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CIA HISTORICAL REVIEW PROGRAM
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MEMORANDUM FOR: Deputy Director of Central Intelligence

SUBJECT : Estimates of Soviet
Defense Expenditures: 1960-1974

1. This memorandum is to inform you of the results of an estimate of Soviet defense expenditures which was completed recently by [

] who stated that he had viewed a document at the Central Statistical Administration which contained a two-page table showing an accounting of Soviet defense expenditures for 1969 and 1970. [

2. [] also claimed [] that he could make estimates of Soviet defense expenditures for earlier and subsequent years [] based upon his knowledge of Soviet statistics and accounting practices and his understanding of domestic and foreign problems. []

SENSITIVE INTELLIGENCE SOURCES
AND METHODS INVOLVED

Data impossible to determine.
(Category:)

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3. In summary, [] estimates that Soviet defense expenditures, in current prices, grew from about 20 billion rubles in 1960 to about 52 billion in 1974. The time series shows sharp increases in 1961, 1965 and 1968-1969, with only modest growth in the intervening years. For the years after 1970, the estimate stabilizes at 50-52 billion rubles. The estimates of total expenditures for each year are shown in the following table:

Estimated Soviet Defense Expenditures
(Billions of Current-Year Rubles)

<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>
19.5	22.2	23.4	24.6	24.8	32.6	33.0	35.0
<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	
40.0	47.5	49.5	50.2	50.7	52.2	51.7	

4. We have not yet had time to analyze [] estimates and methodologies in detail. At first glance, however, they do not fit well with our knowledge of the pace of Soviet defense activities. For example, there is a lack of growth in his estimates after 1970--a period characterized by a rapid expansion of Soviet strategic and other programs--and a slight decline in 1974. [] shows a thirty percent increase in Soviet

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military spending in 1965 which is not reflected in our perception of Soviet forces at that time. The extremely rapid growth in 1968 to 1969 also seems out of phase with the timing of the buildup in strategic forces that occurred in the second half of the 1960s, although it may result in part from the price reform in the USSR which began in 1967.

5. [

[]]

EDWARD W. PROCTOR
Deputy Director for Intelligence

Attachment:
Description of
USSR Military
Expenditures
During 1960-
1974.

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Description of USSR Military Expenditures During 1960-1974

During 1960-1974 USSR military expenditures rose more than 2.6 times and amount at present to about 53 billion rubles.

According to officially published data defense expenditures are about 200 percent of those in 1960. The military expenditures of the USSR have increased for all items [articles] of expenditure, including a significant growth in the personnel of the Soviet armed forces. The growth of armed forces personnel has been due both to the natural increase in the number of those conscripted for active duty in the Soviet army and to the 1968 reform of the law on universal military service which resulted in the drafting of 18- and 19-year olds. On 15 January 1959, the Soviet armed forces numbered 3.623 million men (census data); on 1 January 1961, there were 2.5 million (in 1960 there was a troop reduction of 1.2 million men or 33 percent); at present the personnel of the armed forces is estimated at 3.7-3.8 million men. The Soviet army was restored to its former manpower strength in about 1968. It should be noted that the growth of armed forces personnel was marked by somewhat higher rates than the number of those studying in the Soviet army. This occurred because several educational institutions of the USSR Ministry of Defense were transferred in 1960 to other ministries, e.g., the Odessa Medical Tekhnikum, the Moscow Aviation Tekhnikum, etc. The increase in the size of the armed forces resulted in an increase in expenditures for maintaining them.

In 1962 the Soviet government raised purchase prices (zakupochnyye tseny) for farm produce by about 33 percent, particularly for livestock products. This caused a rise in wholesale and retail prices which, in turn, caused a growth of military expenditures. Furthermore a large sum of money was spent in 1962 for support

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of the Cuban adventure. From 1962 to 1965 expenditures for USSR defense rose more slowly than in the preceding years. In 1965, however, a sharp growth in defense expenditures was connected with large-scale support by the Soviet government of the Viet Nam Communists in the war which started in Vietnam in 1965.

