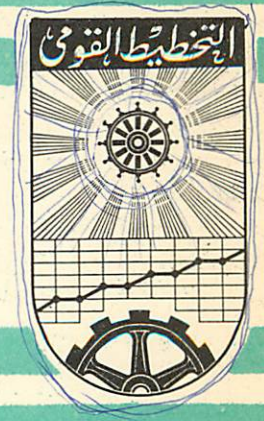


UNITED ARAB REPUBLIC



THE INSTITUTE OF NATIONAL PLANNING

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State Budget in Socialist Society
and its Function in Planning
and Managing the National
Economy

(on GDR's example)

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O. Introduction

In December 1964 a memorandum has been published by Prof. Dr. Fedorowicz dealing with

" National Budgeting in Polish Practice ".

(Memo. No. 514). In this memo. the general contents of a state budget in socialist countries, its revenues and expenditures, are explained . Furthermore, the calculation of a state budget and the role of a banking system for implementing budget policy is analysed as well.

In addition to this, we would like to make some remarks on the expressiveness and the interlacement of the state budget with other national economic balances, its structure and construction. An other point to be analysed concerns the position of state budget in a system of managing national economy. This so, because the latter has to be reconsidered according to some changings in this system now under way in socialist countries.

1. The uniform socialist state budget and its importance for the comprehensive construction of socialism.

1.1 The political and economic foundations of the state budget its functions and its difference as concerns the capitalist budget system.

The necessity of the state budgets under socialist conditions results from the existence of the socialist state as well as from the continuation of goods-versus-money economy. The socialist state needs for the implementation of its functions and programmes financial means which are received and spent through the state budget.

Revenues are received by the state budget from various forms and sectors of the national economy as well as from the population. The main economic source of the state budget is represented by the national income.

The payments made by the different sectors or spheres of the nationally-owned economy form the main sources of revenue of the state budget. These means remain within the sector of socialist public property, with the right of disposal being merely shifted from the relevant sectors of the national economy to the state budget. Beyond that, also the other sectors of national economy, e.g., the cooperatives, semi-state and private enterprises and the population are drawn upon for financing the requirements of society by means of the state budget. A re-distribution in favour of the state budget, of those parts of the national income which are created by co-operatives, semi-state and privately-owned enterprises and the population, is effected by the socialist state in the form of taxation.

The funds of the state budget, being centralised in this way, enable the socialist state to fulfil its functions, with the socialist state's functions in the spheres of the organisation of the national economy, of culture, and of education coming more and more to the fore. This is reflected in a considerable concentration of budgetary expenditures on the planned financing of the national economy and on the spheres of social consumption.

The functions of a socialist state budget may be characterized briefly in the following way:

1. The state budget is the main instrument of the socialist state for planned formation, allocation and utilization of national monetary funds.
2. According to the functions of the socialist state in the spheres of economic organisation, culture, and education the formation of funds is based on the development and steady growth of the socialist national economy, with the funds being used to complete the construction of socialism.
3. The monetary accumulation of state budget reaches far beyond the socialist sector extending into all sectors of the national economy. Furthermore, the national budget draws on a certain percentage from the population's money income, which is allocated to public needs of society.
4. The state budget allocated the accumulated funds on the basis of the targets and proportions laid down in the national economic plan. Thus, it essentially influences:
 - a) socialist reproduction,
 - b) social consumption,
 - c) parts of individual consumption.
5. The state budget implements its control functions by making use of the existing financial relations in the formation, allocation and utilisation of the social money funds and controls the fulfilment of the national plans and the observation of the proportions laid down therein.

The fundamental differences between a socialist and a capitalist state budget may easily be seen from these above-mentioned functions. These differences are expressed both in the revenues and in the expenditures.

The most essential characteristic of the socialist state budget is the planned process of the formation, allocation, and utilisation of the financial means which are obtained on the basis of economic planning. Socialist budgetary plans are, by no means, illusory prognoses of the Minister of Finance, but are realistic plans the fulfilment of which is founded from the very beginning, on principle.

