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Financial Innovation in Contemporary Soviet Agricultural Policy

At a very early stage of the Bolshevik experiment with economic planning it became obvious that the economy could not be made to function without the use of money and other financial instruments. In fact, a financial history of the Soviet economy would show a gradual but relentless expansion in the number and functions of financial instruments. This expansion has been gradual largely because Soviet economists, planners, and administrators have had both ideological (theoretical) and practical reservations about the appropriate uses as well as the potential abuses to which financial instruments can be put. The process has been relentless nonetheless, because for a number of essential economic functions the possible substitutes or alternatives to financial instruments are either impractical or nonexistent. Let me attempt to explain briefly the fundamental reasons for the ambivalence in Soviet financial policy. As ordinarily described, the essential functions of money in an economy are (1) as a unit of account, (2) as a medium of exchange, and (3) as a store of value. As a unit of account, money permits the aggregation and comparison of what would otherwise be incommensurable magnitudes, such as units of labor time, material inputs, final goods, and services. The need to keep track of enterprise receipts and disbursements was recognized quite early in Soviet history. The mandatory introduction of *khozraschet* (economic budgeting and accounting) for all state enterprises in 1921 ensured the accountability of enterprise managers for the uses to which enterprise funds are applied.¹

Both the medium-of-exchange and the store-of-value functions, as opposed to the unit-of-account function, are quantitative functions of money in the sense that each requires the existence of a stock of money (currency plus de-

1. The scorekeeping aspect of the unit-of-account function of money has, until quite recently as a consequence of the 1965 Kosygin reforms, been much less important than the accountability aspect. Thus, for example, pecuniary performance indicators, such as the income statement, have been considerably less significant for evaluating managerial performance than direct physical-volume success indicators. The reluctance to use pecuniary performance criteria derives, of course, mainly from ideological preconceptions, but the contemporary emphasis on the scorekeeping aspect of this function has encountered practical obstacles, because it requires appropriate (or rational) principles for price formation.

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posit accounts) that may be held by the various nonbank transactors for varying periods of time. The medium-of-exchange function is, in fact, really a short-term store-of-value function. In the short-period (e.g., a month), transactors hold cash balances because the time shapes of their receipts and disbursements do not coincide. Monthly receipts may be bunched up and outlays spread rather evenly over the period, or vice versa (for example, see table 1). Transactor cash balances help, therefore, to cushion these time-shape discrepancies. In an economy in which specialization in production is highly developed, the alternative to the use of money as a medium of exchange—that is, barter exchange—is obviously infeasible. However, because money deposits represent potential command over resources, exercisable at the discretion of the holder, Soviet administrators have always viewed cash balances as necessary evils at best. Moreover, the discretion afforded the holder of a cash balance cannot be effectively controlled by controlling his current sources of funds.

The longer-term store-of-value function of money results from the determination of some transactors to hold a portion of their wealth in cash, as opposed to interest-bearing or tangible assets. It is perhaps a less essential function than the medium-of-exchange function because of the multitude of substitutes available to transactors even in the Soviet economy. In any case, it is more relevant to households than to enterprises. But its discretionary aspect presents the same potential power to disrupt the planned allocation of resources.

Recognizing the necessity for the use of money, Soviet administrators have sought to minimize and control the discretion implied in a number of ways. First, till-cash is constrained to the bare minimum of hand-to-hand currency, if that. Second, as large a volume as possible of interenterprise transactions are conducted by off-set settlement. Third, enterprises ordinarily hold their cash balances in special accounts earmarked for specific purposes, and inter-account transfer is not permitted. For example, the collective farm's cash balance on capital account may not be used to pay money wage obligations, even though it may for the period in question be an idle balance. Finally, the credit facilities of the Gosbank also serve to minimize the need for cash-balance accumulation.

Short- and long-term credit instruments represent an alternative to the advance accumulation of cash balances as a means of financing the difference between current period outlays and receipts. Current outlays for productive needs and for capital investment may be financed by current borrowing. Expected future receipts may be used subsequently to retire these liabilities. Crediting facilities, therefore, reduce the need to accumulate cash balances in settlement and deposit accounts. Indeed, it would not be feasible to operate the Soviet enterprise sector without short-term credit instruments.

Table 1. *Time Shapes of Expenditures, Receipts, and Wage Payments in Kolkhozes for 1965 (percentage of annual outlays or receipts)*

Month (1)	Productive Outlays		Money Wage Outlays		Money Receipts	
	For the month (2)	Cumulative total (3)	For the month (4)	Cumulative total (5)	For the month (6)	Cumulative total (7)
January	2.6	2.6	9.4	9.4	1.0	1.0
February	4.0	6.6	10.5	19.9	1.5	2.5
March	4.9	11.5	6.3	26.2	2.8	5.3
April	5.6	17.1	7.7	33.9	3.2	8.5
May	7.1	24.2	5.1	39.0	3.6	12.1
June	9.0	33.2	7.6	46.6	4.7	16.8
July	10.2	43.4	11.0	57.6	7.1	23.9
August	11.8	55.2	9.3	66.9	9.4	33.3
September	13.1	68.3	9.1	76.0	12.7	46.0
October	14.8	83.1	7.9	83.9	16.9	62.9
November	15.9	99.0	8.6	92.5	18.6	81.5
December	1.0	100.0	7.5	100.0	18.5	100.0

Source: M. Z. Pizengol'ts, *Oborotnye sredstva kolkhozov* (Moscow, 1968), p. 155.

Even so, these other financial instruments have also always been regarded with considerable apprehension by Soviet policy-makers. Access to credit, like title to cash balances, permits transactors to spend more, or less, than their current receipts during any given period, and it thus offers potential enterprise-level command over the allocation of resources. Short-term bank credit has always been available to state enterprises for seasonal and other purely short-term needs. However, until quite recently, Soviet policy-makers have preferred to finance operating losses and additions to the enterprise capital stock, both fixed and working, by means of direct or indirect transfer payments from the state budget. Collective farms have represented the only significant exception to this policy for productive enterprises until recent times. Concern over the possible adverse effects of the availability of credit, whether in the form of a distortion of the planned allocation of final goods and services, inflationary pressures, or merely the unsanctioned use of funds, is revealed by the careful and very strict specifications required to obtain credit financing and by the extensive use of highly supervised line-of-credit financing methods. One other general aspect of Soviet financial policy deserves mention at this point. Since financial instruments are not ordinarily intended to have significant allocative effects, other than to support the planned allocation of resources, no attempt has been made to use the interest-rate charge as an allocative device either. The main function of the interest charge has been to cover all or a portion of the cost to the lending institution arising from the particular transaction in question. This doubtless explains why long-term rates are invariably set below short-term rates. The interest charge has also been used as a kind of penalty device, for it is usually increased substantially for overdue notes.

In general, therefore, Soviet financial policy has always been conducted cautiously and conservatively in order to ensure that the potential discretion implied by the existence of financial instruments may not be used to undermine central control and the planned allocation of resources. Every attempt has been made to constrain the use of financial instruments to a supporting role in the planning process. This objective has not always been attained. What is more, as I shall argue below, the very conservatism of state financial policy has at times served to undermine other general policy objectives in the agricultural sector. The financial policy innovations to be discussed below represent, in substantial part, a response to this outcome. They are, however, also evidence of recognition of the need to expand the functions of financial instruments to meet the changing needs of the Soviet economy.

Financing in the Collective-Farm Sector

With the foregoing general observations in mind, let us turn first to a consideration of financial policy innovations in the collective-farm sector since 1953.

