

Russian military expenditure: what's behind the curtain?

Vasily Zatsepin

Military budgets as “a visible manifestation of national strategic intentions, priorities, and policies” still are worthy objects for study and monitoring.¹ In the Cold War era, western economists devoted serious attention to the Soviet economy in general and to Soviet military expenditure in particular. The validity of these efforts is obvious but, for the latter, their effect was mostly contradictory and some times disappointing.² (Statistically, there is still little known about past Soviet military expenditure.³) With few exceptions, contemporary Russian military expenditure cannot boast of such attention,⁴ even though the United Nations (U.N.), the International Monetary Fund (IMF), the North Atlantic Treaty Organization (NATO), the Stockholm International Peace Research Institute (SIPRI), the International Institute for Strategic Studies (IISS), and others⁵ continue to monitor this subject.

Inside Russia, the topic of military expenditure is usually disregarded by economists and does not receive close scrutiny. Breaking this tradition of relative inattention, since the year 2000 the Moscow-based Institute for the Economy in Transition (IET), an independent research body, has begun to publish annual estimates of Russian military expenditure.⁶ Based on IET's work, this article presents an analysis of Russia's current practice of recording and reporting its military expenditure. It examines, first, Russian military expenditure since 1999 with an emphasis on the current budget year. Second, the underlying budgeting process, defense planning, and other institutional factors are considered. And third, prospects for the future, as announced by high-ranking Russian officials, are reviewed and some problems encountered when researching Russian military expenditure are discussed.

Russian military expenditure

Definition of military expenditure

The definition of military expenditure used by IET is based on a framework proposed by the United Nations – the U.N. Standardized Instrument for Reporting Military Expenditures – and resembles that developed by Argentina and Chile with U.N. support.⁷ The functional classification of Russia's federal budget according to its annual Federal Budget Law (budget allocation) and its Federal Budget Execution Law (actual outlays) serves as the base for the evaluation. The main part of military expenditure is concentrated in the National Defense budget function and covers the

country's spending on its military atomic program and its armed forces (military and civilian personnel minus retirement pensions; operations and maintenance; procurement; military construction; research and development). The resulting amount is regarded as defense (or direct military) expenditure and is labeled in this article as DEFEX.

Based on this, another measure – labeled $MILEX_1$ – is found by adding indirect military expenditure, taken from a budget division called National Security and Law Enforcement Activity (i.e., troops of the Ministry of Interior, other security bodies, and border service). Also included, from other budget categories, are expenses on civil defense, special construction, and preparation for mobilization of the economy. The total is a close analog to the U.N.'s G_1 measure,⁸ which also includes civil defense matters. A second aggregate of military expenditure ($MILEX_2$) is estimated by adding expenses connected with previous military activity, namely on retirement pensions for military personnel and an appropriate part of the state's Housing Program under which retired military personnel are provided with a dwelling. The $MILEX_2$ aggregate is an analogue to the U.N.'s G_2 measure, which in addition to G_1 includes net pension benefit expenditure.⁹ Figure 1 shows the components of Russian military expenditure.

Short-run spending dynamics

Defined as described, a uniform time series for the years 1999 to 2004 can be generated (see Table 1; panel A in roubles; panel B as a percentage of Russian GDP). Notwithstanding well-known limitations in comparing military expenditure across countries,¹⁰ the data in panel C is converted to current U.S. dollars at purchasing power parity (panel D). When considering actual outlays, it is important to know that data about the execution of the federal budget by law become available in Russia only 25 months after its passage. For comparison, panel B also displays SIPRI data.

Current military expenditure

Unfortunately, by changing its budget functional classification in 2005 to accord with the Classification of the Functions of Government (COFOG) of the U.N.'s System of National Accounts and the IMF's Government Finance Statistics Manual 2001,¹¹ the Russian government has “spoiled” the uniformity of observed time series. Now civilian-type expenditures of the Ministry of Defense are excluded from the National Defense category and transferred to other (“peaceful”) divisions. In some cases, this produces unexpected (from the standpoint of economics) effects which will be described later. On the plus-side, however, this change shifts the $MILEX_2$ definition used by IET closer to that used by NATO.¹²

