

Soviet Taxation.

The purpose of this paper is to analyze the different system of taxation that has had Soviet Union since 1917. In order to understand better the problem, a broad description will be offered about the framework prior to 1917. In the second part we will try to study why Soviet taxation had and has some features which are far from marxist theory, the different role that taxes play in USSR as compared with Western countries, and other related problems.

I) Historical Trends in Soviet Taxation.

1.- Taxation prior to 1917.- After abolition of serfdom, development of money circulation and greater differentiation on sources of income as result of the process of industrialization, produced a taxation system which characteristic would be conserved until the beginning of the World War I.

We can divide receipts of the State in two broad categories: taxation and other sources than taxes. Taxation, from 1885 to 1913, had a decline from 70.6% of the total revenue of the budget, to 61.7%, while "other sources" than taxes had a subsequent increase from 29.4% to 38.3%. This increase is easily explained from the fact that resources agroupated under the name of "other sources" includes receipts from railways, mail, telegraph, etc, all services provided by the State and that experimented a great increase as consequence of the economic growth that took place during that period. In effect, if total output in 1913 is equal 100, in 1885 total industrial output was equal only to 28; (1) in other words, in 28 years industrial

production increase more than 3.5 times.

Taxation, during this period, can be classified as direct taxes, indirect taxes and custom duties. The importance and trend of this receipts is given in Table I.

	I <u>Taxes as percentages of total revenue from</u> <u>taxation.</u> (2)	
	1885	1913
Direct taxes	24.1	12.9
Excise taxes	66.7	76.1
Custom duties	9.2	11.0

Direct taxation was not something similar to income taxes; here it is used to mean land taxes, taxes on city property, taxes on peasants, taxes on trade licenses and on securities. This form of taxes had an increase over the period under discussion only in absolute terms, but as a percentage of total taxes has a notorious decline. Again, this is explained in Russian development because excise tax (was a sales tax on tobacco, beverages, sugar, petroleum, matches, etc.) increased at the same rate of sales. Moreover, the land tax was difficult to raise it because poverty of peasants; even more, the rate of this tax declined after the Revolution of 1905.

One author claim that comparing indirect taxes of Russia in that period, with other European countries, Russia result not in bad position (accepting that indirect taxes are not the best system to finance a budget): British consumer, he says, paid twice more than Russian, and French 18% more. The incidence of indirect taxes in Russia was the lightest compared with Germany, Austria, France, Great Britain and Italy. But, as the same author point out, "if the

part played in the Russian budget by indirect taxes as contrasted with direct taxes were compared with that played by indirect taxes in other countries, the figures would be much less favourable to Russia." (3) In effect, the ratio between indirect to direct taxes was in Russia the highest of Europe.

The war meant not only an increase in expenditures, but also a great reduction of revenues. Thus, custom duties were almost banished, a great portion of land was in German's hands (and therefore, taxes there were collected by Germans), etc. Also, the State Monopoly of Spirits (a monopoly in favor of the State of the sales of alcohol and vodka) was abolished at the beginning of the war.

The Government faced this financial problems with traditional measures: increasing the rate of existing taxes, negotiations of loans abroad and creating new taxes. (v. gr., a very impopular tax on transportation that, according to a Duma report "led to the resumption of transport by caravan for both short and comparatively long distances." (4) But this measures were inefficient. Government prepared a Memorandum entitled "On the question of the reform of the existing system of taxation" which created new taxes. The main tax was a personal income tax, which completed the slow evolution of the Russian system of direct taxation, together with the tax on excess profits of industrial and commercial enterprises. The last it is often called war profits because taxed profits derived from war. This taxes were enacted in April and May 1916. Also some indirect taxes were approved. In the income tax, the lowest bracket paid .6% and the highest, 12%.

In 1917, after the February Revolution a tremendous increase in expenditures took place compared with the years immediately precedent.

The Provisional Government tried to balance the budget increasing some taxes, among others, the income tax (the upper bracket must pay 30.5%).

