

The Investments of the USSR Occupying Power in the Baltic Economies – Myths and Reality

The USSR ceased to exist a quarter of a century ago in 1991. However, the ruins of this lost empire keep bothering today's Russian ruling political elite as it builds its strategic communications with the outside world by returning largely to the rhetoric of the USSR. By declaring Russia the successor to the USSR, the political power of the Kremlin, it could be argued, is trying in a slightly modified form to strengthen the myth of the Soviet Union as a success story; including in the territories once occupied by the USSR. The aim of this article is to examine the extent (or lack) of Soviet economic aid and investments in the Baltic States during the Soviet occupation period 1939 – 1991, based on official documents recently found in the archives of the Baltic countries. It will be argued that the documents in the archives show that Latvia contributed more to the USSR budget than it got in return.

Background

After a secret agreement on 23rd of August 1939, the two totalitarian powers – communist Soviet Union and Nazi Germany – managed to implement its geopolitical ambitions in the Baltic region the following year. First of all, on the 1st of September, 1939, at the start of the Second World War Poland was divided, but from the autumn 1939 to the summer of 1940 the USSR implemented a series of aggressive measures in Latvia, Lithuania, Estonia and Finland. First, the Baltic countries were forced to allow the establishment of USSR military bases on their territory, while in June 1940 Lithuania, Latvia and Estonia were occupied and their independent statehood destroyed. During the winter of 1939 – 1940 Finland won a severe and bloody war with the attacking USSR, losing part of its territory as a result, but successfully defending its national independence. The Soviet Union unsuccessfully attempted to legalize the occupation of the Baltic States at an international level by organizing pseudo-elections in their territories based on standards from the USSR with a single list of candidates and the election results known already before the end of the election. These “parliaments” proclaimed Soviet power in the Baltic countries and asked for admission into the USSR. However, despite all these activities, the international community did not recognize the annexation of the Baltic States to the USSR. The USSR did however significantly better with the real subjugation of the Baltic States, keeping them occupied for many decades after the Second

World War. The Baltic countries managed to restore their de facto independence only in 1991, 51 years after occupation.¹

Soviet occupation and today's context

The Baltic nations restored their national independence following the collapse of the USSR in 1989. During the late 1980s Mikhail Gorbachev, then the leader of the Soviet Union, tried to modernize this totalitarian superpower both economically and politically, but it quickly became evident that democracy and the oppression of the independent efforts of nations built within the very foundation of the USSR state structure were incompatible. However, the political elite which managed to consolidate power within the Russian Federation began to increasingly construct the national identity of their country based on the ruins and values of the collapsed empire.

As predicted by the expert Henry Kissinger during the first half of the 1990s, the Kremlin's political elite sought to restore its political influence in the territories of the former Soviet Union by adopting a cooperation model it has found optimal and managed to establish with Belarus.² By contrast, the countries that opted for an independent foreign policy rapidly caused significant tensions and fell from grace vis-à-vis Russia. Striking examples are periodically tense relations with the Baltic States, Georgia, as well as the sharp and aggressive change in attitude towards Ukraine when it stopped regarding itself as a protectorate of the Kremlin. The USSR confrontation with the West and NATO was also taken over by Russia as an integral part of its foreign policy doctrine. In its strategic communication with the international community, the Kremlin political elite does not only express regret about the end of Soviet era, but also demonstrates its military power and uses it in the relationship with the neighbouring countries.

Today's Russia continues to promote the view of the USSR as a "success story".³ Benefitting from the situation where a large part of the population of the former USSR is still within a unified Russian-speaking information space, the Kremlin elite supplies them with biased information, on the one hand destructively criticizing the policies of disloyal countries and rejecting their achievements since independence, but on the other hand emphasizing that they evolved considerably better as part of the USSR before its collapse, owing largely to the

¹ Latvia Towards 100 Years. Riga, 2014., p. 431 – 458.

² Henry Kissinger. Diplomacy. Riga, 2002., p. 859.

³ President of the Russian Federation Vladimir Putin about the USSR, Joseph Stalin and the Second World War (in Russian).<https://www.youtube.com/watch?v=B5W3TYEx-og>

generous assistance of various kinds received from the USSR⁴. By contrast, Russia and its current geopolitical partners are positioned as benefactors, the socio-economic donors of Soviet time at whose expense the other Soviet republics (occupied Baltic States (Latvia, Lithuania and Estonia), Ukraine, Armenia, Georgia, Azerbaijan, Kazakhstan, Uzbekistan, Kirgizia, Tadjikistan, Turkmenistan, Moldova).

The three Baltic States and Georgia are traditionally referred to as the largest consumers who spent one and a half to four times more than earned.⁵ This article will argue why this information is false, but within the Russian information space, this idea is also intertwined with the EU's cohesion policy and EU structural funds in the Baltic countries after they joined the EU in 2004. There is a concerted attempt to convince the public that the Baltic countries are not sustainable, and were chronic recipients of co-funding either from the USSR in the past or from the EU today.⁶ It is however ignored that it was the colonial socio-economic policy implemented by the USSR over 51 years that turned the Baltic countries into less developed regions compared to Western Europe. And most importantly - the statement on Soviet aid or investment in the Baltics during the occupation period is a lie. The documents found in the archives of the Baltic countries show clear evidence that the Baltic States contributed significantly larger amounts to the USSR central budget than what they got in return. In addition, throughout the occupation period, the USSR was able to finance both the army deployed in the Baltics and the expenses of the repressive institutions (such as the National Security Committee) with the revenues of the three Baltic countries.