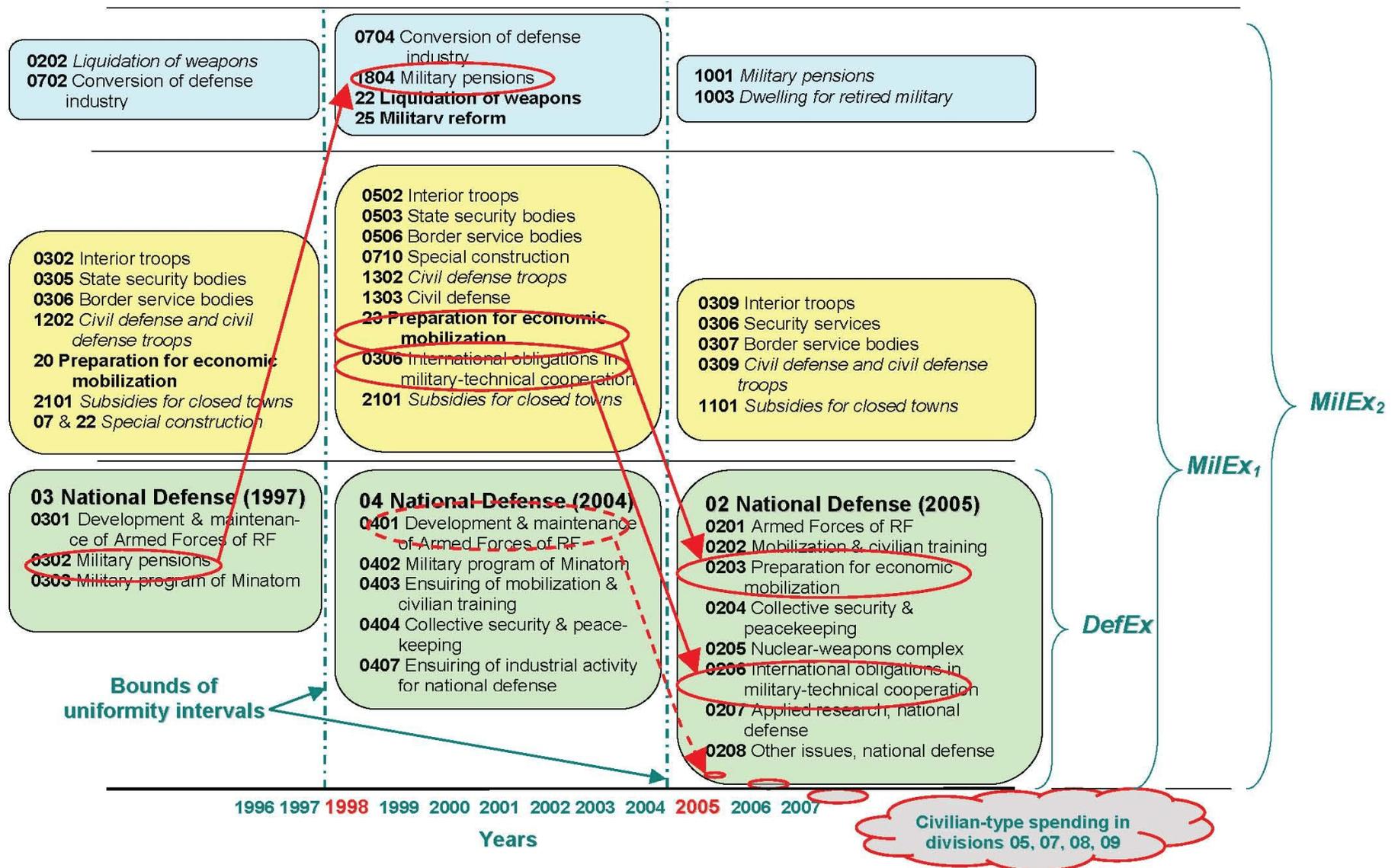


Figure 1: Components of Russian military expenditure since 1995. Source: Russian federal budgets, 1996-2006. ConsultantPlus® database software. Note: Budget division titles and codes of divisions and subdivisions are shown in bold; analytical groups under the codes are in italics.