It should be borne in mind, quite generally, that the effective radius of the socialist state budget is considerably wider than that of a capitalist one. A socialist budget, is based on revenues obtained by the state from its own economic activity, and its expenses primarily serve the peaceful development of the national economy, i.e., the benefit of the people.

1.2 The development of revenues and expenditures in the GDR state budget.

It has already been mentioned that the socialist state budget is the main instrument for the financing of a socialist national economy, with the principal source of revenues being the same socialist national economy, and its socialist sector in particular.

The economic development of a socialist country may, consequently, be clearly seen from the changes within the volume of a given state budget. It should, however, be borne in mind that the volume is affected also by certain methods of centralizing or decentralising of money, which must be considered in long-run comparisons.

This finding is of particular importance in the present period because the New Economic System of Planning and Managing of National Economy in the GDR will result in an essential decentralisation of accumulation which will, of course, not fail to have its effect on the budget volume, too.

The previous methods of accounting for the funds of the state budget had not been very different, however, so that our economic development is clearly expressed in the budget volume.

These are the budget volumes of the past 10 years (Table 1):

TABLE "1"
Revenues and expenditures of the national budget,
1954 ---- 1963.

Year	Revenues		Expenditures	
	Milliard DM	1955 = 100	Milliard DM	1955 = 100
1945	36.2	94.2	36.1	94.3
1955	38.4	100.0	38.3	100.0
1956	35.9	93.4	35.9	93.6
1957	36.7	95.4	36.4	94.9
1958	42.0	109.4	41.8	109.1
1959	46.9	122.2	46.4	121.1
1960	49.2	128.0	48.9	127.5
1961	51.5	---	51.2	---
1962	56.2	---	55.8	---

The revenues of our state budget in 1964 may be differentiated, according to their sources, as follows:

1. From socialist enterprises 66%
2. Compulsory social-insurance fees by employess 12%
3. Taxes from privately-owned enterprises 4%
4. Taxes from the working population and tax-supported free-lance intellectuals 4%
5. Other receipts 14%

The payments made by our socialist enterprises obviously represent, by quality and quantity, the most essential share of the state budget receipts. They are called the most essential receipts of our state, because, on the one hand, they form the biggest item among the state revenues and because, on the other hand, they result from the socialist state's own economic activity.

The state, as the social owner of our socialist enterprises, exerts a direct influence on the formation and utilisation of the national income which is produced by the nationally-owned enterprises. The allocation of that part of the national income, which has been produced by the nationally owned enterprises, to the national budget is, consequently, a primary distribution, whereas those parts of the national income which are produced in other property sectors have to undergo a process of re-distribution, i.e., secondary distribution, before a part of them enters into the state budget.

Secondary distribution, thus, means the levy of taxes from cooperatives, privately-owned enterprises, and the population. This, however, touches another problem.

1.3 The state budget and its influence on the distribution of the national income.

The influence of the state budget on the distribution of the national income must be considered in connection with the function of the socialist state budget to supply the state, the organ of society, with all the funds needed for fulfilling the economic functions of the state. This means, in other words, that the revenues and expenditures of the state, which have been formed on the basis of the above-mentioned distribution of national income, must serve the implementation of the socialist state's functions and programmes. The budget policy, which finds its expression in the distribution of the national income, is an integral part of the state policy. All projects and tasks which the national economic plan provides for must be secured financially by the state budget. The state budget must also secure financially correct basic proportions between accumulation and consumption; the so-called sectors I and II, etc. Budget policies (tax policies, e.g.) may, furthermore, be effective instruments to back temporary political objectives with regard to the different forms of economy, other sectors of the national economy, as well as concerning the different social classes and strata of the population. Such policies are usually based on the material interests of the enterprises or citizens concerned in order to give their attitudes a certain direction.

All economic levers, such as price, credit, interest, bonus, etc. must be taken into account when distributing the national income.

Let us now have a look at the formation and distribution of the national income.