Propaganda in Latvia; the Soviet occupation period

In 1940 the USSR occupied a modern European country with the economic statistical indicators significantly better in most areas.⁷ For example, Latvia was far more advanced and productive, its export-oriented agriculture, innovative industrial sectors producing both airplanes, cars and sophisticated farming machinery, as well as the world's best-standard radio and photo equipment contrasted sharply with the Soviet reality, especially in terms of quality of life of the average citizen. The USSR military staff and officials who began to arrive in large numbers after the occupation were impressed by the fact that all kinds of food

⁴ Ainārs Lerhis. Vēstures jautājumi Krievijas publiskajā diplomātijā. 166. — 167.lpp. Krievijas publiskā diplomātija Latvijā: mediji un nevalstiskais sektors. LU apgāds, 2014. http://apcc.lv/wp-content/uploads/2014/09/Krievijas_publ_dipl_Latvija_2014_APPC.pdf

⁵ <http://www.stena.ee/blog/strany-byvshego-sssr-kto-komu-i-skolko-dolzhen>

⁶ <http://www.rubaltic.ru/news/30092016-2020-pribaltiki-perelomnym/>

⁷ Ž. un E. Balks. Latviešu tautas garīga audzināšana un kulturāli saimnieciskais stāvoklis citu valstu saimē. Rīga, 1940., 71 — 117. lpp.

and industrial goods were available in free trade and offered in a wide range,⁸ and that there were no specific shops for the representatives of higher political elite. On the eve of the occupation, Kegums power plant was launched – the most modern hydroelectric power plant in the Baltic States. Both in urban and rural areas there was a good social infrastructure, modern schools, and a wide range of cultural buildings. Despite all this, the Soviet occupying power had to justify its existence in the territory of Latvia with more than just a release from the “plutocratic regime”.⁹ Using the affinity for agriculture of the authoritarian regime of Karlis Ulmanis, as well as the fact that after the First World War, during which there had been evacuation of all kinds of industrial equipment to Russia, the share of agriculture in the Latvian economy had increased, the Soviet regime tried to use this situation for their own needs. At the end of 1940 it was announced that in Moscow at the Communist Party conference (other sources have made reference to the orders of Joseph Stalin¹⁰) it had been decided that Latvia was to be transformed from an underdeveloped agrarian country into an industrial Soviet republic in four-five years time. The devaluation of lats and its equalization to ruble in 1940 was used to manipulate the statistical data, and in the spring of 1941 it was announced that the total amount of industrial production (calculated in rubles) during three months (the first quarter of 1941 compared to the fourth quarter of 1940) had grown nearly 2.5 times (!), from 432 to 744 million rubles.¹¹ A similar method based on the value of the production in lats, and sometimes using only the period up to the Soviet occupation, namely the first half of 1940, was used also in the coming years. A good example is the comparison of the engineering and metalworking industries in 1940 and 1980 with the total production in 1980 presented as 573 times higher.¹²

Since the Latvian economic model before the occupation was sustainable¹³, the Soviet regime created some weaknesses. In 1940 after the occupation, the agrarian reform was announced – an absolutely meaningless measure from the economic point of view, which reduced the average size of Latvian farms, but the results of this agrarian reform were immediately used by the occupation forces to their advantage. The receivers of 10 hectares of land were in an unenviable situation – the agricultural workers of the largest farms were turned from paid workers with a stable income into users of a small plot of land, in most cases without

⁸ Latvian National Archive (LNA), F. 389., descr. 1., f. 248., p. 2.. More about that: Gatis Krūmiņš. Economic and Monetary Developments in Latvia during World War II. The Bank of Latvia XC. , 2012.

https://www.bank.lv/images/stories/pielikumi/publikacijas/citaspublikacijas/Krumins_WW_II.pdf

⁹ This is how the authoritarian regime of Kārlis Ulmanis established in Latvia after May 15, 1934 coup d'état was called during the first year of the USSR occupation. Later Ulmanis regime was called fascist by the Soviet propaganda, comparing it to Nazi Germany.

¹⁰ Speech of Vladimir Dereviansky, representative of the Central Committee of the Communist Party of the Soviet Union and the Council of People's Commissars in Latvia (December of 1940, Riga). Padomju Latvija. 1940.gada 31.decembris, 4. lpp.

http://www.periodika.lv/periodika2-viewer/view/index-dev.html#panel:pp|issue:/p_001_pala1940n122|article:DIVL156|query:industri%C4%81lu%20Sta%C4%BCina|issueType:P

¹¹ LNA, F. 101., descr. 1., f. 49., p. 57..

¹² П. Гулян. Латвия в системе народного хозяйства СССР. Рига, 1982., стр.47.

¹³ Latvia Toward 100 Years. Riga, 2014., p 191. – 208.

residential and farm buildings, livestock and agricultural equipment. In reality the Soviet regime had created a class of rural population condemned to poverty, at the same time striking a heavy blow at the largest, market- and export-oriented farms depriving them of both land and labour. This economic absurdity was skilfully used to commence the rural Sovietisation process and to simultaneously create an impression of Soviet power assistance for the poor. In order to ensure the collective farming of the land was granted to landless farmers, Machinery and Tractor Stations (MTS) as well as Machinery and Horse Rental Points were established in the rural areas. The infrastructure of these service companies were built based on the most successful farms – in the framework of the Soviet agrarian reform one untouched “model” farm was left in each district; the owners of these farms were later on simply evicted.¹⁴ These were the first steps towards the collectivization of agriculture, while the USSR occupation power was finally able to demonstrate its “help”, adopting a decision by the Communist Party leadership in February 1941, widely reported in the press and later described in Soviet historical literature, as the eradication of poverty and “farms without cows” in Latvia.¹⁵ What was missing in this biased official comments was these changes were at the expense of other Latvian farms which were obliged to sell their cows for a state-defined price to the landless farmers.