Table 1: Russian military expenditure

	1999	2000	2001	2002	2003	2004	2005	2006	2007 ^a
<i>Panel A (billions, constant roubles; base year = 1999)</i>									
DEFEX (outlays)	115.6	139.3	154.5	159.5	169.0	172.2	194.5	–	–
DEFEX (budget)	93.7	152.2	133.9	153.5	168.6	171.2	193.5	198.3	222.6
DEFEX (outlays/budget, %)	123%	92%	115%	104%	100%	101%	100%	–	–
DEFEX outlays growth (1999=100%)	100%	121%	134%	138%	146%	149%	168%	–	–
MILEX ₁ (budget)	128.9	196.5	176.8	190.7	216.9	218.1	239.4	252.7	291.5
MILEX ₂ (budget)	144.0	221.4	205.6	246.1	282.5	252.6	267.7	280.7	320.0
<i>Panel B (as percentage of GDP)</i>									
DEFEX (outlays)	2.4	2.6	2.8	2.7	2.7	2.6	2.7	–	–
DEFEX (budget)	1.9	2.9	2.4	2.6	2.7	2.6	2.7	2.7	2.6
MILEX ₁ (budget)	2.7	3.7	3.2	3.3	3.4	3.3	3.3	3.5	3.4
MILEX ₂ (budget)	3.0	4.2	3.7	4.2	4.5	3.8	3.7	3.9	3.8
SIPRI ^b	3.4	3.7	4.1	4.3	4.3	3.9	4.3	4.3	–
<i>Panel C (billions, current roubles)^c</i>									
DEFEX (outlays)	115.6	191.7	247.7	295.4	355.7	430.0	581.1 ^d	–	–
DEFEX (budget)	93.7	209.4	214.7	284.2	354.9	427.4	578.4	666.0	821.2
MILEX ₁ (budget)	128.9	270.4	283.4	353.1	456.5	544.5	715.4	848.8	1,075.1
MILEX ₂ (budget)	144.0	304.6	329.6	455.6	594.6	630.7	800.2	942.8	1,180.5
<i>Panel D (billions, current US \$)^e</i>									
DEFEX (outlays)	21.9	26.8	30.2	31.9	34.2	36.2	44.4	–	–
DEFEX (budget)	17.7	29.3	26.2	30.7	34.1	35.9	44.2	46.4	52.7
MILEX ₁ (budget)	24.4	37.8	34.6	38.1	43.9	45.8	54.7	59.2	68.9
MILEX ₂ (budget)	27.2	42.6	40.2	49.2	57.1	53.0	61.1	65.8	75.7
<i>Auxiliary statistics</i>									
GDP ^f , billions, current roubles	4,823	7,306	8,944	10,831	13,243	16,752	21,598	24,380	31,220
GDP deflator (%) ^g	172.5	137.6	116.5	115.5	113.7	118.6	119.7	112.4	109.8
Purchasing power parity, roubles/\$	5.29	7.15	8.19	9.27	10.41	11.89	13.09	14.34	15.59

Sources: ^a Projected federal budget for Russian Federation, 2007 <http://www1.minfin.ru/budjet/prjbud2007.zip>; ^b 1999-2004 from *SIPRI Military Expenditure Database* http://first.sipri.org/non_first/milex.php?look_up_country=643 [accessed 28 September 2006]; 2005-06 from Cooper (2006, p. 13); ^c *Russian Economy: Trends and Outlook, 2000-06*; ^d preliminary data from Federal Treasury http://www.roskazna.ru/store/reports_file146.xls [accessed 30 October 2006] ^e GDP-based purchasing-power parity for 1999-2004 from Rosstat (2006, p. 785); 2005-07 author's estimates (linear trend of prior data); ^f 1999-2004 from Rosstat (2006, p. 323); 2005 from Federal State Statistics Service http://www.gks.ru/bgd/free/b01_19/IssWWW.exe/Stg/d000/i000610r.htm; 2006 from Federal Law (2005); 2007 from Mikhailov (2006); ^g 1999-2004 from Rosstat (2005, p. 94); 2005-07 from Vasilchuk (2006).

Table 2: Estimates of transferred civilian-type allocations, 2004-2007

	2004	2005	2006	2007
<i>Secret civilian-type allocations by division (billions, current roubles)</i>				
04 National economy	0.2	0.1	0.1	3.2
05 Housing and communal services	–	–	1.7	2.3
07 Education	–	4.4	5.5	7.0
08 Culture, cinematography, mass media	–	0.1	0.1	0.1
09 Health and sport	–	4.0	0.1	6.9
11 Interbudgetary transfers	–	–	–	3.0
Subtotal for secret allocations	0.2	8.7	12.5	22.6
Subtotal for secret allocations (%GDP)	0.00	0.04	0.05	0.07
<i>Explicitly allocated to Ministry of Defense by division (billions, current roubles)</i>				
05 Housing and communal services	7.6	–	14.6	11.4
07 Education	0.2	19.7	24.4	30.1
08 Culture, cinematography, mass media	–	1.0	1.4	1.8
09 Health and sport	2.4	14.9	17.2	21.3
Subtotal for MoD	10.3	35.6	57.7	64.6
Subtotal for MoD (%GDP)	0.06	0.16	0.24	0.21
Total for civilian-type	10.3	44.3	70.2	87.2
Total for civilian-type (%GDP)	0.06	0.20	0.29	0.28

