agencies, without exception. An invoice can be accepted not in full, but in part, if: a) arithmetic errors are found in the invoice; b) prices for products sent to the buyer's address are higher than the list prices or the prices established by the contract; c) among the goods sent to the buyer there are consignments of unordered goods; d) there are more goods shipped than is required according to the plan (shipment in excess of the plan violates trade or economic planning activities, complicates the use of working capital; economic organisations are given the right to accept invoices only within the quarterly or monthly plan; the use of partial acceptance disciplines suppliers); e) the required range of goods is violated.

Characterising the acceptance form of calculation, one should dwell on the issue of control over the quality of goods. The buyer accepts the invoice, and the goods, as a rule, arrive after acceptance, and it is no longer possible to refuse to receive the goods, because the acceptance of the invoice presupposes payment. If the goods are of inadequate quality, the buyer must, through arbitration, seek a reduction in the

price of the goods or a full refund.

Why is the acceptance of the invoice not linked to the acceptance of the goods?

First of all, when the acceptance of the invoice is combined with the acceptance of the goods, it cannot be guaranteed that all buyers will act in the manner prescribed by law. There are cases when the buyer, in the absence of money, will seek various pretexts and refuse to accept the invoice due to the allegedly poor quality of the goods. The State Bank cannot be the arbiter in the dispute between the buyer and the supplier and therefore cannot oblige to pay the bill. Although the supplier can prove his case and demand the acceptance of the goods by the buyer, however, from the moment of refusal of acceptance and until the decision of arbitration, a long period of time may pass and the financial situation of the supplier will be tense. Thus, the combination of acceptance with acceptance of the goods, without giving anything positive, can weaken the contractual discipline and create uncertainty for suppliers in the timely arrival of the sums of money due to them.

In the case of a letter of credit settlement, the buyer instructs the bank to inform the bank branch at the location of the supplier that, as the goods are shipped to the buyer's address; monetary amounts will be credited to the supplier's account in payment for the goods sent. When settling under a letter of credit, the movement of documents starts from the buyer, and not from the supplier.

The positive value of a letter of credit is that it creates for the supplier full confidence in the timely payment of goods by the buyer. Therefore, this form of payment is most often used in relation to buyers who do not provide timely accurate payment of bills.

The negative aspects of the letter of credit are that: a) circulating assets are spent if the suppliers associated with this economic organisation are located in different settlements, since separate letters of credit are issued in all branches of the State Bank at the location of the suppliers;

before the expiration the terms of the issued letters of credit, the economic organisation cannot use these circulating assets; b) in the case of a letter of credit settlement, control is carried out not by the buyer, but, as a rule, by the State Bank; meanwhile, bank control cannot in this case, completely replace the buyer's control, since the bank cannot enter into all the details of the supplier's deal with the buyers.

The third form of settlement is special account settlement. A special account is used for settlements in two cases: a) when long-term economic ties are established between the supplier and the buyer; b) when the buyer has to settle with several suppliers located in the same city. It is not advisable to use the letter of credit form of settlements in both of these cases. When a buyer purchases goods from the same supplier, settlement of the letter of credit creates unnecessary technical difficulties (constant applications to the bank for opening new letters of credit). Likewise, when buying goods from different suppliers located in the same city, you would have to issue several letters of credit, and since the terms of the letters of credit would be different, the manoeuvring of working capital would be greatly reduced.

In such cases, buyers apply to the bank with an application to open a special account in the branch of the bank where they indicate, so that this account can be debited to the settlement accounts of suppliers as the goods are shipped.

A special account has the same disadvantages as a letter of credit: it also reduces the ability to manoeuvre working capital, and in some cases, suppliers are also monitored the State bank due to the fact that sending authorised at all those points where the suppliers are located, it does not always seem expedient for the buyer.

Intra-city settlements between business organisations carried out by means of: a) settlement checks, b) payment orders, c) payment claims, d) periodic settlements for the balance of mutual claims, e) one-time offset of mutual

claims.

Until 1936, only settlement checks and payment orders were used for intra-city settlements. The buyer, when purchasing the goods, issued a check or payment order to the supplier, and on the basis of these documents, the branches of the State Bank made transfers from one current account to another. If there were no funds on the current account, then the State Bank refused accepting a check or payment order; for the issuance of a non-currency check, economic entities were brought to criminal responsibility; there was no such indication regarding payment orders, and therefore the economic agencies preferred this document to the check.

If the goods were already transferred by the supplier to the buyer, and the payment order sent by the latter was not accepted by the bank for execution (due to the lack of funds in the buyer's account), then accounts receivable arose. To prevent it, suppliers began to release goods only after presenting a payment order approved by the bank. This procedure, while guaranteeing payment for the goods sold, created unnecessary technical difficulties, since the buyer, before receiving the goods, had to apply to the bank for acceptance. In addition, settlements by means of payment orders approved or accepted by the bank created accounts payable in cases where, after the presentation of the payment order, the buyer could not receive the goods due to the lack of suitable packaging or due to the fact that during the execution of the payment order, the goods were already sold to another business organisation.

Since 1936, a new procedure for intra-city settlements has been introduced, in part modified in 1937. Calculations for less than 100 rubles must be made in cash only. For settlements in an amount ranging from 100 to 1000 rubles cash, check and payment orders can be used. Calculations for amounts over 1000 rubles can be made by issuing payment requests and submitting them to the bank for collection, as well as by means of payment checks and payment orders. In addition, it is allowed to make planned payments on a

predetermined date.

Bank's checks are accepted for payment only if the payer's current account has the necessary funds.

Payment orders are accepted for payment regardless of the state of the current account, if the goods have already been transferred to the buyer; they are paid in order of priority as funds appear on the settlement the payer's account. In the event that the buyer has not received the goods and presents a payment order to the bank, the bank may refuse to issue the order if there are no funds on his current account. This payment order payment procedure eliminates the need for the bank to accept all orders and at the same time does not require the supplier to seek endorsement or acceptance of orders by the bank. However, the acceptance of orders is possible if, according to the contract concluded between the economic bodies, the goods are released only after prepayment.

Payment requests are issued not by the buyer, but by the supplier and are not submitted to the bank for collection. All payment requests submitted for collection must be paid 2 days after they are received by the bank. Just as with non-resident document flow, calculations are made on the basis of negative acceptance; if the buyer doesn't refuse acceptance or does not declare partial acceptance, then the State Bank makes a transfer from one settlement accounts to another. Payment claims submitted for collection can serve as collateral for loans against settlement documents for goods in transit.

Balance calculations are made in cases where two economic entities have long-term economic ties: business organisations agree on the timing and amount of payments, and then, after a lapse of the period stipulated by the contract, make mutual settlements. Branches of the State Bank check the correctness of calculations at least once a quarter.

One-time offsets are made both between two and between several economic agencies. The difference between

mutual claims is paid in the usual way by debiting funds from the current account of the economic agency that made fewer claims. In the case of group credits, it is allowed to issue temporary loans to those economic agencies that have to pay, but cannot do this due to the lack of money in the current account.

A special form of settlement, which cannot be attributed only to non-resident or only to intra-city, is the use of specially created bureau of mutual settlements (BVR). Bureau established in those branches of industry and trade where there are constant economic relations between enterprises. Instead of the usual forms of settlements, the participants of the settlement bureau meet daily, present demands to each other, determine the balance of payments and complete payment transactions by writing off money from the respective settlement accounts.

To ensure that settlements are not suspended due to a lack of funds, the participants in the bureau form a reserve fund, from which the funds for settlements are received by those enterprises that have moment there is no money. The State Bank provides special loans for the formation of reserve funds.

To illustrate the practice of settlements through the BVR the following example can be given: a textile trust that combines a number of spinning and weaving factories, a sales and supply office, and a mechanical repair plant is organised by the BVR. Suppose that on a certain day the claims and payments are combined by a textile trust enterprises and economic organisations in relation to each other have developed as follows: the spinning factory must receive 10 thousand rubles from the weaving factory for the yarn transferred to the latter and pay 5 thousand rubles to the sales and supply office for the cotton delivered to it; the weaving factory must, in addition to paying the spinning factory for raw materials (yarn) in the amount of 10 thousand rubles, pay the mechanical plant for the repair of weaving machines 2 thousand rubles, the sales and supply office for

dyes—5 thousand rubles and receive from the sales and supply office for the finished product (fabric) handed over to her is 15 thousand rubles. These claims and payments can be presented in the following table (plus—receipts, minus—payments in thousands of rubles):

Payment transactions	Amount of payment	Spinning mill	Weaving factory	Repair and mechanical plant	Sales and supply office
a) yarn	10	+10	−10	—	—
b) cotton	5	−5	—	—	+5
c) repair	2	—	−2	+2	—
d) dyes	5	—	−5	—	+5
e) finished fabric	15	—	+15	—	−15
Total	37	+5	−2	+2	−5

As the table shows, for the production of a settlement using BLR for payments between four organisations for the total amount of 31 thousand rubles is enough: a) to write off 5 thousand rubles from the current account of the sales and supply office and from the settlement account of the weaving factory—2 thousand rubles; 6) of these 7 thousand rubles transfer 5 thousand rubles to the settlement account of the spinning mill and to the settlement account of the mechanical repair plant—2 thousand rubles.

When organising a bureau of mutual settlements, the correct selection of bureau participants is of great importance. If the bureau includes organisations that have insufficient economic ties with each other, then the proportion of payments credited without the participation of cash will be low. Further, if organisations with an unstable financial situation, allowing losses and immobilisation of working capital, are included in the bureau members, mutual settlements will be difficult. These are the kinds of mistakes that were often made in the transition to bureau calculations.

Insufficient control on the part of the State Bank over

the organisation of settlements through the bureau was explained by the fact that the bureau. were created under the main directorates and trusts and often, to the detriment of national economic interests, made mistakes in the organisation of calculations.

In 1939, the Economic Council under the Council of People's Commissars of the USSR proposed to the State Bank to include all bureaus in the banking apparatus and to revise the existing network of bureaus in order to preserve only those bureaus that contribute to the acceleration of settlements and the elimination of non-payments in the economy. The main conditions for maintaining a settlement bureau are bringing the share of offset payments to at least 40 percent and the inclusion of financially sound business organisations as members of bureaux.

