

23560

~~Secret~~ M

23560



Directorate of
Intelligence

CIA SOV 91-10021

The Soviet Release of Defense Spending Data to the United Nations: Less Than Meets the Eye

A Research Paper

CIA HISTORICAL REVIEW PROGRAM
RELEASE AS SANITIZED
1999

~~Secret~~

SOV 91-10021
May 1991

Copy

Warning Notice

**Intelligence Sources
or Methods Involved
(WNINTEL)**

**National Security
Information**

**Unauthorized Disclosure
Subject to Criminal Sanctions**

Dissemination Control Abbreviations	NOFORN (NF)	Not releasable to foreign nationals
	NOCONTRACT (NC)	Not releasable to contractors or contractor/consultants
	PROPIN (PR)	Caution—proprietary information involved
	ORCON (OC)	Dissemination and extraction of information controlled by originator
	REL...	This information has been authorized for release to...
	WN	WNINTEL —Intelligence sources or methods involved
	A microfiche copy of this document is available from OIR/DLB (703-482-7177); printed copies from CPAS/IMC (703-482-5203 or secure 3-37108; or AIM request to userid CPASIMC). Regular receipt of DI reports can be arranged through CPAS/IMC.	Classified by: " " " " Declassify: OADR Derived from multiple sources

All material on this page
is Unclassified.



*Directorate of
Intelligence*

~~Secret~~

The Soviet Release of Defense Spending Data to the United Nations: Less Than Meets the Eye

A Research Paper

This paper was prepared by _____ of the
Office of Soviet Analysis, with contributions by
_____, also of
SOVA.

Comments and queries are welcome and may be
directed to
SOVA, or

Reverse Blank

~~Secret~~
SOV 91-10021
May 1991

**The Soviet Release of
Defense Spending Data
to the United Nations:
Less Than Meets the Eye**

Summary

*Information available
as of 1 May 1991
was used in this report.*

On 15 October 1990, the Soviets submitted to the United Nations a breakdown of their 1989 defense budget into 84 primary elements using the UN's standardized military accounting system. This is the first time the Soviets have provided defense expenditures by force structure and category of weapons procured, and the release of the new data appeared on the surface to be an important step toward achieving the Soviets' stated goal of making their published defense budgets comparable to those available in the West. Our analysis of the new figures, however, shows that the additional data raise more concerns than they resolve.

Despite assurances by Soviet officials—including Marshal Akhromeyev as late as January 1991—that the budget submitted to the United Nations is comparable in “form, volume, and makeup” to the US defense budget, it is not. As soon as the budget appeared, it was roundly criticized in the West and also within the USSR for not capturing the full cost of Soviet defense activities, primarily because of incomplete coverage, suspect accounting practices, and artificially low prices for weapons and equipment.

Before a published defense budget will be accepted as accurate, the Soviets need to convince the international community that they are using a comprehensive and consistent definition of defense—that is, that no activities included in a standard definition of defense are excluded and that the set of activities included does not change over time. Further, before such a budget can be considered indicative of the real Soviet resource commitment to defense, the prices paid by the Ministry of Defense (MOD) must be changed so they bear a more direct relation to the value of the economic resources consumed by defense activities.

The Soviet defense budget submitted to the United Nations contains serious problems in three areas:

- *Inconsistent data.* The budget figure submitted to the United Nations for spending on weapons research and development is substantially less than that originally claimed by then Prime Minister Ryzhkov in June 1989. Our analysis indicates that, in previously released defense budgets, expenditures for KGB border guards and other paramilitary troops probably were “hidden” in the research and development component.

- *Incomplete data.* Soviet officials have stated that the budget excludes many research and development activities that have both civilian and military applications. In addition, no expenditures appear to be included in the budget for transport equipment—such as trucks, military transport aircraft, and naval transport auxiliaries—unless they have been misclassified as “other equipment.”
- *Unrealistic prices.* The MOD continues to pay artificially low prices to procure weapons. We estimate the real resources used to procure missiles, ships, and aircraft are far higher than the figures the Soviets presented to the United Nations.