This efforts to make more progressive taxes, are disregarded by Soviet writers: it "was a gesture of true financial despair" that "should remain on paper" including "a vague project for an income tax and some talk about the extraordinary single-payment war tax." (5) Nevertheless, income tax, war profit tax and others enacted in 1916, were estimated to finance about 10% of all expenditures. (6)

2.- War Communism and NEP period.- The deterioration of Russian financial system impaired during Soviet rule. The hyper inflation and the economic measures that followed the bolshevik seizure of power made the taxation system more unuseful to collect revenues for the Government. After the nationalization of industries, confiscation of some private property, etc., taxation could rest only upon peasants. In fact in this period the real taxes were the requisitions on peasants, who must give to the State all their production in excess of their own consumption. When Government needed money... it printed money!, helping, therefore, the spiral of inflation. "As a result of this policy economic relations gradually lost their money and market character and resolved themselves into compulsory payments-in-kind to the state, and a reversion to barter in local trade and private exchanges." (7) The few taxes that remained lost all their significance by the depreciation of money. "Towards the end of 1920 the question of the continued existence of the taxation system was raised; and the collection of taxes was actually discontinued in

accordance with an enactment of the All-Russian Executive Committee of February 3, 1921." (8) Soviet officers justified this policy saying that socialism, among other things, means the abolition of money.

This situation soon became chaotic. Lenin realized that a radical change was necessary. The change was the New Economic Policy. NEP was indeed a "step back" because many capitalistic institutions were reestablished. (But "in order the better to leap forward" would add Lenin.)

One of the changes was private trade. "Private trade was permitted to develop as a part of the policy of NEP, mainly because the task of bringing about the socialization of industry, trade, and agriculture was too great for the Communist Party at that time." (9) This trade required money, and this, in turn, meant the apparition of a new tax structure based on money terms also.

Theoretically, this taxes under a socialist regime, must be direct taxes. USSR Government revenues were based principally in indirect taxes. Many causes lead to this incongruent decision. Revolution had led to the destruction of all the tax administrative machinery; therefore, the collection of simplest taxes must to be preferred. Industries had not a good bookepping system, making difficult to collec, for instance a profit tax. A great develop existed in retail trade: a good passed by eight or ten hands before to get consumers. An indirect tax as a sales tax would discourage this situation. The theoretic and ideologic problem was easily solved saying that "the fundamental changes brought about by the October Revolution had to be taken into account", this changes had the marvellous effect that now "the situation favored the introduction of indirect

taxes as means for supplying the urgent needs of the state and led to the setting up of excises and custom duties, together with direct taxes." (10)

Taxes created during this period were the excise tax (as indicated, a sales tax), the craft tax (applied at the beginning only to the private enterprise, but afterwards to all ones, and it had two parts: a license tax and a equalization tax, both of them were not related to profits), income tax (introduced in 1922), tax on surplus or profits (to check the speculative gains of some industries, created in 1926), custom duties, stamp tax, etc.

The relation between direct and indirect taxes tend to be worst (increase of indirect taxes) as we can see in Table II.

II <u>Percentages of indirect and</u> <u>Direct taxes.</u> (11)				
	1925-26	1926-27	1927-28	1928-29
Direct	44.4	44.0	43.1	43.0
Indirect	55.6	56.0	56.9	57.0

On this time taxation was utilized very efficiently by Soviets to supprime any private enterprise: through discriminatory taxation they got their goal. Thus, in 1922-23 private trade accounted 75.2% of the total retail turnover; by 1924-25, 42.5% and by 1930 only 5.6%. (12) But private enterprise, in order to evade hard taxes utilized many subterfuges; consequently, Government answered with new taxes to catch those subterfuges, and so on. This "play" between private enterprise and Government can explain the tremendous proliferation of taxes during this period, in spite of the softening of

Soviet policy by 1925 towards private trade, where they realized that, by that time, they could not replace it entirely by the State. (13) At the eve of the Reform of 1930, "86 different levies were being collected from the socialized sector and 76 from the private sector of the economy." (14) The complication of the system was enlarged because commodities were taxed at different stages of production, as we saw before.

Moreover, during NEP period, administrative machinery improved a great deal. Now was possible to simplify taxation and made the system more workable. If they can start in 1928 with an almost fully planned economy it was absurd to go on having a bad taxation system.

3.- The Reform of 1930.- The needs of this Reform are well expressed officially in the Reform bill; there is said: "With the growth and increasing strength of the socialized sector of the national economy and the sharp decline of the private sector, with the wider application of planning in national economics as a whole and in its individual enterprises, the present system of taxation no longer corresponds to the conditions and organization of the national economy... The need to alter the fiscal system has become more urgent in connection with the reorganization of State industrial administration and the introduction of credit reform." (15) (This reform was approved in January 1930 and improved the former monetary reform of 1924.)

Fiscal Reform of 1930 distinguished the socialized sector and the private sector. To the first belongs State's enterprises and taxes here were mainly three: turnover tax on goods, a levy on profits of State's enterprises and a tax on the revenue of cooperative enterprises. Those paid by private persons were the income tax, the tax of private enterprises and professions and some others of minor

importance. Let us see this taxes briefly.

