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DIRECTORATE OF
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WEEKLY SUMMARY

Special Report

Trends in Soviet Military Spending

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TRENDS IN SOVIET MILITARY SPENDING

Last month the USSR announced a planned 1967 military budget of 14.5 billion rubles, the highest level since World War II and an increase of 1.1 billion rubles (8 percent) over the 1966 plan. The defense budgets announced by the USSR, however, contain only about 60 percent of total expenditures for military and space activities and omit any breakdown of the amounts allocated to the major military and space programs. US intelligence has, therefore, constructed a detailed expenditure series (comparable to US Department of Defense, AEC, and NASA outlays) based on the direct costing of observed and estimated Soviet military programs. This report summarizes the results of that analysis.

The rise in expenditures revealed by this analysis reflects the continuing implementation of strategic offensive and defensive programs begun between 1961 and 1963, the increased cost of competition in space, and, to a lesser extent, the more favorable hearing the Soviet military probably has received from the Brezhnev-Kosygin leadership. The uncertainties associated with the Vietnam war, the growing hostility of the Chinese, and the considerable pressure exerted by US capabilities in strategic and conventional military fields and in space leave little opportunity for Moscow to slow down or cut back its defense spending.

Evaluation of Budget Figure

The direct costing methodology identifies and measures the physical inputs to military programs (men, weapons, equipment, etc.) and applies ruble and equivalent US dollar prices to these quantities. The results are summarized on both a mission basis (general purpose forces, strategic attack, etc.) and resource category basis (personnel, procurement, etc.)

Each of the resultant ruble and dollar series has its advantages because there are major differences in the price structures of the USSR and the US. The dollar series is more useful for comparing the physical magnitudes of the Soviet and US programs. The ruble series is a more reliable indicator of trends and shifts in the composition of the USSR's defense spending. This report is concerned solely with the latter aspect.

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SOVIET DEFENSE EXPENDITURES, 1950-1967

Figure 1 Budget vs. Actual Outlays

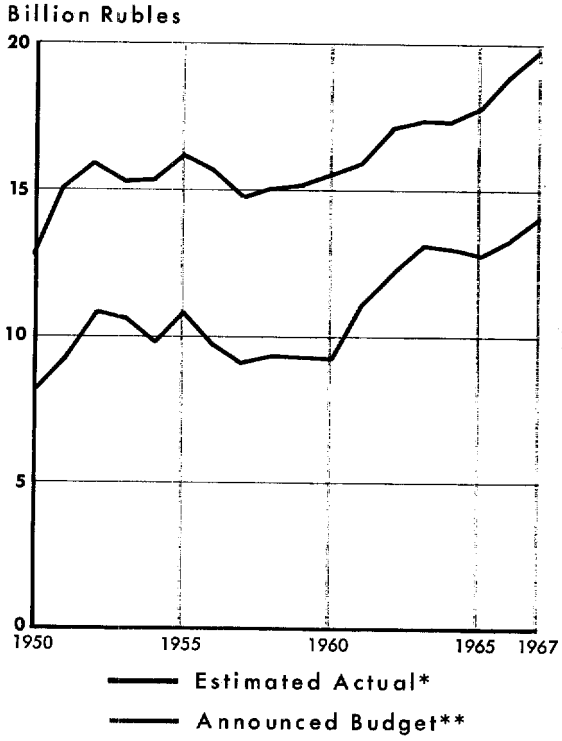


Figure 2 Major Military Missions

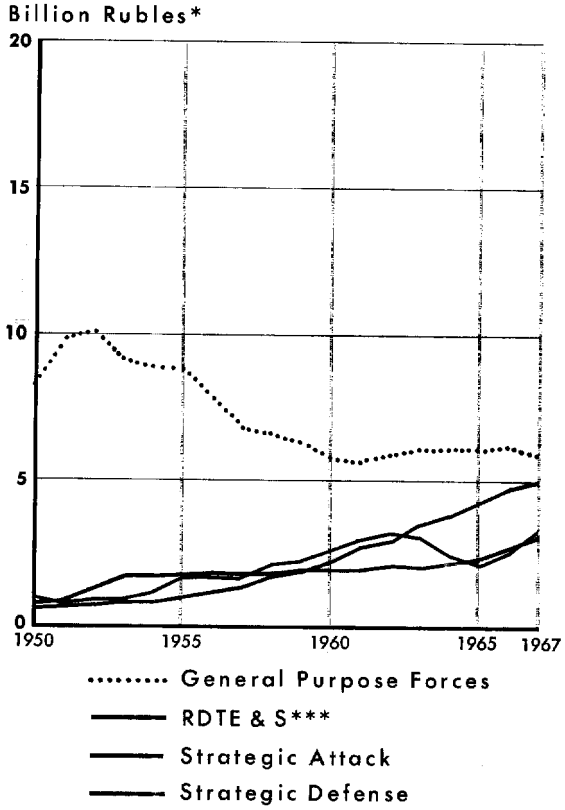
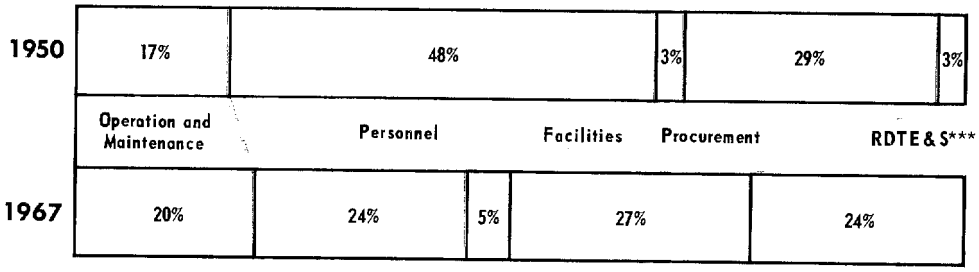