We believe the Soviets will be susceptible to international pressure to address the issues of consistency and comprehensiveness in their budget. If the Soviets continue to provide data on future defense budgets to the United Nations in the same detail as the 1989 submission—as they have promised to do—they will develop a track record that they will have to defend. This, in turn, will make it easier for the international community to hold the Soviets accountable for such issues as the misclassification within the budget of paramilitary and possibly naval infantry forces and the apparent exclusion of transport equipment.

However, unless the Soviets eliminate the high subsidies supplementing the prices the MOD pays for procurement, even very detailed defense budgets will remain seriously flawed. The Soviets claim they are dramatically increasing defense prices this year, but the bulk of any such change would probably be driven by the economywide price hike implemented on 1 April and would leave subsidies intact. Moreover, until they abandon the practice of setting prices by administrative fiat, prices will not accurately reflect real resource costs.

Contents

	<i>Page</i>
Summary	iii
Scope Note	vii
A Three-Year Wait	1
What's New?	1
Consistency With the Original 1989 Defense Budget	3
Budgets Still Flawed	4
Problems With Coverage	4
Problems With Prices	6
Outlook	8

~~Secret~~

Scope Note

This report analyzes the defense budget the Soviets released to the United Nations in October 1990. It is part of a continuing research effort to test the validity and usefulness of published Soviet defense budget data. Other papers in this series include DI Research Paper SOV 90-10026 **L** June 1990, *Defense in the 1989 Soviet State Budget: Still Not Credible;* **L**

=

Reverse Blank

vii

~~Secret~~

The Soviet Release of Defense Spending Data to the United Nations: Less Than Meets the Eye

A Three-Year Wait

The Soviets first publicly admitted in August 1987 that their official defense budget, a single-line entry in the state budget since World War II, did not cover all defense spending. At that time, Deputy Foreign Minister Vladimir Petrovskiy read a message from President Gorbachev to the UN Conference on Disarmament stating that it would be possible to "compare overall military spending realistically" once the Soviets implemented price reform. Petrovskiy claimed the 1987 defense budget of 20.2 billion rubles included only personnel, operations and maintenance (O&M), and military construction costs. Excluded were expenditures on research, development, testing, and evaluation (RDT&E) and weapons procurement. In September 1987, Gorbachev pledged defense spending data would be released in "two or three years."

Subsequent Soviet statements seemed to reflect confusion over when the budget data were going to be released. In April 1989, Soviet economist Leonid Abalkin told a visiting US Congressional delegation that the Soviets would publish a detailed defense budget by the fall of 1989—though he did not specify what information the budget would contain. That same month, a Soviet official at the Conference on Disarmament in Geneva hinted that work on Soviet defense budget data could be completed by the May 1989 session of the UN Commission on Disarmament (UNCD), but he could not confirm that the Soviet presentation would conform to the UN format. By early May, however, the Soviet permanent UN representative announced to the UNCD that the Soviet Union would not submit its military budget in accordance with the UN standardized accounting system until the 45th session of the UN General Assembly, scheduled for the fall of 1990.

Just three weeks later, Gorbachev—apparently reacting to both domestic and foreign criticism over the unrealistic 20.2-billion-ruble figure for defense contained in the draft budget for 1989—announced that

the revised defense budget was 77.3 billion rubles. Soon afterward, then Prime Minister Ryzhkov provided a breakdown of the budget by major resource category—procurement, RDT&E, personnel and O&M, construction, pensions, and nuclear weapons. In February 1990, Colonel General Babyev of the Ministry of Defense (MOD) Finance Directorate provided two additional figures specifying the MOD's military and civilian 1989 and 1990 payrolls. On 15 October 1990, Petrovskiy submitted a breakdown of the Soviet Union's 77.3-billion-ruble 1989 defense budget using the UN's standardized military accounting system.¹ Petrovskiy claimed that the data—which, for the first time, included information on military expenditures by both resource category and military mission—are comparable in precision to those provided to the United Nations by the United States and other Western countries.

