

Financial Problems of Soviet Russia

THE first report to the Congress was read by the People's Commissaire for Finances, Comrade Krestinskyi, in which he summarized his four months' activity in the People's Commissariat for Finances, and outlined the plans of the Soviet Government in the field of finance. The speaker indicated that four months ago the old financial institutions were still maintained in the capitals. On the other hand, in the provinces, there existed branches of these institutions, whose personnel were in strained relations with the local Soviet departments ("Sovdiemy") and aimed at independence from the local government and the maintenance of bureaucratic centralization. At the same time there existed financial departments which were striving to become the financial organs of the Soviet power in the various localities, but were frustrated in this ambition and had to continue as the local organs for finances. In its quest for means to cover the local needs, each financial department acted on its own responsibility, out of which there resulted a motley and distressing state of affairs in the situation of the local financial organs and in the local finances. The central administration strained every effort to put an end to the existence of this dualism and to the lack of contact between the local organs and the capitals, as the time had come to consolidate the country into one Socialist unit. In certain cases, the tendency to centralization may have given rise to evidence of bureaucratic centralization. In this respect the People's Commissariat for Finances prepared a decree on local financial organs, which met the desires and aims of the organs and workers concerned. But this decree which did not provide for the existence of provincial executive committees ("gubispolkomy") had to be amended when responsibility devolved upon these local organs. This was necessary because the various commissariats were not bound by this decree to carry out all their financial operations through the provincial executive committees. In the last days of November, decree on local financial departments was approved and in pursuance to this decree a number of old local financial organs were abolished and introduced into the financial departments. By the decree on local financial departments the hierarchial structure of the Soviet financial organs was definitely established. The liquidation of the old financial organs, which is now taking place in various localities, is carried out painlessly, as the financial departments no longer suspect the financial authorities, but use their staff of specialists, removing from these bodies only the counter-revolutionary elements. The reorganization of the old financial institutions has also reached the excise administration, which heretofore was also in charge of production and was performing some selling functions. These functions at present must be transferred entirely to the Commissariat for National Supplies, as provided by the decree on the organization of supplies. It already is possible to state to what extent the liquidation of these institutions is proceeding in various places. To the Commissariat for National Supplies are transferred all government wine stores and that part of excise supervision which concerns the control over the nationalized trade, also a part of the bookkeeping. The remaining part of the bookkeeping will be assigned to the Commissariat of Finances, which will fix the increases to the selling prices which are to form a state revenue. The excise taxes must, of course, with the introduction of this order, be abolished, but a certain surplus out of the sale should go to the treasury. The fixing of the amount by which selling prices and cost prices differ, as well as the control over the receipt of the revenue, is to be entrusted to the Commissariat for Finances. An analogous distribution of functions is carried out also in Petrograd and Moscow with the difference that the local wine shops, which during the war had charge of the chemical products industry, are transferred to the Supreme Council of National Economy.

The speaker referred furthermore to the problem of the attitude of the Soviet of People's Commissaires toward the division into districts and indicated the contradiction which arose at the time when the decree on the organization of organs of financial administration was being considered. This was a contradiction between the People's Commissaire for Finances, who was of the opinion that it was impossible to arrange all matters from the capitals, and the majority of the Supreme Council of National Economy, which removed from the draft of the decree any mention of district financial organs. The speaker pointed out that the problem had been settled in a way favorable to the districts: As a result of a prolonged work, a special commission had come to the conclusion that the following existing districts: the Urals, the Northern, and the Western, shall retain their independence and their financial branches shall be retained as organs subject directly to the People's Commissariat for Finances. It will be possible in all probability to issue in the near future a special decree concerning this matter. The

Report of Peoples' Commissaire of Finances N. N. Krestinskyi, at the First Congress of the Northern District of Russia

work of uniting the exchequer courts and the treasury branches in the Northern district has just started, according to available information, and the accomplishments of this Congress will surely impart a strong stimulus to the successful termination of this work. If it should prove impossible to accomplish this work up to January 1, we confidently hope that it will be terminated by the middle of January.