The creation of an impression of Soviet support to Latvia was strengthened after the Second World War. Latvia had re-entered Soviet control, and during this period the USSR began to operate in a significantly more targeted way. The resources of the territory and the population were exploited, but the official information sources declared the opposite – that the USSR was investing in the Latvian economy and socio-economic processes. The press and radio, later television, as well as scientific and popular-science publications were used to strengthen this deliberately skewed interpretation. For example, the history of the Latvian SSR published in 1959, the post-war period was characterised as follows: “*The events of the Latvian nation in restoring the national economy became possible thanks to that huge assistance provided by the Soviet government, the Soviet Union Communist Party Central Committee, the fraternal Soviet republics and the Soviet army.*”¹⁶

The industrialisation topic was also widely used – ignoring the Latvian industrial achievements on the eve of the occupation; Latvia was described in this period by the derogatory epithet “*agrarian adjunct of imperialist countries*”. By contrast, the alternative view and its origin were clearly defined: “*Owing to the huge help from the rest of the Soviet*

¹⁴ Gatis Krūmiņš. Economic and Monetary Developments in Latvia during World War II. The Bank of Latvia XC. , 2012. https://www.bank.lv/images/stories/pielikumi/publikacijas/citaspublikacijas/Krumins_WW_II.pdf

¹⁵ Latvijas PSR vēsture, III sējums. Rīga, 1959., 412. — 413. lpp.

¹⁶ Ibid, p. 485.

*republics and the cooperation of Soviet nations, the industrialisation of the Latvian SSR began during the early post-war years.*¹⁷

The public were also misinformed about the financial policy, priorities of budget expenditures. At the time when, in reality, almost half of all expenditure¹⁸ was spent for military purposes, a story was constructed on extensive investments in the national economy and in the needs of the population: *“The second session of the second convocation of the Latvian SSR Supreme Council in March 1948 endorsed the republican budget for the year 1948 – 1 billion 454.1 million rubles. (...) About a third of all the republican budget expenditures (463.6 million rubles) were allocated to the development of the national economy. In addition, large amounts of the USSR budget were envisaged for the building and reconstruction (...) of the largest republican enterprises and construction objects. (...) 89.3% of the total budget resources were allocated for further development of the national economy and the domestic and culture needs of the inhabitants.”*¹⁹

The same assumption of great material benefits after the occupation also cut across the reference books, including the Latvian Soviet Encyclopaedia published during the last decade of the occupation: *“Admitted to the family of the united Soviet republics, the LSSR received great, selfless help from all Soviet nations”*.²⁰

The Latvian Soviet Encyclopaedia does not even mention any Soviet budgetary expenditure in the Latvian territory, only the Latvian SSR budget revenues and expenditure is analysed (however, it mentions that in compliance with Leninist and democratic centralism principles²¹ the budget of the Latvian SSR is part of the USSR budget). The relations between the Latvian SSR budget and the USSR budget are not explained in any way.²²

The occupation regime largely avoided characterizing the Soviet financial policy with figures, confining itself to already mentioned general phrases about “selfless assistance”. The USSR budget expenditure in the Latvian territory, even investments in the industry were never made public. The only publicly available source was the republican budget including a heading “USSR budget allocation” within annual revenue. The data on the amounts of the Latvian revenue forwarded to the USSR budget, and the data on the part of the revenue which returned and the purposes it was used for, have not been found in the historical literature until now.

¹⁷ Ibid, p. 496.

¹⁸ LNA F. 202., discr. 1-a , p. 1. and F. 327., discr. 4. —revenue and expenditures in the Latvian territory.

¹⁹ Ibid., p. 500. — 501.

²⁰ Latvijas Padomju enciklopēdija, 5-2 sējums, 332. lpp. Rīga, 1984.

²¹ In their terminology the Soviet occupation regime broadly used expressions that characterized a democratic structure of a state. However, in reality the democratic governance principles were ignored, the USSR had neither free elections, nor freedom of the press, nor other features characterizing a democratic society.

²² Ibid, p. 432. — 433.

It has to be admitted that also in the Soviet occupation period some authors managed to publish information “between the lines” allowing a more observant reader to draw other conclusions. The publications of Pēteris Guļāns²³ can be mentioned as an example; the author had the skill to include objective information in between propaganda saturated phrases. For example, in writing about the period from 1946 to 1950, the economist points out that the total amount allocated for industrial investment from the USSR budget was only 90 million rubles. He also used the statistical data on the radio industry, showing the development of this sector before the Soviet occupation.²⁴

USSR investments in the Baltics: today's myths

Contrasting the USSR's views in the past to the present, a large part of the Soviet propaganda in a somewhat transformed form is also used nowadays as it fits well with the efforts the ruling political elite of today's Russia to restore its influence in the Baltic countries²⁵. Thus, the Russian-funded media quite often offers articles entitled “Why the Baltic economy was good only in the USSR”²⁶, “How much the USSR invested in the Baltics”²⁷, and similar. Using the myths and the interpretations of today's situation based on false or misleading information and created by the Soviet regime, the future visions are designed with the only future scenario being the strategic rapprochement of the Baltic States with Russia in order to receive its financial assistance, as it is alleged to have happened in the Soviet times.²⁸

It is disappointing to note that some scientists also contribute to strengthening this Russian interpretation. At the end of 2015 in Moscow, a collection of documents were published entitled “Soviet economic model: the union centre and the Baltic republics in 1953 – March 1965”²⁹. The publication of more than thousand pages is designed almost exclusively from a variety of archival documents, but it does not change the fact that the document range is insufficient to draw objective conclusions about the economic relations between the Soviet central power and the occupied Baltics during this period. Critically, the collection does not include documents providing a comprehensive breakdown of the financial revenue between the local republican budgets and the USSR budget, not to mention any documents that

²³ After the author of the research met with P. Guļāns and discussed the writing conditions of his publications, it can be concluded that the secret documents, including the financial summaries, were not available to him.