What's New?

The actual defense budget data the Soviets presented to the United Nations are shown in table 1; very little of the information was previously released by the Soviets. The greatest number of new data points are in the procurement area, which provides an extensive breakdown by type of weapon system and branch of service.² The new data include service breakdowns of

¹ These figures were subsequently published in the 2 November 1990 edition of *Pravitel'stvennyy vestnik*.

² Although the UN format calls for data to be broken down by military mission, the expenditures provided by the Soviet Union are actually grouped by branch of service. Although previous submissions by the United States of defense budget data to the United Nations have also used a breakdown by branch of service, rather than by mission, the branches of service in the two countries are not strictly comparable. For example, in the United States most combat helicopters are owned, operated, and subordinated to the Army. In the Soviet Union, however, combat helicopters are owned and operated by the Air Forces but are under the operational control of the Ground Forces. Thus, the Soviets include helicopter procurement as an Air Forces, rather than a Ground Forces, expense.

Table 1
Soviet 1989 Defense Expenditures Released
to United Nations ^a

Million current rubles

	Land	Navy	Air	Other ^b	Central Rear Services		Para- military	Not Assigned	Total
					Support	Command			
Total	21,009	12,090	12,320	16,795	8,167	515	1,862	4,520	77,278
Operating costs	9,950	2,737	2,226	2,540	2,506	121	1,113	2,239 ^c	23,432 ^c
Personnel	4,943	1,241	1,296	1,626	0	94	537	2,239 ^c	11,976
Military	3,393	953	1,092	1,392	0	82	336	2,239 ^c	9,487
Civilian	1,550	288	204	234	0	12	201	0	2,489
Operations and maintenance	5,007	1,496	930	914	2,506	27	576	0	11,456
Materials	2,824	450	144	229	1,632	6	268	0	5,553
Maintenance	1,158	931	732	486	0	6	252	0	3,565
Services	1,025	115	54	199	874	15	56	0	2,338
Procurement and construction	10,093	7,193	7,360	6,771	5,521	0	740	2,031 ^c	39,709 ^c
Procurement	9,273	6,531	6,941	5,465	4,361	0	637	2,031 ^c	35,239 ^c
Aircraft	0	210	1,845	949	0	0	94	0	3,098
Missiles	995	695	562	1,621	0	0	0	0	3,873
Nuclear warheads	0	0	0	0	0	0	0	2,031 ^c	2,031 ^c
Ships and boats	0	2,993	0	0	0	0	205	0	3,198
Tanks, APCs, etc.	2,137	0	0	0	2	0	30	0	2,169
Artillery	418	12	0	0	0	0	1	0	431
Other ground equipment	819	0	0	0	36	0	17	0	872
Ordnance	2,256	487	757	0	0	0	30	0	3,530
Electronics	779	495	927	767	2,591	0	185	0	5,744
Noncombat transport	0	0	0	0	0	0	50	0	50
Other	1,869	1,639	2,850	2,128	1,732	0	25	0	10,243
Construction	820	662	419	1,306	1,160	0	103	0	4,470
Research and development	966	2,160	2,734	7,484	140	394	9	250	14,137

^a In addition to the spending shown here—all of it new information except that referenced by footnote c—the Soviets supplied 673 million rubles' worth of "nonreimbursed military assistance to foreign states" and spent 123 million rubles on "maintenance of republic, kray, and oblast civil defense staffs."

^b Includes Strategic Rocket Forces and Air Defense Forces.

^c Previously released information.

already released total figures for major spending categories—RDT&E, operating costs, and construction—and some new detailed data on procurement. As in the US data submissions to the United Nations—to which the Soviets said their budget was comparable in

form and coverage—the column on strategic forces was left blank. The Soviets stated in notes that accompanied the data, however, that spending for the Strategic Rocket Forces (SRF) and Air Defense Forces was included under the "Other" column. They

also noted that, because some strategic programs were included in each of the services, spending on the SRF and Air Defense Forces should not be equated with total spending on strategic programs—a figure they claimed was impossible to calculate.