Note: Data for 2004 reallocated to respective divisions of current budgetary classification. *Sources:* 2004-2006 budget and 2007 budget project data.

Along with the switching to the new budget classification in the 2005 federal budget, a further consolidation of military expenditure in the National Defense division was carried out. This included expenditures for international military technical cooperation programs and preparation for economic mobilization. Moreover, one now finds two new subdivisions: “Applied Research, National Defense” and “Other Issues, National Defense” (see Figure 1). The military expenditure data for 2005-2007 are therefore shown in Table 1 separately from previous periods. Estimates for transferred civilian-type aggregates are given in Table 2 (these estimates are not taken into account in Table 1).

Without doubt, the use in Table 2 of the term “secret” in connection with civilian-type allocations may provoke objections, or at least some questions. Why must these sums be regarded as secret, and if they are secret how it is possible to calculate them? One point is that according to the Law on State Secrets we know for sure about the existence of secret annexes in the budgets which contain data connected to defense procurement, R&D, and other matters.¹³ For the 2005-2007 budget years, there are 9

secret annexes each year. This is usual budgetary practice in Russia and amounts to about 15-20 percent of the total number of annexes in the last few years’ federal budgets; two of the nine are classified as “most secret.” Knowing that there are secret sums, it turns out that one can quite easily calculate them as the difference of the values specified in the budgetary annex containing the distribution of the total expenditure across the divisions and subdivisions of the functional classification¹⁴ and the amounts for the same budgetary divisions and subdivisions contained in the annex with the distribution of non-secret allocations.¹⁵ The procedure is similar to that used for analyses of secret sums in the U.S. defense budget,¹⁶ but actually simpler due to the explicit structure of secret annexes used in Russia. Regarding the reliability of the estimates in Table 2, note that the values given are lower bounds because allocations to other military bodies (e.g., Interior Ministry troops) are not taken into account so that the actual totals will be substantially higher than reported here.

In this connection it is worth noticing statements made by Victor Zavarzin, chair of the Russian Federation State Duma Defense Committee, which suggest that of the 798 billion roubles of defense expenditure in 2006, 132 billion roubles were hidden in non-military budget divisions.¹⁷ Including this “hidden” amount in Table 1, panel B for 2006 would increase the estimated defense burden by 0.5 percentage points. (Moreover, according to our budget-based estimates, in 1998 the Russian Ministry of Defense spent about 0.01 percent of GDP on education and health but in 2006 this went up to 0.26 percent. Of course 1998 was disastrous for the Russian finance system, but the data discussed here are for allocations, not outlays.)

Adoption of the new budget classification has led to noticeable discontinuity in the observed time series for Russian military expenditure. Comparability can be restored only by adding the figures shown in Table 2, which would result in a continuation of the nominal use of the old classification. Failing that, the series will be non-uniform.

Openly published U.N. data about the structure of Russian military expenditure in 2005 are shown in Figure 2. However, the data suggest that in 2005 every fifth rouble assigned to armed forces personnel (or 8 percent of total military expenditure) was “unallocated.”¹⁸ Due to the high secrecy level of Russia’s federal budget process, as for 2006 it is not possible anymore to estimate the structure of military expenditure from the data supplied by the annual budget laws. Instead, one must rely on imprecise statements, such as that by V. Zavarzin, according to which the capital cost part of Russian defense spending amounted to 40 percent, up from 35-38 percent in 2005.¹⁹

Behind the curtain

The federal budget and budgeting process

Russia’s budgeting system is still in transition from that used in the former Soviet Union. Although this transition may be in its ultimate phase, the new legal framework