Financing Seasonal Needs. The time shapes of receipts and disbursements on current operating account for agricultural enterprises are highly seasonal. Table 1 illustrates this seasonality for collective farms during 1965. Receipts from sales and deliveries of field and animal husbandry products tend to be bunched in the second half of the year. Nonlabor productive expenditures also reach a crescendo in the latter part of the year, but they lead receipts throughout the year, as may be seen by comparing the cumulative monthly totals in columns 3 and 7. Wages and salary outlays are spread much more evenly over the year, and the cumulative total of these outlays leads that of receipts by an even more substantial margin.

The discrepancies in these time shapes must be financed somehow, and the different ways in which this can be done have significant implications for worker and managerial incentives and for central control over the uses of the funds so raised. Moreover, several important policy decisions of the 1950s and 1960s have had as an effect an enlargement of these time-shape discrepancies. From 1953 on *kolkhozes* have been strongly urged to increase the share of money pay in total pay to *kolkhozniki* and to institute quarterly or monthly workday payments (for a good part of the year these are wage advances). The share of money pay in total pay to *kolkhozniki* rose from 25 percent to 92 percent between 1952 and 1967,² and most *kolkhozes* today do pay labor on

2. James R. Millar, "Financing the Modernization of Kolkhozy," in James R. Millar, ed., *The Soviet Rural Community: A Symposium* (Urbana, 1971), p. 286, and David W. Bronson and Constance B. Krueger, "The Revolution in Soviet Farm Household Income, 1953-1967," *ibid.*, appendix table 1, p. 241.

a monthly basis. The abolition of the MTS system in 1958, by transferring operating responsibility of farm equipment to the kolkhozes, greatly increased money operating outlays of the kolkhozes and shifted to them the burden of financing the inherent lead in these expenses over receipts. Enlarged access to, as well as better terms for obtaining, short-term credit became necessary for the successful implementation of these two major reforms.

There are several ways in which the kolkhozes may finance seasonal needs for funds. One way, of course, is for the kolkhoz to accumulate past-period receipts in the form of operating and other special purpose cash balances and to deplete these balances during the first half of the year. For example, in 1957 the total operating cash balance of all kolkhozes (on December 31) represented 14 percent of total money receipts for the year. An adverse consequence of the way in which the transfer of MTS equipment to kolkhozes was financed can be seen in the decline in this ratio to less than 6 percent in 1960. By 1966 the operating cash balance had recovered, and represented 18 percent of total money receipts.³

The accumulation of cash balances has been particularly important for the payment of regular monthly or quarterly money labor advances, for until 1965 kolkhozes were not permitted to finance these payments with bank credit. The opening balance (January 1) of the special cash account for money labor payments has offered a significant potential source of funds for this purpose, representing somewhat better than 11 percent of the total annual money payments to *kolkhozniki* for 1958 and 1963 through 1967. This figure was considerably lower during 1959 through 1962, reflecting the adverse financial consequences of the MTS reform.⁴ The importance of this account may also be seen in the fact that the upward trend in total money payments to *kolkhozniki*, which had been established at least as early as 1949, failed to continue in 1959–60.⁵

Kolkhozes may also finance a portion of seasonal needs by means of accrued obligations to members for labor payments. At one time this was an important and officially sanctioned source of funds to kolkhozes. Participating members of the kolkhoz were obliged to absorb a large share of seasonal time-share discrepancies, for *kolkhozniki* were paid only as receipts became avail-

3. Ratios calculated from row A, table 5 below, *Sel'skoe khoziaistvo SSSR* (Moscow, 1960), pp. 64, 56, *Narodnoe khoziaistvo SSSR v 1962 godu* (Moscow, 1963), p. 342, and *Narodnoe khoziaistvo SSSR v 1968 godu* (Moscow, 1969), p. 423.

4. Calculated from table 5 below, M. Z. Pizengol'ts, *Oborotnye sredstva kolkhozov* (Moscow, 1968), p. 60, *Obshchestvennye fondy kolkhozov i raspredelenie kolkhoznykh dokhodov* (Moscow, 1961), p. 196, Millar, "Financing the Modernization of Kolkhozy," table 1, row O, p. 292, and Bronson and Krueger, "Revolution in Soviet Farm Household Income," appendix table 1, p. 241.

5. Millar, "Financing the Modernization of Kolkhozy," p. 292.

able. However, the increased priority of the agricultural sector and official concern about the adequacy of material incentives on kolkhozes in the post-Stalin period have produced heavy pressure on farm management to minimize use of this potential source of funds.

Trade credit afforded by supply organizations has provided a minor source of funds to cover seasonal needs, which reflects official disapproval of late payment for supplies. Much more important, since 1953, however, has been the provision of money advances by procurement agencies under contracts for the future delivery of farm products. Procurement agencies have financed these advances themselves largely by means of short-term bank credit. Thus these agencies have served essentially as financial intermediaries for Gosbank, and the money advances they provide have been quite rightly viewed by Soviet financial specialists as "indirect bank credit." Kolkhozes have been eligible during the first half of each year for money advances up to a total of 30–40 percent of the value of contracted output, without regard to the financial condition of the farm and at no interest charge.⁶

Advances from procurement agencies increased both absolutely and relatively to direct bank credit on current account throughout the 1950s and the early 1960s and represented 83 percent of total direct and indirect credit extensions for productive needs in 1965.⁷ The absence of strict, centralized bank control over these sources of kolkhoz funds ultimately proved unsatisfactory. Kolkhozes were eligible for advances without having to demonstrate legitimate need. Moreover, because many kolkhozes that produced a variety of outputs were eligible to receive advances from several different procurement agencies, effective centralized control was not possible. Concerned over the possibilities open to financial irresponsibility, and perhaps even impropriety, the system of procurement-agency advances began to be phased out in 1966. By 1967 advances had been reduced to 25 percent of total direct and indirect bank credit, and by 1969 direct bank credit had completely replaced indirect.⁸

Short-term, direct bank credit has, therefore, only very recently become a principal outside source of funds to kolkhozes for financing seasonal needs. The fact that from 1956 through 1965 direct bank financing of seasonal farm expenditures declined considerably in relative significance reflected the continuation of very cautious bank policy and highly restrictive terms for kolkhoz short-term borrowing in the face of major reforms in the institutional struc-

6. K. S. Kartashova, *Finansy, kredit i raschety v kolkhozakh* (Moscow, 1970), p. 137. Kolkhozes were obliged, from 1956 on, to pay *kolkhozniki* monthly wage advances in cash equal to not less than 25 percent of actual current money receipts in all branches and 50 percent of procurement-agency advances. See K. I. Orliankin, ed., *Sbornik reshenii po sel'skomu khoziaistvu* (Moscow, 1963), pp. 259–60.

7. Kartashova, *Finansy, kredit i raschety*, p. 136.

8. *Ibid.*, pp. 136–38.

ture of the kolkhoz which served to increase the farm's needs for seasonal financing.

Until 1959 the total volume of short-term credit legally extendable to kolkhozes by Gosbank was limited by the sum of the kolkhoz sector's current-account demand deposits.⁹ That is, Gosbank was free to lend to kolkhozes only the current-account deposits of other kolkhozes. The reason for this restriction was, presumably, to ensure that short-term credit extensions to kolkhozes would not involve a net flow of funds from the rest of the economy. However, because the time shapes of receipts and disbursements are much the same for all farms, short-term credit was relatively scarce when most needed and relatively plentiful when least required by kolkhozes. As a result of this restriction the kolkhoz sector was frequently a net source of funds (on current account) to other sectors of the economy until 1959 (see table 5, row E). The restriction was abolished in 1959, presumably because of the (unanticipated) sharp decline in kolkhoz current account cash balances that accompanied the MTS transaction of 1958.