²⁴ П. Гулян. Латвия в системе народного хозяйства СССР. Рига, 1982., стр.28.; 95.

²⁵ Timothy Thomas. Russia's 21st century information war: working to undermine and destabilize populations. Defence Strategic Communications. Riga, 2015., pp. 10. — 11.

²⁶ <http://www.stena.ee/blog/pochemu-ekonomika-pribaltiki-byla-horosha-tolko-v-sostave-sssr>

²⁷ <http://www.rubaltic.ru/context/14032016-vlozhilo-v-pribaltiku/>

²⁸ <http://www.rubaltic.ru/news/30092016-2020-pribaltiki-perelomnym/>

²⁹ Советская модель экономики — союзный центр и республики прибалтики 1953 г. — март 1965 г. Москва 2015.

describe the USSR military spending in the Baltics. With the help of documents the publication gives an insight into many investment projects, but without an overall picture (a comparative analysis of the total revenue and expenditure) this method is rather unsuccessful if its goal really was an objective assessment of the relationship between the central power and the occupied Baltics. It is difficult to comment on what motivated the authors to publish these particular documents – a subjective approach and document selection according to a certain political position, or perhaps unavailability of other documents (possibly still having secret status) in the Russian archives. The responsible compiler and the author of the introduction of the edition is historian Elena Zubkova - the author of an objective book based on documents “Baltics and Kremlin”³⁰.

However, it is clear that the collection of documents and subsequent conclusions fully satisfy the Kremlin in its misleading analysis. Consequently, it is not surprising that the Russian government-funded media described the release of the collection by such expressions as “*Archive facts strike at the Baltic occupation myth*”.³¹ The book does not particularly emphasize the “voluntary” accession of the Baltics in the USSR, but the term Zubkova used in 2008 – “occupation” – is not mentioned anymore. It has been replaced by the terms “incorporation” and “accession”. Yet there are no attempts to prove that the Baltic countries were poor and underdeveloped at the time of the occupation. Zubkova acknowledges in the introduction that “*the economic and social development equalization policy implemented by the USSR was not topical in the Baltics since the quality of life of its population before the inclusion in the USSR was relatively high compared to other Soviet republics*”.³² But already in the next paragraph the author of the introduction overturns this thesis, referring to the classics of the Soviet propaganda: “*The Baltic States had to be converted from raw-material and agrarian adjuncts of Western countries to highly developed industrialized agrarian republics*.”³³ The author goes on to explain that “*it was a wide scale investment project that changed the structure of the national economy sectors, provided radical changes in the infrastructure and increased the living standards of the Baltic population. The implementation of it required large capital investments from the Union centre*”. The author tries to justify her theory on major investments of the USSR in the Baltic States by the statistics of the year 1956 – the national income per capita in Latvia was 647 rubles, in Estonia 636 rubles, and in Lithuania 459 rubles (average in the USSR – 535 rubles). Yet the author does not comment why Lithuania was so immune to these “investments”, presenting significantly weaker results. The explanation of this difference is to be found by going back to

³⁰ Елена Зубкова. Прибалтика и Кремль. 1940 — 1953. Москва, 2008.

³¹ <http://www.rubaltic.ru/article/kultura-i-istoriya/17122015-okkupacija/>

³² Советская модель экономики — союзный центр и республики прибалтики 1953 г. — март 1965 г. Москва 2015. стр. 7.

³³ Ibid, p. 8.

1940 – at the time Latvia and Estonia were more developed than both the USSR and Lithuania, and this difference had remained also in 1956, and continued to persist in later years, the difference gradually disappearing. By contrast, there was no investment from the USSR in 1940s, nor was there any at a later stage.

The USSR occupation regime in the Baltics – financial policy and political context

In one respect the USSR and modern Russian authors who spoke and are speaking about the special status of the Baltics in the USSR are right. Since the Baltic States were an occupied territory, the USSR regime also acted accordingly by strengthening the territory management with special control-providing units. In 1940 – 1941 the role was performed by CPSU CC³⁴ and the USSR CPC³⁵ special representative bureau; however, after the Red Army entered in 1944 in each of the former countries a new special direct representation unit of the occupation power was established – CPSU CC bureau. The Latvian bureau was renewed already during the war – on December 29, 1944. These bureaus functioned until 1947 and fully controlled the economic and political processes in the Baltic countries and periodically wrote reports on the “Sovietisation progress” and other topical issues.

Up until 1949 there was a special USSR state planning structure in Latvia – the USSR Council of Ministers State Planning Committee assignee in the Latvian SSR. The unit had similar tasks as the already mentioned CPSU CC Latvian Bureau – direct control of the work of the Latvian authorities. The USSR economic activity was organized following the planned command economy principles – centrally approved state plan was the force of law, and its execution was strictly controlled.