The national income, in the concrete conditions of the G.D.R. is formed by the nationally-owned enterprises, socialist cooperatives, semi-state enterprises, simple commodity producers, i.e., craftsmen, as well as capitalist enterprises. The national income produced has to undergo the process of primary distribution, now, where it appears in the following forms in the nationally-owned enterprises:

as profit and production assessment, which is a kind of turnover tax,
 as centralised net income of the state,
 as net income of the enterprises,
 as payments of return to the budget, and, finally,
 in the form of the wages to be paid to workers and salaried staff.

The monetary forms of the national income obtained in the socialist cooperatives are the individual incomes drawn ^{on} by the members of ^{the} co-operative as well as the income of the co-operative, as a whole.

The forms of national income obtained in the field of simple commodity production are the income obtained by the producer, on the one hand, and the wages paid to his employees on the other. The national income obtained in the capitalist enterprises takes the forms of the surplus value of the capitalist employers and of the wages to be paid to the employees.

These are the forms of the national income after its primary distribution. It is followed by the secondary distribution through the state budget which raises, by means of various taxes (in addition to the direct revenues obtained by the nationally-owned sector of economy), the funds which are then allotted to the following purposes:

- a) Financing of expanded reproduction,
- b) financing of administration, security service, culture, as well as social welfare and health service,
- c) financial provision for the formation and expansion of reserves.

Altogether, about two thirds of our national income are now being distributed or re-distributed through the state budget.

Please, have a look at the sketches 1 and 2.

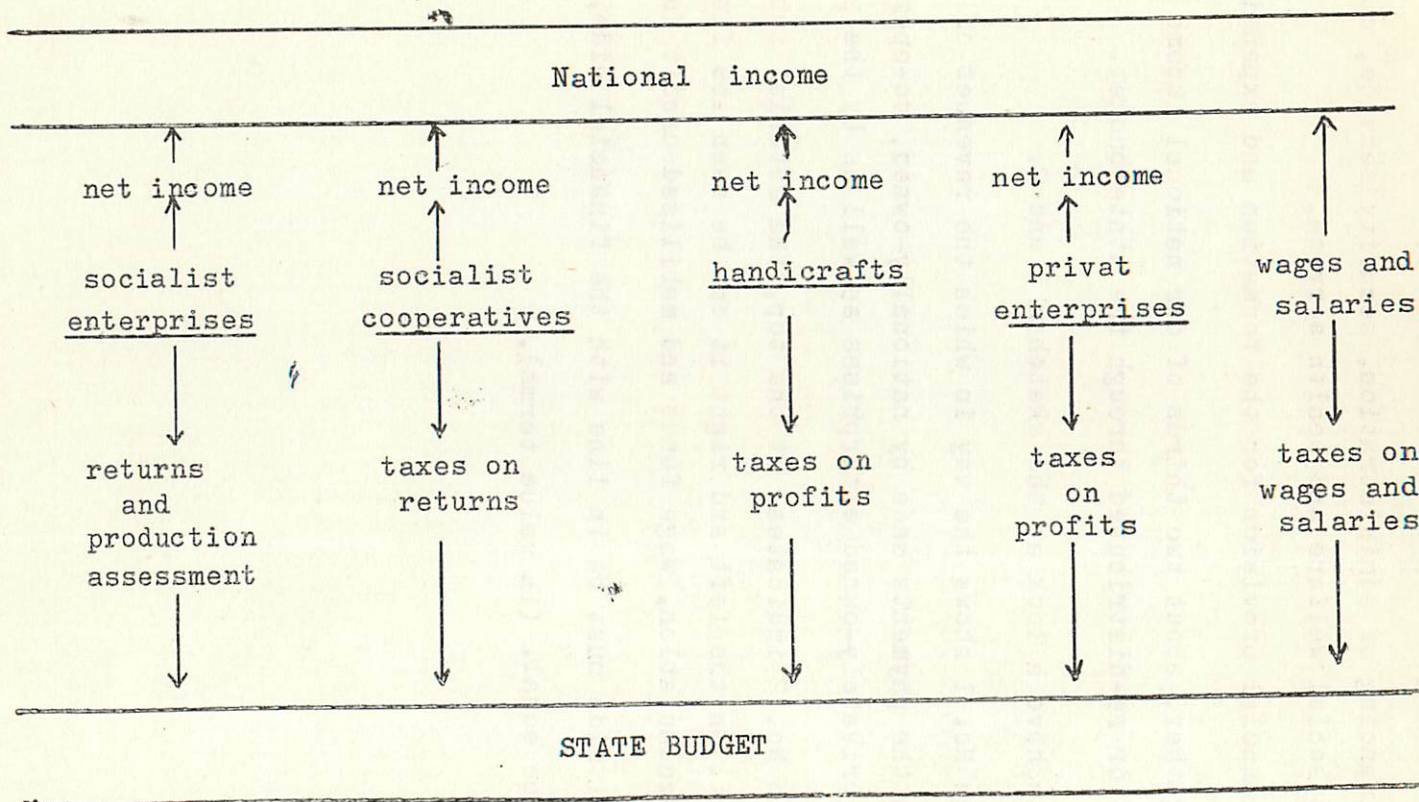
Sketch No. 1 shows the way in which the revenues of the budget result from the payments made by nationally-owned, co-operative, semi-state, and privately-owned enterprises as well as by the population.