In addition to the described settlement methods, centralised settlements are currently used, which are a combination of elements of acceptance and letter of credit forms of settlement. With centralised settlements, the supplier enterprise receives money immediately after the goods are shipped, but not from the buyer, but from the sales organisation. Thus, just as in the case of a letter of credit, even before the buyer receives the invoices, the supplier already receives money. However, in contrast to the letter of credit form of payment, it is not the buyer who pays the money, but the sales organisation. The supplier does not write payment requests on his own behalf, but on behalf of the sales organisation. Upon receipt of the payment request, the buyer must accept it and pay the money or refuse to accept it. But if, in the acceptance form, the supplier receives the money paid, then in centralised settlements, the sales organisation is the recipient.

The system of centralised settlements has been developed because in many industries that produce the means of production, suppliers must establish economic ties with many buyers. Shipments are made at the direction of the sales organisations, and besides, for a number of reasons,

are readdressing goods. So, for example, coal or metal is scheduled for shipment to one enterprise, and then the sales organisation gives an order to ship to another enterprise.

It is clear that with the acceptance form of settlements, suppliers who do not have permanent contractual relations with buyers would have to first clarify the financial situation of buyers before shipping the goods, which would lead to a slowdown in the turnover of goods, or they would have to ship to all buyers, regardless of the state of their finances and so must admit non-payments.

The transition to a letter of credit form of payments is inexpedient because with the existing specialisation of industrial enterprises, buyers would have to issue dozens of letters of credit and thereby reduce the possibility of manoeuvring working capital. Therefore, the system of centralised settlements, although it weakens direct economic ties, makes it possible in a number of cases for supplying enterprises to receive money without interruption for shipped goods.

The system of centralised settlements has become widespread in the coal, oil-extracting industry, ferrous metallurgy and non-ferrous metallurgy. Under the system of centralised settlements, enterprises that ship products receive money from the Main Directorate for Sales (Glavsbyt). With buyers of products, settlements are made by the offices of Glavsbyt, located in the same settlements where the buyers are. The State Bank provides loans to Glavsbyt, if necessary, for the smooth settlement of the shipped products.

The instructions of the XVIII. Congress of the All-Union Communist Party of Bolsheviks on the need to improve budgetary and credit work, strengthen cost accounting, strengthen the fight against mismanagement, increase the level of profitability, and strengthen the ruble pose very serious tasks for the credit system of the USSR. It was already mentioned above that it is necessary to introduce a number of significant amendments to the methods of lending aimed at strengthening cost accounting and strengthening the

bank's control functions.

Improving settlement operations, ensuring the uninterrupted flow of settlements between economic agencies, simplifying banking operations — all this requires energetic work of the apparatus of the credit system.

The solution to the main economic problem is associated with large catalytic investments, which require significant resources.

The credit system of the USSR is entrusted with the honourable duty of improving all its work to facilitate the successful accumulation of resources, and, consequently, to the solution of the main economic problem within the timeframes specified by Comrade Stalin.

As long as money is needed, credit is also needed. This means that the credit work of banks is necessary until the end of the first phase of communism—the socialist stage of development. Strengthening and improving credit work in every possible way is the most important task in the struggle for the highest phase of communism.

Strengthening the banking system, improving all its operations and perfecting settlements is the most important task, for this prepares its transformation into the social bookkeeping department of communist society.

CHAPTER XIX. MONETARY SYSTEM OF THE USSR

1. The Device of the Monetary System of the USSR

The Stalinist Constitution obliges the government of the Soviet Union to fight in every possible way to strengthen the country's monetary system.

Money in the USSR is "... the instrument of the bourgeois economy that the Soviet government took into its own hands and adapted to the interests of socialism in order to expand the entire Soviet trade and thereby prepare the conditions for direct product exchange"¹ Their circulation is based on the planned organisation of production and trade and is subordinated to a single national economic plan. This determines the peculiarities of the Soviet monetary system, its fundamental, fundamental difference from the monetary systems of the capitalist countries.

The Soviet monetary system has nothing to do with capitalist monetary systems and is not a kind of credit and paper-money systems that existed and still exist under capitalism.

The monetary systems of capitalist countries are based on gold. Whether gold is in circulation in the form of coins or not, it retains its value as the basis of monetary systems. The bourgeois state, by monopolising the minting of coins and issuing paper money into circulation, can change the content of the metal in the coin, it can increase or contract the size of the mass of paper money in circulation, but it cannot establish the value of money, change the spontaneous laws

¹ J. Stalin, *Problems of Leninism*, 10th ed., p. 576.

of money circulation. This applies equally to capitalist banks of issue that issue credit money. Banks cannot create laws for the circulation of credit money, but obey the spontaneous laws of monetary circulation. No “classical rules” of banknote emission can protect against monetary crises, which during the general crisis of capitalism take on an especially acute form and lead to currency depreciation and the destruction of monetary systems. Banking methods of indirect regulation of the money supply in circulation represent only an attempt to adapt the credit and foreign exchange operations of banks to the spontaneous changes in the market in order to increase the profits of banks. A handful of monopolists, subjugating the emission banks, strive to get more profit on the operations of buying and selling the slogan and on changes in the value of interest rates. The management of this handful of monopolists not only does not eliminate spontaneity in money circulation, but increases the anarchy of money circulation and leads to the fact that monetary crises acquire more great pungency.

The Soviet monetary system is built on fundamentals that are fundamentally different from capitalist monetary systems, both in terms of the organisation of monetary circulation (issuing money into circulation, regulating the money supply in circulation) and in relation to the factors that ensure the stability of money. The Soviet monetary system is based on a planned principle, impossible in any capitalist country, inherent in the entire socialist economy and excluding the action of any spontaneous laws.

In a socialist country “... production relations are in full accordance with the state of the productive forces, for the social character of the production process is reinforced by social ownership of the means of production.

Therefore, socialist production in the USSR does not know the periodic crises of overproduction and related absurdities”¹.

¹ “A Short Course On The History Of The CPSU (B)”, Gospolitizdat,

The Soviet monetary system is based on planned production and circulation of goods, is the planned monetary system of the socialist state, completely independent of the capitalist surroundings. This independence is due to the advantages of the socialist economic system, political and economic independence and the complete independence of the socialist state.

One of the most important pillars of the Soviet monetary system is monopoly of foreign trade and related currency monopoly.

The economy of the USSR has created a new foundation, unattainable for capitalism, for the stability of money, immeasurably stronger and more real than any gold reserve.

“The stability of the Soviet currency is ensured, first of all, by the enormous amount of commodity masses in the hands of the state of commodity turnover at stable prices”².

Such provision of money is possible only in the Soviet economy, because only here: a) the bulk of goods are concentrated in the hands of the state and put into circulation not in the interests of obtaining maximum profit, but in the interests of the fullest satisfaction of the needs of the working people; b) the prices of goods are established by the state in accordance with the tasks of the planned development of the socialist economy as a whole; c) spontaneous fluctuations in supply and demand do not and cannot take place in the socialist economy; d) trade turnover develops on the basis of a single national economic plan, which establishes the size of production, cost, size and direction of the sale of goods.

The supply of commodities for Soviet money is a solid guarantee of its stability. In the Soviet economy, there is no contradiction between goods and money, since the socialist mode of production knows no contradiction between public

1938, p. 122.

² J. Stalin, *Problems of Leninism*, ed. 10th, p. 506.

and private labour. Socialistically organised labour is directly social labour. The Soviet state, which directs both commodity and money circulation, ensures the necessary correspondence between the mass of money in circulation and the actual needs of circulation.

Price stability¹ in the Soviet economy, which is due to the planning of all sectors of the country's economic life, creates a solid basis for planning monetary circulation. Therefore, the growth of the mass of commodities at the disposal of the Soviet state and put into circulation at planned stable prices is. decisive factor in strengthening the Soviet ruble.

In order to strengthen the provision of the Soviet ruble, it is necessary to fight for the fulfillment of production and trade plans in terms of qualitative and quantitative indicators, the fulfillment of financial plans, as well as for strengthening the levers that plan and regulate money turnover. The invariable line of the Party and the Soviet government is the struggle for the all-round strengthening of the ruble, for an increase in the supply of commodities for Soviet money, for the correspondence of the amount of money to the real needs of the national economy.

Under the conditions of a capitalist society, the provision of money with mass of commodities is impossible, since there is an irreconcilable contradiction between commodities and money. Public acceptance goods produced under capitalism is achieved by valuation of goods in gold and their subsequent sale for gold (or through its representatives). At the same time, prices for goods constantly fluctuate depending on the state of supply and demand. Price fluctuations under capitalism are a general rule, and price

¹ Price stability can, of course, vary depending on the needs of the farm. However, price changes in the USSR are not the result of the action of spontaneous forces, but are made by the state in an organized manner in order to ensure the interests of the entire socialist economy.

stability is a short-term exception, permanently violated by the cyclical course of social production.

Therefore, together with the growth of the mass of commodities, which is accompanied by the ruin of the working people and the reduction in consumption, the danger of the depreciation of commodities rapidly increases. The reality of this danger stems from the presence of periodic crises of overproduction—indispensable satellites of the capitalist mode of production. Crises, on the other hand, greatly weaken and sometimes destroy the monetary systems of capitalist countries.

Thus, the growth of the mass of commodities under capitalism not only does not contribute to the strengthening of money circulation, but, on the contrary, is one of the factors that undermine the stability of capitalist currencies. This deep contradiction is one of the forms of manifestation of the basic contradiction inherent in capitalist society between the social nature of production and private ownership of the means of production.

In the Soviet economy there are not and cannot be crises of overproduction and monetary crises.

The tremendous increase in the mass of commodities in the hands of the state, which are put into circulation at stable prices and are the decisive basis for the stability of the Soviet currency, is accompanied by an increase in gold reserves of the Soviet state in connection with the expansion of the gold mining industry and the significant activity of the balance of payments. The growth of gold reserves is also important for the stability of the Soviet ruble, although the main security is goods sold at stable state prices.