The USSR in general had a highly centralization approach to all major processes, and its financial policy was no exception. The budget plan (revenue and expenditure) was approved centrally, but all revenue and expenditure was divided in the Soviet Union (the USSR) and the republican budgets. Methodologically the budget planning and performance monitoring was done according to the territorial principle, i.e. all Union and republican budget expenditures were recorded in the respective territory. The Baltic countries (during the occupation – the Baltic Soviet republics) were also as separate territorial units, and the responsible units for the inventory of the budgetary implementation results were the

³⁴ The Central Committee of the Communist Party of the Soviet Union

³⁵ The Council of People's Commissars - the title of the USSR government up to 1946. Later – The Council of Ministers.

ministries of finance in the republics and the USSR Central Bank branches (republican offices) located in the capitals.³⁶

From outside, the impression was created of a sovereign republic of the USSR approving a balanced budget (e.g. the Latvian SSR budget was approved by voting of the Latvian SSR SC (Supreme Council), which was reported to the public by the media at that time), but this had very little to do with reality. The real cash flow in the territory of Latvia during the USSR occupation period took place in a close, integrated system of the Latvian SSR and the USSR budgets. The real financial situation, budget relations, balance and settlements were hidden from the public, only the highest state leadership was aware of the real situation. The USSR and the Latvian SSR SC voted and approved the budgets, but the deputies had no idea what the real financial situation was and where the money was channelled as a priority.³⁷

Also the budgetary control and results summaries were performed in a complex way, at the same time tracking the republican and the Union implementation of the budget. Summing up monthly reports, the employees of the republican branches of the USSR Bank summarized the results in standard forms, which were sent to Moscow in January each year. In February Moscow commented on the received reports requesting clarifications and corrections if necessary.³⁸ In general it must be admitted that Moscow was satisfied with the work of the accountants of the Baltic Republics – the adjustments were minor, or there were none of them. On the revenue side (in standard form) there were two columns for each heading – the republican and the Union budget where the amounts channelled to the respective budget were fixed. The methodology of expenditure accounting was more complicated as it contained also secret sections. The USSR budget expenditure in the relevant territory was divided in two parts - one part was related to the expenses of the enterprises controlled by the Soviet Union ministries, while the other – more significant in terms of financial amounts and secret – with everything that was related to the military and internal security sphere. However, all was combined in the total statistical report.

During the occupation, the USSR budget expenditures in the respective territory, even those associated with the Union ministries' expenditure were never made public. The only publicly available reference on some of the budget expenditures of the USSR was in the published republican budgets containing a heading "USSR budget allocation". Possibly the authorities did so in order to avoid unnecessary questions in the society, such as the amounts of the

³⁶ LNA F. 202., descr. 1-a, p. 1. l.

³⁷ The Soviet parliaments - Supreme Councils were fake institutions with no real political power which had to create impression of the USSR democratic governance. Supreme Council members were granted certain privileges (eg access to special shops, where there was a wider range of different products), but no real influence on the political processes in the country. The real political power was in the hands of the Communist Party highest nomenclature (CPSU Central Committee and the CPSU Central Committee Politbureau), the ordinary MPs did not have information on many socio-economic and political aspects, including the actual expenditure and revenue.

³⁸ LNA, F. 202., descr. 2.

republican budget channelled to the USSR budget. Also this data was not published in any combination during the USSR occupation period. The information about these financial movements was not available to the public or researchers for a long time, so there was little understanding of the real situation in the USSR financial policy on the budgetary level. This information gap was filled by the Soviet official sources who spoke about large investments though never supplemented with documentary evidence justifying such allegations.

Research data – the accounting documents of the USSR State Bank branches

After the restoration of independence of the Baltic States in 1991, the accounting documents of the USSR State Bank branches which were for a long time not within the researchers' view were declassified. When carrying out an in-depth research on the economic processes during the USSR occupation period, the author found unique accounting documents in the Latvian State Archive and Latvian Bank Archive in 2014 (annual reports of the USSR and the republican budget revenue and expenditure execution); by using and summarizing these documents, in the following years the author has done the analysis of the USSR financial policy in Latvia during the Soviet occupation. In 2016 the author managed to identify similar documents also in Lithuanian and Estonian archives, thus allowing this paper to draw conclusions about the financial policy of the USSR in the Baltic States as a whole.

The documents identified in the archives of the Baltic countries enable making calculations on all the revenue and expenditure in the Baltic States during the Soviet occupation, including the expenditure of the USSR occupation regime for military purposes and funding repressive institutions. These unique documents make it possible to assess the economic processes in the territory of the Baltic States and provide answers to many hitherto unanswered questions, as well as subvert the idea constructed during the USSR occupation period on the extensive Soviet investment in the Baltic territory.