Sketch No. 2 indicates, at the top, the material substance of the state budget. On the left and right it can be seen its financial forms as budget accumulation, wage funds and mobilised credit funds.

The material side must be in line with the financial side, i.e., both sides must be equal. (in value terms).

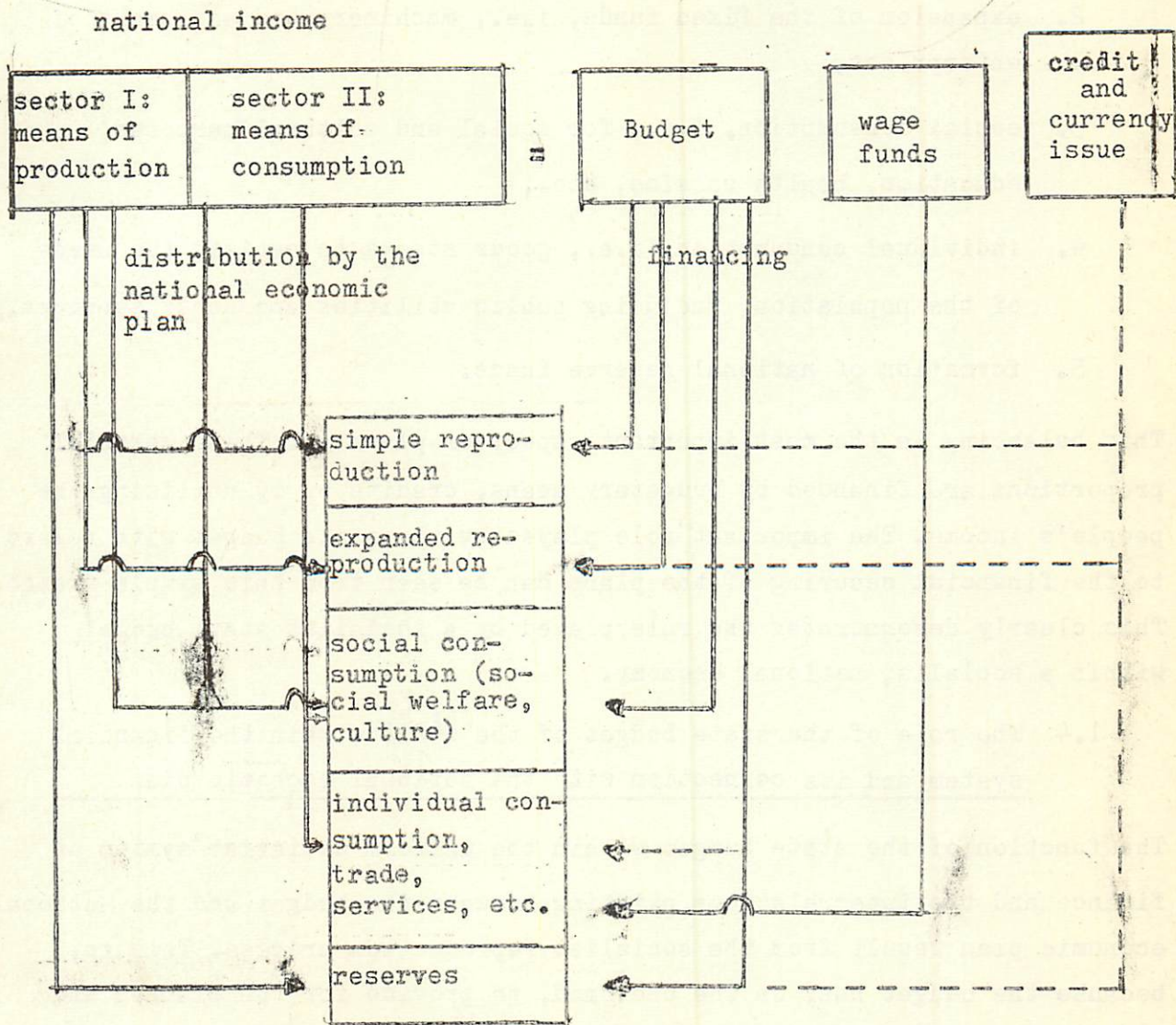
Sketch 1: FORMATION OF NATIONAL INCOME AND STATE