By far, the most important was and is the turnover tax. "It is essentially a differentiated sales tax imposed heavily but with different rates upon all significant articles of consumption." (16) The main feature now was that each commodity must be taxed no more than once, while the excises taxes that existed before, were taxed many times. But this tax -as Zverev said- is not only the most important revenue "but it constitute equally a factor to reënforce the financier controls of production and circulation of merchandises." (17) In fact, the sales tax policy of the Government is intervowen with its price policy and its regulation of production; according to supply and demand of a merchandise the State, manipulating through the rate of the tax, can equalize both terms. By 1937, there was more than 2.400 different rates of tax on sales, which changes constantly. (18) Of course, this tax was and is utilized also in a policy for economic development.

The tax has the advantage of providing revenues to the Government during all the year: it is paid monthly in three instalments. (19)

The levy on the profits enterprises which belong to the State was applied to all enterprises operating on an independent financial basis. (20) Here, again, there was a great simplification, because before the Reform the distribution of net profits was very complicated, as we can see in Table III.

This system was changed in 1930. Now the Government gives a different treatement (higher or smaller rate of tax) to each industry, depending on its interest in the development of the industry. This policy, generally, was related with that followed in the application of the turnover tax.

Table III.- Distribution of profits in a State enterprise. (Before 1930) (21)

Income (corporation) tax	10%
Subsidies for technical education	3%
Reserve fund	10%
Improvement welfare of workers	10%
Special fund of long term credit	10%
Further development of industry	25%
To the Treasury, as dividend	32%

There was also a tax on organization cooperatives or joint stock companies, in which Government had more than half of capital. This tax was a supervivence of the former system, mantening the rate of 20% on net profits.

As far as the "private sector" is concerned, income tax was applied to phisical as well as juridical persons. Its rate was progressive: the lowest bracket paid 1.57% and the hightest 13%. Of course, this very low rate must be treated carefully: the burden of Soviet taxation rest upon indirect taxation, as we pointed out before.

Remained after the Reform, but now only to private trade, the craft tax, which replaced many smaller taxes. Fiscally considered was of secondary importance, due to the decrease in private trade.

And the agricural sector? Agriculture was not included in the Reform of 1930, but probably here is the right place to say something about that subject. We saw that during the War Communism requisitions and confiscations were the only "tax" upon peasants. Afterwards, NEP authorized to sell in the market the excess of agricultural production; the tax consisted on a fixed quota that must be paid in kind. But, as one of the objetives of NEP was the res-

toration of money Soviets derogated this system. Therefore, all agricultural output was going to the market. But peasants, probably fearing a change of this policy in the future, did not send to the market an amount similar to that that they were obligated to send before. A deficit on the market was the consequence. The Government began to go to villages "to buy" foods. This buying also, was not very succesful.

In 1932-33 the former system of compulsory delivery was reestablished. Now the new framework distinguished between collective farms and private farms. It is not difficult to guess which farm must deliver more. As output is taxed according to the extension of land "the obligatory delivery is essentially a property tax even further divorced from ability to pay than the previous tax in kind." (22) Existed also an income tax on agriculture: in the agriculture tax law of 1931 the rates were different if peasants work privately or in a collective farm. Usually the economic unit for this tax was the family. Progressive taxation was applied in this sector since 1933.

4.- Some developments after 1930.- The Reform approved in 1930 provides the basic structure of Soviet taxation system until present day. Indeed, in 30 years some changes has taken place.

The turnover tax was extended in 1931 in order to cover services also. Some difficulties arised from the great centralization to collect this tax; therefore, modifications were introduced; in 1932 local financial authorites received incentives to collect this tax.

USSR also changed in 1932 taxation by branch of the economy to taxation by group of commodities; this group of commodities has in

turn different rates according to different zones, reaching the number of these, as we said before, to more than 2.400. This trend was modified by 1938, reducing the number of food rates.

During the war, no changes experienced the turnover tax, but it declined in relative terms as compared with other taxes.

Few modifications has been made on profits tax; there were mainly related with the Directors' Fund. This was introduced in 1936 to encourage increases in production; was suspended during the World War II and reestablished in 1946. (23)

On income tax it was an important modification. It was war tax, levied in all men from 18 years old to 60 and in women from 18 to 55. In all the years of the war this was the second source of income for USSR, after the turnover tax. After the war income tax is a little more important than before.

Tax on profits of cooperatives (20% at the time of the Reform) was raised to 31% in 1933. The law taxed the rate of profits which was defined as the ratio of profits to commercial cost of production. This discriminated against cooperatives with low cost of production (great rate of profits) because tax was made progressive and "it allowed cooperatives which had low rates of profits but large absolute profits to accumulate large sums." (24) This situation was rectified in 1941 and the rate of tax depended now on rate of profits and the absolute amount of it. In 1946, a proportional tax of 25% was established for all cooperatives.