Consistency With the Original 1989 Defense Budget

There are differences between the 1989 defense budget presented to the United Nations and the 1989 defense spending figures announced by Ryzhkov in June 1989. Although the overall total—77.3 billion rubles—is the same, the figures for most of the major resource categories are different. The substantial difference between the RDT&E component subtotals of the two budgets strongly suggests that paramilitary expenditures originally were included in the RDT&E component of the Ryzhkov budget.³ Of course, no reputable accounting system would classify spending on paramilitary forces as an element of RDT&E. With the exception of RDT&E, however, only minor discrepancies remain between the Ryzhkov budget and the budget submitted to the United Nations once the UN data are recategorized for consistency with the Ryzhkov data (see table 2).⁴ The figures for procurement, nuclear warheads, personnel and O&M, and pensions are consistent. The slight difference between the two construction spending figures may reflect only a change between budgeted and actual spending.

An alternative, though a less probable, explanation for the RDT&E discrepancies is that paramilitary expenditures were not initially included in the 77.3-billion-ruble figure. Under this hypothesis, the Soviets, having decided to retain an overall control figure of 77.3 billion rubles, needed to adjust one of their

³ The notes accompanying the data explain that paramilitary forces include KGB border guards, MVD internal troops, and the All-Union Voluntary Society for Cooperation with the Army, Aviation, and Navy (DOSAAF) training centers. A Council of Ministers decree in March 1989 removed railroad troops, as well as KGB border guards and MVD internal troops, from the "composition of the USSR armed forces," so the paramilitary column may include railroad troops as well.

⁴ Ryzhkov's figure for nuclear weapons spending appears to include both expenditures on nuclear warheads and nuclear-warheads-related RDT&E

Table 2 *Million current rubles*
Adjusted 1989 Soviet Defense Budgets by Major Component

	1989 Defense Budget (as reported by Ryzhkov in June 1989)	1989 Defense Budget * (as reported to the UN in October 1990)	Absolute Change
Total	77,300	77,278	-22
Procurement	32,600	32,571	-29
Pensions	2,300	2,239	-61
Personnel and O&M	20,200	20,080	-120
Construction	4,600	4,367	-233
Nuclear warheads	2,300	2,281	-19
RDT&E	15,300	13,878^b	-1,422
Paramilitary		1,862	+1,862

* Adjustments involve separating military pensions from personnel costs, listing paramilitary as a separate subtotal, and listing nuclear weapons as a separate entry from the procurement category.

^b Excluding RDT&E for paramilitary and nuclear warheads; these entries are included in the separate subtotals for paramilitary and nuclear warheads.

subcategories and chose RDT&E. If paramilitary expenditures initially were excluded, however, the Soviets need not have made such a purely arbitrary adjustment; they simply could have claimed that the 1,862-million-ruble expenditure for paramilitary forces they reported to the United Nations was in addition to the 77.3 billion rubles for defense, since there is wide latitude in the UN accounting guidelines for categorizing paramilitary expenditures as either military or civil in nature. In any event, at a minimum the Soviets' handling of this issue strains the credibility of Soviet pronouncements on RDT&E spending.