Even so, short-term bank credit policy remained excessively restrictive. The abolition of the MTS system transferred to the kolkhoz a substantial category of seasonal expenditures (such as expenditures under the future year's crop) previously absorbed by the state budget, and dealings with the RTS were put on a cash basis. Meanwhile, administrative pressure on kolkhozes to pay regular monthly wages and to increase the share of money pay in total pay to farm members also greatly increased the need for seasonal credit facilities. Gosbank was, however, explicitly prohibited from advancing funds to kolkhozes for money wage settlements and advances. (Gosbank was also not permitted to finance obligatory payments to the government or the amortization fund transfer.) As a result, the system of agricultural procurement-agency advances became the principal source of outside seasonal financing.

Some easing of short-term direct bank credit conditions took place in 1961. The interest charge on short-term debt was reduced from 2 percent per annum to 1 percent (with a 3 percent penalty rate on arrears), and Gosbank was authorized to expand its coverage of seasonal needs where procurement-agency advances proved insufficient for farm needs.¹⁰ The effect was, however, marginal. In December 1965 the entire system of short-term direct bank credit was overhauled. Gosbank was given primary responsibility for financing seasonal needs of kolkhozes, including money wage advances to *kolkhozniki*.¹¹ From 1966 on, procurement-agency advances declined precipitously in signifi-

9. M. K. Shermenev, ed., *Finansy i kreditovanie sel'skokhoziaistvennykh predpriatii* (Moscow, 1963), pp. 187-94.

10. *Ibid.*, pp. 187-94.

11. Kartashova, *Finansy, kredit i raschety*, p. 136.

Table 2. Financing Working Capital: Kolkhozes (in millions of rubles)

	1958	1959	1960	1961	1962	1963	1964	1965	1966
A. Working capital assets (Jan. 1)	5,001	9,524	9,269	9,008	9,597	10,895	11,234	12,674	14,887
<i>Less debt outstanding:</i>									
B. Equals: Own working capital (Jan. 1)	2,981	7,064	7,495	7,259	7,558	8,468	8,711	9,704	11,381
C. Share of own working capital (in percentage) $(B \div A) \times 100$	60	74	81	81	79	78	78	77	77
D. Line B as a percentage of gross money receipts	31	53	54	54	56	56	55	55	57

Source: Pizengol'ts, *Oborotnye sredstva kolkhozov*, p. 120.

Table 3. Structure of Outstanding Liabilities on Working Capital Account (in percentage)

	1960	January 1 1964	1966 ^a	December 31 1965 ^a	1968
A. Total value of working capital	100	100	100	100	100
B. Direct and indirect bank credit	7.1	8.2	3.8	5.8	8.4
<i>Of which:</i>					
C. Direct bank credit (Gosbank)	6.2	6.4	2.2	3.4	7.7
D. Procurement agency advances	0.9	1.8	1.6	2.4	0.7
E. Other obligations	22.5	19.6	15.3	18.8	12.1
<i>Of which:</i>					
F. Accrued wage obligations	15.1	16.5	13.2	16.6	9.7
G. Trade credit: other enterprises and organizations	7.4	3.1	2.1	2.2	2.4
H. Total liabilities on working capital account (B + E)	29.6	27.8	19.1	24.6	20.5

Sources: 1960, 1964, 1966: G. Belousenko, *Oborotnye sredstva kolkhozov i kredit* (Moscow, 1968), p. 53.
1965, 1968: K. S. Kartashova, *Finansy, kredit i raschety v kolkhozakh* (Moscow, 1970), p. 123.

^a The percentage figures for January 1, 1966, and December 31, 1965, are misleadingly low, for they reflect the state's "forgiveness" of a substantial volume of short-term credit outstanding to "weak" kolkhozes in the latter part of 1965.

cance, accrued obligations of kolkhozes to their members for wages were reduced substantially, and the regular monthly payment of wage advances was, finally, assured.¹² Direct bank financing has also ensured much closer bank scrutiny of kolkhoz financial behavior.

Financing Working Capital. Let us turn now to a consideration of the financing of working capital accumulation in the kolkhoz sector. Investment in circulating capital represents a smaller share of total working capital for sovkhozes than it does for kolkhozes.¹³ This difference reflects the “producer cooperative” status of the kolkhoz. The kolkhoz invests more heavily than the sovkhoz does in finished output, mainly because the kolkhoz has greater discretion over its disposition than the sovkhoz does. The kolkhoz must also maintain relatively large current-account cash balances to finance seasonal needs and for a variety of special purposes, the single most important of which is the special deposit for the payment of money wage advances.

The abolition of the MTS system in 1958 greatly increased the working capital requirements of kolkhozes. The total stock of working capital very nearly doubled between January 1, 1958, and January 1, 1959 (table 2, row A), and almost all of the increase was financed by the kolkhozes themselves—that is, without increased bank financing. Moreover, the share of working capital (January 1) financed by inside funds, or retained net income (“own” working capital, row C), as opposed to that received through financial channels, increased from 60 percent in 1958 to 81 percent in 1960 and remained almost as high through 1966. Thus the MTS reform placed a heavy burden on the collective, and short-term credit policy clearly failed to support the spirit of the reform, for many kolkhozes found themselves in extreme financial difficulties for this reason. Some Western commentators suggested at the time that one purpose of the MTS reform was to absorb the growing demand deposit balances of kolkhozes, but this can clearly be seen now as a mistaken interpretation. The decline in current-account deposits was obviously contrary to the whole import of the post-Stalin price and incentive reforms in this sector.¹⁴ It reflected, instead, the inability of kolkhozes, at least in the initial years, to finance working capital at the necessary level. In this sense, it represented a failure of the state’s financial policy.

12. *Ibid.*, p. 138.

13. Pizengol'ts, *Oborotnye sredstva kolkhozov*, p. 49. In Soviet accounting parlance, working capital is divided into two parts: productive and circulating. The former includes stocks of inputs such as fuel, seed supplies, fodder, spare parts and hand tools, young animals and cattle in feed lots, expenses under the future year's crop, and unfinished production, such as crops in the field. The sphere of circulating capital includes inventories of finished output of all productive branches, trade receivables, including money advances to *kolkhozniki*, and all current-account cash balances (pp. 48–49).

14. For a discussion of these reforms see Millar, “Financing the Modernization of Kolkhozy,” pp. 279–81.

An examination of table 3 reveals the small role that direct and indirect bank credit have played in financing working capital for collective farms. Conversion to the new policy of exclusive direct bank financing during 1966–68 did not materially increase the state's share. It has, however, affected the composition of liabilities to working capital account. Direct credit increased at the expense of indirect credit, and of the 7.7 percent figure for 1968, 3.2 percent represented long-term bank credit granted (mainly) to finance payment of guaranteed annual wages, as opposed to 0.6 percent in 1965.¹⁵ This new credit avenue no doubt helps to explain (along with substantial agricultural procurement price increases) the favorable decrease in accrued wage obligations of kolkhozes to their members (see row F).

The kolkhoz has always been required to be much more self-sufficient with respect to working capital requirements than state enterprises, including sovkhozes. Whereas kolkhozes have had to finance approximately 80 percent of working-capital needs by means of inside funds, and bank credit (direct and indirect) has contributed only in the neighborhood of 6 percent, the comparable figures for all state enterprises and organizations have been approximately 38 percent and 45 percent during 1960–68. The share of inside financing of working-capital requirements for sovkhozes and other state agricultural enterprises has declined from about 59 percent in 1960 to 48 percent in 1968, and the share of state-bank direct credit increased correspondingly from 28 to 36 percent.¹⁶ In addition, state enterprises have received direct budgetary grants to help finance annual increases in working-capital requirements. The increased role of bank credit in the financing of working-capital needs for state agricultural enterprises represents, in part, however, an attempt to phase out direct budget transfers in favor of short-term bank credit.¹⁷ (This is true for other state enterprises as well.) We must conclude, therefore, that although recent reforms in short-term crediting policy have produced significant and desirable results, the kolkhoz sector remains seriously disadvantaged compared with state enterprises regarding access to short-term bank credit.

