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INTEREST RATE TO BE 6-7%?

For the first time a Soviet economist has published a specific suggestion as to what the future Soviet interest rate should be. Writing in the Central Committee's economic weekly, R. Belousov (a Bachelor of Economics) proposes that the interest should be levied at the rate of 6-7%, a level which closely corresponds to present Czech practice.

Belousov suggests that the interest rate (which he insists on calling a "payment for capital," presumably to avoid offending orthodox Stalinist susceptibilities) should replace the existing profits tax, because the latter is:

not directly connected with the efficient use of the basic and turnover funds of enterprises.

He points out that in 1963 the profits tax brought in about 26 billion rubles, at a time when the value of the basic funds and stocks held in the economy amounted to about 350 billions. Then he adds:

Deductions from profits therefore amount to about 6-7% of the value of production funds. Evidently this figure, in the first stage at any rate, can be used as a guide to the level of payments for funds.

Belousov suggests that those factories which cannot make a profit "for objective reasons" should be relieved of the necessity to pay interest for a certain specified period. He hints broadly that the "objective" reasons which he has in mind are defects in the present price structure and such problems as obsolete machinery and equipment.

Like the other Soviet economist, Atlas, who has recently advocated the introduction of the interest rate,¹ Belousov believes that the rate must be differentiated as between various branches of industry, although Atlas would prefer this solution only in the initial stages. Belousov admits that there is no objective basis for differentiation, but he advocates it on the pragmatic grounds that it would make it possible to stimulate technical progress, quality improvements, faster delivery dates, etc.

In a later stage of the reform, Belousov expects to see a transition to long-term credits for capital construction "as required," by which time the euphemistic "payment for funds" will be openly replaced by a rate of interest on such credit.

While it is true that Academicians Nemchinov, Trapeznikov and others have previously advocated the use of an interest rate over the past eighteen months,² they did so only in principle, and the crucial question of the actual rate of interest to be paid has not hitherto been publicly discussed.

The 6-7% suggested by Belousov conforms to the present Czech practice (6% on basic funds - see Izvestiya of 11 September 1965), and is slightly higher than the rate usually paid in West Germany by the most reputable firms (about 5½%).

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- 1) See Background Information USSR, "Decentralization of 10-20% of Engineering Capacity Proposed," of 8 September 1965.
 - 2) See Background Information USSR, "Economic Theory in Evolution," of 27 May 1964, and "A New Plea for Libermanism," of 20 August 1964.

On the other hand it is distinctly lower than the going rate in Britain at the moment, where Imperial Chemical Industries has just had to pay well over 7% for about £ 50,000,000, and is therefore yet another indication that capital in the USSR may be no longer quite as short as is sometimes assumed in the West.

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