State budget settlements in Latvia and the Baltics after the Second World War

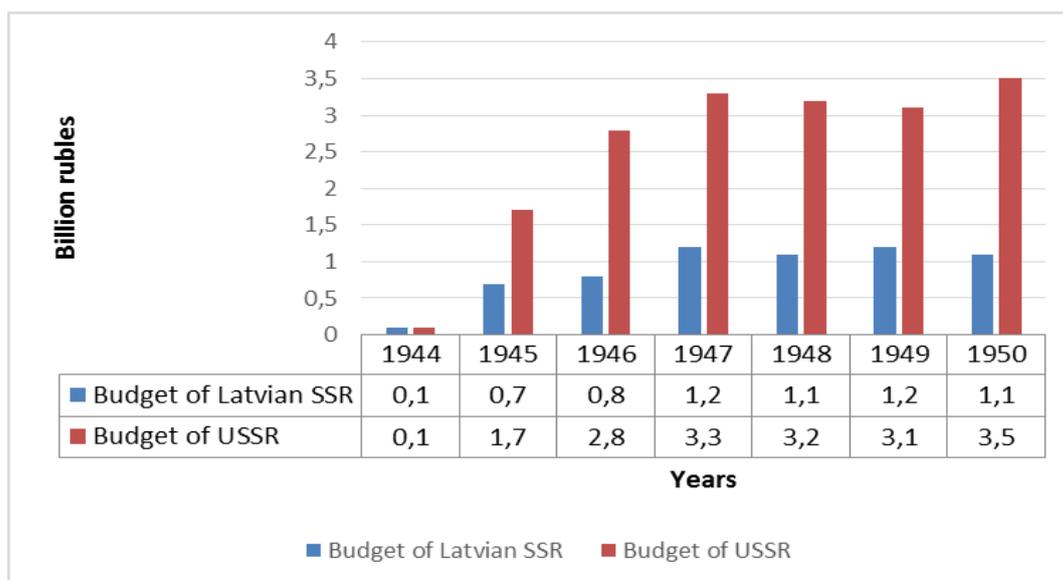
During the post-war years about a quarter of the revenue generated in Latvia by taxes and fees were directed to the Latvian SSR budget. The rest were diverted to the USSR budget where the revenue was allocated in accordance with the priorities of the central government. As already mentioned, there was no official information in the Latvian territory on the USSR budget revenue and expenditure, except for a certain amount transferred from the USSR budget to the Latvian SSR budget each year. This information created a false impression that the Soviet Union had financially invested in Latvia. Also in later years the myth of the

elimination of war damage and industrial development in Latvia made possible due to the USSR investments was skilfully sustained.

Figure 1

The revenue from the Latvian territory split between the Latvian SSR and the USSR budget

(1945 — 1950, billion rubles)³⁹



Most of the revenue consisted of a variety of taxes, of which the largest was the turnover tax, bringing in up to two thirds of the total revenue during the post-war years (Table 1). The turnover tax was basically applied to all of the goods produced in the USSR which entered the market. The government loans (“bonds”) had a particular significance, and in fact they also may be added to the taxes. The residents were forced on a voluntary basis to “lend” money to the state over a long-term; the execution plan of these loans was carefully developed and distributed down to particular farms and citizens, the implementation was carefully controlled and refusal to “lend” money to the state was classified as sabotage.⁴⁰

Table 1

The most significant types of the revenue of the Latvian territory in the USSR and the Latvian SSR budget (million rubles, total)⁴¹

³⁹ Estimations source: LNA, F. 202., descr. 1-a., f. 1. and F. 327., descr. 4.

⁴⁰ LNA, F. 327., descr. 1-a., f. 3., p. 59.

⁴¹ Estimations source: LNA, F. 202., descr. 1-a., f. 1. and F. 327., descr. 4.

Type of tax in the respective year	1945	1946	1947	1948	1949	1950
Turnover tax	1228	2568	3392	2804	2755	2830
State loans ⁴²	110	186	185	209	307	344
Taxes from residents	515	357	511 ⁴³	667	427	400
Including income tax	105	164	195	206	221	233
Including agricultural tax	162	128	316	361	99	59
Including small-family, bachelor tax ⁴⁴	48	64	—	99	105	108

In 1945 Latvia was an active war zone and military spending was not particularly recorded, but the accounting reports of the budget implementation during the post-war years confirm that the funds were systematically channelled to other regions of the USSR, and a large part of the financial resources did not return to Latvia even in relation to military expenditure. This is contrary to the myth cultivated during all the Soviet years that the Latvian economy was restored owing to extensive investments from the USSR. The financial settlements confirm the contrary – the Soviet economy outside Latvia was renewed on funds obtained and taxes collected in Latvia, not vice versa. The fact remains that in the 1940s Latvia was the economic donor of the USSR.

Figure 2

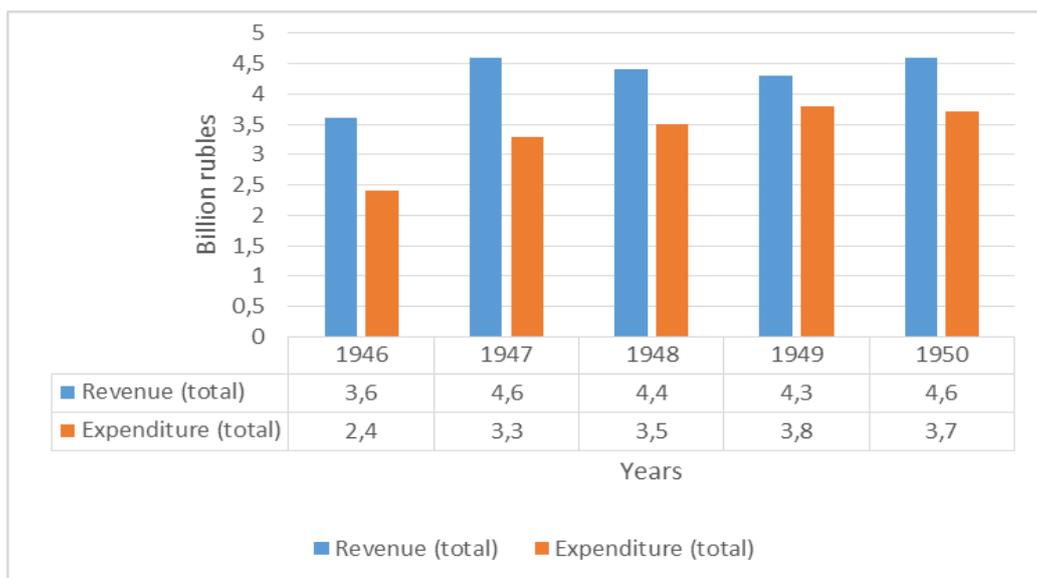
**The total revenue and expenditure in the Latvian territory (1945 — 1950,
the Latvian SSR and the USSR budgets, billion rubles)⁴⁵**

⁴² Including lotteries and loans realized in troops.

