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SOVIET DEFENSE EXPENDITURES AS A PERCENT
 OF SOVIET GNP

INTRODUCTION: Although the Soviets publish official statistics showing their defense expenditures, Western observers generally agree that the Soviets hide in other accounts a substantial portion of what should properly be reported as defense expenditures. Accordingly, various organizations and individuals have made estimates of what the Soviets spend on defense, ie on equipping, operating and maintaining military forces, on military R&D and on the space program (comparable to U.S. expenditures for DOD, AEC and NASA).

The following table presents the official Soviet estimates (official) of defense and GNP** for 1970, as well as those of two dissident Soviet economists (ECONOMISTS), Mr. William T. Lee of G.E. - TEMPO (LEE) and the CIA.

TABLE 1

1970* ESTIMATES OF SOVIET DEFENSE EXPENDITURES AND GNP

Nature of Estimate	SOURCES OF ESTIMATES			
	Official	Soviet Economists	LEE	CIA
Defense	24.5	131	39 - 50	24
GNP**	290 (387)	290 (387)	377	***
Defense As a Percent of GNP	8 (6.5)	45 (34)	10.5-13.5	6-8

Figures in parens pertain to est. GNP using relationship $NMP = .75GNP$

* 1970 used because it was the most recent year for which several comparable estimates were available.

** Rather than use the Western concept of GNP the Soviets compute

what is called "net material product" (NMP). The Soviet NMP differs from the Western GNP concept in that it excludes services and includes a turnover (sales) tax. In the Table, the official and economists GNP estimates are actually Soviet NMP, whereas the Lee & CIA estimates follow the Western definition so that defense as a percent of GNP for the Soviets will be comparable to the same figure for the U.S. Most Western experts say roughly that $NMP = .75 (GNP)$.

*** CIA estimate of GNP not available, however defense spending and percent of GNP taken from W. Colby testimony before Senate Sub-Committee on 12 Apr 74.

Some of the disparities in this table can be traced as much from differences in definitions (of what should be considered a defense expenditure) and methodologies as they can from inconsistencies in available data.

Comments on the Credibility of the Various Estimates

"Official" Method

For the year cited, the USSR shows approximately the same ratio of defense expenditure to GNP as does the U.S. Total GNP for the U.S.S.R. was approximately one-half that of the U.S. This would indicate that the U.S.S.R. was twice as efficient in terms of defense "production" as the U.S.

There are several factors which tend to discredit the defense figure published by the U.S.S.R. For one thing, the published defense appropriation remained essentially constant from 1969 to 1973 (between 17.7 and 17.9 billion rubles), despite increases in all categories of weaponry, especially ICBM's and SLBM's. There is also fairly reliable evidence that certain expenditures for defense are being buried within other budget categories, notably Financing National Economy (FNE) Residual and Total Budget Residual.^{1/} This and the fact that three of the five published budget categories (including Defense) contain no breakdown within the category, lead some experts to the opinion that nearly two thirds of the Soviet budget remains hidden from outside observers.^{2/}

^{1/} In 1961, 23 billion rubles (about 25 percent of the "Defense" appropriation) were transferred from the FNE Residual to the "Defense" appropriation.

^{2/} W.T. Lee, The Credibility of the USSR Defense Budget, (G.E. - Tempo, Washington, D.C.) 1975, p. 3.

"Economist's" Method

From a study published in 1971 by two Soviet economists,^{3/} a figure of 80 billion rubles for defense appears (approximately 40 - 50^{PERCENT} OF NMP). The methodology employed is that of subtracting out all known expenditures from total state revenues, then subtracting a figure which hopefully accounts for secret non-military expenditures such as foreign aid and non-military R&D. By the authors' own admission however this last figure could be seriously off thus affecting the estimate of total defense expenditure greatly.

"CIA" Method

The CIA costs Soviet defense expenditures by essentially using a direct costing method. Quantities are estimated using best information available and prices are determined assuming work to be done in U.S. then converted to rubles using a ruble/\$ ratio. There are three sources of potential error here. First of all, quantities estimated may not be correct. Secondly, cost to perform in the U.S. may not be exactly correct. Lastly and probably most importantly, there are a number of different ruble/\$ ratios floating around making it difficult to determine the correct ratio to use in a given situation.

"Lee" Method

William T. Lee employs a methodology which breaks defense spending into three categories: Procurement, Operations and Maintenance and RDT&E and Space. For the Operations and Maintenance portion, he assumes the published Defense appropriation figure to be a minimum value. For Procurement and RDT&E and Space, he uses a very sophisticated combination of a small amount of direct costing and a substantive portion deductive reasoning.

CONCLUSIONS

While the Economist's estimate is probably too high, it does serve to indicate that the official, and therefore the CIA, estimates are most likely too low. Lee has evidence to indicate even his estimate may be a little too low. The evidence tends to place defense expenditure at roughly 15 percent of GNP^{4/}.

3/ Golfsan & Ozenov, "The Distribution of the National Income of the USSR", 1971.

4/ The evidence according to W. T. Lee comes from a knowledgeable legal emigre who places annual defense spending at between 50 and 60 billion rubles annually.

There are very real difficulties in estimating Soviet defense expenditure, including those mentioned here. It is therefore a problem to determine which estimate is "best". If we are to believe, however, some of the statements from dissident Soviets, it is obvious that few people even in the Soviet Union place much faith in the "official" version.