It is quite obvious that the importance of gold reserves as a factor in the stability of Soviet money (not the main one) is fundamentally different from the role that gold plays in capitalist countries. The special significance of gold, which does not play the role of a universal equivalent in the USSR, is determined by the presence of a capitalist encirclement and the existence of a world capitalist market in which gold

serves as world money. Therefore, the accumulation of gold reserves in the USSR is the accumulation of international means of payment necessary for settlements with capitalist countries.

Hence, in general, it follows the need to create large state gold reserves, since the capitalist encirclement remains.

At the XVIII. Congress of the CPSU (B) Comrade Mikoyan pointed out that "the period when we were still backward and poor, we still did not have our own developed mechanical engineering, and the industry had to be built at all costs, we were forced to export a lot of raw materials and food products abroad. which they themselves needed, and exported in order to get hard currency, and for hard currency to buy machine tools for industry, equipment for tractor and car factories ... Now we do not export either cow oil, vegetable oil, eggs, bacon, or poultry because we are expanding domestic consumption and the whole increase goes to our stores, as well as those excellent quality products that were previously exported."

Expansion of the same volume of trade is further strengthening the Soviet ruble.

The monetary system of the USSR consists of bank notes, treasury bills and a small change.

All these banknotes are issued by the State Bank, which is the single issuing centre of the country.

The monetary unit in the USSR is the ruble, which is divided into 100 kopecks. 10 rubles make up a gold piece.

Bank notes are issued in large denominations of 1, 2, 3, 5 and 10 ducats. The law also allows the issue of bank notes in denominations of 25 and 50 ducats. However, this is almost never used by the State Bank, since for retail exchange, first of all, smaller bills are needed.

Treasury notes are issued in denominations of 1, 3 and 5 rubles. and serve the needs of commodity circulation in banknotes less than a chervonets.

Small change coins are made of nickel and bronze, etc. issued in denominations of 1, 2, 3, 6, 10, 15 and 20 kopecks.

In addition, there are also silver and copper coins in circulation, which were issued before, for a number of years after the monetary reform.

The issue of treasury bills and bargaining chips is carried out in the amounts necessary to meet the needs of circulation in banknotes with denomination less than a chervonets, and depends on the number of banknotes issued into circulation (i.e. banknotes of large banknotes).

In relation to chervonets, treasury bills and small coins are exchange banknotes. The release into circulation of changeable banknotes is carried out depending on the quantity banknotes of large bills in a certain, established government proportion.

After the monetary reform and the liquidation of the budget deficit in 1924, the issue of Soviet money no longer serves as a means to cover the needs of the budget. The budget of the socialist state executed from year to year with an excess of revenues over expenditures what needs this source of income. Emission of Soviet money, is carried out in full accordance with the needs of the ever-increasing socialist turnover.

Bank notes issued in circulation, according to the law, must be secured by at least 25 percent. gold, other precious metals and stable foreign exchange, and the rest of goods and other assets of the State Bank accepted as collateral for the loan issued by the State Bank. In fact, the commodity security significantly exceeds the size of bank notes issued by the State Bank. Since the State Bank loan is issued under the provision of material assets for strictly defined periods, thereby the banking provision of the issue is associated with the national economic security - goods sold at stable prices.

The results of the issuing activity of the State Bank on the issue of banknotes are displayed in the issuance balance sheet of the State Bank, compiled in the following form:

Assets	Passive
1. Metal support	1. Bank notes transferred to the cashier of the Board of the State Bank
2. Foreign currency	2. Free balance of the right to issue ¹ .
3. Liabilities on short-term assets of the State Bank	

Since it is necessary to maintain a certain proportion between the number of banknotes of large and small banknotes issued into circulation, the accounting of banknotes (chervonets) and change money (treasury notes and change coins) issued into circulation is kept separately.

The issue of treasury bills and bargaining chips continues to be recorded in the emission balance sheets of the Narkomfin of the USSR, compiled in the following form:

Assets	Passive
1. Redemption of banknotes of previous issues	1. Treasury notes
2. Exchange of banknotes and foreign currency	2. Silver and nickel coin
3. Budgetary expenditures of previous years	3. Copper coin
4. Budgetary expenditures of the current year	4. Bronze coin

The article “Redemption of banknotes of previous issues” shows the amount of treasury notes and a small change used in 1924 (at the end of the monetary reform) for the exchange of old, falling banknotes for a stable Soviet currency. The

¹ A state bank, as a rule, does not use its full right to issue chervonets. The article “Free balance” shows the reserves held by the State Bank and within which it has the right to issue chervonets into circulation without increasing the amount of collateral.

articles: “budgetary expenditures of previous years” and “Budgetary expenditures of the current year” indicate the costs of printing treasury notes and minting a small change. In addition, the item “Budgetary Expenditures of Past Years” shows the amount of the issue of Treasury notes and the small change used in 1924 to cover the last budget deficit.

Separate emission balances of the Narkomfin and the State Bank are the result of the conditions prevailing during the monetary reform. The national economic provision of Soviet money—goods sold at stable prices—applies equally to chervonets and treasury bills. Since the assets of the State Bank are loans issued against material assets, so far they reflect the national economic support of Soviet money. Both chervonets and treasury bills are actually issued by the State Bank, and there is no economic difference between them at the moment.

Soviet money, which is the only legal tender and means of purchase throughout the USSR, does not circulate abroad. The export of Soviet currency abroad, as well as its import from abroad into the USSR, is prohibited. The purchasing power of the Soviet ruble is not connected with the spontaneously emerging value of foreign currency abroad. The Soviet currency was built as a hard currency completely independent of the capitalist countries.

Between the monetary systems of the capitalist countries there is constant connection and dependence, due to the fact that all these currencies in one form or another are based on gold. During the period of imperialism, this dependence is used by the financial oligarchy to enslave weaker peoples, for economic and political enslavement by a handful of imperialist powers of the entire capitalist world. Currency dependence is one of the forms of economic subordination of some countries to others, in which the money circulation of dependent countries is under the complete control of large imperialist banks.

The Soviet Union does not set itself any imperialist goals and does not seek to enslave other countries.

Soviet money circulation relies exclusively on the socialist economy of the USSR. Soviet money is not included in the system of capitalist currencies, does not have a common basis with them, and is intended solely to serve the internal needs of the socialist country.

While the world economic crisis, and then the second imperialist war, destroyed the monetary systems of the capitalist countries, frustrated the partially implemented stabilisation of currencies, Soviet money after the monetary reform in 1924 are solid and increasingly stable money.

The growth of socialist industry, socialist agriculture, the strengthening of cost accounting, the growth of profitability and an increase in the well-being of the working masses will ensure the future steady strengthening of the Soviet ruble. The Soviet people have the most stable currency in the world.

2. Planning Money Circulation

The planned nature of the national economy of the USSR also determines the planning of money circulation. Planning of money circulation in the USSR is strictly centralised and is entrusted to the State Bank.

The need for money and the turnover of money in the Soviet country is ultimately determined by the national economic plan. Directly planning money circulation is associated with the progress of the plan of turnover, primarily retail, as well as with the expenditure of wage funds in accordance with the implementation of the plan of production.

The turnover plan and payroll are the main indicators on the basis of which the need of the national economy for monetary resources is established.

At the same time, other factors are taken into account that affects the overall size of money circulation. Such factors are: savings of the population, income from utilities, railway, water and air transport, state scholarships for

students, social insurance benefits, pensions, benefits for mothers with many children and other income and expenses related to the circulation of cash.

The movement of commodity and material values in the socialist economy is mediated with the help of money. The national income of the Soviet Union receives material expression in the gigantic masses of the most varied goods produced by all branches of the national economy. With the help of money, through the budget and credit systems, the socialist state distributes and redistributes the national income of the country in accordance with the interests of socialist construction and controls the implementation of plans for the production and circulation of goods.

Money in the USSR enters into circulation through the State Bank, which issues emission in the manner of crediting in accordance with the needs of the national economy.

The State Bank, which is the settlement and emission centre of the country, reflects all the main economic processes associated with the movement of material assets, the implementation of savings plans, revenues and expenditures of the budget and other financial institutions. The dynamics of the cash balances on the settlement and current accounts of the bank's clients and the size of lending to the national economy are directly determined by the progress of the implementation of the national economic plan. Therefore, carrying out the issue through the bank creates necessary prerequisites for a complete linking between the release of money into circulation and the actual needs of the national economy. However, this procedure allows the use of the monetary system as an active agent for influencing progress in the implementation of plans for the production and circulation of goods.

Since the need for funds to service the country's commodity circulation is predetermined by the national economic plan, the government, on the basis of the annual plan, gives the State Bank a quarterly directive on money circulation, which provides for the dynamics of the money

supply in circulation for a given quarter (increase or decrease in the amount of money in circulation).

In accordance with the national economic plan as a whole and, in particular, in accordance with the directive on monetary circulation established by the government, credit and cash plans of the State Bank are drawn up, with the help of which the latter controls the implementation of the national economic plan, identifying deviations in the course of the plan and promoting its full implementation and overfulfillment.

The system of direct lending is structured in such a way that the State Bank provides loans for the needs provided for by the plan only to the extent that the quantitative and qualitative indicators of the plan are met. Consequently, the fulfillment of the credit and cash plans of the State Bank can be achieved only on the basis of the fulfillment of the national economic plan as a whole; at the same time, the struggle for the fulfillment of credit and cash plans is the most important condition for the fulfillment of production plans and the sale of goods.

The established credit system is of particular importance for the regulation of monetary circulation. Despite the direct relationship between the size of trade and the amount of money in circulation, there is no proportional relationship between these values. An increase in trade may not be accompanied by an increase in the money supply in the same proportion in cases where an increase in the volume of trade is accompanied by an acceleration of the circulation of money.

Simultaneously with the increase in the number of goods sold, their promotion to the consumer should also accelerate.

In his report to the XVII. Congress of the CPSU (B), Comrade Stalin said:

“The country needs to be covered with a rich network of trade centres, shops, shops. It is necessary that through the channels of these bases, shops, shops, goods circulate non-stop from places of production to the consumer. It is

necessary that both the state trading network and the cooperative trading network are involved in this business, and local industry, and collective farms, and individual peasants¹.

