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CENTRAL INTELLIGENCE AGENCY
OFFICE OF RESEARCH AND REPORTS

20 July 1951

MEMORANDUM

SUBJECT: Soviet Union and European Satellite Military Expenditures
and Gross National Product, 1949-1952

1. The estimated military expenditures of the USSR and the European Satellites for 1949, 1950, 1951, and 1952 are given in Table 1. Table 2 gives their estimated gross national product, as well as the percentage of this product devoted to military expenditures.

2. Military Expenditures.

a. Estimates of the military expenditures of the USSR have been calculated by adding to the announced military expenditures the best calculations presently possible for hidden items covering the following:

- (1) Industrial construction for the production of military supplies;
- (2) Materials supplied by various "nonmilitary" Ministries for military purposes;
- (3) Military items hidden in the budgets for education, health, and scientific research;
- (4) Expenditures of internal security organizations performing paramilitary functions;
- (5) Expenditures for stockpiling materials for military purposes.

The Soviet figures exclude reparations of a military nature, military expenses for the maintenance of occupation forces in former enemy satellite countries, and production of military goods in the Satellites for Soviet account, to the degree that these items are reflected in Satellite rather than in Soviet budgets. These figures, on the other hand, are correspondingly charged to the Satellites as items of military expenditure.

b. It should be noted that open military expenditures are only a part of the real total in both the USSR and its European Satellites. Very sizable military items are known to be hidden in capital goods accounts and in the accounts of various supposedly nonmilitary parts of the respective

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governments. One device used to hide the magnitude of military preparations is the practice of requiring state-owned factories making both military and civilian goods to supply military goods at cost or even far below cost and to make up the deficit so incurred by increasing prices on civilian items. The magnitude of this indirect aid is of course not susceptible to precise measurement. Profits of Soviet trading firms in Satellite areas are likewise used for military purposes. Construction of strategic railways and highways comes out of the ordinary transportation budgets. Construction of airfields is billed only in part to the military budgets, although these fields may be solely for military use. Factories for production of munitions are major items in the various national investment accounts, but there is never any separation in published accounts showing the magnitude of the direct military investment so made.

c. Table 1 takes account of these various factors, to the degree that it is now possible to do, but it is emphasized that the figures shown are preliminary and may in the future be subject to substantial revision.

d. One further item regarding military expenditures warrants mentioning. Soviet Orbit armed forces have low per capita cost for salaries and maintenance as compared with those of the United States. This permits utilization of a larger proportion of military funds for armament.

3. Gross National Product.

a. Estimates of the gross national product for the various Orbit countries must be considered highly preliminary. For the present purposes, a calculation has been made as to the gross national product for the various countries, using 1949 as the base year, and then the 1949 figure has been increased by 7 percent per annum for the Satellites and 10 percent per annum for the USSR. The lower annual increase for the Satellites is due to the Soviet drain on their economies, which enhances the Soviet rate of growth and retards that of the Satellite states.

b. The gross national product values are adjusted to correspond with the US usage of gross national income at producers' prices, plus the net inflow from the Satellites to the Soviet Union (including over \$2 billion worth of reparations and similar takings).

c. "Producers' prices" are prices quoted in deals among government-owned plants and differ greatly from the Soviet-Satellite retail prices, as well as from world market prices.

d. In converting various figures from the respective national currencies to dollars, the following figures have been used:

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Bulgaria: 288 leva per dollar;

Czechoslovakia: 50 crowns per dollar;

East Germany: 16 Deutsche Mark per dollar;

Hungary: 11.83 forints per dollar;

Poland: 400 zlotys per dollar;

Rumania: 150 lei per dollar.

The conversion figure for the Soviet ruble is approximately 13 cents per ruble and represents the estimated purchasing power of the Soviet budgetary ruble in procuring military items.

Table 1

Estimated Military Expenditures of the USSR and the European Satellites
1949-52

<u>Country</u>	<u>Million US Dollars</u>			
	<u>1949</u>	<u>1950</u>	<u>1951</u>	<u>1952</u>
USSR	<u>16,500</u>	<u>22,900</u>	<u>26,500</u>	<u>33,572</u>
Bulgaria	51	61	87	141
Czechoslovakia	507	626	707	825
East Germany	259	369	480	624
Hungary	151	387	1,058	1,178
Poland	274	599	991	1,216
Rumania	218	329	437	629
Total, European Satellites	<u>1,460</u>	<u>2,371</u>	<u>3,760</u>	<u>4,613</u>
Total, USSR and European Satellites	<u>17,960</u>	<u>25,271</u>	<u>30,260</u>	<u>38,185</u>

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Table 2

Estimated Gross National Product of the USSR and the European Satellites
1949-52

Country	Million US Dollars			
	1949	1950	1951	1952
USSR	<u>65,000</u>	<u>71,500</u>	<u>78,650</u>	<u>86,515</u>
Bulgaria	1,465	1,568	1,678	1,806
Czechoslovakia	5,875	6,286	6,726	7,197
East Germany	5,075	5,430	5,810	6,227
Hungary	2,250	2,408	2,577	2,757
Poland	8,875	9,486	10,164	10,875
Rumania	2,813	3,010	3,221	3,446
Total, European Satellites	<u>26,353</u>	<u>28,188</u>	<u>30,176</u>	<u>32,308</u>
Total, USSR and European Satellites	<u>91,353</u>	<u>99,688</u>	<u>108,826</u>	<u>118,823</u>
Total Military Expenditures of the USSR and European Satellites	17,960	25,271	30,260	38,185
Gross Investments	21,000	23,000	25,000	27,000
National Consumption	52,393	51,417	53,566	53,638
Military Expenditures as Percentage of Gross National Product	19.66	25.35	27.81	32.14

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