The agricultural tax (in kind) was doubled during the war, except if two persons were in the front (no increase in tax) or only one was there (50% increase) (25)

What about trend of taxation during this period? Table IV give us the percentages of taxes related to budgetaires receipts on 1931, 1939, 1943, 1948 and 1952.

Table IV.- Percentages of budgetaires receipts apported by kind of taxes. (26)

	1931	1939	1943	1948	1952
Turnover tax	46.4	62.1	35.1	60.2	51.0
Profit tax	8.5	10.1	9.8	6.6	12.1
Direct taxes	6.3	4.5	14.1	8.1	9.3
Other	16.7	13.0	n.a.	15.3	n.a.

Note: The sum of different percentages does not give 100, because we exclude other receipts as sales of bonds, social insurance, etc.

The main change on the trend occured in war years, where, as we said above, turnover tax and profit tax (both indirect taxes) had a decrease in relative terms. Direct taxes increased more than 3 times between 1939-1943.

No references we have made about the institutional framework in which this taxation system works. Very broadly, we will say that Soviet Constitution establishes that all sources of revenue must be approved by the Supreme Soviet of the USSR. This is, applied to the State budget and also to the Union Republics budget. As we know USSR has a federative system that is maintained in the financial structure. The centralization to create taxes and to fixe its rates, has the finality to coordinate economic activities and to "impede tax wars" among States. In general, almost all revenues from income

tax and profit tax go to Republican budget, particularly Local budgets. Turnover tax contributes with 10% of its returns to local and Republican budgets (27)

5.- Changes after Stalin.- Since Stalin's death in 1953 has had a softening on hard measures concerning consumption by Soviet people. This measures, that means a better standard of life, and influenced and shaped tax policy in USSR in the last seven years.

The turnover tax has experimented a great decline in its average rate of tax. Thus, in 1947 this average rate was 77.8%, in 1952 62.7% and in 1958 only 45.1%. (28) This sharp "fall" indicates in part the relative decline in production for investment and military uses and relative rise in the production of consumer's goods; but it also represents in part a purely administrative shift from turnover to profit taxation..." (29) This decrease on the rate has produced its effects on the percentage that this tax usually contributed to total revenues of the Government. Thus, in 1961 in a planned total receipts of 79 billions of rubles, turnover tax financed 32.5 billions of rubles. But, profit taxes as we said, experimented an increase of more than 100% since 1956 to 1961 in absolute terms; an amount very large, especially if we compare it with the total increase of revenues on that period. (Revenues increase from 59 billions of rubles to 79; profit tax from 10.73 billion to 20.5)

Income tax has remained the same in absolute terms, notwithstanding the increase in revenues. (30) Moreover, in 1956 the Presidium of the USSR raised the maximum at which monthly wages are tax-exempt. (31)

At the XXI Party Congress, and afterwards, Khrushchev has declared that "among the measures aimed at the consistent further improvement of the well-being of Soviet people, the abolition of taxation on the population holds an important place." (32)

According to this idea at the end of 1930 was approved a plan for the gradual reduction of the income tax up to October 1965. In October 1961 in order to obey that law, a new reduction on rates was promulgated, as well as an increase in the amount of monthly salaries which is not taxed. (33)

Other manifestation of this new trend is the criticism against the collective income tax farm because it does not distinguish between different kind of land. A soviet writer says: "Prices cannot take account of the differences in the production conditions of the various farms, but the tax can do so. For this it is necessary merely to set the farm's tax in accordance with the amount and quality of the land it holds and not in accordance with the farm's earnings." (34)

II.- Marxist theory and the role of Taxes in USSR.

From this brief survey of Soviet taxation two facts are clear: indirect taxes are the main revenue in Soviet Union and direct taxes are very small; even more, they must wither away by 1965.

Both facts present a complete divorced framework of what a socialist country must be. One of the tasks of the Government, thought the Bolsheviki, was "the abolition of indirect taxes" (35). But was Lenin who directed the main attack against this form of taxation: "... the abolition of indirect taxation which Social De-

mocrats demand, would be an enormous relief..." [to the people]
 "The richer the man the smaller the share of his income does he pay in indirect taxes. This makes indirect taxation the most unfair form of taxation. Indirect taxes are taxes of the poor... So the Social Democrats demand the abolition of indirect taxation and the introduction of a graduated tax on incomes and inheritances." (36)

How explain Soviet economists this "contradiction" ?