The more goods are produced and the faster they move to the consumer, the more fully the needs of the working people of our socialist homeland are satisfied, the more their material level rises, and the more stable the Soviet ruble is. To this it must be added that the growth in trade is accompanied by a decrease in prices on the basis of increasing the productivity of socialist labour, on the basis of reducing the cost of production and distribution costs.

Trade turnover lending is structured in such a way that the size of the loan changes in accordance with the change in the size of the trade turnover. The Bank participates with its own funds in significant trade turnover sizes, providing the trading system with over 70 percent of the working resources. And since credit resources are transferred by the bank for a strictly defined period in accordance with the planned turnover of goods, this creates an incentive to accelerate the turnover, that is, to more rapid advancement of goods to the consumer. Thus, a direct relationship is established between the size of lending for commodity circulation and money circulation, thanks to which the bank gets the opportunity to promptly regulate money circulation.

The State Bank, performing, in particular, the functions of the cashier of the socialist economy, accumulates all free funds of economic organisations and the budget and directs them, in accordance with the plan, for short-term crediting of the national economy. The credit plan of the State Bank takes into account the funds that must be attracted for short-term lending, and at the same time, it is planned to place these funds in the national economy. The balance of the credit plan expresses the main directive of the

¹ Stalin, *Questions of Leninism*, ed. 10th, pp. 574-575.

government on money circulation and indicates the planned changes in the money supply in circulation. The struggle for the fulfillment of the credit plan is at the same time the struggle for the fulfillment of the money circulation plan.

The credit plan takes into account the movement of all funds of the State Bank (both those that should be used through non-cash payments, and those that will be received in cash). Therefore, in addition to the credit plan, a cash plan is drawn up, in which, in accordance with the national economic plan determines the volume and sources of cash receipts in the cash offices of the State Bank and their use for the needs of the economy.

The cash plan of the State Bank contains the same directive on money circulation as the credit plan, and is the most important instrument for monitoring the progress of the implementation of the national economic plan, and at the same time the most important means for fulfilling the emission directive. Like the credit plan, the cash plan of the State Bank, being part of the national economic plan, is approved by the government and is included in the general system of financial planning in OSER.

The State and cooperative organisations settle with each other through the bank by means of non-cash settlements, almost without resorting to the help of cash; in the same way (to a large extent) settlements are made between the state and collective farms. This circumstance significantly contributes to the strengthening of monetary circulation.

Cash is circulated when workers are paid wages; when paying scholarships; when paying money to collective farmers for workdays; when issuing benefits and pensions by the State Insurance and Social Insurance authorities; during operations with savings banks; when paying for supplies of collective farmers and for other payments of state and cooperative institutions and enterprises with the population.

The receipt of cash in the cash offices of the State Bank is mainly due to: the proceeds of retail trade and public catering enterprises; revenue from rail, water, air and local

transport; payments of the population on taxes, fees and state insurance; receipts to the accounts of collective farms (there are also large non-cash transactions); contributions to savings banks; receipts from the communications authorities; income from public utilities and entertainment enterprises.

The task of cash planning is, based on the accounting of all receipts and expenditures in cash, to achieve the fulfillment of the government task in the field of monetary circulation and to meet the needs of the economy in cash. This can be achieved only through the daily struggle to strengthen cash discipline, the strictest control over the spending of wage funds and the mobilisation of cash resources to the bank's cash desks. Fulfillment of the cash plan is unthinkable without the correct organisation of monetary circulation in the country, timely collection of proceeds, improvement of cash services for the economy, systematic monitoring of the progress of the plan and the circulation of goods.

The task of cash planning is, based on the accounting of all receipts and expenditures in cash, to achieve the fulfillment of the government task in the field of monetary circulation and to meet the needs of the economy in cash. This can be achieved only through the daily struggle to strengthen cash discipline, the strictest control over the spending of wage funds and the mobilisation of cash resources to the bank's cash desks. Fulfillment of the cash plan is unthinkable without the correct organisation of monetary circulation in the country, timely collection of proceeds, improvement of cash services for the economy, systematic monitoring of the progress of the plan and the circulation of goods.

The placement of cash in the country is of great importance for the regulation of the entire circulation of money and for operational control over the progress of implementation of plans for the production and circulation of goods; therefore, the cash plan is drawn up by the institutions of the State Bank in the territorial context. The

Board of the State Bank draws up a consolidated cash plan on a quarterly basis, taking into account the materials of the central institutions (plans approved for them) and the offices of the State Bank and making its own adjustments to the plans submitted in accordance with the established emission target.

In accordance with the growth of the socialist economy, the cash turnover of the State Bank also grows. If in 1932 (the last year of the first five-year plan) cash receipts in the cash offices of the State Bank amounted to 40 billion rubles, then in 1937 (the last year of the second five-year plan) they already amounted to 124 billion rubles, and in 1938-138 billion rubles.

The Decree of October 1, 1938 the Economic Council under the Council of People's Commissars. The USSR established a new order of cash planning. The cash plan, which was previously an internal document of the State Bank and was drawn up on the basis of sometimes outdated data of the State Bank itself, was included in the system of national economic planning by a decree of the Economic Council of October 1, 1938, and the State Bank was granted the right to receive the necessary planning materials from the relevant organisations.

The monthly and quarterly cash plans drawn up by the State Bank are subject to approval by the Economic Council under the Council of People's Commissars of the USSR and, therefore, are one of the elements of the national economic plan of the USSR. Thus, cash planning was raised to a new level, which practically meant a significant increase in the government's requirements in terms of the quality of economic work in the field of monetary circulation.

In accordance with the new tasks set for the State Bank by a decree of the Economic Council under the Council of People's Commissars of the USSR, a cash operations department was formed as part of the administration of the State Bank of the USSR, which was entrusted with the regulation of activities of the systems of the State Bank in

the field of money circulation.

By creating a cash operations department, the government significantly improved the organisation of the State Bank's work on planning and regulating money circulation, organisationally formalising those measures that were provided for by the new procedure for drawing up and executing the cash plan of the State Bank of the USSR.

The execution of the cash plan is carried out by local institutions State Bank, which systematically report to the board of the bank, informing him about the progress of the plan of the Income and expenditure items of the cash plan are planned in accordance with the plans of their work and the estimates of institutions approved for the respective economic organisations.

The cash plan is drawn up by the State Bank according to the following nomenclature (see page 552).

The largest item in the receipts of the cash plan, which accounts for the bulk of cash (15-80 percent of all cash receipts), is the proceeds of retail trade and public catering. The fulfillment of the retail turnover plan depends, in a decisive part, on the fulfillment of the cash plan. Therefore, planning receipts for this item is a very important point in drawing up a cash plan. To calculate the proceeds to be received in the cash desks of the State Bank, the data of trading organisations are used, which are presented to the bank in accordance with the turnover plan; the cash plan includes the revenue provided for by the plan, minus the amounts that trading organisations are legally entitled to spend in addition to the bank. The bank receives about 85% sales revenue. While controlling the fulfillment of the revenue collection plan, the State Bank also checks the fulfillment of the turnover plan. Any deviation against the plan in the receipt of proceeds is a signal to the bank, which must immediately establish the reasons for the deviations and take the necessary measures in order to eliminate these reasons hindering the implementation of the plan. Detailing the receipts of trade proceeds by systems and departments

allows you to quickly check the fulfillment of the goods turnover plan and take immediate measures to eliminate the established shortcomings. The technique of collecting revenue is very important. It is necessary to establish such a system for collecting trade proceeds, in which not a single ruble, in excess of those provided for by the plan, would settle in the cash desks of the trading system.

Incoming	Consumption
1. Revenue from trade and public catering Including: a) retail consumer cooperation b) retail Narkomtorg c) retail of other trading systems d) public systems	1. Salary 2. Other types of remuneration and scholarships 3. Payments for sick leave and other social insurance benefits, benefits for mothers with many children, social security pensions, insurance benefits issued by the State Insurance
2. Revenue from rail, water and air transport	4. Travel expenses
3. Revenue of local transport	5. Payments from collective farm accounts
4. Utility income	6. Issues for agricultural harvesting
5. Revenue of consumer services enterprises	7. Savings bank reinforcements
6. Revenue of entertainment enterprises and sports organisations	8. Reinforcements of communications agencies
7. Proceeds from mobilising funds from the population	9. Household operating and other expenses
8. Income from savings banks	10. Cash balance at the end of the planning period
9. Proceeds from communication authorities	11. Reinforcements of the revolving cash desk of other institutions of the State Bank and commercial banks
10. Receipts to the accounts of collective farms	12. Transfers from the circulating cash to funds
11. Other income	
12. Cash balance at the beginning of the planned period	
13. Receipts to the circulating cash desk	

from other institutions of
the State Bank and
communal banks
14. Transfers from funds to
the circulating cash desk

The cash plan enables the bank to timely detect violations of the turnover plan and take measures to ensure that the movement of the mass of commodities proceeds smoothly. In its work, the bank must constantly strive to ensure that the goods do not live in warehouses, but enter the retail network in the proper range, in accordance with the requirements of the consumer.

According to the items: "Revenue of railway, water and air transport", "Revenue of local transport", "Utilities income", "Revenue of consumer services enterprises", "Revenue of entertainment enterprises and sports organisations", "Income from mobilisation of funds from the population" and "Income to the accounts of collective farms", the planned receipts are calculated on the basis of planned materials of the people's commissariats, departments, institutions and organisations and the study of data on the implementation of the plan for the previous period, taking into account the specifics planned period. So, for example, the seasonality, the beginning and the end of navigation affect the amount of transport receipts; receipts to the accounts of collective farms increase during the period of harvesting and sale of the crop etc.

Communication bodies and savings banks, performing cash transactions, have, along with constant receipts and fixed cash costs; in order not to complicate the movement of cash flows and to ensure uninterrupted settlements with the population, these organisations spend the necessary amounts from their own revenues, transferring surpluses to the State Bank or turning to it, if necessary, for reinforcement.