Financing on Capital Account. Let us turn now to a consideration of kolkhoz financing on capital account proper and the role of long-term bank credit. Over the years since Stalin's death, the object coverage (the types of expenditures for which credit is available, such as construction of farm buildings, equipment purchases) of long-term bank credit available to kolkhozes has been extended considerably and the terms and conditions gradually eased. With few exceptions long-term bank credit may be applied only to the financ-

15. Kartashova, *Finansy, kredit i raschety*, p. 123.

16. Based on data collected and currently being processed for a Ph.D. thesis at the University of Illinois by Mrs. Christine Wollan.

17. V. N. Semenov, *Finansy i kredit v sovkhovakh* (Moscow, 1969), pp. 147–62.

ing of fixed-capital investment.¹⁸ The first major reform in long-term loan policy came in 1955. The excessive red tape involved in loan approval and in the use of the line of credit so established was reduced somewhat. Access of "weak" kolkhozes to long-term borrowing was also enhanced to some degree. More important, state budget funding of Selkhozbank, which was at that time responsible for long-term loans to kolkhozes, was increased substantially. Finally, the interest charge was reduced from 3 percent per annum to 1.75 percent. (The penalty rate on arrears was also reduced to 3 percent, from 6 percent.) However, the maximum term on loans remained ten years.¹⁹

Before 1958, long-term borrowing by kolkhozes was primarily devoted to expenditures on improving farm livestock herds and facilities.²⁰ The abolition of the MTS system in that year made kolkhozes solely responsible for the acquisition of agricultural machinery and equipment as well, and coverage was accordingly enlarged. Expanded coverage and responsibility for kolkhoz investment projects put a strain on the facilities of Selkhozbank. The severely limited network of Selkhozbank outlets (448 as compared to 4,861 for Gosbank) and the duplication of work between Selkhozbank in the granting and administering of long-term credit and Gosbank in the granting and administering of short-term credit led to the abolition of Selkhozbank in 1959.²¹ Gosbank assumed full responsibility from that time on for all bank financing available to kolkhozes.

Another major reform was introduced in 1961. The interest charge on long-term credit was reduced to 0.75 percent per annum (the penalty charge on arrears remained at 3 percent per annum), and, more important, the maximum term of payment was increased to fifteen years for certain long-lived objects. Terms and coverage were expanded again in 1964.²²

Despite this series of reforms, long-term lending policy has remained highly conservative. Kolkhozes may not refund existing long-term debt (that is, take out a new loan to cover due debt), and prompt and full payment of the annual interest charge and due principal payment is required to retain eligibility for new loan extensions.²³ In substantial degree, therefore, access

18. The main exception today is the availability of long-term credit (up to a five-year term) to finance labor payments where the kolkhoz is unable otherwise to pay its wage bill at the guaranteed level. The policy was initiated in 1966, and the outstanding balance for this item on January 1, 1970, was 668 million rubles (Kartashova, *Finansy, kredit i raschety*, pp. 27, 108); total outstanding long-term loans to kolkhozes on that date exceeded 9 billion rubles (pp. 99–100).

19. I. Levchuk, *Dolgosrochnyi sel'skokhoziaistvennyi kredit* (Moscow, 1967), pp. 77–79.

20. *Ibid.*, p. 80.

21. Kartashova, *Finansy, kredit i raschety*, p. 98, and Levchuk, *Dolgosrochnyi sel'skokhoziaistvennyi kredit*, pp. 86–88.

22. Levchuk, *Dolgosrochnyi sel'skokhoziaistvennyi kredit*, pp. 93–96.

23. Kartashova, *Finansy, kredit i raschety*, p. 104.

to long-term financing has depended on current-year performance of the farm, instead of on an evaluation of the expected remunerativeness of the proposed investment project. "Weak" kolkhozes are also, therefore, the least likely to obtain long-term financing. In recent years the irrationality of so strict a policy has apparently been recognized, and the kolkhoz may now (since 1965) petition a deferment of due payments without prejudice if it can be shown that the farm's financial difficulties are not a result of poor farm management.²⁴ There are, however, no data available that would permit an assessment of the liberality of Gosbank in granting such deferments.

That the excessively restrictive character of long-term bank credit policy has been, at least tacitly, recognized by Soviet authorities may be seen in the fact that, periodically, kolkhozes are "forgiven" all or a portion of the debt outstanding. In 1965, for instance, Gosbank was instructed to write off 1.450 billion rubles in outstanding long-term debt of the kolkhoz sector.²⁵ A debt "forgiven" in this way does not, of course, represent a net source of funds to the kolkhoz, for it must be applied simultaneously to the liquidation of existing debt. This will decrease principal and interest payments in subsequent periods, but the main advantage it has offered kolkhozes has been to re-establish their eligibility for new credit extensions. Kolkhozes were obviously very quick to exploit the possibility (see table 5, rows C and H, for the years following 1965), which strongly suggests that the extent of net borrowing by kolkhozes is constrained by state financial policy and not by the financial conservatism or satiety of kolkhozes.

The inadequacy of long-term bank credit in 1958 required, in fact, the creation of a special debt instrument to finance the acquisition by kolkhozes of the physical assets of the MTS system. Selkhozbank, which was at that time responsible for long-term lending to kolkhozes, was not adequately funded for the purpose. Moreover, since kolkhozes were obliged legally to accept and pay for the MTS assets allocated to them (at prices established by special raion commissions), the terms and conditions for regular long-term borrowing through Selkhozbank could not in any case have been observed, for a large number, possibly a majority, of the kolkhozes were not eligible for additional credit. Consequently, kolkhozes were permitted (with the permission of the respective *raïispolkomy*) to pay for MTS equipment in installments over a two- to three-year period (deferment up to a total of five years was also possible with the permission of the appropriate *oblispolkom*). No interest charge was required except for arrears, at 3 percent per annum.²⁶ These stiff terms imposed a severe financial burden on kolkhozes, and a num-

24. Levchuk, *Dolgosrochnyi sel'skokhoziaistvennyi kredit*, p. 96.

25. Kartashova, *Finansy, kredit i raschety*, p. 99.

26. Levchuk, *Dolgosrochnyi sel'skokhoziaistvennyi kredit*, pp. 81-83.

ber went under and had to be converted into sovkhozes. Those that survived did so by robbing Peter to pay Paul. Cash balances were depleted, including the special reserve fund for the payment of money advances to *kolkhozniki*, which set back sharply the program to increase the share of money pay in total pay and for the distribution of monthly money wage advances in subsequent years. New capital investment also had to be postponed in order for kolkhozes to pay for MTS assets, which, of course, represented no net increase in the capital stock available to them. In short, the way in which the MTS transaction was financed proved disastrous for the state's own policy goals in the kolkhoz sector.

The capital account sources and uses of funds for the kolkhoz sector for 1953–66 are displayed in table 4. A capital account sources and uses-of-funds statement tells one where the money came from to finance the capital outlays of the sector. The kolkhoz sector finances capital outlays partly by transfers of retained income from current account (row B), partly by direct receipts (row C) from sales of its existing capital stock (e.g., livestock herds), and frequently also by means of net borrowing (row E). Of course, if transfers and direct receipts (row D) exceed current capital outlays (row J), then the sector must be advancing funds on a net basis to other sectors of the economy (see the negative entries in row E).