They say that turnover tax and profit tax are not indirect taxes!!; they are a "centralized net income of the State" that this utilizes as accumulated capital. (37) They are profits of the centralized economy. For this reason in 1936 they dropped the name "income from taxes" from the statistical yearbook. (Indeed a very especial kind of profits that the entrepreneur, the State, can increase or decrease to its entire will)

But at the beginning no unanimous thought existed about the nature of this taxes. Reynold, writing in 1930 accepted it only temporarily: it "can be accepted only until the state-owned enterprises develop and improve" as well as the possibilities of credit and foreign trade. (38) Others writers have said that because income distribution is almost equal (!) indirect taxation is also, almost equal for all. Moreover, turnover tax rate is progressive is said. "Most Western economists believe the opposite: that the Soviet turnover tax system is extremely regressive on the poor class." (39)

Nevertheless Soviets adopted this system in spite of the theoretical and ideological considerations attending the multiples advantages of this tax. Between practice and theory Soviets preferred practice. It is easy to collect, (directly from a small number of

state owned enterprises) is a "hidden tax, people do not realize that 60% or 70% of price of consumer goods is a tax, it serves to manipulate on prices, etc.

The last advantage or quality of this tax is quite important: in USSR taxes (especially turnover) must to keep in balanced proportions supply and demand of goods. If there are a shortage of supply, a little rise of turnover tax increases prices, declines demand and, therefore, equilibrium is restored, and vice versa.

Nevertheless, "experience in the prewar years does not indicate that the opportunity to regulate demand and supply by way of turnover taxes was utilized to full advantage, especially with reference to individual commodities." (40)

For this reason there is not a close relation between cost and prices in Soviet economy. The existence of this "two prices is recognized by soviet scholars: "At present two kinds of wholesale prices exist in industry: a) without turnover tax and b) with turnover tax. The former are prices of intra-economy turnover; the latter apply to consumer goods which industry turns over to the trade network." (41)

The tremendous importance of this turnover tax, the profit tax and other indirect taxes and the fact that Soviet theorists do not consider them as "taxes", explain easily the goal of "no taxes" by 1965, proclaimed by Kruschev. All direct taxes (only taxes called as such in USSR) can be replaced with a little increase in indirect taxes. The role played by direct taxes in Russia was mainly those of "favoring some groups in the population relative to others," (42) in order to help the building of a classless society, rather than to finance the Budget. Now, that that goal has been reached, think

Russians, income tax can wither away.

This system of taxation is very hard to compare with other countries. Holzman has tried to estimate the burden of USSR taxation as compared with US. He observed that "the rate of taxation in the U.S. for the years 1940 and 1949 is less than half that in the Soviet Union, even when the United States data are structured in accordance with Soviet institutional conditions. The difference between the Soviet and U.S. rates reflects the much higher rate of non consumption expenditures in the USSR." (43)

This is, we think, quite true. USSR must to capitalize in order to achieve an steady rate of growth. When we analyze the figures about taxation and realize the burden that Soviet people suffered, we must remember also the conditions of life of industrial workers in England at the beginning of the Industrial Revolution. The process saving-investment there, was executed by the entrepreneurs; in Russia the only entrepreneur was the State and got its savings through a hard system of taxation, as well as British entrepreneurs got it from a very unequal distribution of income. We mentioned England because she is, together with Russia and perhaps U.S. the only countries in which development was the result of their own resources.

Two final comments. During this paper we analyzes only taxes as such; we will not analyze purchases of State bonds, notwithstanding the character of taxes that they have because the obligatority to buy it that workers have.

Finally, a last word about the need of money (and consequently about tax money) in a planned economy. If there are a plan and the plan treats only with quantities of production, with real terms,

with inputs and output, why it is necessary a financial plan ? According to many, this was not necessary. A socialist country could use a barter economy. (44) But this extremes views exaggerate the question because it is necessary to have a money economy; it help to integrate the different factories and industries in the economy, as well as a mediun of exchange and other traditional functions even in a socialist economy.

The difference with the capitalistic system is that there the financial aspect is in the first place, because all the mechanisms act through market and prices. But in a planned economy the mobilization of resources almost do not need a financial aspect as prerequisite. The economic activity can move freely (v.gr., this raw materials will go to this industry instead of that industry). But in the long run theory says that in a communist society even these financial intermediare function will wither away, and with them, the taxation system. "In communist construction it is necessary to make full use of commodity money relations in conformity with they new socialist period ... when the transition is made to a single communist form of public ownership and the communist system of distribution, commodity-money relations will become economically obsolete and will wither away." (45)

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NOTES.

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