Therefore, in cash terms, the projected indicators are taken in the amount of the balance between the planned

receipts and cash expenditures associated with the calculations of savings banks and authorities communication with workers. The balance can be positive, negative or zero. In the first case, the balance of settlements is entered into the income part of the cash plan, in the second, into the account plan, in the third case, the calculations do not fall into the cash plan at all.

The article “Cash Balance at the Beginning of the Planning Period” is taken in the amount of the actual balance, but not in excess of the limit of the branch circulating cash established by the higher institutions of the State Bank. The revolving cash desks of the branches of the State Bank are intended for the current cash services of the clientele. This is where money comes from the bank’s clients—organisations, institutions and enterprises; from the same cash offices, the necessary amounts are issued for spending in cash. In the majority of branches of the State Bank, in addition to circulating cash desks, special emission funds have been created. The existence of these funds is due to the needs of issuance operations.

At the expense of emission funds, when necessary, the circulating cash desks of the branches of the State Bank are replenished; money withdrawn from circulation is also sent here. But unlike negotiable cash offices that are directly administered by the branches of the State Bank (which have the right to dispose of funds, stored in these cash desks for current needs during the operating day), the emission funds are administered by the Issue Department of the Board of the State Bank. Any exemptions from funds are allowed only with the permission of the Issuing Authority in each individual case. In order to transfer the surplus (in excess of the established rate) of the revolving cash to the reserve funds, do not only no permission is required, but, on the contrary, the branch is held liable for the late transfer of surplus to the funds. The department is obliged to notify the Emissions Office about the size of the amounts transferred to the funds. Practically the connection of branches with the Emission Office carried

out through the regional offices, which summarise all requirements for withdrawal from the funds and inform the management about the amount of investments in the funds.

This procedure for using emission funds is due to the need for centralised management of monetary circulation, without which it is impossible to achieve the correct placement of funds throughout the country and full correspondence between the progress of the plan of turnover and the availability of money in circulation.

The income part of the cash plan includes balancing items: "Receipts to the circulating cash desk from other institutions of the State Bank and communal banks" and "Transfers from funds to the circulating cash desk". Operations under these items are carried out in cases where the projected costs exceed the planned income. In these cases, the issue provided for by the plan is carried out, that is, withdrawal from the funds with the permission of the Issuance Department in each individual case or for branches that do not have funds, receiving support from the regional office or by its order.

Payments for salaries and other types of labour (scholarships, labour recruitment costs, etc.) occupy a decisive place in the expenditure side of the cash plan. The bulk of cash (up to 90 percent) comes into circulation in connection with wages, which necessitates a particularly careful calculation of the relevant indicators. At the same time, control over the spending of wage funds is one of the most important elements of bank control, without which the struggle for the introduction of cost accounting cannot be effective. Therefore, when calculating the planned expense under this item, the calculations for individual commissariats and enterprises are detailed. Wage funds are established quite precisely by the national economic plan and cannot be exceeded without a special decision of the government. The State Bank checks the applications of institutions and enterprises and corrects them in accordance with the approved industrial financial plan, excluding the part that

will be carried out by way of non-cash payments (income tax and cultural collection, loan payments, etc.). In order to strengthen control over the use of payroll funds, the government obliged the State Bank to take serious measures against the persistent violators of the plan. The bank is obliged to restrict the issuance of cash to enterprises that overspend funds. If the company spends on wages more than is necessary in accordance with the course of implementation of the plan, the State Bank can for the first time give the enterprise the amount due to it in accordance with the progress of the plan and additionally up to 10 percent. the amount of the planned fund.

In case of a secondary overspending of the fund, the bank issues cash only with the permission of the head office to cover the overspending within 10 percent, the amount of the planned fund. New forms of control are a serious measure directed against violators of state discipline.

The government obliged the State Bank to exercise control over salary payments by budgetary and self-supporting organisations. The planning of wage costs is of the greatest importance from the point of view of ensuring timely payment of wages and eliminating interruptions in payments to workers.

The State Bank is responsible for the timely satisfaction of the needs of organisations and enterprises in cash for the payment of wages. This can only be achieved by a struggle for the full fulfillment of credit and cash plans.

Cash is spent to pay for agricultural procurements in settlements with individual collective farmers and individual farmers, while collective farms, which are large socialist enterprises, conduct their payments through a bank, as a rule, in a non-cash manner.

“Payments from collective farm accounts” are taken into account in the amount of the balance between the expected income and expenses of the collective farms. The State Bank is obliged to ensure uninterrupted payment of all claims of collective farms within the limits of the funds available in

their current accounts, preventing delays in issuance processing. Keeping a collective farm's money in a bank and making payments through a bank are one of the most important conditions for the organisational and economic strengthening of collective farms. But realising this condition is possible only if there is a clear and uninterrupted operation of the bank branches and cultural services for the collective farm clientele. Collective farms need the largest amounts of cash settlements with collective farmers on workdays. Therefore, when establishing the planned costs for settlements with collective farms, it is necessary to take into account the amount of upcoming payments for this purpose, which requires the bank sufficient acquaintance with the economic activities of the collective farm and the state of its finances.

For other items of the expenditure side of the cash plan, the bank proceeds from applications of organisations and enterprises, adjusting them in accordance with the basic planning materials and practices of the previous period.

The balancing items of the expenditure side of the cash plan are:

“Reinforcement of the circulating cash of other institutions of the State Bank and commercial banks” and “Transfers from the circulating cash to funds”. Investments in funds are possible in cases where the amount of the planned income exceeds the planned expenditure and when, therefore, the directive on money circulation provides for a decrease in the amount of money in circulation.

“The cash plan gives every opportunity to detect violation of financial plans and raise a question about it in a timely manner. But the cash plan is at the same time a directive that both the bank and the economic agencies are obliged to fulfill.

To fulfill it, the bank must deeply study the economy and apply all the necessary methods of economic impact.

Only in this way can we achieve a real strengthening of cost accounting, the introduction of methods of an

economical, thrifty attitude towards state funds into the work of economic agencies.

Thus, the cash plan is the most important tool 'Planning and regulating the money supply, with the help of which directives of the party and government in the field of monetary treatment.

The fulfillment of the cash plan directly depends on the progress in fulfilling the entire national economic plan and, first of all, on the fulfillment of financial plans. The country's leading financial plan—the state budget—is linked by thousands of threads to the cash plan. Free resources of the budgetary system, stored in the State Bank, serve as a large source for short-term lending and allow expanding the size of lending to the national economy without the help of emission.

By accumulating a huge part of the national income and directing it to expanded socialist reproduction, the budget system determines the direction of cash flows in the country. The placement of budget-financed objects and the size of this funding are of great importance for the placement of the money supply in the country.

Budget planning determines the main direction of movement of the national income and, consequently, the movement of the money supply.

Capital investments, operating, administrative and managerial and other expenses financed by the budgetary system are paid in cash, since they are associated with wages and settlements with workers. In addition, budget revenues (turnover tax) are directly related to the movement of commodity masses. Thus, the budget is the most important lever for regulating money circulation. Our budget does not know a deficit; it does not need income from emission, which is needed by the budgets of all capitalist states. On the contrary, the budgetary system of the USSR contributes to the stability of money circulation, and budget planning is the most important factor in planning money circulation.

The credit as a factor in the regulation of monetary resources has already been mentioned above. The credit

plays a big role in the struggle for the fulfillment of the plan in terms of quantitative and qualitative indicators. Credit helps to fulfill the plan of socialist accumulation and, consequently, creates the necessary prerequisites for expanded socialist reproduction. The main source of funds for capital investment is the accumulations of the socialist economy itself.

An increase in labour productivity, a decrease in production costs and a reduction in distribution costs help to save cash and increase its inflow.

But for this reason banking control with the ruble, with the aim of strengthening cost accounting and stimulating the fulfillment of plans, is a necessary condition for strengthening the monetary system of the USSR.

The dynamics of lending directly affects the change in the size of the money supply in circulation. If the State Bank issues a loan to enterprises or economic organisations for the seasonal accumulation of inventories or for other purposes, envisaged by the plan, then by this he temporarily increases the size of working capital, part of which is ultimately spent (by this or other enterprises) in the form of cash. On the contrary, a decrease in provided loans leads to a relative reduction in the working capital at the disposal of economic organisations, and, consequently, other things being equal, to a relative reduction in cash expenditures. The movement of credit is, to one degree or another, reflected in changes in the demand for cash.

Struggle for the fulfillment of the credit plan is the most important condition for the fulfillment of government directives on monetary circulation. Money planning gets synthetic an expression in the cash plan, which reflects the shifts in the money supply provided for by the national economic plan and carried out with the help of budgetary and credit planning.

Whatever reasons are caused by changes in the mass of money circulation, they are necessarily reflected in the cash plan. Is the volume of financing of capital investments

changing, is the size of short-term loans changing, is the socio-cultural expenses, etc.—all this is reflected in the cash plan.

Therefore, without the correct formulation of cash planning, it is impossible to achieve decisive success in the struggle for a stable monetary system.

Enemies of the people, Trotskyite-Bukharin spies and saboteurs, who had crept into the leadership of the State Bank, tried by all means to destroy cash and credit planning and thereby undermine the stability of the Soviet ruble. They completely abolished grass-roots cash planning, removed the local branches of the bank from participating in the preparation of the credit plan, and severed the link between the cash and credit plans of the State Bank, turning the cash plan into an empty statistical summary. They tried to weaken the Soviet monetary system by encouraging lending automatism, and undermined the foundations of cost accounting by condoning violations of credit and cash discipline. At the same time, at regulation of money circulation, they tried to confine themselves primarily to administrative measures, undermining the importance of credit (and economic in general) regulation.

Under the leadership of the Communist Party, Soviet intelligence exposed this gang and stopped criminal activity in time packs of Trotskyite-Bukharin geeks and spies of capitalist intelligence services. Eliminating the consequences of sabotage and uprooting the results of enemy work, the financial and credit systems are fighting for the further strengthening of cost accounting and the expansion of Soviet trade, for the stability of the Soviet ruble. The most important task in this area is the comprehensive strengthening of credit and cash planning and the comprehensive improvement of the work of the financial and credit apparatus.