Considerable organization work fell to the Commissariat for Finance in another field—that of banks. The State Bank was annexed by the Soviet Powers as early as 1917. On December 14, of that year the All-Russian Central Executive Committee issued a decree concerning the monopolization of the banking business and the nationalization of private banks. This decree deprived capitalism of its main stronghold. But the work in the banking field is not brought to a conclusion. We had no clear idea, at the beginning, as to the structure of the Soviet People's Bank, alongside of which there still existed private credit institutions, as: the Moscow People's Bank, Mutual Credit Associations, City Banks, as well as the independent state savings institutions and the treasury departments. During the first month, when the economic life of the country had changed but little and private capital remained in power, our bank continued as an institution very much akin to the former financial apparatus. The accounting functions of this apparatus in respect to nationalized undertakings were slow in getting a start. In the work of nationalization there was a hitch due to the circumstance that, owing to historic necessity, some remains of private capital had to be retained so long as there was still private commerce. The breathing spell after the Brest-Litovsk Peace coincided with a period of feverish constructive work in the economic field. This was because we felt that the noose thrown around our neck by the Brest treaty could be thrown off only by way of economic construction; we therefore have speeded up the work of reconstructing the economic life of the country. It became necessary to create a uniform banking machinery; we advanced on this road, liquidating unnecessary credit institutions and uniting with the People's Bank such institutions as had to be retained in order to possess a uniform cash accounting machinery of the Republic. A decree was issued regarding the liquidation of mutual credit associations, which were growing in number because the People's Bank at the beginning was not working smoothly, but which in the period of reconstruction of the economic life of the country is absolutely unnecessary. A decree was issued regarding the liquidation of municipal banks. There remained the treasury departments, the savings institutions, and the Moscow People's Bank. The latter commands our special attention. This apparatus was extending credit to cooperative organizations, which worked along the lines of the aims of the Soviet power and was filling the gaps in the work of the Commissariat for supplies. The Moscow People's Bank took upon itself, however, after the nationalization of private banks, an unsuitability in getting money from the People's Bank. It started to grow on bourgeois accounts and became a speculative bank, hoarding paper currency and liberally supplying with money the bourgeoisie, which had difficulty in getting money from the People's Bank. In this way it has assumed a hostile position to the Soviet power. It must be noted also that the Soviet institutions, as well as the nationalized enterprises, transferred their means to this bank, whence it was an easier and simpler matter to get them. In consequence of this there appeared alongside the People's Bank a similar all-Russian bank, which centralized the funds of the bourgeoisie, as well as of the cooperatives, and also of the government institutions. Its nationalization became a necessity. A number of measures were carried out in this direction. The free opening of branches was stopped; a decree was promulgated regarding the obligatory deposition of government funds in the People's Bank. The Moscow Bank could not execute the demand regarding the return of all deposits coming from government institutions and initiated of its own accord negotiations in nationalization. At the same time for the Petrograd district and in the Northern district we started a method of organized counter-activity to the Moscow People's Bank. A section for financing the cooperatives was created and attached to the People's Bank. It gained the confidence of cooperative organizations. At the present time the Moscow People's Bank is already nationalized.

We think that our banking machinery will take the following shape:

A uniform Central People's Bank is created with a net of branches in the provinces. In the capitals the bank is divided into sections corresponding with those branches of the national economy, which are in

its charge, namely: (1) section for state exchequer, taking care of all state revenues and all disbursements on the basis of the budgets of particular institutions; (2) section for nationalized industries, taking care of financing industry, which must possess in the bank for its apparatus supplying it with funds and for receiving the money derived from the sale of the products of industry; (3) section for supplies, entirely distinct from other institutions, looking after the expenses of the Commissariat for Supplies and the receipt of the corresponding sums from the population; (4) section for railroad affairs, taking care of the financial part of the exploitation of railroads; (5) section for cooperatives, taking care of the affairs of cooperative organizations along the lines of consumption, production, agriculture, and credit; (6) section for personal accounts; the guiding consideration which caused the creation of this section was the expectation that after carrying out the provisions of the ten billion tax, the majority of the current bourgeois accounts in the bank, which have existed till now, would be liquidated, but there would remain small accounts, representing the tiny savings of working people; and these are just the accounts which will receive the name of personal budget accounts, and will be placed in the charge of this section. When the payment of salaries is made in commodities, the record of the commodities given out will be kept also by this section; (7) foreign section, which is probably of a temporary character, and will care for the billing of commodities exchanged with the capitalists of foreign countries over whatever period and to whatever extent this may prevail; (8) section for insurance, to which will be transferred all insurance operations in mass, while the technical side of the insurance business will of course be left with the respective administrative institutions.

Such are the immediate organization problems of the banking business. The plan of the respective measures is already outlined and the work is now nearing the stage of realization of designs as originally planned, so that, on the anniversary of the nationalization of banks, it will be possible, in all probability, to issue a decree liquidating all former banking institutions and creating a uniform Central People's Bank whose statute will be published simultaneously. This bank will constitute the frame work upon which will be built the economic structure of Soviet Socialist Russia.

We have stated here everything that was to be done, that has been done, and that remains to be done in the capitals. As regards the provinces we expect now the taking up of that harmonious labor which will be carried on with the least loss of energy and will yield the greatest results. As a leading principle therefore, there should be adopted a sharp division between two sections of financial activity: (1) The budget tax matters in the broad sense of the word. Problems connected with this are not yet fully solved on an all-Russian scale. The tax machinery will be completed only when the new taxes are finally drafted. The ten billion tax, which constitutes a boundary line, as it were, between the old and the new systems, will be the touch-stone in this respect and will offer the possibility of a new tax inspection. A great field is here opened for local initiative and activity, which will afford the means for accumulating information in the capitals for the adoption of the respective measures. (2) The People's Bank, on the contrary, is to retain its general character. In the banking business strong centralization must necessarily be the rule, which must be carried out in order to lend full uniformity to the state financial system. The local financial organs may and should exercise control over the activity of the branches of the People's Bank; but any measures concerning the financial system as such and, still more, the principles underlying it, may be carried out in the various localities only with the knowledge and the approval of the central power. The plans of work in this direction may be drafted, but their execution is admissible only after they receive the sanction of the central power.

As regards the situation in the matter of taxation, it has radically changed, as compared with the past. The former system can find no justification at present. The indirect taxation, remaining after the cessation of the former direct taxes, is now also changing its character: insofar as the product becomes the possession of the state, its taxation for the benefit of the state would be fictitious. Instead of taxing the product it would be easier to sell it and to turn over the proceeds to the state. The state should exist on the proceeds of the product which is produced by the state. At the present moment we must take into account that not all industry belongs completely to the state. In the future, the whole system of state economy will be built without money circulation, especially if the revolution should spread to other countries. But this is in the future. Just now we meet our budget with a considerable deficit. Many viewed the deficit feature of

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