The only other reference to 1989 defense spending subtotals was provided by Colonel General Babyev in February 1990, when he reviewed the 1990 defense budget. This budget is roughly comparable in detail to the 1989 defense budget announced by Ryzhkov, except that Babyev broke down civil and military

Table 3
Soviet Defense Personnel
Budgets, 1989-90

Million current rubles

	1989 Defense Budget (as announced by Ryzhkov in June 1989)	1989 Defense Budget (as presented to the UN in October 1990)	1990 Defense Budget (as announced by Babyev in February 1990)
Personnel and O&M	20,200	20,060	19,232
Military pay		6,229	5,766
Other military pay ^a		683	
Civil pay and O&M		13,168	13,466
Civil pay		2,288 ^b	1,032
O&M		10,880	12,434 ^c

^a In a 2 February 1990 interview in *Krasnaya zvezda*, Colonel General Babyev stated that military pay in the 1990 budget was 5,766 million rubles, down 463 million rubles from 1989. However, the figure provided to the United Nations shows "military pay, including reserves" (exclusive of pensions and paramilitary pay) for 1989 to be 6,912 million rubles—a difference of 683 million rubles from the figure implied by Babyev. The 683 million rubles most likely consists largely of severance pay.

^b The civil pay expenditures probably include payments to foreign nationals for services provided to Soviet troops stationed outside the USSR.

^c This figure for 1990 O&M spending was derived as a residual from other figures given by Babyev. However, this residual also probably includes any 1990 severance pay and most likely overstates somewhat actual O&M spending.

payrolls in 1990 relative to 1989 (see table 3). These data indicate that nearly 700 million rubles—10 percent of total military pay in 1989—may have been for severance or some other payment of a one-time nature.

Budgets Still Flawed

Despite assurances by Soviet officials—including Marshal Akhromeyev as recently as January 1991—that the Soviet UN budget is comparable in "form, volume, and makeup" to the US defense budget, it is not. As soon as the budget appeared, it was roundly criticized in the West and also within the USSR for not capturing the full cost of Soviet defense activities. The Intelligence Community has assessed total Soviet

defense spending in 1989 to be 130-160 billion rubles.¹ In our earlier analysis, we assessed that the two major sources of the differences between our estimate and the Soviet figure of 77.3 billion rubles are the comprehensiveness of coverage and the valuation of (prices charged for) military equipment. The additional detail provided in the Soviets' budget submission to the United Nations has enabled us to identify more precisely some specific coverage and price problems.

We have compared our detailed estimates with the Soviet data in an effort to assess these problems (see figure 1). There is a reasonably close fit between the Soviet budget and CIA estimates for military pay. Large differences exist, however, between the Soviet budget for and CIA estimates of RDT&E and procurement spending. We believe these differences are due largely to problems with Soviet coverage and subsidies.

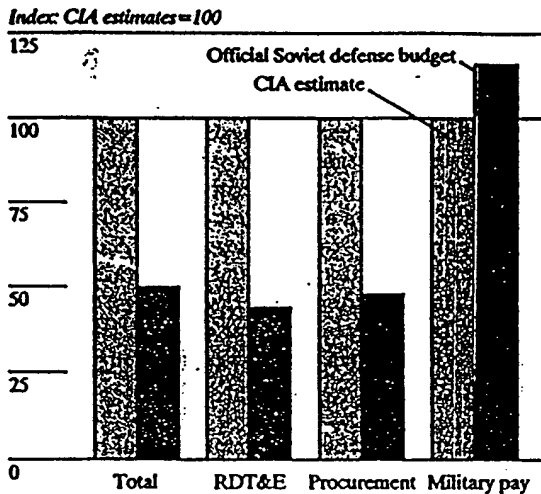
Problems With Coverage

The Soviet military RDT&E budget for 1989 submitted to the United Nations—14 billion rubles—is less than half of the CIA estimate of Soviet RDT&E expenditures in 1989. While part of this difference could reflect the lower cost the Soviets attach to some activities, the primary reason for the large difference appears to be related to coverage. In discussing the 1989 budget before the US House Armed Services Committee, Marshal Akhromeyev stated that many research activities that have both civilian and military applications are left out of the Soviet defense budget; in addition, our previous analysis indicates that military research conducted at civilian facilities or by defense industrial ministries—as opposed to facilities controlled by the MOD—also may be excluded.²