In 1967 the growth of defense expenditures was caused by Soviet support of the Arab countries in the Israeli-Arab conflict. In these years, on the other hand, there was a sizeable reequipping of the Soviet army with modern military hardware. During 1965-1967 there occurred a significant technical rearming of the Soviet army. In 1968 the Soviet government adopted the new law concerning the military service of citizens of the USSR, called up 18- and 19-year olds for active military service, planned and carried out the occupation of Czechoslovakia, increased the draft quota of reservists for retraining on the basis of modern weapons. This caused a significant increase in expenditures for defense. During 1969 the number of Soviet troops in Czechoslovakia was increased and the USSR carried out in this country [sic] large capital construction of military units and increased expenditures for the procurement of armaments. Expenditures for the technical equipping of the armed forces of the USSR grew at high rates. These years were also marked by increasing tension between China and the USSR. The Soviet Union greatly strengthened its eastern borders, created new military units, increased their military hardware, and accomplished a large relocation of the armed forces in an easterly direction. Moreover a program was undertaken in these years to build an anti-aircraft defense belt around Moscow and to create an anti-missile screen (zaslon). During 1970-1974 the policy of technical reequipping of the Soviet army was continued. Many types of tanks, aircraft, missiles and other armaments were replaced. In 1973 the Soviet government supported Arab aggression against Israel. This year was marked by a significant increase in the call-up of reservists for retraining. These measures caused a further increase in military expenditures.

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1960

We estimate USSR military expenditures in 1960 at 19.5 billion rubles (in 1961 prices). This calculation is based on fairly precise data concerning the size of the Soviet armed forces. Articles 2, 4, 5, 7, and 10 of the Otsenka were calculated on the basis of precise data. Articles 1, 6, 8, and 11-16 were estimated taking account of trends in the growth of military expenditures and on the basis of other factors that influence the growth of expenditures for these articles. In addition account was taken of the growth of national income, the increase in the income side of the state budget, and trends in the development of the Soviet economy. The reduction of Soviet troops by 1.2 million men was taken into consideration in the calculations. Also considered was some rise in wages in the USSR, a slight reduction in the taxes of workers and employees, as well as a significant increase of investments in support of the Cuban crisis and other factors.

1961

According to officially published data defense expenditures in 1961 increased 24.7 percent in comparison with 1960 (even with the troop reduction!). The growth was due to an increase of personnel in the Soviet army from a new call-up. [Also], investments in the development of subsidiary enterprises of the USSR Ministry of Defense increased and capital investments in the development of rocket technology increased substantially.

1962

According to our calculations military expenditures in 1962 rose by 5.4 percent, but according to officially published data the increase was 8.6 percent. The increase of expenditures for defense occurred mainly as the result of:

1. Rises in the prices of livestock products.
2. Increases in investment for armaments.
3. Expenditures in support of the Cuban crisis.

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A revision upward of wholesale prices for heavy industry output, coal, metals, and other articles caused some increase in military expenditures.

1963

Military expenditures continued to increase during 1963. We calculate their growth at 5.1 percent as compared with 1962, but according to officially published figures it was 10.3 percent.

In 1963 there was a significant crop failure in the USSR. The Soviet government purchased abroad a tremendous quantity of grain at relatively high prices. A large quantity of livestock products was also purchased. Purchases of food products from the farm population were increased at prices formed in the local markets. These measures caused a sharp increase in outlays for the food supply of the Soviet armed forces. Outlays for military R&D increased somewhat. Because of the serious economic and financial difficulties in 1963 the capital investment program was not fulfilled either for the economy as a whole or the defense system of the USSR.

1964

USSR defense expenditures continued to grow in 1964. We calculate that they grew by 0.8 percent as compared with 1963. The officially published figure indicates some reduction in military expenditures. This is explained by the following reasons: receipt of food products from the subsidiary farms of the USSR defense system was increased because of a relatively good harvest and this caused a reduction in expenditures for article 7 [of the Otsenka]. However procurements of weapons increased somewhat in 1974. Also, investments in subsidiary agriculture were increased

In 1964 the USSR launched an initiative to curtail the arms race and military budgets. This was the basis and main factor that prompted the Soviet government to publish reduced [understated] figures on defense expenditures for 1964 and 1965 whereas in fact they rose.