CHAPTER XX. ORGANISATION OF FINANCIAL RELATIONS OF THE USSR WITH CAPITALIST COUNTRIES

1. Monopoly of Foreign Trade is the Basis of the Economic Relations of the USSR with the Capitalist Countries

The main fact determining the international position of the USSR is the capitalist encirclement.

The capitalist encirclement is a constant threat to socialist construction.

“Capitalist encirclement means that there is one country, the Soviet Union, which has established a socialist order in itself, and there are, in addition, many countries – bourgeois countries that continue to lead a capitalist way of life and which surround the Soviet Union, waiting for an opportunity to attack against him, smash him, or, in any case, undermine his power and weaken him¹.

It is clear that the strengthening of the economic independence and defence power of the USSR is absolutely necessary for the successful construction of a communist society.

The external relations of the USSR are aimed at protecting and strengthening the independence and independence of the socialist country, at maintaining peace, at creating the most favourable conditions for to overtake and overtake the advanced capitalist countries economically.

The basis of the economic relations of the USSR with the

¹ J. Stalin, *On The Shortcomings Of Party Work And Measures To Eliminate Trotskyist And Other Double-Dealing*. Partizdat, 1937, p. 9.

capitalist countries is the monopoly of foreign trade established by a decree of April 22, 1918, signed by Lenin and Stalin. The exercise of the monopoly of foreign trade is entrusted to the People's Commissariat for Foreign Trade, which conducts its work, guided by the directives of the government on export and import issues in accordance with the unified national economic plan of the USSR.

Lenin repeatedly stressed the need to strengthen the monopoly of foreign trade as the most important condition for the successful construction of socialism and the protection of the independence of the Soviet country. Exposing provocative attempts by a kulak agent and treason of Nicolai Bukharin's homeland to liquidate the monopoly of foreign trade by replacing it with customs policy, V. I. Lenin pointed out that under the conditions of capitalist encirclement, no customs protection could protect our young industry from the danger of capitalist invasion, because "... under the indicated conditions any of the rich industrial countries can completely break this guard. To do this, it is enough for it to introduce an export premium for the import into Russia of those goods that are taxed with our customs premium. Any industrial country has more than enough money for this, and as a result of such a measure, any industrial country will break our indigenous industry for sure"¹.

Developing the instructions of V. I. Lenin, Comrade Stalin in 1927, in an interview with the first American workers' delegation, said:

"Indeed, what could the abolition of the monopoly of foreign trade mean for the workers? This would mean giving up for the industrialisation of the country, from the construction of new plants and factories, from the expansion of old plants and factories. This would mean for them the flooding of the USSR with goods from capitalist countries, the

¹ J. Stalin, *Questions of Leninism*, ed. 10th, p. 179.

curtailment of our industry due to its relative weakness, the increase in the number of unemployed, the worsening of the material situation of the working class, and the weakening of its economic and political positions. This would mean, in the final analysis, the strengthening of the Nepman and of the new bourgeoisie in general. Can the proletariat of the USSR agree to this suicide? It is clear that it cannot. And what would the abolition of the monopoly of foreign trade mean for the labouring masses of the peasantry? It would mean the transformation of our country from an independent country into a semi-colonial and embraced country. the support of the peasant masses².

The Soviet government has firmly and unswervingly implemented and is implementing the principles of the monopoly of foreign trade, protecting the socialist economy from any attempts at interference by the capitalist states. The imperialists and their agents—Trotskyist-bourgeois saboteurs, spies and saboteurs—have repeatedly tried to thwart the monopoly of foreign trade and thereby weaken the economic independence of the USSR. But all these attempts were met with crushing opposition from the Communist Party and the Soviet government. The monopoly of foreign trade is further strengthened on the basis of the enormous successes of socialist construction in the USSR and is an unshakable law of our socialist development. Relying on the monopoly of foreign trade, the USSR achieved an active trade and balance of payments. All attempts to impose unfavourable conditions on the export and import of goods on the USSR, to create obstacles for our foreign trade in the form of foreign exchange and other restrictions are invariably broken against the monopoly of foreign trade.

The monopoly of foreign trade determines the organisation of financial relations between the USSR and the capitalist countries. A necessary consequence of the

² J. Stalin, *Questions of Leninism*, ed. 10th, p. 179.

monopoly of foreign trade is the currency monopoly and the centralisation of international settlements.

2. Currency Monopoly

The essence of a currency monopoly based on a monopoly of foreign trade lies in the fact that the state monopoly carried out transactions with foreign currency, gold, precious metals, according to all international calculations.

Carrying out a currency monopoly is entrusted to the State Bank, which is entrusted with making all external settlements of the USSR, as well as all operations related to foreign currency. Some of the settlements (mainly in relation to relations with the eastern countries) are made by Vneshtorgbank under the control of the State Bank.

By the decree of the Central Executive Committee and the Council of People's Commissars of the USSR dated January 7, 1937, "On Transactions With Currency Values And Payments In Foreign Currency" The State Bank was granted the exclusive right to conduct transactions in the USSR with gold, silver, platinum and platinum group metals in coins, ingots, raw, with foreign currency, with foreign currency by payment documents (bills, checks, transfers, etc.) and with foreign stock values (shares, bonds, coupons, etc.).

The management of the country's monetary funds on the basis of a monopoly is greatly facilitated by the fact that all international settlements are carried out in a strictly centralised manner. Payments in foreign currency and foreign exchange expenses are made exclusively by the State bank. By manoeuvring foreign exchange funds, the State Bank minimises losses due to fluctuations in foreign exchange rates. Possessing means of payment in the currencies of different countries and concentrating all foreign exchange receipts in its cash offices, the State Bank makes settlements with the greatest benefit for the USSR. In this way, the USSR

avoids significant losses associated with arbitration and conversion operations¹.

The State Bank receives all export proceeds and foreign transfers. The State Bank pays for the incoming foreign currency and gold to Soviet economic organisations the corresponding amounts in Soviet currency. Payment for foreign exchange earnings is made at the rate of the corresponding currency in Soviet rubles, published in a special exchange rate bulletin. Along with this, the State Bank buys foreign currency at this rate both from foreigners arriving in the USSR and from all holders of foreign exchange valuables.

Associations of the People's Commissariat for Foreign Trade are granted the right to accept undertake obligations and write promissory notes. The currency monopoly is manifested here in the fact that the State Bank (partly also Vneshtorgbank) accepts drafts issued to Soviet importers, and, therefore, is a payer for all foreign operations of the USSR. Since all settlements on behalf of Soviet organisations are made by the State Bank of the USSR, the difference between payments made abroad, on the one hand, and export proceeds and other receipts from abroad, on the other, is directed to increase the foreign exchange funds of the State Bank.

Along with operations for the execution of orders of foreign trade organisations the State Bank independently maintains credit transactions, receives financial loans and

¹ Currency arbitrage is an operation based on the difference in rates at different markets and with the aim of selling currency at a higher price. Currency conversion—the exchange of foreign currency at the disposal of the bank for the currency of other countries for making payments in the latter. For example, a bank has British pounds at its disposal and payments must be made in US dollars and French francs. The exchange of pounds for dollars and francs will be a currency conversion.

buys foreign currency.

The accumulation of foreign exchange funds at the disposal of the Soviet state and their proper use are one of the most important tasks resolved on the basis of a foreign exchange monopoly.

The centralisation of international settlements in the State Bank opens up wide opportunities for currency manoeuvring. The state bank, having the currencies of different countries, can always timely take into account the changes taking place in the foreign exchange markets capitalist countries, and take appropriate measures to protect the interests of the USSR. All attempts to “plan” monetary and credit relations, which have been and are being undertaken by capitalist countries, fail completely and are reduced in fact to a regime of currency and other restrictions that increase destructive action of elemental forces.

The planning of the entire national economy of a socialist country also makes it possible to organise currency relations with the capitalist world in accordance with the interests of the Soviet Union. Relying on national economic plan, the Soviet Union is building a prospective balance of payments, reflecting the totality of payment relations between the USSR and the capitalist countries.

Such a system of foreign economic relations is possible only in the USSR, where there are no contradictions between the interests of the state and the interests of individual economic agencies, where socialist ownership of the means of production reigns supreme.

The balance of payments of capitalist countries is formed spontaneously from a huge number of individual transactions carried out by capitalist firms. Of course, the interests of the financial oligarchy, closely connected with the state apparatus and using this apparatus in their own selfish interests, dominate. “Now,” Comrade Mikoyan said at the XVIII. Congress of the CPSU (B), “they trade not only on stock exchanges, in concerns and firms, but trade in ministerial

offices of bourgeois governments.”

However, even such a widespread use of the state apparatus cannot eliminate the spontaneity in the payment and settlement relations of the capitalist countries.

The currency policy of the USSR at all stages was subordinated to the tasks of socialist industrialisation, socialist reconstruction of agriculture, strengthening the country's economic independence and defence capability, and ensuring the stability of the Soviet ruble.

The Communist Party under the leadership of Comrade Stalin defeated all attempts by the Trotskyist agents of the capitalist intelligence services to impose a policy of squandering gold reserves, a policy of passive balance instead of a policy of increasing the gold reserves of the USSR.

The balance of payments of the USSR is calculated in rubles, although all settlements with capitalist countries are made in foreign currency. This is due to the fact that Soviet organisations make all settlements with the State Bank on foreign exchange transactions in the Soviet currency; settlements abroad in foreign currency are carried out exclusively by the State Bank. Recalculation and translation of foreign exchange transactions into Soviet currency are made at the rate of the day of transactions.

The basis for calculating foreign exchange rates, in accordance with the decree of the Council of People's Commissars of the USSR of February 29, 1936, was the ratio: 1 ruble = 33 French francs, then changed, in connection with the devaluation of the franc, to the ratio: 1 ruble = 4.25 francs ...

The firm attitude of the Soviet ruble to the French francs did not mean at all that the Soviet currency was in any way available. or depends on the state of the French currency. The ratio established by the government only fixes the calculated ratio of the Soviet currency to the currencies of the capitalist countries. Therefore, after the abolition of the solid gold content of the franc, produced in July 1937, the American dollar began to be used as the basis for calculating

the ratio of the Soviet ruble to foreign currency (at the previous rate: 1 US dollar = 5.30 rubles), with the help of which the rate is set in rubles and for other foreign currencies.