Figure 3 Percentage Distribution by Category



*Expressed in 1955 Prices
**Expressed in Current Prices
***Research Development, Test, Evaluation, and Space

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Actual Versus Announced Expenditures

A comparison of the announced Soviet defense budget with estimated actual expenditures for the period from 1950 through 1967 is shown in Figure 1--in which the estimates of actual expenditures are based on constant 1955 prices (rather than the current prices used for the budget figures) in order to avoid the effects of changing prices. As the chart indicates, there is some correlation between the two series of figures.

The current estimate for defense spending in 1967 is 19.8 billion rubles, or about 54 billion dollars in comparable terms. The anticipated increase of 0.8 billion rubles over 1966 will maintain the fairly continuous upward trend in estimated Soviet defense expenditures observed during the past decade. In ruble terms this growth equates to an average annual rate of increase of about 3 percent, but more than 40 percent of the total increment in the decade beginning in 1958 is believed to have occurred in the budget for 1966 and 1967. This is because a number of sophisticated programs have recently reached or are reaching advanced development, production, and deployment.

The differences between the announced Soviet budget figures and the estimated series cannot be clearly delineated. There are, however, several important considerations that account for the bulk of the differences.

(1) Much of the space and defense-associated research and development effort in the USSR is funded through the budget category "science."

(2) Significant portions of such advanced military activities as space, nuclear weaponry, and missiles are probably included in budget categories other than defense.

(3) Expenditures for the militarized security forces are not covered in the budgetary allocation for defense.

Moreover, just what the announced figures cover may change from time to time. For example, after Moscow suddenly announced an increase of 35 percent in planned defense spending in mid-1961, certain other budget categories declined concomitantly.

Changes in Composition

Significant shifts that have taken place in the composition of Soviet military expenditures since 1950 are shown in Figure 2. On a military mission basis, spending for general purpose forces has fallen by 40 percent from the post - World War II peak registered in the early 1950s. At that time such expenditures accounted for two thirds of all defense spending in the USSR, but they

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represent only one third of the total now. Although the three other major military missions have all grown substantially during this same period, the most dramatic increase has been that for research development, test, evaluation, and space (RDTE&S). Spending for RDTE&S has risen tenfold since 1950 and is expected to constitute approximately one quarter of all Soviet military expenditures this year.

Expenditures for strategic attack and strategic defense have each approximately quadrupled from the 1950 level with each now absorbing about 15 percent of all defense spending in the USSR. Combined they account for about the same share as the general purpose forces. In effect, the reduction and modernization of the Soviet ground forces have made possible appreciable increases in advanced weapons programs without parallel increases in total expenditures.

Not shown in Figure 2 are expenditures for command and general support, which have remained more or less constant. Thus, they are absorbing a declining percentage of total military expenditures in the USSR. At present their share is just under 15 percent.

The 1967 distribution discussed in the foregoing paragraphs is a continuation of the following breakdown estimated for 1966:

	Billions Of Rubles	*% of Total*
Strategic attack	*2.7*	*14*
Strategic defense	*2.7*	*14*
General purpose	*6.2*	*33*
RDTE&S	*4.7*	*25*
Command and General Support	*2.7*	*14*
	19.0	*100*

On a resource category basis the shift in composition of Soviet defense spending is highlighted by a changeover from a manpower-intensive establishment to a hardware-intensive one. As Figure 3 indicates, personnel costs accounted for almost half of the total in 1950 but only about a quarter in 1967. Although total operation and maintenance costs rose somewhat during this period, the increase in this category is substantial--almost triple--when calculated on a per capita basis because the number of men in the Soviet armed forces dropped about 40 percent during the period.

The most dramatic indication of the shift toward more highly mechanized armed forces in the USSR is shown by the three other

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categories of Figure 3. These expenditures for the development, procurement and deployment of weapons systems now constitute about one half of all Soviet defense spending as against only one third of the total in 1950.

Impact

The gradual rise in total Soviet military expenditures during the past decade and the shifting composition of this spending in favor of more advanced weaponry underscores the impact that these programs have had on the allocation of resources in the USSR, and thereby on Soviet economic growth. The advanced military programs compete directly for the same scarce, high-quality resources required by the investment programs that are necessary if the USSR is to recover the rate of economic growth it experienced in the 1950s. For 1967 at least, it would appear that the resource commitment to defense will continue to act as a drag on the economy. (SECRET NO FOREIGN DISSEM)

--Prepared by the Office of Research and Reports--

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