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We did not make an allowance in the respective articles for the arbitrary reduction of military expenditures. In the calculations of actual expenditures for 1964 the articles were tied in [privedeny] to the officially published figure in accordance with trends. It is not possible to calculate what was intentionally reduced. We have assigned all the decrease in military expenditures to article 7, which is possible but we are not fully certain of it.

1965

According to the officially published figure military expenditures continued to decline in 1965 and amounted to 12.8 billion rubles, i.e., they were at the 1962 level. However, this does not correspond to the real state of things. Even assuming that the Soviet government did not increase purchases of armaments the size of the armed forces grew significantly between 1962 and 1965 as a result of the natural increase in persons of draft age. Furthermore the USSR greatly increased the production and procurements of armaments in 1965 in connection with the beginning of the Vietnam campaign. Expenditures for armaments also rose in conjunction with the strong support of India in the military conflict with Pakistan. We calculate that actual military expenditures of the USSR in 1965 were 32.6 billion rubles--an increase of 31.5 percent in comparison with 1964.

1966

Starting in 1965 [and continuing] in 1966 the new economic reform began to be widely introduced in the USSR. As a result of the introduction of this reform the government of the USSR freed sizeable budget funds for use in military purposes. Capital investments, which previously had been financed entirely from the state budget, were in large part replaced by long-term bank credits. The revenues of the state budget were increased, on the other hand, by establishing new forms of payments from profits by economic organizations.

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Other measures were also carried out and they provided significant growth of USSR state budget revenues and other funds used for military purposes. This made it possible for the Soviet government, beginning in 1966, to increase the production and procurement of armaments. Furthermore, in 1966 and subsequent years the Soviet government redeployed the armed forces of the USSR in an easterly direction. This required an increase in the capital construction of buildings and structures as well as some increase in expenditures for the money allowance [of servicemen].

A growth of military expenditures in 1966 is observable not only in our calculations but also in the officially published figure. Consequently one can conclude that the Soviet government did not begin a real paring of the military budget either in 1964-1965 or in subsequent years.

1967-1968

1967-1968 were marked by a significant increase in tension caused by the Israeli-Arab conflict and the incursion of Soviet troops into Czechoslovakia. These factors required a new growth in USSR military expenditures. Investments for the procurement of armaments were greatly increased. In addition, the manpower of the USSR armed forces was significantly increased by the call-up of 18- and 19-year olds in accordance with the new law on universal military service. During the period of activity in Czechoslovakia a significant number of reservists was called up, primarily command personnel and personnel licensed to drive motor vehicles. About 62 percent of the transport equipment of economic organizations and enterprises in the western oblasts of the USSR that were suitable for transporting liquid fuel were also mobilized. These measures required an increase in military expenditures, particularly in the articles relating to armaments and the construction of new facilities, communication [lines], and military units on Czechoslovakian territory. Expenditures for food and nonfood material supplies for the Soviet army, expenditures for the money allowance, etc. also increased. The total increase of military expenditures in 1967-1968 amounted to about 7 billion rubles (our calculation).

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1970-1973

In this period a significant increase in military expenditures also occurred. There was a buildup of the military power of the USSR, especially of new equipment, planes, ships, and missiles of new types. The troops in the south and east of the USSR were strengthened. Creation of an antimissile defense belt around Moscow and several large industrial centers-- construction of which was begun in 1968-1969--proceeded at full speed. Under these conditions outlays for the construction of new buildings and structures as well as for the purchase of new armaments increased at high rates. In 1971-1972 the military expenditures of the USSR reached a sum in excess of 50 billion rubles, or amounted to about one-third of the entire USSR state budget. In the following years USSR military expenditures were stabilized at these limits and grew much more slowly. This is explained by the important economic difficulties which confronted the Soviet economy in these years. In practice the economy of the Soviet state did not endure the high military expenditures that the Soviet government imposed on it. As a result the Ninth Five Year Plan in its original design was not fulfilled and already in 1973 all of the plan assignments were scaled down except for military expenditures. USSR military expenditures increased somewhat in 1973 in connection with the Arab aggression against Israel and significant military support to the Arab countries. In our opinion military expenditures in 1974 had to be decreased somewhat since sizeable sums were required to fulfill the messed-up plans of the Ninth Five Year Program which was coming to an end. At present USSR military expenditures are approximately 53 billion rubles per year and eat up about 32 percent of the USSR state budget.