⁴³ Without bachelor and small-family tax. (Men who had reached a certain age and had no children had to pay a special tax.)

⁴⁴ There is no precise information on collecting this tax in 1947.

⁴⁵ Estimations source: LNA, F. 202., descr. 1-a., f. 1. and F. 327., descr. 4.



After the Second World War Latvia became the border zone of a totalitarian country; in addition to that, it was in a region where the countries on the other side of the border were considered potential enemies by the USSR leadership. Riga was the centre of the Baltic military district, and the militarization of the Latvian territory reached very high levels. Large amounts were also spent on internal affairs and national security structures, to a large extent this is due to the active national resistance movement which the Soviet regime tried to suppress at all costs.⁴⁶ In general the USSR spent very large funds (Table 2) for various military purposes and the security institutions. Giving a comparative example, the Latvian SSR budget expenditure in 1946 was only 763 million rubles⁴⁷ which indicates both a very high proportion of military expenditure as well as a high degree of centralization of economic policy (high proportion of centrally controlled funds).

Table 2

The expenditure of the USSR military and repressive ministries in Latvia in 1946

Heading of the USSR budget expenditure	Amount (in rubles)

⁴⁶ Latvia Toward 100 Years. Riga, 2014., p 321. – 369.

⁴⁷ LNA, F. 202., descr. 2., f. 475., p. 257.

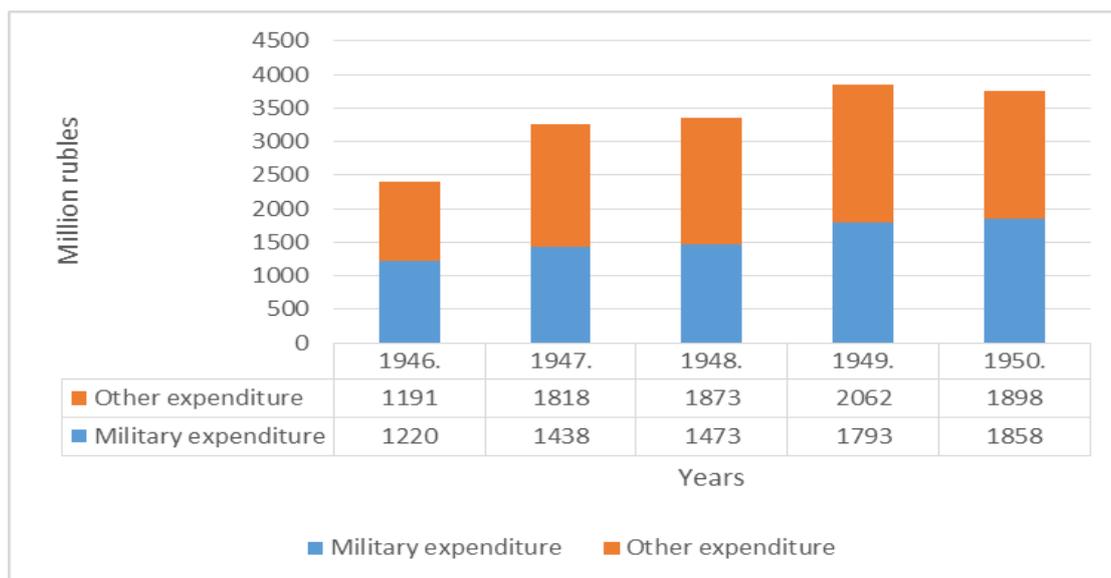
Ministry of War and Naval Enterprise Construction	3 788 625
Ministry of War and Naval Enterprise Construction	632 100
Ministry of War and Naval Enterprise Construction	5 000
Ministry of War and Naval Enterprise Construction	430 000
The USSR Ministry of Armed Forces	1 034 140 577
The USSR Ministry of Armed Forces (pensions of former employees)	11 869 486
The USSR Ministry of Internal Affairs	144 442 309
The USSR Ministry of Internal Affairs (pensions of former employees)	1 756 568
The USSR Ministry of State Security	23 559 312
The USSR Ministry of State Security (pensions of former employees)	362 791
Total	1 220 986 770

Analysing the structure of the expenditure in the territory of Latvia, it must be concluded that the militarization and subjugation of the territory was the main priority of the Soviet regime in the 1940s, since the proportion of these expenses within the total expenditure (the Latvian SSR and the USSR budget expenditure together) reached as much as a half at the end of the forties (Figure 3).

Figure 3

The amount and the proportion of the military and repressive ministries expenditure in the total expenditure in the Latvian territory (1946 — 1950, the total of the Latvian SSR and the USSR budgets, million rubles)⁴⁸

⁴⁸ Estimations source: LNA, F. 202., descr. 1-a., f. 1. and F. 327., descr. 4.