These rates are published periodically in a special exchange rate bulletin of the State Bank. As an illustration, we present a course bulletin for August 15, 1940.

Exchange rate bulletin of foreign currencies on August 15, 1940

Am dollar	1	5.30
English. lb. Art.	1	21.23
Belg. belgi	100	87.77
Bulgarians. leva	100	4.73
Germ. stamps	100	212.00
Holland. guilders	100	281.38
Danish. kroons	100	102.34
Ital. lira	100	26.76
Channel. US \$	100	4.59
Lat. lats	100	98.15
Litovsk. litas	100	88.70
Nor. Kroons	100	120.36
Turkish. Lira	100	397.39
Finnish. stamps	100	10.60
Franz. francs	100	11.13
Swedish. CZK	100	126.40
Swiss. francs	100	120.84
Ertonsk. CZK	100	126.19
Yugoslavsk. dinars	100	9.64
Japanese. yen	100	124.28

On the basis of the exchange rate bulletin, the amount of payments in Soviet rubles due from economic agencies to the State Bank is established for the settlement made by them in foreign currency, as well as the amount of amounts credited to the accounts of economic agencies for payments received in their name from abroad.

Since settlements of the State Bank with foreign

currency holders are made in rubles, all the necessary prerequisites for self-financing are preserved, since the bank executes instructions on transferring foreign currency abroad only if the client has the appropriate funds in rubles.

As for foreign currency accounts opened for certain categories of clients of the State Bank, they do not change anything significant in the manner prescribed for foreign currency transactions.

Currently, the practice of the State Bank applies two types of foreign currency accounts: "A" and "B".

Foreign currency accounts of type "A" are opened mainly for foreigners arriving in the USSR for a short time or staying abroad and making transactions with the USSR. From this account, currency is handed out or transferred abroad (except for settlements with Soviet exporters). In the latter case, despite the fact that the sale was made in foreign currency, the seller (association of the USSR People's Commissariat for Foreign Trade) receives an equivalent in rubles at the exchange rate of the day, since, due to the currency monopoly, the State Bank was granted monopoly right to purchase foreign currencies.

The foreign currency account of type "B" does not have any restrictions, like the account of type "A", but no transfers abroad or cash withdrawals are made from it. A foreign currency account of type "B" gives its owner only the right to freely receive the equivalent of the currency belonging to him in rubles at the exchange rate of the day.

Periodic calculation of foreign exchange rates and publication exchange rate bulletin of the State Bank are caused by constant fluctuations in foreign exchange rates. The ratios of foreign currencies among themselves are taken according to the data of the main currency centres of the capitalist world—London, Paris, New York.

Correct organisation of foreign currency quotes is of great economic importance. Firstly, based on these data, export proceeds and import costs are recalculated when calculating between Soviet economic organisations. Secondly,

the correct organisation of foreign currency quotes is of great importance for settlements with foreign correspondents. As currency fluctuations constantly change the relationship between currencies in different money markets—international settlements, as a rule, accompanied by an arbitration-conversion operation; in order to choose the most profitable way of calculation, it is necessary to compare the rate of various foreign currencies, with the help of which the calculation should be made in different money markets. Such a comparison is possible only on the basis of accurate accounting of exchange rates expressed in a single measure, which is the exchange rate in rubles. Thirdly, the correct organisation of foreign exchange quotations is of no small importance for the assessment of Soviet foreign exchange reserves.

Unlike capitalist countries, where exchange rates are set spontaneously, in the USSR, on the basis of a monopoly of foreign trade and currency monopoly, the ratio of the Soviet ruble and foreign currency is established in a planned manner. Soviet currency does not circulate abroad and, therefore, is not subject to the influence of spontaneous market fluctuations.

In establishing the ratio of the Soviet ruble and foreign currency the Soviet government proceeds from the task of attracting foreign currency and strengthening cost accounting in foreign trade. The independence and stability of our socialist currency is protected by a monopoly of foreign trade, a currency monopoly, economic and political independence of the socialist country, as well as the growth of gold security and foreign exchange funds due to the growth of gold mining the activity of the balance of payments of the USSR.

The counter-revolutionary Right-Trotskyist gang of capitalist restorers sought to spontaneously regulate the exchange rate of the Soviet currency on the basis of abolishing the currency monopoly of the Soviet state which was supposed to break the monopoly of foreign trade and destroy the Soviet currency. The Communist Party under the

leadership of the great Stalin exposed these enemy inclinations aimed at the restoration of capitalism. The Soviet government has firmly adhered to and continues to pursue a course of strengthening the monopoly of foreign trade and the monopoly of currency associated with it.

3. Organisation of Settlements for Foreign Trade of the USSR

As already indicated, foreign trade settlements are concentrated in the State Bank of the USSR.

The State Bank produces settlements, accepts the obligations of Soviet organisations, collects export earnings and makes foreign payments.

All settlements between the USSR and the capitalist countries are made only in gold or foreign currency. Gold as a means of international settlements acts only to repay the balance of mutual settlements between countries. In the course of the current turnover, bills of exchange, checks and other credit documents are used instead of gold, such as a rule, accepted by the largest banks, in which the bulk of international settlements is concentrated.

Most of the settlements in foreign trade are made using bills of exchange (drafts) or checks. In cases where a bill is emphasised by a large bank, turning it into money, that is, selling it, presents almost no difficulty. The buyer may even be the bank that has accepted the bill.

The settlements for foreign trade, as a rule, are carried out through banks. Usually after the sale of goods abroad exporter instructs to his bank to collect payments; in turn, the importer instructs his bank to produce payments due from him either by acceptance of the draft, or by paying in cash. If these calculations are complicated by credit relations, then the role of banks in settlements is even greater. Settlements between banks are made using a system of

correspondent accounts (Gogo and M \$ 10 accounts) on which mutual orders of correspondent banks are taken into account, and each of the participants in the correspondent agreement must take care that the state of his account is consistent instructions given by other participants.

As a rule, drafts issued to Soviet organisations are accepted by the State Bank or by the bank in the country of import—on behalf of the State Bank. Due to the fact that in practice international relations of the USSR there was not a single case of untimely repayment of obligations by the Soviet country, the State Bank's acceptance is a sufficient guarantee of payment and willingly. accepted by foreign banks for accounting. In settlements on foreign trade, checks of Soviet organisations, issued by the State Bank, are also widely accepted, which significantly expands the possibilities of currency manoeuvring.

For foreign settlements, in addition to bills of exchange and checks, postal and telegraphic transfers are used, which were widely spread during the period of the general crisis of capitalism. These transfers are also made through banks, which give the corresponding payment orders to their own correspondents by mail or telegraph. The advantages of these means of settlement are that with their help the possibility of losses due to fluctuations in exchange rates is significantly reduced, since the time for executing an order is sharply reduced. In the conditions of currency chaos characteristic of modern capitalism, this advantage is of great importance, why the State Bank also uses these means of international payments, especially in cases where the transaction is urgent.

A common means of payment for imports is also a letter of credit issued by the importer in favour of the exporter. With this method of payment, the bank at the location of the exporter pays the corresponding amounts are only subject to the conditions stipulated by the letter of credit. Letters of credit, according to their purpose, are divided into simple and commercial. A simple letter of credit is most often used

when transferring money for personal needs (tourists, travellers, etc.) and is not associated with a commodity transaction. Payment of money by a commercial letter of credit is made subject to the provision of certain commercial documents. Consequently, a commercial letter of credit implies a commercial transaction; it is widely used in calculations for Soviet imports.

The choice of one or another instrument of international settlements is determined by the nature of the transaction with which the settlements are associated, and is stipulated in contracts concluded with exporters and importers.

For settlements with capitalist countries, the State Bank concludes correspondent agreements with the most large banks with extensive connections.

4. Foreign Loans

Already the first successes of the Soviet Union in the implementation of socialist construction activated the anti-Soviet elements of the capitalist countries and their Trotskyist-Bukharin agents in the USSR.

“In strengthening the socialist economy of the USSR, the capitalist countries saw a threat to the existence of the capitalist system. Therefore, the imperialist governments took all possible measures to. to exert new pressure on the USSR, to cause confusion, to disrupt or, at least, to slow down the industrialisation of the USSR”¹.

They tried to organise a financial blockade of the USSR, first completely refusing to provide us with loans, and then creating difficult conditions for lending to Soviet imports. They even tried to defy Soviet payments in gold. But the capitalists miscalculated: the Soviet Union achieved decisive successes and, relying on its own forces, without onerous

¹ “*History of the CPSU (B)—Short Course*”, p. 269.

loans from outside, built a powerful socialist industry and carried out a socialist reconstruction of agriculture.

As the power of the USSR grew, along with the adventurous attempts of a number of groups of the world bourgeoisie to break off relations with the USSR, another tendency developed on the part of the more sane bourgeoisie: to establish trade and economic ties with the USSR.

The Soviet government used the presence of this trend the sane part of the bourgeoisie to break the financial blockade and for the planned development of foreign trade.

This, of course, did not mean the elimination of the danger of a military attack on the Soviet Union, but only testified to the extraordinary growth of the strength and might of the socialist country.

Foreign loans did not and do not represent any decisive factors in the economic development of the country socialism. The Soviet Union uses foreign loans only as a source of additional resources and only if there are favourable credit conditions for it.

In international trade, there are various forms and types of foreign loans, which began to be used in the economic relations of the USSR with the capitalist environment.

Depending on their purpose, foreign loans are divided for export and import, and depending on who provides the loan, for branded and bank.

The division of foreign credits into export and import credits is of significance only in the USSR from the point of view of the cost and the procedure for using credits.

Export credits include:

- a) advances from buyers of Soviet export products,
- b) bank loans for the procurement of export products,
- c) loans for export goods stored in warehouses in the USSR and abroad,
- d) loans for export goods in transit to the country of import.