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Expenditures for Defense: 1960-1968) 1970-1974 (Billions of Rubles)

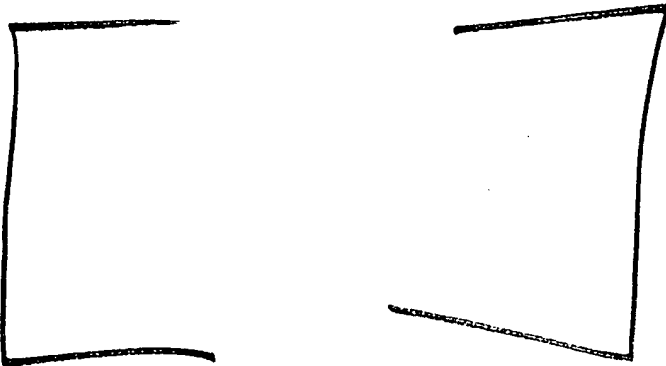
Number	Title of Article	1960	1961	1962	1963	1964	1965	1966	1967	1968	1970	1971	1972	1973	1974
1	Expenditures for the increase of fixed capital of which: for buildings and facilities	6.9	6.0	5.5	5.0	5.5	13.0	10.0	12.0	13.0	21.0	21.0	21.0	22.0	21.0
2	Expenditures for wages	1.3	1.0	1.0	1.3	2.0	3.0	3.8	4.0	5.0	5.0	3.5	3.5	3.5	3.0
3	Expenditures for the maintenance of buildings and facilities, including current and capital repair	1.8	1.9	2.0	2.0	2.0	2.1	2.1	2.1	2.5	2.5	2.5	2.5	2.5	2.6
4	Transportation expenditures	2.6	3.0	3.2	3.5	3.5	3.7	4.6	5.3	6.2	6.8	7.1	7.2	7.3	7.3
5	Expenditures for fuel	0.7	0.4	0.5	0.5	0.45	0.46	0.5	0.5	0.7	0.6	0.7	0.6	0.7	0.7
6	Expenditures for the acquisition of inventory items of small value and short life	0.1	0.1	0.1	0.1	0.15	0.15	0.15	0.18	0.3	0.2	0.2	0.2	0.3	0.2
7	Quartermaster expenditures	1.8	2.6	2.8	2.8	2.95	3.15	3.25	3.62	4.5	4.7	4.8	4.8	4.2	5.0
8	Administrative - management and material expenditures for military education and scientific research conducted by institutes of the MOO	2.1	2.6	3.2	4.3	3.3	3.4	3.9	5.1	5.0	5.0	5.0	5.0	5.2	5.1
9	Expenditures for the creation, formation and storage of reserves for military purposes	1.0	1.2	1.4	1.3	1.3	1.4	1.4	1.4	1.9	2.0	2.0	2.0	2.0	2.1
10	Expenditures for science	1.0	1.3	1.3	1.2	1.3	1.7	1.7	1.8	2.0	2.0	2.2	2.2	2.2	2.2
11	Expenditures for financing the expansion of subsidiary economic organizations of the MOO	1.0	1.2	1.6	1.8	2.0	2.1	2.3	2.4	2.5	3.0	3.2	3.6	4.0	4.0
12	Postal-telegraph and telephone expenditures	0.2	0.4	0.5	0.5	0.8	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
13	Expenditures for pre-conscription training	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.6	0.6	0.6	0.7	0.7
14	Expenditures for cultural and sports measures	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
15, 16	Other expenditures	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
	TOTAL	19.5	22.2	23.4	24.6	24.8	32.5	33.0	35.0	40.0	45.5	50.2	50.7	52.2	51.7

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