A comparison of row D with row J shows quite clearly that kolkhozes have been obliged to finance internally the greater part of money capital outlays throughout the period in question. Net funds obtained through financial channels (row E) were relatively substantial only in 1958 and 1966. The former reflects the assumption of deferred payments for the MTS transaction, and the 1966 figure is explained by the favorable impact of the 1.450 billion ruble debt write-off of 1965 on kolkhoz access to long-term loans. Of particular interest, the kolkhoz sector advanced funds on a net basis on capital account (that is, ordinary, or nonfinancial, sources of funds on capital account exceeded money capital outlays) in 1960, 1961, and 1965. The latter, of course, reflects the debt write-off, but 1960 and 1961 reflect the continuing burden of the MTS transaction and its inhibiting effect on money capital outlays, which declined in 1958–61 (inclusive). In most of the remaining years displayed, net funds obtained on capital account through financial channels represented less than 10 percent of money capital outlays. The fragmentary data available for 1966 and 1968 suggest, however, that the reforms of 1965 and 1966 may have liberalized long-term credit policy, but not as dramatically as might have been expected.²⁷

27. There is evidence that a number of Soviet economists remain dissatisfied, especially with long-term loan policy. See, for example, Kartashova, *Finansy, kredit i raschetny*, pp. 111–15.

Table 4. Capital Account Sources and Uses of Funds, Kolkhoz Sector, 1953–66 (in current rubles, billions)

	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966
<i>Sources of Funds</i>														
A. Indivisible fund transfer	0.867	1.121	1.322	1.673	1.682	3.042	3.334	3.196	3.203	3.430	3.390	3.600	3.920	4.450
B. Total transfers from current account	1.014	1.419	1.688	1.745	1.740	3.119	3.334	3.196	3.203	3.430	3.390	3.600	3.920	4.450
C. Direct money receipts on capital account	0.289	0.190	0.244	0.273	0.284	0.322	0.600	0.958	0.964	1.020	1.020	1.020	1.020	1.020
D. Total nonfinancial sources	1.303	1.609	1.932	2.018	2.024	3.441	3.934	4.154	4.167	4.450	4.410	4.620	4.940	5.470
E. Net funds obtained (+) or advanced or returned (–) through financial channels	0.014	0.127	0.149	0.221	0.282	1.476	0.259	–0.372	–0.108	0.130	0.190	0.747	–0.833	1.236
F. Total net sources	1.317	1.736	2.081	2.239	2.306	4.917	4.193	3.782	4.059	4.580	4.600	5.367	4.107	6.706
<i>Uses of Funds</i>														
G. Money capital expenditures, n.e.c. ^a	0.875	1.187	1.528	1.725	1.687	3.966	2.780	2.441	2.566	2.894	—	—	—	—
H. Money capital repair expenditures	0.165	0.185	0.216	0.247	0.262	0.381	0.683	0.703	0.657	0.630	—	—	—	—
I. Acquisition of working and productive cattle	0.209	0.254	0.201	0.335	0.437	0.503	0.662	1.025	0.994	1.127	—	—	—	—
J. Total money capital outlays	1.249	1.626	1.945	2.307	2.385	4.850	4.446	4.167	4.218	4.651	4.540	5.370	5.900	—
K. Discrepancy (F – J)	0.068	0.110	0.136	–0.068	–0.079	0.067	–0.253	–0.385	–0.159	–0.071	0.060	–0.003	–1.793 ^b	—

^a n.e.c.: not elsewhere classified. This item includes construction and the acquisition of equipment.

^b Size of discrepancy is a result of the (unallocated) “forgiveness” of long-term debt.

Sources for Table 4:

Row A: 1953–58: S. Koriunov, *Nedelimye fondy i kapital'nye vlozheniia kolхозov* (Moscow, 1960), pp. 15, 23. 1959–61: M. G. Vainer, ed., *Effektivnost' kapital'nykh vlozhenii v sel'skoe khoziaistvo* (Moscow, 1963), p. 197. 1962–64: *Narodnoe khoziaistvo SSSR v 1962 godu* (Moscow, 1963), p. 330, *Nar. khoz., 1963* (Moscow, 1965), p. 341, and *Nar. khoz., 1964* (Moscow, 1965), p. 390, respectively. 1965–66: Computed from gross income data in *Nar. khoz., 1965* (Moscow, 1966), p. 405, *Nar. khoz., 1967* (Moscow, 1968), p. 466, and percentage figures in Kartashova, *Finansy, kredit i raschety*, p. 36.

Row B: Includes row A plus, for 1953–55 only, retirement of long-term debt plus, for 1953–58 only, money payment for force-account construction. 1953: Ia. I. Golev, *Sel'skokhoziaistvennyi kredit v SSSR* (Moscow, 1958), pp. 35, 47. 1954–58: Koriunov, p. 23.

Row C: 1953, 1958: Koriunov, p. 15. 1954: Partial data, Koriunov, p. 28. 1955–56: Estimated from the annual average figure for 1955–57 given by R. V. Alekseeva and A. P. Voronin, *Nakoplenie i razvitie kolhoznoi sobstvennosti* (Moscow, 1963), p. 19, the subtotal for 1956 (p. 69) and the known total for 1957. 1957–61: Vainer, p. 197, and Koriunov, p. 15. 1962: Computed from S. I. Nedelin, ed., *Organizatsiia finansov kolkhosa* (Moscow, 1964), pp. 46–47, and the 1962 indivisible fund transfer. 1963–66: Same as 1962.

Row E: See table 5, row L.

Row G: 1953–55: Golev, p. 51. 1956: *Gosudarstvennyi bank SSSR k XXII s'ezdu KPSS* (Moscow, 1961), p. 61. 1957–58: Koriunov, p. 43. 1959: Determined by subtracting known figures for 1956–58 and 1960 from the 1956–60 aggregate given in *Gosudarstvennyi bank SSSR*, p. 61. 1960–61: Alekseeva and Voronin, p. 105. 1962: Nedelin, p. 57.

Row H: 1953–55: Golev, p. 51. 1953, 1957–58: Koriunov, p. 43. 1956–60: Vainer, p. 47. 1960–61: Alekseeva and Voronin, p. 105. 1962: Nedelin, p. 57.

Row I: 1953–55: Golev, p. 51. 1956, 1960: *Gosudarstvennyi bank SSSR*, p. 61. 1957–58: Koriunov, p. 43. 1959: 1956–60 aggregate in *Gosudarstvennyi bank SSSR*, p. 61, less 1956–58 and 1960. 1960–61: Alekseeva and Voronin, p. 105. 1962: Nedelin, p. 57.

Row J: 1959: Computed from table 55, p. 200, in Alekseeva and Voronin. 1963–64: Computed from index in I. Levchuk, *Dolgosrochnyi sel'skokhoziaistvennyi kredit* (Moscow, 1967), p. 104, and total for 1965 given by Kartashova, p. 82. 1965–66: Kartashova, p. 82.