A common form of import loans is an acceptance-on-demand loan. In this operation, two activities are actually

combined:

a) settlement between the exporter and the importer is carried out through banks,

b) banks—participants in settlements—provide a loan for this purpose.

Usually, an acceptance and reimbursement loan is reduced to the fact that the exporter bank, on behalf of the importing bank, accepts the exporter's drafts within the limits of the loan provided. Then, when the bill comes due, the importer pays the corresponding amount to his bank, at the expense of which the bank pays the obligation.

Financing of imports is carried out by providing a loan in the form of a bill of exchange, in the form of an open account, as well as in the form of financial loans, which enable the importer to purchase goods for cash.

Foreign loans are divided into corporate and bank loans. As can be seen from the very names, the first type of credit turns out to be firms that supply imported goods or purchase export goods, and the second type of credit is used for lending to export-import operations by banks. The differences between bank and corporate loans as applied to import operations are manifested in the following:

1. A bank loan is provided in cash or by way of acceptance of drafts, regardless of the conditions for the purchase of imported goods; in this regard, an importer not associated with a particular firm, purchasing goods for cash, can use competition between suppliers to obtain more favourable conditions in relation to the price and quality of the purchased goods. The use of a corporate loan binds the initiative of the buyer, forcing him to purchase products only from the company that provided the loan; This circumstance leads to the fact that the importer is deprived of the opportunity to fully use the market situation and is forced to purchase the products of this company even if the quality and price of these products is inferior to the products of other firms.

2. The cost of a bank loan is significantly lower than the

cost of a corporate loan, since the importer uses the loan directly from the bank, and firms, providing a loan, resort to help banks, taking into account all the costs associated with this lending, in the interest charged to the importer, or in the price of goods. In addition, the cost of a corporate loan also increases because, in addition to the basic interest rate, the importer has to pay an insurance amount or commission under a guarantee, without which firms refuse to provide loans.

3. A bank loan can be obtained for a long term and, therefore, is more acceptable for industrial imports.

4. Since international settlements are concentrated in banks, the use of a bank loan contributes to the expansion and strengthening of correspondent relations of banks of the importing country with foreign banks, which leads to a decrease in the costs of settlement transactions and an increase in foreign exchange flexibility.

Overcoming difficulties in using branded loans, foreign trade organisations of the USSR and the State Bank expanded the accounting of Soviet drafts in foreign banks, concluding separate private agreements with them, and sometimes resorting to the system of state guarantees, widespread in capitalist countries.

The state guarantee is that the governments of individual capitalist countries assume partial responsibility for payments for export operations, guaranteeing exporters to pay part of the debt of importers of other countries arising from the sale of export goods on credit terms.

State guarantees somewhat facilitate the conditions for using a corporate loan. But the system of state guarantees also has many shortcomings, especially since the loan remains branded.

In those years when capitalist governments and capitalist banks tried to create a financial blockade of the USSR, the use of state guarantees in trade with the USSR and in general credit was extremely difficult. But as the foreign policy and foreign exchange positions of the USSR were strengthened as

a result of the implementation of the first and second five-year plans, the capitalists began to offer everything more favourable loan terms.

The Soviet Union prefers to pay for its imports in cash, avoiding overpaying on expensive loans. “Earlier,” comrade Mikoyan, pointed out at the XVIII. Congress of the CPSU (B).—when we were poor in currency, we often took loans from different banks—very expensive; firms ripped off us large percentages, many of them got rich. We have now not only stopped using such loans, but in order not to pay high interest on them, we tried to pay off these loans urgently. We began to buy more for cash so as not to overpay on the price.

Now we often refuse loans that are offered to us, and we take them when they are cheap and are given for a long term”.

5. Balance of Payments of the USSR

The balance of payments of the USSR is the ratio of payments and receipts of gold and foreign currency for a certain period of time (for example, a year) associated with the implementation of economic and political relations between the USSR and capitalist countries and based on the state monopoly of foreign trade and currency monopoly.

The balance of payments of the USSR and the condition is one of the manifestations struggle between two economic systems, socialist and capitalist.

The balance of payments of the USSR reflects advantages of socialist economy before the capitalist and the growing power of the Soviet state, clearly illustrates the state of the currency resources of the country of socialism, captures the successes of Soviet foreign trade policy. Unlike the balance of payments of capitalist countries, which is compiled on the basis of approximate calculations, individual estimates and other dubious data, the balance of payments of the USSR is

compiled on the basis of the reporting cash materials of the State bank and other organisations that are required to keep accurate records of all receipts and expenses of foreign currency. Therefore, the balance of payments of the USSR gives a completely accurate picture of the state of receipts and payments of foreign currency and gold for a certain period of time.

The passivity of the balance of payments of the USSR during the years of the first five-year plan and at the beginning of the second five-year plan was due to the necessity in the shortest historical period. complete the construction of the foundation of the socialist economy, create a powerful socialist industry and reconstruct agriculture on this basis, strengthen the country's defence and thereby ensure the full independence and independence of the Soviet country. This required large expenditures in foreign currency and gold to pay for industrial imports, to bring in the necessary equipment, etc.

It is known that the Trotskyite gang of spies and saboteurs, resisting the party's line on the industrialisation and collectivisation of the country, offered instead to spend on a large scale currency on the import of bread and other consumer goods from abroad. Without the defeat of these vile restorers of capitalism, striving to perpetuate our technical and economic backwardness and turn our economy into an appendage to the capitalist economy, the successes that the USSR achieved in building socialism would be inconceivable.¹

The growth of foreign exchange expenditures associated with payments for imports to create a socialist industry caused the balance of payments to be passive. But this was a temporary phenomenon, without which it would have been impossible to ensure the necessary pace of industrialisation.

¹ See the statements of Comrade Stalin on this question, quoted by us on pp. 190-191.

The successful implementation of the plan for the Bolshevik offensive made it possible to quickly eliminate the passivity of the balance of payments. Moreover, on the basis of the gigantic successes achieved in socialist construction, conditions were created for a stable active balance of payments.

The rapidly developing industrial production in the country of the Soviets, and especially the development of domestic machine building, made it possible to sharply reduce imports in the future. The table below clearly illustrates this point:

	1930	1931	1932	1933	1934	1935
	in percent by 1930					
1. The volume of production of large-scale industry in the USSR	100	123,8	140,2	151,8	182,9	221,3
2. Import	100	104,4	66,5	32,9	21,9	22,8

The Soviet Union already in 1935 was able to achieve an active balance of payments. Balance of payments of the USSR for 1935 and 1936 are characterised by the following data (in million rubles)¹:

Current Articles

Income	1935	1936	Expenditure	1935	1936
Proceeds from the sale of export goods ("FOB") ²	1800	1498	Cash payments for imports ("CIF") ³ .	860	1328

¹ 1 For 1935 1 ruble = 3 French francs, for 1936 1 ruble = 4.25 French franc.

² "FOB" is a symbol of the seller's obligation to deliver the goods to side of the ship. In case of FOB transactions, the price includes the costs of delivery to the port and loading of the goods sold. In the balance of payments, "FOB" means that the indicated figure is the amount of net proceeds at the disposal of export organisations.

³ "CIF" is a symbol of an operation in which the buyer pays for the

Transport receipts and fares			Technical assistance and installation costs	23	23
Non-commercial translations	76	91	Budgetary expenditures (in foreign currency)	57	55
Tourism receipts and expenses of foreigners	62	7	Interest on loans and credits		
Other supply	29	35	Other expenses	89	44
Gold sales	165	32		—	62
	52	—	Total for current items	1029	1512
Total for current items	2184	1663	Asset by current status	1155	151

Loan and property movement abroad

Income	1935	1936	Expenditure	1935	1936
Return to the USSR (repatriation) of property located abroad	—	71	Debt repayment on government loans and on corporate and bank loans	1005	432
Receipt of financial loans	—	242			
Total for the movement of loans and property	—	313	Increase in foreign currency cash of Soviet banks	150	32

The rather significant amount of the balance of payments surplus (150 million rubles in 1935 and 32 million rubles in 1936) is in itself a great achievement. But the success of the balance of payments of the USSR can be seen even more clearly in the “current items”. First of all, it is necessary to note the asset of the trading part of the balance.

During the years of the second five-year plan, the trade surplus of the Soviet Union amounted to 455.3 million US dollars, excluding proceeds from silver and other receipts.

The Trotskyist-Bukharin spies and saboteurs, who had crept into the leadership of the USSR People's Commissariat of Finance, the State Bank and the People's Commissariat for Foreign Trade, sought to confuse international settlements, squandered foreign exchange funds in order to weaken the economic independence of the USSR, sold the interests of the

goods, including all costs associated with the delivery of the imported goods to the border (transport, loading and insurance). In the balance of payments “CIF” means that the amount of import costs includes and the above costs.

working people of our homeland to capitalist intelligence services.

In his furious hatred of socialist construction of these enemies of the people tried to finance the overseas gangs associated with them through the foreign trade system. They entered into agreements with separate capitalist firms, overpaying for Soviet foreign orders, and entered into contracts on terms that were not favourable for the USSR. They sought to disrupt defence imports and disorganise foreign trade. As shown by the trials of the Trotskyists and the right bandits, they used some foreign trade organisations for this, which became possible due to the blunting of the Bolshevik vigilance in a number of areas in our foreign trade work.

Under the leadership of the Lenin-Stalin Party, the peoples of the USSR go from victory to victory, sweeping away all obstacles from their path, destroying all and all traitors and traitors, no matter how they disguise themselves and do double-dealing.

No one will ever be able to undermine the might of our great homeland, based on the moral and political unity of the working people of the USSR.

Thanks to the great achievements of the working masses of the Soviet country, thanks to the complete victory of the socialist economic system, the question of the USSR's relations with the capitalist countries has been raised in a new way.

“History has put before the USSR not only the question of cooperation about capitalist countries, but also the question of the competition between economic systems—new and old, about the competition between the USSR and the main capitalist countries in economic terms.

We go to this competition, confident in our inner strength, confident in our victory”¹.

¹ V. Molotov, *Report at the XVIII. Congress of the All-Union Communist Party (Bolsheviks)*, Verbatim Record, pp. 312-313.

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