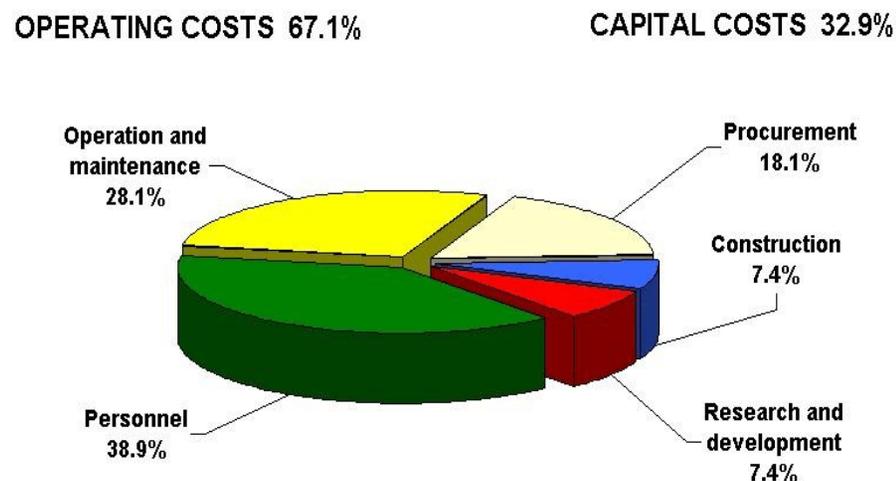


Figure 2: The 2005 structure of Russia's military expenditure. Source: United Nations (2006).

– the Budget Code that came into force in 2000 – is still subject to annual changes that affects budget management.²⁰

The key shortcoming of the federal budget preparation phase is the lack of a formal and openly published budget request by the Ministry of Defense (and other governmental bodies, of course). Consequently the ministry's intentions are subject only to internal government bargaining; outside views cannot be brought to bear on the process. The budget preparation ends with the adoption of a three-year rolling financial plan. The laudable goal is to shorten, to 15-16 months, the ultimate time needed to approve the annual Federal Budget Execution Law (spending authorization) and thereby improve the efficiency of the annual budgetary cycle.

The main actor in the budget approval phase is the Federal Assembly of the Russian Federation. Regrettably, its members cannot effectively carry out the task of budget control because of the presence of a dominant contingent of "soldier-politicians"²¹ in both of the relevant defense committees (in the Duma and in the Federation Council). Not only do they lack skills and advanced analytical support in defense budgeting, economics, and accounting but they act "as a kind of lobby for the military circles [rather] than as a tool of democratic control of military and security agencies."²²

Once approved, there are also severe problems with the implementation of the federal budget. Budget execution is known for remarkable, substantial delays. For example, because of the late issuance of the government regulation that implements the federal budget – for the 2006 budget done only at the end of February 2006²³ –



Figure 3: Flow of centralized payments for public procurement contracts by Russian Ministry of Defense in 2005, % of annual purchase orders volume. Source: Pulin (2006); translated from Russian by the author.

budget payments are skewed toward the end of the budget year. According to statements from the Russian Chamber of Accounts, especially absurd situations arise in the defense sector (see Figure 3).

Another substantial change in the budgetary system involves the previously mentioned adjusting of functional budget classifications to be in line with COFOG, the U.N.'s and IMF's standardized system of national accounts. While this carries implications that may be regarded as positive (e.g., international comparability; removal of non-defense, civilian-type items from the defense budget), it is also true that classified expenditures are now spread across various federal budget divisions unrelated to defense and security, quite an unwelcome effect from the standpoint of defense economists and budget analysts. At a minimum, it raises the question of what were the underlying motives of federal budget developers when placing such expenditures on "secret" lists and then leaving them classified.

Secrecy problem

According to the already mentioned Law on State Secrets, the most prominent feature of Russia's military expenditure is its potential *full secrecy*.²⁴ Even though the Budget Code limits secrecy to the line-item level, in practice there are entire budget

Table 3: Secrecy in Russia's federal expenditures, 2003–07 (% classified)