Net Loanfund Financing: Kolkhoz Sector. The data presented in table 5 clearly indicate that loanfund financing has not played a significant role in financing either current or capital account outlays. In fact, loanfund financing appears to have played a rather equivocal role with respect to financing the major reforms that were introduced in the kolkhoz sector during the period of the ascendancy of Nikita Khrushchev. The somewhat fragmentary contemporary data available suggest that financial policy may have been better coordinated with the procurement price increases and the institutional reforms, such as the guaranteed annual wage reform, in subsequent years.²⁸

The relative insignificance of net funds obtained through financial channels by kolkhozes (row M, table 5) may be seen in the fact that the item is

28. For an extended treatment see Millar, "Financing the Modernization of Kolkhozy," pp. 279–91.

Table 5. Loanfund Financing: Kolkhoz Sector (in millions of new rubles)

	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966
<i>Current Account</i>														
Loanfunds receivable (Dec. 31):														
A. Deposit balance	503.2	895.7	985.5	1,189.8	1,022.1	1,170.2	697.2	600.8	1,122.0	1,716.1	2,193.8	2,364.1	3,238.6	4,170.2
B. Increment loanfunds receivable	231.9	392.5	89.8	204.3	-167.7	218.8 ^a	-586.6 ^a	-96.4	521.2	594.1	477.7	170.3	874.5	931.6
Loanfunds payable (Dec. 31):														
C. Short-term debt	213.8	236.9	260.0	273.2	372.8	374.6	701.7	666.0	644.0	708.0	804.0	871.0	365.0	392.0
D. Increment loanfunds payable	39.8	23.1	23.1	13.2	99.4	1.8	327.1	-35.7	-22.0	64.0	96.0	67.0	-506.0	-27.0
E. Net funds obtained, current account (D - B)	-192.1	-369.4	-66.7	-191.1	267.1	-217.0	913.7	60.7	-543.0	-530.2	-381.7	-103.3	-1,380.5	-958.6
<i>Capital Account</i>														
Loanfunds receivable (Dec. 31):														
F. Deposit balance	530.0	614.0	698.1	776.8	625.6	465.7	324.9	279.3	474.0	689.6	893.8	835.7	943.8	1,053.6
G. Increment loanfunds receivable	121.0	84.0	84.0	78.8	-151.2	-159.9	-140.8	-45.9	195.0	215.6	204.2	-58.1	108.1	109.8
Loanfunds payable (Dec. 31):														
H. Long-term debt	1,133.1	1,343.7	1,576.2	1,876.1	2,007.1	2,173.0	2,355.9	2,378.3	2,645.6	3,101.6	3,605.9	4,404.4	3,890.1	5,255.3
I. Increment long-term debt	135.8	210.6	232.5	299.8	131.0	165.9	182.9	22.4	267.3	456.0	504.3	798.5	-514.3	1,365.1
J. Deferred liability, MTS purchase	—	—	—	—	0.0	1,150.0	1,085.0	645.0	465.0	355.0	245.0	135.0	20.0	0.0
K. Increment deferred liability	—	—	—	—	—	1,150.0	-65.0	-440.0	-180.0	-110.0	-110.0	-110.0	-110.1	-20.0
L. Net funds obtained, capital account (I + K - G)	14.8	126.6	148.5	221.0	282.2	1,475.8	258.7	-371.7	-107.7	130.4	190.1	746.6	-832.5	1,235.3
<i>Consolidated Account</i>														
M. Net funds obtained, consolidated account (E + L)	-177.3	-242.8	81.8	29.9	549.3	1,258.8	1,172.4	-311.0	-650.7	-399.8	-111.6	643.3	-2,213.0	277.2

^a Adjusted to reflect the change in trade receivables for these years. *Obshchestvennye fondy kolkhozov i raspredelenie kolkhoznykh dokhodov* (Moscow, 1961), p. 236.

Sources for Table 5:

Row A: 1953–55: M. Atlas, *Razvitie gosudarstvennogo banka SSSR* (Moscow, 1958), pp. 141, 218, 238, 281. 1956–58: *Nar. khoz., 1958* (Moscow, 1959), p. 913. 1959: *Nar. khoz., 1959* (Moscow, 1960), p. 808. 1960–66: M. S. Atlas et al., *Kreditno-denezhnaia sistema SSSR* (Moscow, 1967), p. 151.

Row C: 1953, 1956–59: *Obshchestvennye fondy kolkhozov i raspredelenie kolkhoznnykh dokhodov*, p. 188. 1954: Interpolation. 1955: A. V. Bachurin and D. D. Kondrashev, eds., *Tovarno-denezhnye otnosheniia v period perekhoda k kommunizmu* (Moscow, 1963), p. 299. 1960–62: *Nar. khoz., 1962* (Moscow, 1963), p. 639. 1963–64: *Nar. khoz., 1964* (Moscow, 1965), p. 774. 1965–66: *Nar. khoz., 1967* (Moscow, 1968), p. 891.

Row F: 1953, 1956–58: *Nar. khoz., 1958*, p. 814. 1955: Golev, *Sel'skokhoziaistvennyi kredit*, p. 53. 1959: *Nar. khoz., 1959*, p. 808. 1960–66: Atlas et al., p. 151.

Row H: 1953, 1955, 1956: Golev, p. 72. 1954: Determined from long-term loan extension and retirement data and the known year-end balance for 1955. N. A. Tsagolov, ed., *Razvitie kolkhoznoi sobstvennosti v period razvernutogo stroitel'stva kommunizma* (Moscow, 1961), p. 174. 1957–58: *Nar. khoz., 1958*, p. 909. 1959–62: *Nar. khoz., 1962*, p. 642. 1963–64: *Nar. khoz., 1964*, p. 774. 1965–66: *Nar. khoz., 1967*, p. 895.

Row J: Year-end balances for deferred payments for MTS assets have been estimated (in millions of rubles):

	1958	1959	1960	1961	1962	1963	1964	1965	1966
Extensions	1,150 ^{a,b}	315 ^b	0	260 ^{c,e}	0	0	0	0	0
Retirements	0	380 ^g	440 ^g	440 ^g	110 ^g	110 ^g	110 ^g	100	20
Year-end balance	1,150	1,085	645 ^d	465 ^d	355	245	135 ^f	20	0

^a Koriunov, *Nedelimye fondy*, p. 83, and Alekseeva and Voronin, *Nakoplenie i razvitie kolkhoznoi sobstvennosti*, p. 101.

^b Vainer, ed., *Effektivnost' kapital'nykh vlozhenii v sel'skoe khoziaistvo*, pp. 200–201, and loan extensions in *Nar. khoz., 1962*, p. 641.

^c M. M. Usoskin, *Organizatsiia i planirovanie kredita* (Moscow, 1961), p. 309.

^d *Gosudarstvennyi bank SSSR*, p. 73.

^e *Ibid.*, p. 64.

^f V. P. Diachenko et al., *50-let sovetskikh finansov* (Moscow, 1967), p. 236, which indicates a balance of at least 120 million rubles on December 31, 1964.

^g Retirement rates are arbitrarily determined to coincide with final balances for July 1, 1961, and January 1, 1965: (1) 1958 balance allotted over a three-year period; (2) 1959 and 1961 extensions allotted over five-year periods.

negative for seven of the fourteen years covered (1953–66). Moreover, during this same period, total money receipts of collective farms rose from 4.96 to 23.1 billion rubles.²⁹ No comparable upward trend is evident in net money obtained on consolidated account³⁰ (row M). Between 1953 and 1966, kolkhozes advanced or returned funds through financial channels on current account (row E) in eleven of the fourteen years. This kind of behavior is explained partly by the increase in current-account cash balances and partly by very restrictive short-term credit policy. For the fourteen years covered in table 5,

29. *Sel'skoe khoziaistvo*, pp. 64, 56, and *Nar. khoz., 1967* (Moscow, 1968), p. 466.

30. The net flow of finance on current and capital accounts taken together.

kolkhozes obtained funds through financial channels on capital account (row L) in all but three years: 1960, 1961, and 1965. These exceptional years were discussed in the preceding section. Behavior on consolidated account (row M) is, therefore, more erratic, depending as it does on the net effect of these two, usually contrary, patterns.

The result is that the sector has obtained net funds through financial channels in significant amounts only exceptionally and only as a result of specific high-level political decisions. In the absence of specific policy decisions, conservative financial policy has prevailed. It would also seem quite clear that this is the way Soviet authorities prefer it to be. Debt, like sin, is to be avoided at all cost. This may or may not have been a good rule for the upright Victorian family to follow, but it can hardly ever have made sense as a general rule of thumb for a productive enterprise. Conservative state financial policy has indeed severely restricted the liquidity of the kolkhozes, but it has also had the unintended effect of undermining the state's own attempts to increase capital investment and material incentives in the kolkhoz sector.