BUDGET



Sketch 2

Utilization of Budgetary Funds



The material use of the national income is planned in the national economic plan in accordance with the requirements of the long-term plans, and in certain proportions, for the following purposes:

1. Maintenance and
2. expansion of the fixed funds, i.e., machinery and equipment of enterprises,
3. social consumption, i.e., for social and cultural purposes, education, health service, etc.,
4. individual consumption, i.e., goods stocks to satisfy the needs of the population, including public utilities and other services,
5. formation of national reserve funds.

This balancing is the most important aspect of planning. These material proportions are financed by budgetary means, credits or by utilizing the people's income. The important role played by the state budget with regard to the financial securing of the plans can be seen from this simple sketch. This clearly demonstrates the role played by a socialist state budget within a socialist national economy.

1.4 The role of the state budget of the G.D.R within the financial system and its connection with the national economic plan

The function of the state budget within the uniform socialist system of finance and the interrelations existing between the budget and the national economic plan result from the socialist reproduction process. This so, because the budget has, on the one hand, to provide for the planned and continuous expanded socialist reproduction being safeguarded financially and, on the other hand, has to control it by means of finance.

In this context, the following main tasks arise for the state budget:

1. an improved and priority financing of the planned development of the basic industries,

2. The financing of measures aimed at an improved technological level of production by concentrating more funds
 - a- on reconstruction measures,
 - b- on mechanizing and automating production and
 - c- on the specialisation and co-operation of production.
3. The state budget must, by means of appropriate financial measures, stimulate the steady increase in marketable agricultural output in order to secure the supply of the population with foodstuffs from our own resources;
4. The state budget must, by forming corresponding funds, make its contribution to further improving the living standard of the people.
5. The financial system, but especially the state budget and the influence it is able to exercise, must be used for controlling the measures which arise out of wages policies and other financial measures.

These crucial functions of the state budget result from the tasks, fixed in the national economic plans for the development of the national economy and the improvement of the living standard of the population.

The state budget plays a leading role within the socialist system of finance. This leading role follows from its position within the process of socialist reproduction and from its close connection with the national economic plan. The national economic plan determines the direction and speed of development in the sphere of social life, whereas the state budget provides for the financing of most of the tasks envisaged by the national economic plan. This elucidates the top role the state budget plays within the socialist financial system.

On principle, this leading role of the state budget in the socialist system of finance is not diminished by the New Economic System of Planning and Managing of National Economy. This follows, among other things, from the continued necessity of a politically as well as economically steered

distribution and re-distribution of the total social product, particularly the national income. This requires the application of the budgeting method in most cases.

Consequently, within the process of socialist reproduction the socialist state budget will fully maintain its dominant position compared with other financial categories such as credit, e.g.