The USSR occupation regime policy was similar also in the other Baltic States – Lithuania and Estonia, although there were some different aspects. In Lithuania much higher amounts than in Latvia and Estonia were spent on the financing of internal affairs. This is due to very active national resistance activities against the Soviet occupation regime in the post-war years. In 1948 in Lithuania more than half a billion rubles were spent on the needs of the Ministry of Internal Affairs and the Ministry of State Security which is more than in Latvia and Estonia together in the same year. By contrast, the total military expenditure compared with Latvia was significantly lower.

Table 3

The USSR budget expenditure in Lithuania (1948, rubles)⁴⁹

Expenditure heading	Amount
Ministry of War and Naval Enterprise Construction — bonuses and allowances to forestry and other workers for timber supply and exportation	10 000,00
The USSR Ministry of Internal Affairs, Motorway Administration and Central Road Administration	27 864 000,00
Ministry of Food and Material Reserve – increase of current assets and other expenditure	42 809 028,07
Ministry of Food and Material Reserve	578 493,23

⁴⁹ Lithuanian Central State Archive, F. R-871., descr. 6., f. 3., p. 8. — 9.

The USSR Ministry of Armed Forces	172 593 714,10
The USSR Ministry of Armed Forces, pensions of former employees	11 343 886,61
The USSR Ministry of Internal Affairs	205 999 366,71
The USSR Ministry of Internal Affairs, pensions of former employees	2 061 816,58
The USSR Ministry of State Security	304 288 407,35
The USSR Ministry of State Security, pensions of former employees	878 595,29
Other expenditure of the USSR ministries and departments	414 892 659,00
Total of the USSR budget expenditure	1 183 319 966,95

Lithuania's economic situation, both at the time of the occupation, as well as the post-war years, was considerably worse than that of Latvia and Estonia, but also Lithuania transferred larger amounts to the USSR budget than those returning to Lithuania. Thus, from the Lithuanian earnings the Soviet regime not only funded the fight against the national resistance movement, but also channelled some of the money for achieving other purposes outside the territory of Lithuania. In 1949 the revenue of the Lithuanian territory (the USSR and the Lithuanian SSR budget together) was 2617 million rubles, while the expenditures in Lithuania, including the military and repressive institutions were 2 458 million rubles. Thus, 159 million rubles were channelled outside the territory of Lithuania. In Estonia in 1949 the situation was quite similar – the total revenue of 2 642 million rubles, while the expenditures – 2 503 million, so the “profit” of the Soviet regime was 139 million rubles. Comparatively the largest amount - 526 million rubles – that year was invested in the Soviet central budget by Latvia; thus, in total the Baltic States in 1949 covered not only the expenditure of all the military and repressive forces on its own territories, but sponsored the Soviet central budget with 824 million rubles. The USSR budgeting system in which the republican budgets were part of the USSR budget allowed the USSR central power in Moscow to control all financial flows and payments. As a result, the republics established in the territories of the occupied Baltic countries had no autonomy in budgeting and planning, not the mention the possibility to independently build its own budget policy and plan the budget revenue, expenditure and possible surpluses or deficits.

Conclusions: USSR financial policy in Latvia and the Baltics in 1946 – 1990

In order to obtain comprehensive information about the results of the USSR occupation regime financial policy in all three Baltic countries it is still necessary to summarize the obtained results of the archive documents in Estonia and Lithuania, but for Latvia such calculations, based on the documents used for writing this article, have already been made.

The results have been summarized about the revenue channelled to the USSR budget from the Latvian territory, as well as on all USSR budget expenditure in the territory of Latvia, including its annual grants and other contributions to the budget of the Latvian SSR from the USSR budget, and on the USSR military expenditure in the territory of Latvia.

Overall, the USSR spent 24 684 million rubles in the Latvian territory from its budget during the period 1946 – 1990, while 40 645 million rubles were transferred to the USSR budget in the form of revenue from the territory of Latvia. Thus, during the Soviet occupation from 1946 - 1990 the USSR spent 15 961 million rubles less than gained from the Latvian territory. In this calculation the USSR rubles before 1961 are recalculated in the ruble equivalent after the 1961 monetary reform (10 rubles before 1961 = 1 ruble after 1961). **This is 18.8 per cent of the total revenue (85 billion rubles) from the Latvian territory.**

In addition the USSR military expenditure in Latvia was very large for the period 1946 – 1990 totalled 13 346 million rubles, or 18,9 per cent of the total expenditure in the territory of Latvia (the total of the USSR and the Latvian SSR budget). The fact has to be re-emphasized that this spending was funded from the revenue generated in Latvia.

These calculations subvert the myth which was created during the Soviet times and is still maintained of the Soviet investment in Latvia and the Baltic countries in general, and prove quite the opposite – Latvia and also the Baltic States as a whole were Soviet economy donors. The three Baltic States were USSR budget donors also during the post-war years that are so often referred to in the Soviet propaganda. During this period, the USSR priorities were not the investment in industry, but the repression of the national resistance movement and the militarization of the territory.

The results of this financial analysis provide answers to a number of questions which were previously difficult to answer, and explain the phenomenon of Soviet economic policy in the Baltics. Spending of all the profit generated in the economy outside the territory of the Baltic countries and the simultaneous disproportionate military expenditures from the revenue generated in the Baltics largely explains the year-to-year increase in the socio-economic underdevelopment in comparison with other developed Western countries; the inhabitants of the Baltic States were able to match with these countries in terms of quality of life prior to the Soviet occupation.

Despite the relatively high total production figures, they brought almost no added value to the territory and population, since the entire production surplus (profit) was spent outside the territory of the Baltic States. Conclusions can be made about a very intense economic exploitation of the territory and population; the economic model imposed by the USSR hindered the normal development of the Baltic States and the increase in the general quality of life.