Innovation in Financial Policy Toward the State Farm and Other Agricultural Organizations Sector

Innovation in state financial policy with respect to state farms (and other state agricultural organizations) has had an entirely different stimulus than that which has motivated reform in the kolkhoz sector. Expansion in the coverage and terms of financial instruments available to state farms has been provided mainly in order to reduce dependence on direct state budget transfers for the financing of operating cost deficits, increases in working capital requirements, and capital investment outlays. The stimulus has been, essentially, the financial implications of the central planning and management reforms announced by Premier Kosygin in September 1965, rather than the inadequacy of existing financial arrangements.

Unlike the kolkhoz, the sovkhoz has never been required to be self-sufficient—that is, to cover all expenses with sales receipts (*samookupaemosť*). As for other state enterprises, the base wage and salary bill has not depended on the economic performance of the farm. Sovkhozes have, therefore, been eligible for direct transfers of funds from the state budget to finance certain current operating expenses as well as the bulk of capital outlays. This opportunity has been of considerable importance, because prices on output transferred to the state (“transfer prices”) were for many years, like the agricultural procurement prices received by kolkhozes, too low on most outputs to cover costs. State subsidies have absorbed for the state farm the losses *kolkhozniki* were obliged to absorb for the collective farm. In 1953, for example, sovkhozes

(only) received a subsidy of one-half billion rubles, representing 48.6 percent of the sector's total outlays (*sebestoimost'*, which includes planned accumulation as well as production costs) on the products transferred to the state in that year.³¹ Conditions have improved considerably since that time, for the transfer prices received by sovkhozes have been increased along with increases in the agricultural procurement prices that kolkhozes receive on their sales to state agencies, although the improvement has not been quite as substantial.³² Meanwhile, direct budget transfers to sovkhozes (only) have increased sharply in absolute terms:

1946–50	2.3 billion rubles
1951–55	4.1 billion rubles
1956–60	8.3 billion rubles
1961–65	22.0 billion rubles ³³

The relative share of budget grants in financing of all *money outlays* of sovkhozes and other state agricultural organizations has been declining in recent years, thanks to agricultural transfer price increases, but it remains surprisingly high, having fallen from 79 percent in 1959 to 64 percent in 1966.³⁴

The distribution of budget grants among possible applications has also been changing in recent years. For the sovkhoz sector (only), the share devoted to financing capital investment outlays increased sharply between 1964 and 1967 (from 46.8 percent to 80.2 percent) at the expense of transfers to finance operating and working capital deficits.³⁵ This shift reflects an attempt by higher authorities to make sovkhozes self-sufficient on current account operations (with the help of short-term credit).

Because of the availability of state budget transfers, sovkhozes do not appear to have suffered from the traditional stringency of bank credit policy. In any case, short-term bank credit has always been available to finance seasonal needs (including wages), expenditures on the formation of livestock herds, and other temporary shortages. Sovkhozes were, however, required to pay a higher interest charge on short-term debt than kolkhozes from 1961 until quite recently: 3 percent on outstanding notes and 5 percent on overdue notes.³⁶ Long-term debt has been of only marginal significance for sovkhozes, as has been the case for all state enterprises until very recent times.

Examination of table 6, in the light of our consideration of loanfund financing for the kolkhoz sector (table 5), indicates that financial policy with

31. V. P. D'iachenko et al., *50-let sovetskikh finansov* (Moscow, 1967), p. 217.

32. *Ibid.*, pp. 216, 218–20.

33. *Ibid.*, p. 211.

34. M. S. Atlas et al., *Kreditno-denezhnaiia sistema SSSR* (Moscow, 1967), p. 197.

35. D'iachenko, *50-let sovetskikh finansov*, p. 223.

36. Semenov, *Finansy i kredit*, p. 157.

Table 6. Loanfund and State Budget Financing on Current Account: State Farms and Other Agricultural Enterprises (in billions of rubles)

	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968
<i>Assets (December 31)</i>											
A. Deposits	.295	—	.338	—	.453	.647	.697	.878	1.103	1.048	1.181
B. Increment in deposits	—	.021	.021	.057	.057	.194	.050	.181	.225	—0.055	.133
C. Loanfunds receivable, n.e.c. ^a	.134	—	.221	—	.315	.345	.317	.332	.345	.339	.443
D. Increment in loanfunds receivable	—	.043	.043	.047	.047	.030	—0.028	.015	.013	—0.006	.104
<i>Liabilities (December 31)</i>											
E. Bank credit	1.058	—	2.098	—	3.109	3.291	3.304	4.091	5.552	5.298	5.740
F. Increment in bank credit	—	.520	.520	.505	.505	.182	.013	.788	.461	.746	.442
G. Loanfunds payable, n.e.c. ^a	.299	—	.377	—	.561	.486	.561	.700	.759	.841	1.099
H. Increment in loanfunds payable	—	.039	.039	.092	.092	—0.075	—0.075	.139	.059	.082	.258
I. Net money obtained through financial channels (F + H) — (B + D)	—	.495	.495	.493	.493	—0.017	.066	.731	.382	.889	.463
J. Budgetary grant to finance operating outlays	—	—	.369	.392	.409	.487	.490	.572	.718	.956	—
K. Total funds raised above (I + J)	—	—	.864	.885	.902	.470	.556	1.303	1.100	1.845	—
L. Share of state budget transfer (in percentage) $(J \div K) \times 100$	—	—	43	44	45	104	88	44	65	52	—

Sources: Rows A, C, E, G (computed from absolute and percentage data): 1958, 1960, 1962–63: Nar. khoz., 1963, pp. 640, 642. 1964–65: Nar. khoz., 1965, pp. 761, 763. 1966: Nar. khoz., 1968, pp. 749, 751. Row J: Atlas, Kreditno-denezhnaiia sistema SSSR, p. 199.

^a n.e.c.: not elsewhere classified.

respect to sovkhozes and other state agricultural enterprises has been much less stringent than for kolkhozes. Net money obtained through financial channels (table 6, row I) compares very favorably not only with what kolkhozes obtained on current account, with which it is comparable, but even with net money obtained by kolkhozes on consolidated account for the relevant years. This is all the more striking because of the relatively larger volume of annual money receipts and disbursements of the kolkhoz sector during this period. It reflects, no doubt, the traditionally preferential treatment of the state enterprise sector. Short-term credit coverage has been broader for sovkhozes, and this, along with the assurance of state budget transfers, has also made it unnecessary for sovkhozes to accumulate and maintain large current-account special purpose demand deposits (e.g., for money wage advances).

The data presented in table 6 on budgetary grants allocated to current account (row J) is incomplete (and not entirely comparable). Consequently the share of state budget transfers in total funds raised from the outside on current account is probably understated for most years. However, it offers a rough idea of the relative significance of the budgetary transfer for sovkhozes and other state agricultural enterprises (row L) on current account.