In these circumstances, the state budget remains a coordinating instrument of financial policy. In the last resort, all other financial plans flow into the state budget, i.e., the state budget includes or co-ordinates the following items:

1. the financial plans of the nationally-owned sectors of economy;
2. the budgets of state administration and institutions;
3. the investment plans;
4. the credit plans;
5. the financial plans of credit banks and insurance companies;
6. the plan for the development of the goods and purchase funds;
7. the so-called foreign trade price equalization plan;
8. the plan for subsidizing agricultural produces;
9. the currency plan and, finally;
10. the tax plan.

These main connections are to be shown by sketch 3. (c.f. page 14)

Thus, the state budget is in the centre of central planning and finance operations, now as before.

It remains the basic financial plan of a socialist state. Now as before, the annual decree on the state budget fixes the guideline for the entire financial policy over the period of a year.

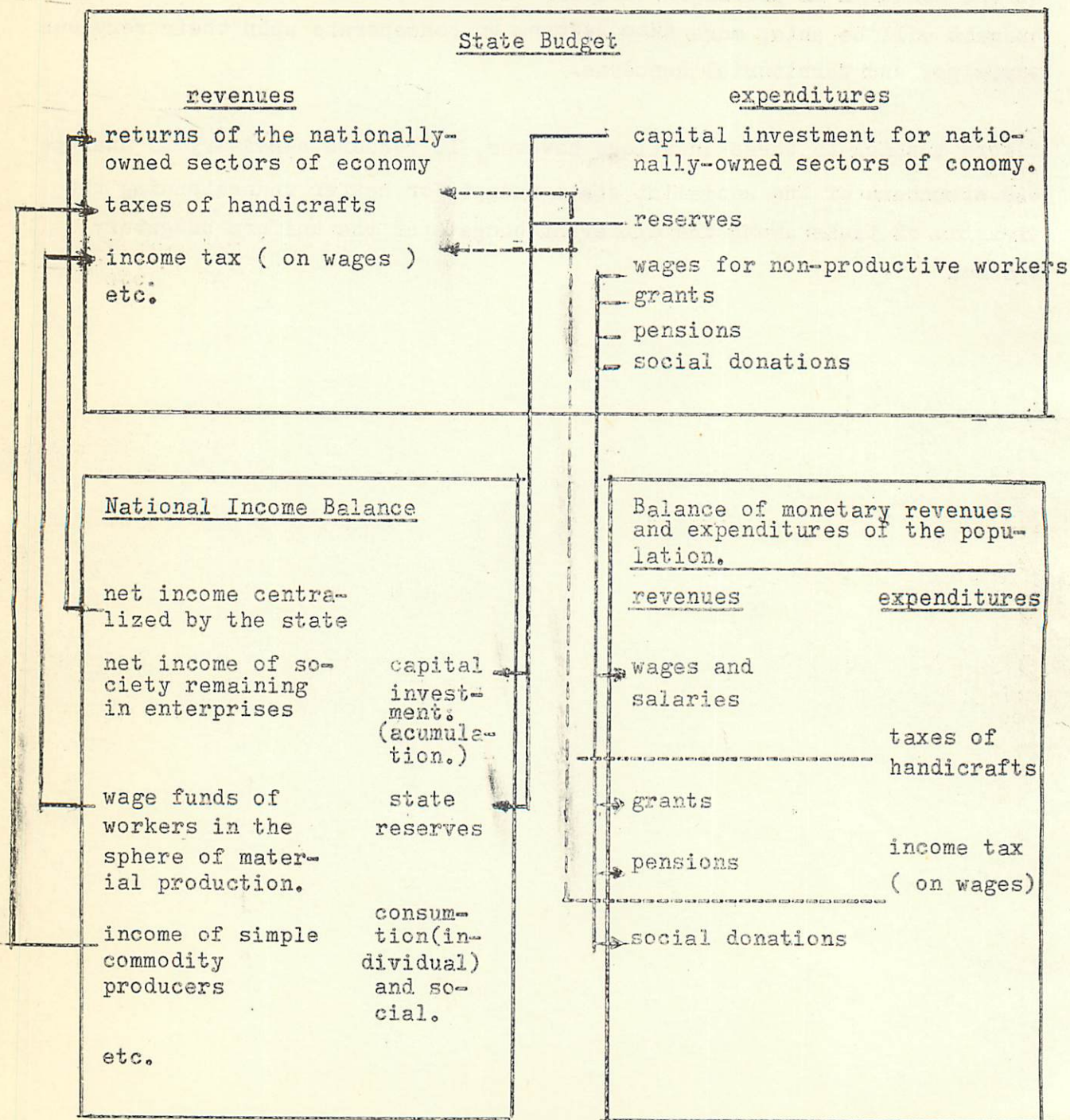
The introduction of the New Economic System of Planning and Managing will lead, however, to a certain shift of tasks between the different components of the uniform state budget as well as between the state budget and the other parts of the socialist system of finance.