Code and title of division and subdivision ^a	2003 ^b	2004	2005	2006	2007
Total federal expenditure	9.5	9.7	11.3	12.0	12.2
01 General public services	n/a ^c	n/a	3.9	6.1	7.6
0110 State material reserve	97.7	93.5	83.0	89.9	92.4
0111 Basic research	–	–	1.8	1.9	1.2
0115 Other issues in general public services	n/a	n/a	0.1	0.1	0.7
02 National defense	36.2	37.9	41.4	44.0	45.6
0201 Armed forces of Russian Federation	34.3	35.8	32.9	36.8	37.6
0203 Preparation for economic mobilization	100.0	100.0	100.0	100.0	100.0
0204 Collective security and peacekeeping	n/a	n/a	100.0	100.0	100.0
0205 Nuclear-weapons complex	100.0	100.0	100.0	100.0	100.0
0206 International obligations in military-technical cooperation	46.3	–	44.6	45.9	45.5
0207 Applied research, national defense	n/a	n/a	99.0	94.0	93.6
0208 Other issues, national defense	n/a	n/a	2.5	9.5	25.4
03 National security and law-enforcement activity	22.4	19.5	29.2	31.0	31.3
0302 Internal affairs bodies	2.3	2.7	5.0	5.50	5.2
0303 Interior troops	10.9	10.5	12.3	11.1	10.2
0306 Security services	100.0	98.8	97.8	96.2	97.3
0307 Border service bodies	13.0	20.2	100.0	98.8	97.5
0309 Prevention and liquidation of consequences of emergency situations and natural disasters, civil defense	49.8	59.5	59.4	62.6	52.6
0311 Applied research, national security and law-enforcement activity	n/a	n/a	76.2	67.3	63.8
0313 Other issues, national security and law-enforcement activity	n/a	n/a	9.0	36.4	57.4
Code and title of division and subdivision ^a	2003 ^b	2004	2005	2006	2007
04 National economy	n/a	n/a	0.1	–	0.6
0410 Applied research, national economy	n/a	n/a	–	–	5.4
0411 Other issues, national economy	n/a	n/a	0.1	0.1	–
05 Housing & communal services	n/a	n/a	–	4.4	4.7
0501 Housing	n/a	n/a	–	6.4	6.2
07 Education	–	–	2.9	2.7	2.5
0701 Pre-school education	–	–	1.1	2.3	2.0
0702 General education	–	–	0.6	1.7	2.3
0704 Secondary professional education–	–	–	1.2	1.0	0.9
0705 Retraining & professional improvement	–	–	18.9	14.9	16.8
0706 Higher professional education	–	–	3.4	2.9	2.7
0709 Other issues, education	–	–	0.2	0.6	0.3
08 Culture, cinematography, and mass media	–	–	0.1	0.2	0.2
0801 Culture	–	–	0.1	0.1	0.1
0804 Periodical press and publishing houses	–	–	11.5	9.7	11.2
0806 Other issues, culture, cinematography, and mass media	–	–	–	0.1	–
09 Health & sport	–	–	3.7	3.4	3.3
0901 Health	–	–	4.4	3.9	3.8
0902 Sport & physical training	–	–	0.6	0.7	0.4
11 Interbudgetary transfers	–	–	–	–	0.2
1101 Financial assistance to other budgets	–	–	–	–	0.6

Note: ^a Current budgetary classification; ^b data for 2003 and 2004 are reallocated to respective divisions and subdivisions of current budgetary classification; ^c direct match in current classification is not available; *Sources:* 2003-06 budget and 2007 budget project data.

subdivisions that are fully secret. (The secrecy level itself is regulated not by the Ministry of Defense but, for the most part, by the Ministry of Finance and the Ministry for Economic Development and Trade.) Despite President Putin’s May 2004 statement before the Federal Assembly that “a transparent military economy is a necessary condition for reform,”²⁵ Table 3 shows continuous growth of secret federal expenditure. The reasons for such growth remain hidden, as no official explanatory statements have been made. We only know that for the past two years no substantial changes were made to the official list of data that are considered state secrets. Although additional research is needed, independent observers conjecture that among the main reasons for the observed growth of secret expenditure in the budget is opportunistic behavior by those who stand to personally benefit from the higher remuneration offered for work with classified information. Already it can be shown that civil servants at the Ministry of Finance and the Ministry for Economic Development and Trade face stronger incentives to keep things under the cover of secrecy than the Russian military does (see Table 4).

Table 4: Size of remuneration for work with secret information in Russia

Clearance level	Rated increase to official salary, %	
	for civil servants	for military servants
“Of particular importance”	50–75	25
“Most secret”	30–50	20
“Secret”	10–15	10
“Secret” (without formal clearance)	5–10	–

Sources: Regulation (2006b); MOD (2006).

Of course, it is difficult to say what price Russia pays – say in terms of percentage points of GDP lost per one-percent rise in the secret portion of the federal budget – but the existence of negative feedback is not doubted.