Let us now turn to a consideration of the financing of money outlays on capital account for state farms and other agricultural organizations (table 7). As for all state enterprises, the state budget grant (through Stroibank) has provided the main source of funds on capital account, but it is clear that the relative share of inside-fund financing has increased substantially in recent years (rows M and O). This change reflects three different factors. First, the increased share of inside financing as of 1963 was in part a consequence of the 1962 re-evaluation of the sector's capital stock and amortization schedules,³⁷ which resulted in a marked increase in the amortization transfer from current account (row C). Second, a 1962 decree of the Council of Ministers established a new system for the redistribution and use of sovkhoz profits, designed, among other things, to increase the amount of inside funds available to the sovkhoz for the implementation of decentralized investment projects.³⁸ Third, the 1966 increment reflects, at least in part, an effect of increases in agricultural transfer prices in that year.³⁹

A portion of the 1966 increment in the relative share of inside funds may also reflect preliminary steps taken toward the implementation of reforms that were announced in 1965 and designed to reduce the operating dependence of sovkhozes and other state agricultural organizations on budgetary grants. The reforms were made official in a decree of April 1967, which called for

37. Kartashova, *Finansy, kredit i raschety*, p. 83.

38. D'iachenko, *50-let sovetskikh finansov*, pp. 218-19.

39. *Ibid.*, p. 216.

Table 7. Capital Account: State Farms and Other Agricultural Enterprises (in billions of rubles)

	1959	1960	1961	1962	1963	1964	1965	1966	
<i>Sources of Funds</i>									
A. Transfer from state budget	2.078	2.604	3.297	3.918	3.931	4.462	4.705	4.421	
B. Inside and equivalent funds	.556	.680	.815	1.097	1.821	2.014	2.325	2.889	
<i>Of which:</i>									
C. Amortization transfer	.490	.747	.878	1.014	1.575	1.687	1.968	2.153	
D. <i>Less:</i> Capital repair outlay	.291	.458	.553	.632	.670	.720	.831	.896	
E. <i>Equals:</i> Transfer to capital accounts	.199	.289	.325	.382	.905	.967	1.137	1.257	(C - D)
F. Other inside sources	.357	.391	.490	.715	.916	1.047	1.188	1.632	(B - E)
G. Total sources	2.634	3.284	4.112	5.015	5.752	6.476	7.030	7.310	(A + B)
<i>Uses of Funds</i>									
H. Formation of basic herd	.495	.713	.826	.999	1.099	1.145	1.096	1.126	
I. Capital investment	—	2.547	—	—	—	—	5.708	6.024	
J. Uses, n.e.c. ^a	—	.024	—	—	—	—	.126	.159	(G - [H + I])
K. Capital investment and uses	2.138	2.571	3.285	4.017	4.654	5.511	5.943	6.183	
L. Financed by state budget	1.855	2.227	2.897	3.446	3.513	4.242	4.455	4.212	
M. Share of state budget (in percentage)	86.8	86.6	88.0	85.8	75.5	73.9	75.0	68.1	(L ÷ K) × 100
N. Financed by inside funds	.285	.342	.389	.570	1.140	1.239	1.480	1.972	(K - L)
O. Share of inside funds (in percentage)	13.2	13.4	12.0	14.2	24.5	22.0	25.0	31.9	(N ÷ K) × 100

Sources: Row A: Total budgetary grants less share earmarked for operating expenses, as given in Atlas, *Kreditno-denezhnaia sistema SSSR*, pp. 197, 199. Row B: Inside and equivalent funds less share earmarked for operating expenses, Atlas, pp. 197-99. Row C: 1959, 1961: *Nar. khoz.*, 1962, p. 631. 1960, 1962-63: *Nar. khoz.*, 1963, p. 635. 1964: *Nar. khoz.*, 1964, p. 769. 1965-66: *Nar. khoz.*, 1968, p. 771. Rows H and I: Atlas, pp. 198 and 313 respectively. Row L: Row A less share devoted to financing formation of basic herd, Atlas, p. 198.

^a n.e.c.: not elsewhere classified.

the establishment of the principle of “full economic accounting” (*polnyi khozraschet*) for all state farms.⁴⁰ The principle of “full economic accounting” was developed in response to the growing disenchantment of Soviet policy-makers with the system of state budgetary grant financing, especially in the form of interest-free capital grants.⁴¹ The new system has been designed to substitute inside-fund financing and access to long-term credit for interest-free capital grants for certain specified types of projects and to increase the sources of funds for capital investment over which sovkhozes have independent discretion (that is, decentralized investment).

Under the new system of “full” *khovraschet*, capital outlays are divided into three categories for funding purposes.⁴² The first includes the acquisition of agricultural equipment, means of transportation, nonresidential, productive construction, and certain other types of productive investment. These capital-account uses are to be financed primarily from retained profits and the amortization fund transfer, but long-term credit is also available on the same terms and rates as for kolkhozes under certain circumstances—for example, if realized profit should fall short of planned profit for reasons other than managerial inefficiency or incompetence.⁴³ The second funding category is composed of all nonproductive investment and large-scale meliorative projects (construction of electric power plants, irrigation systems, and so forth), which are to be fully funded by means of state budget grants. The third category includes certain major productive construction projects, which are to be financed partly by state budget grants and partly by the redistribution of state farm profits. Presumably these projects are to be identified on the basis of both scale and multisovkhoz benefit.

These funding categories apparently apply only to centralized investment projects. Decentralized investment projects may be devoted to both productive and nonproductive capital, the sources being a portion of planned and over-plan profits, social-cultural and other special purpose funds, and long-term bank credit.⁴⁴

One effect of the reform, then, is to extend the coverage of long-term credit for the sovkhoz sector. Sovkhozes also have access to long-term credit now essentially on the same terms kolkhozes receive. However, new borrowing for sovkhozes is not constrained by overdue long-term debt outstanding, except for force-account construction (carried out by the farm’s own labor force) and equipment purchases.⁴⁵ Even so, there is no reason to expect that

40. Semenov, *Finansy i kredit*, p. 122.

41. D'iachenko, *50-let sovetskikh finansov*, pp. 223–24.

42. Semenov, *Finansy i kredit*, pp. 122–23.

43. *Ibid.*, p. 129.

44. *Ibid.*, pp. 124–25.

45. *Ibid.*, p. 129.

long-term credit will become a major source of funds to finance investment in the sovkhoz sector. It is clearly treated as an exceptional and temporary source of funds under the new system. In 1969, in fact, total long-term loans extended to sovkhozes amounted only to 210 million rubles.⁴⁶ The main means by which dependence on state budgetary grants is to be reduced under the reform is increased retained income. The increase in retained earnings has been made possible, in turn, by increasing the prices sovkhozes receive for their products. When a sovkhoz is converted to "full" *khovraschet*, it thereafter transfers its output to the state at the same prices kolkhozes receive from procurement agencies, rather than at the lower transfer prices.⁴⁷

The impetus to reform in the state-farm sector is clearly the same that prompted the Kosygin reform of 1965 for industrial enterprises: an attempt to increase enterprise efficiency. It is too early to tell very much about the success of "full" *khovraschet*, although the evidence presented above (especially tables 6 and 7) suggests that the share of inside funds has indeed increased at the expense of budgetary sources in recent years. *Polnyi khovziaistvennyi raschet* would seem to be the state farm equivalent of *samookupaemost'* for kolkhozes. Thus contemporary reforms in the kolkhoz and sovkhoz sectors do seem to be bringing about a mutual convergence of the two in institutional structure. This is a somewhat ironic outcome of contemporary financial innovation in agricultural policy. However, our consideration of financial policy reforms for both of these sectors suggests that financial channels are not likely to become major sources of funds for either in the foreseeable future. It appears, therefore, that state financial policy toward the agricultural sector will continue to be excessively conservative in the sense that financial instruments are underused to perform the functions for which they are best adapted. Given the aims of the other general reforms that have taken place in the agricultural sector, this is an irrational financial policy, because it places an undue burden on other policy instruments. It complicates, in particular, agricultural procurement and transfer price determination, for prices must be set to finance inside-fund accumulation as well as current operating outlays.

46. *Ibid.*, p. 6.

47. *Ibid.*, pp. 36–37.