In particular, the implementation of the production principle in planning and management of the national economy will orient the central state budget on the solution of principal national economic tasks, whereas the local budgets will be able, more than before, to concentrate upon their very own municipal and territorial concerns.

Before turning to these questions, however, it renders necessary to analyse the structure of the socialist state budget for better understanding the division of tasks among the different budgets of the uniform budgetary system.

Sketch 3

Connections between National Economic Balance-sheets
and the State Budget.



1.5 The structure of the state budget

In the previous chapters the term "uniform state budget" has been used .
What does it mean?

In socialist countries the budgets of different regional bodies, as, for example, the budget of a community, or the budget of a county, do not co-exist independent of each other. Under socialism the budget of the community, i.e., town or village, is the smallest cell of a comprehensive and uniform budgetary system. Accordingly, the budget of the community is incorporated into the budget of the county, the next higher administrative unit. Consequently, the county budget is the sum total of the different community budgets, supplemented by the means which are earmarked for financing the specific tasks of the county authorities. In this way the county budget is formed which, in its turn, is subsumed in the budget of the next superordinate organ, i.e., the budget of the district. Here, the same process repeats again. The county budgets are summed up, supplemented by means needed for fulfilling the specific tasks of the district. The resultant budget of the district is then submitted to the central authorities which set up the central state budget of the German Democratic Republic.
(c.f. sketch 4)

In order to secure that each budget disposes of those funds which are required for accomplishing its tasks, there exists a so-called system of budget equalization in our republic characterised by the following methods:

1. each budget is granted its own sources of income
2. local budgets (i.e., local authorities) have a share in central revenues of our republic
3. local authorities receive fixed allocations out of the central state budget.

The advantage of such a budget equalisation is that the material tasks envisaged by the plan are financially secured, irrespective of the financial power of the territory concerned. Budget organs are strictly forbidden to make borrowings. Through the system of budget equalisation the different budgets are always balanced, i.e., adjusted.

Sketch 4

Structure of the Uniform State Budget of the GDR.

central budget	<p>Budget of the Republic:</p> <p>Budget of the People's Chamber, budgets of the Ministries including the financing of subordinated enterprises and budget organisations, budget of social insurance</p>
	<p>District Budgets ↓</p> <p>Budget of the District Council</p> <p>Budget of the District Parliament (reg. people's representation).</p> <p>Budgets of the departments, including the financing of the subordinated enterprises and budgetary organisations:</p>
local budgets	<p>County Budgets ↓</p> <p>Budget of the County Council</p> <p>Budget of the County Parliament (People's representation of the county)</p> <p>Budgets of the departments including the financing of budget organisations.</p>
	<p>Municipal (Communal) Budgets ↓</p> <p>Budget of the Town or Village Council</p> <p>Budget of the local people's represen- tation</p> <p>Budgets of the sections, including the financing of budget organisations</p>

This holds true as far as the external subdivision of the national budget is concerned. Alongside with this external subdivision there is also an internal one which follows directly from the tasks the state budget is confronted with and from its close connection with the aggregate reproduction process of society. The internal subdivision of the state budget has to be adapted to the national economic plan. This adaptation arises, of necessity, from the unity of material and financial planning in socialist countries.