¹ For the Intelligence Community analysis of the 1989 figure, see DI Research Paper SOV 90-10026 (Confidential NF Rel NATO), June 1990, *Defense in the 1989 Soviet State Budget: Still Not Credible*. The analysis in this study was based on looking at the 77.3-billion-ruble budget figure in the context of the overall state budget and Soviet statements on what the defense budget included. (U)

² See previously cited DI Research Paper *Defense in the 1989 Soviet State Budget: Still Not Credible*. (U)

Figure 1
CIA Estimates of Soviet Defense Spending and the Official Soviet Defense Budget, 1989



Coverage differences also exist for some categories of procurement. Our analysis indicates that the Soviets omitted purchases of almost all military transportation equipment from their budget submission to the United Nations. The Soviet defense budget shows no MOD expenditures for trucks except for a very minor purchase for paramilitary use. Unless trucks purchased for the military services were classified differently from trucks purchased for the paramilitary services—perhaps misclassified as “other equipment” instead of transportation equipment—they were purchased outside the MOD budget.¹ Similarly, if military transport helicopters and aircraft also were purchased outside the MOD budget, this could help

¹ Although we cannot explain why trucks should be classified differently when purchased by military and paramilitary services, the Soviets may have, in part, mirror-imaged the US defense budget submission to the United Nations; the US submission includes transportation equipment in the “other equipment” category. However, detailed breakdowns of US procurement purchases are widely available from other sources. *Jane's Defense Weekly*, for example, lists the manufacturer, type, value, and often the delivery date for US and other Western procurement contracts. The Soviet open press, as yet, publishes no comparable data.

explain, in part, the extremely low figure claimed for aircraft expenditures in 1989. This may also be the case for purchases of naval transport auxiliaries. The Soviets apparently classify military trucks, military transport aircraft, and naval transport auxiliaries as civil goods when manufactured.²

Equipment for the naval infantry is another potential omission. In 1989 this force was in the process of replacing its BTR-60 armored personnel carriers with BTR-80s. However, the budget data do not list any Navy purchases of armored vehicles. Although there are possible reasons for this—the BTR-80s could have been paid for by the Navy in a previous year or purchased by the army and then transferred to naval infantry—none are compelling.

Vladimir Lopatin, a spokesman for military reform advocates, has stated that some defense activities such as preinduction training, transportation, and housing are not charged against the MOD budget, but rather paid for by the republics and localities.³ He also claimed that the MOD uses its profitmaking activities for additional, off-budget financing. It is difficult to judge the extent and value of the services provided by the republics and localities because the Soviets did not specify what activities were included in the services and support budgets. However, *Krasnaya zvezda*, the Soviet military newspaper, did suggest the scope of profitmaking by military units. It reported in October 1990 that a single air transport regiment earned over 500,000 rubles last year through its civil charter operations and added that the bulk of the regiment's earnings were turned over to the state budget. If Lopatin is correct, such revenues may be “netted out” by the MOD and thus not reflected in the state budget's line entry for defense.

² See DI Technical Intelligence Report SOV 89-1008.

³ December 1989, *USSR: Estimating the Composition of the Defense Industry's Output*.

⁴ An *Izvestiya* report on the government's request for a fully consolidated 1991 defense budget could imply that as much as 20-25 billion rubles' worth of defense spending was hidden in republic budgets in 1989.

Problems With Prices

The CIA estimate of the value of military equipment procurement is twice the corresponding figure in the Soviet budget. The main reason for this difference is that the MOD pays preferential prices that fail to capture the full costs of production—a fact freely acknowledged by the Soviets.¹⁴ In his commentary on the 1989 Soviet defense budget, Professor Rayzberg of the Economic Scientific Research Institute of the USSR State Planning Committee (Gosplan) stated that “materials are delivered to the military departments at special prices.” Marshal Akhromeyev in his testimony before the US House Armed Services Committee admitted that, indeed, prices for many military goods are kept artificially low and that, when prices are finally restructured, “it might well be that you’re going to come up with a different total overall.”