Defense planning

Rational defense *budgeting* is seriously handicapped by deficiencies in defense *planning*, inherited almost intact from Soviet times. The federal Defense Law²⁶ defines the main components of the military planning system. Its main pillars are the Armed Forces Employment Plan, the Force Structure Development Plan, and the State Armament Program,²⁷ the first and last constituting the formal basis for defense budgeting. In addition, the Russian General Staff has developed certain long-term plans (see Figure 4).²⁸ In 2005, this planning system was extended with the adoption of the special Armed Forces Units Provision Comprehensive Program for 2006-

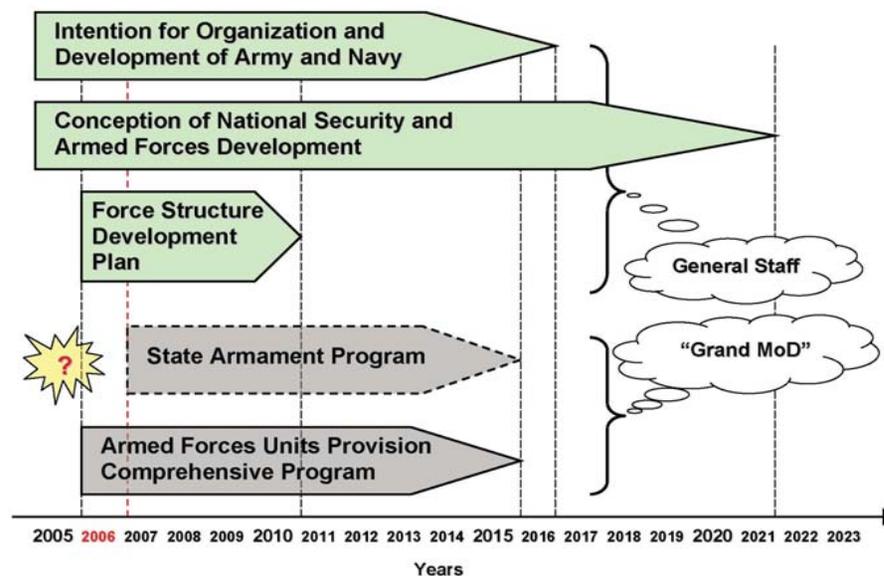


Figure 4: Russian budget-related defense planning. Sources: Federal Law (1996); Baluevskiy (2005); Ivanov (2005).

2015.²⁹ But in 2001, the former chief of the Russian General Staff acknowledged that General Staff planning and the State Armament Program were based on incompatible principles,³⁰ so that the link between military planning (shown in green on Figure 4) and weapons programming (in grey) may be weak or altogether absent. Any substantial connection of the State Armament Program with defense budgeting must thus be regarded as questionable.³¹

Quasi PPBS

The State Armament Program goes back to the late 1960s. It was initiated by the Soviet leadership in response to the manifestly successful Planning, Programming, and Budgeting System (PPBS) of the U.S. Department of Defense. Despite the fact that the USSR perished before the first Soviet Armament Program was completed, the Russian Federation continues to use it in practically unaltered form. Yet, as shown in Table 5, the current State Armament Program differs in significant respects from its U.S. counterpart.

Furthermore, from Soviet times to today, those participating in the development of the State Armament Program were unable to negotiate and publish any rules and regulations for it.³² Instead of being a means of control over the military-industrial

Table 5: Comparison of two military programming systems

	PPBS (USA) ^a	State Armament Program (Russia)
Cycle duration, years	2 (was 1)	5
Depth, ^b years	4 (was 5)	10
Moving time horizon	Yes	No
Accountability	Transparent	Opaque
Secrecy	Minimal	Full

Note: ^a Now the Planning, Programming, Budgeting, and Execution System (PPBES); ^b The current Pentagon budgeting plan has a depth of 6 years. *Sources:* McCaffery and Jones (2004); Burenok (2004).

complex, the program became a tool for special interest groups to control a considerable share of federal military expenditure. Today, it appears that even the Russian leadership is losing trust in the effectiveness of this inheritance; signs of failure are becoming obvious even for external observers. In fact, the development of the Armed Forces Units Provision Comprehensive Program for 2006-2015 (Figure 4) serves, in essence, as an alternate State Armament Program.