The first principle of subdividing the socialist state budget concerns the division into different spheres of duties according to the requirements of the national economic reproduction process. Since the national economic spheres of duties do not coincide with the administrative spheres of responsibility a second principle of subdivision according to separate plans is necessary. Whereas the subdivision into spheres of duties (i.e., the health service) makes possible direct provisions in the national economic plan, the subdivision according to separate plans fixes the responsibilities of the different state authorities for fulfilling certain budgetary tasks (for example: the tasks to be solved by the different Ministries in the sphere of health service are fixed there). This shows quite clearly that both the internal and the external subdivision of the state budget arise from the tasks to be fulfilled by the budget, as the financing instrument of the national economy. Which changes are brought about due to the introduction of the new economic system, especially, with regard to the role of the state budget in the economic reproduction process, shall be dealt with in the following chapter.

1.6 The state budget within the New Economic System of Planning and Managing the National Economy

Characterizing the state budget it has been stressed that it is directly included in the national economic reproduction process. The revenues of the state budget obtained from the nationally-owned sectors of economy, that means, parts of the net income of society realized by socialist enterprises, are considered to be the most decisive sources of budgetary revenues.

Furthermore, it has been referred to the great concentration of budgetary funds on the planned financing for developing national economy.

When analysing the effects of the new economic system this system of state budget needs to be reconsidered. On principle, it may be said that, as far as the uniform state budget of the GDR as a whole and the government budget of the republic are concerned, the indicated role of the budget within the national economic reproduction process are not affected by the new economic system.

Nevertheless, certain quantitative shifts following in its wake have to be taken into consideration.

1. Changes concerning the local budgets.

The budgetary functions of local authorities (towns, counties, etc.) will be concentrated, more than before, on problems of cultural and social development and financing of cultural and social establishments. This so, because the financial relations of enterprises within Associations of Nationally-Owned Enterprises will be carried through directly. That means, for example, that the payment of returns, the allocation of financial means for investment within these socialist sectors of industry, etc. will not affect the budgets of local authorities.

Above all, main emphasis in the budgets of counties and districts has to be devoted to their municipal and specific territorial problems. Furthermore, their tasks are to be concentrated on questions of development of those enterprises subordinated to councils of districts, of local supply, and social consumption. Beyond that, the local budgets are of national economic importance under the new conditions as well, because they are responsible for financing both the necessary preconditions for measures of centrally-directed institutions (in the field of transport or the water distribution system, for example) and local measures arising from them.

2. Changes concerning the socialist sectors of economy.

As the Associations of Nationally-owned Enterprises are conducted according to the principle of economic accountancy (economic self-support) no direct financial relations will be implemented between enterprises subordinated to associations and state budget. To carry through the new financial tasks of the associations industrial branches of the state bank (German Bank of Issue) have been established in the most important branches of industry. These industrial branches are charged with executing all the financial relations between enterprises resp. associations and state budget concerning, for instance:

- payment of returns
- payment of production assessment
- payment of turnover tax
- allocation of investment granted by the state budget
- allocation of financial means for research and development paid by the state budget, etc.

In doing so, the associations of industry are expected to be able to lead the entire reproduction process within the respective branch in the most economical way.

For the comprehensive implementation of the new measures is on the way no final conclusion can be drawn at present. As some preceding experiments show, however, these new methods have been successful in practice when implementing the new economic tasks regarding the increase of labour production and economic efficiency of industrial production.

2. Concluding remarks

The above-mentioned ideas show that the role of state budget in national economy has to be considered in connection with the implementation of re-production process. Since the state budget doesn't and in itself it has to be adapted according^{ly}, i.e., to the new economic conditions arising. Such changes in planning and managing are implemented in some socialist countries at present. Thus, the different functions of the state budget must be reconsidered, too. This has resulted (in the GDR, for example) in establishing the mentioned industrial branches of the state bank. Nevertheless, in spite of all these variations in executing financial relations between economy and state budget the latter will be needed and play an important role in national economy as long as goods-versus-money economy will be existing.