Differences between the production costs of weapons and the prices paid by the MOD represent a subsidy to the MOD’s budget. Subsidies for these items can take a variety of forms, but in the end all result in additional payments to weapons plants to offset the low procurement prices paid to them directly by the MOD. Rayzberg claims that some subsidies are not categorized as military expenditures and are found elsewhere in the state budget.¹⁵ The Soviets probably use other types of subsidies as well. Subsidies can be financed by the defense-industrial ministries or by using profits skimmed from manufacturing civil goods in defense plants to cross-subsidize weapons production. They can also take the form of “forgiven” bank loans. Unfortunately, the defense budget data the Soviets provided the United Nations are of no use in estimating how large any specific type of subsidy might be

¹⁴ Rather than use subsidized transaction prices, we use enterprise wholesale prices in our independent current price estimates of the value of Soviet procurement. The Soviets intend these prices to cover the producer’s costs of production and to provide a profit for future investment, bonuses, and various other outlays, including contributions to the parent ministry. E

¹⁵ We have identified the possible location of billions of rubles’ worth of additional military spending in the budget; see again DI Research Paper *Defense in the 1989 Soviet State Budget: Still Not Credible*. E

The new data do further our understanding of how Soviet procurement subsidies vary among classes of weapon systems and among the different services. We found that, for some families of weapons, Soviet data and CIA estimates exhibit similar distribution patterns when broken out by service. For example, relative spending for aircraft and missile procurement both show rough consistency across all of the services (see figure 2). Such patterns suggest that price distortions caused by subsidies do not vary much by service, but only by the particular category of weapons procured. The new data also suggest that subsidies are not uniform across weapons categories. CIA estimates of the costs of missiles, ships, and aircraft are much higher than the corresponding Soviet budget figures, but the CIA estimate of the cost of land arms is only somewhat higher than the corresponding Soviet budget figure.¹⁶

This widespread, but uneven, application of procurement subsidies means that the Soviet leadership’s perceptions of defense costs—to the extent they rely on their budget figures—are highly distorted. These subsidies could give the leadership both an artificially low appreciation of the total resource commitment to defense and a skewed perception of the relative costs of the components of defense (see figure 3). For example, the procurement prices implied by the Soviet defense budget indicate that the per-unit costs of ships and aircraft are relatively cheap, but that tanks are relatively expensive. In other words, because of the implied greater level of subsidies, the MOD pays a

¹⁶ Although the CIA current price analogue of the Soviet budget submission replicated the Soviet classification scheme as closely as possible, differences between any two individual corresponding items could stem from both classification differences and price differences. However, we found no plausible way to reclassify the Soviet data that could account for more than a fraction of either the large relative price differences for missiles, ships, and aircraft, or for the overall procurement gap. Such differences could also occur if the Intelligence Community had sharply overestimated the physical production of missiles, ships, and aircraft. However, we judge that the differences are far greater than could be caused by errors in the Intelligence Community’s physical production estimates. E

Figure 2
Soviet Procurement Distribution
by Service, 1989

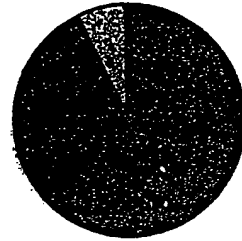
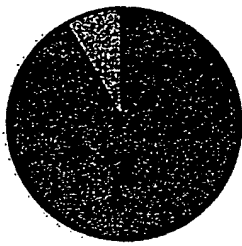
Percent

■ Air Defense Forces ■ Air Forces ■ Ground Forces ■ Navy

Aircraft Procurement

CIA Estimate

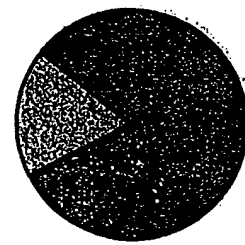
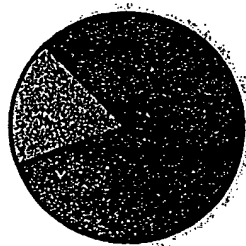
Official Soviet Defense Budget



Missile Procurement

CIA Estimate^a

Official Soviet Defense Budget^b



^a Strategic Rocket Forces and Air Defense Forces are combined for comparability with Soviet data.
^b Soviets claim that Strategic Rocket Forces and Air Defense Forces are combined.

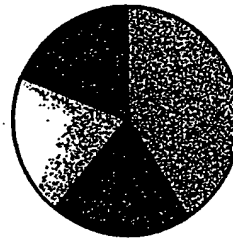
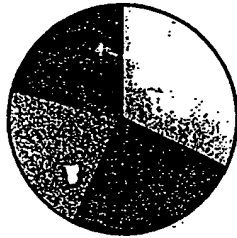
Figure 3
Soviet Defense Spending Distribution
by Service, 1989

Percent

■ Air Defense and Strategic Rocket Forces ■ Air Forces ▨ Ground Forces □ Navy

CIA Estimate

Official Soviet Defense Budget^a



^a Excludes RDT&E, nuclear warheads, rear services, and military pensions.

much smaller fraction of the actual cost of production for aircraft and ships than it does for tanks. While there were both military and political incentives for the Soviets to emphasize cuts in the Ground Forces during the past two years, the distortions caused by pervasive subsidies may also have caused the leadership to conclude that cuts in land arms procurement would reap great economic benefits

Outlook

In compiling a defense budget in accordance with UN reporting guidelines, the Soviets have not moved significantly toward achieving their stated goal of presenting defense budgets that are comparable to Western ones. Before their published defense budget will be accepted as accurate, the Soviets need to convince the international community that they are using a comprehensive and consistent definition of defense—that is, no activities included in a standard

definition of defense are excluded, and the set of activities included does not change over time. Further, before such a budget can be considered indicative of the real Soviet resource commitment to defense, the prices paid by the MOD must be changed so that they bear a more direct relation to the value of the economic resources consumed by defense activities (see inset).

The quality of the defense spending data submitted by the Soviets to the United Nations indicates that, while the Soviets may have decided upon a stable definition of what constitutes the overall boundaries of defense, both coverage and classification problems remain. At least some of these problems—for example, whether transportation equipment such as trucks are funded by the MOD—will probably be resolved in future defense budgets.

Budget Challenges Ahead

The case of the 1991 defense budget of 96.6 billion rubles shows how the pricing issue is likely to develop into an additional challenge to Soviet credibility. Although the Soviets claim that this budget represents about a 10-percent spending reduction from 1990 in real terms, it is more than one-third higher in nominal terms. Some of the nominal increase in the defense budget may well result from reducing direct subsidies for weapons production, and much of the increase certainly will reflect the impact of the long-awaited, economywide wholesale price increases—scheduled to average over 50 percent—that took effect on 1 January 1991. However, until the Soviets provide detailed price and quantity data on weapons procured, by force structure and by component, they will find it difficult to convince skeptical observers that a 36-percent increase in nominal terms actually equates to a 10-percent cut

The release of a second detailed Soviet defense budget this fall should provide new insights. Even though weapons prices are highly subsidized, changes between the 1989 and 1990 procurement categories should reflect trends in physical production. We plan

to compare the changes in physical volumes of procurement by weapon and service that we observed in 1990 to the analogous changes implied by the Soviet budgets. Differences between these changes would suggest items where classification remained a problem; conversely, comparable percentage changes should suggest items for which coverage and classification are not issues. This comparison will increase our understanding of the degree to which prices for these latter items are affected by implicit or explicit production subsidies to the MOD.

We expect Soviet weapons pricing to remain a serious problem. Unless the Soviets abandon the general practice of setting prices by administrative fiat, eliminate the highly subsidized prices the MOD pays for procurement, and publish a detailed unit price list, even detailed Soviet budgets will remain seriously deficient. Even the dramatic increase in defense prices planned for this year falls far short of the thoroughgoing reform needed to make prices reflect real resource costs