Actors and goals

There are too many actors on the defense management stage in Russia. Forming a virtual “Grand Ministry of Defense,” the size of the country’s military expenditure and its structure are determined by the Ministry of Finance and the Ministry of Economic Development and Trade, not by the Ministry of Defense. This results in another source of inefficiency at the highest level of Russian public administration and is vivid evidence of the failure of parliamentary control over the defense and security sector. One effect of this “Grand Ministry of Defense” practice is, for example, the current situation that keeps spending on armed force training at 20-25 percent of the funding level needed to sustain force capabilities, and converting a substantial part of its manpower into overhead.

Back in 2000, the Security Council of the Russian Federation set a goal for the Ministry of Defense to achieve a 50 percent share of capital costs in the defense budget by 2010, following “best international practice.” Intended to serve as a performance indicator for the Russian armed forces, this goal was confirmed in July 2005. And in late 2005, the chief of the Russian General Staff stated: “All the world develops according to the outline: about 60 percent is spent on procurement, research and development; and about 30-40 percent on salaries and matters connected with logistics and combat training of forces.”³³ But even a cursory glance at international practice (see Figure 5) casts grave doubt on the seriousness with which this goal is pursued in practice by Russia’s high-ranking officials, even on the priorities they set

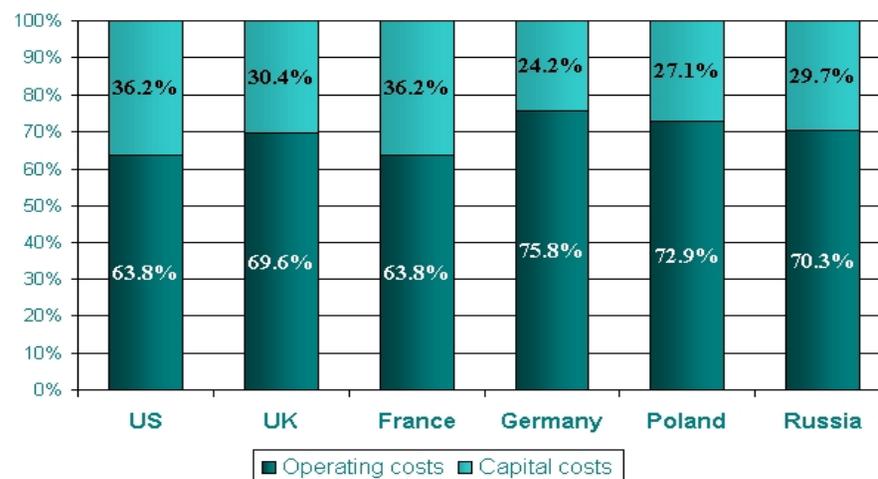


Figure 5: The operating/capital cost structure of military expenditure of a number of countries in 2004. *Source:* United Nations (2005).

forth, and on the quality of information they use in defense management-related decisionmaking.

Nonetheless, according to a recent statement by the chief of the Defense Economics and Finance Service, the overall movement of Russian defense budgeting can be described as “back to the future.” The former Soviet experience is viewed with envy, nostalgia, and short-sightedness as a valuable classicism, and Russia’s prospective military cost structure foresees higher capital cost outlays in future (Figure 6).³⁴

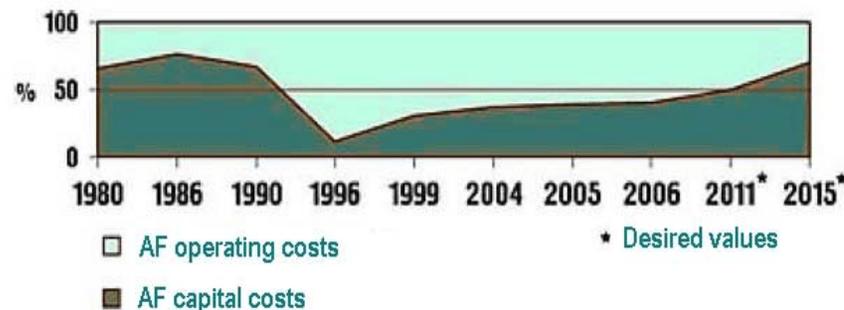


Figure 6: Prospective cost structure of expenditure on Russia’s armed forces. *Source:* Kudelina (2006); translated from Russian by the author.

Conclusion

One remaining issue concerns the quality of the time series presented in Table 1. A comparison of IET's with SIPRI's data reveals some differences. Not of critical magnitude, they nonetheless necessitate further data verification to eliminate possible mistakes and simple oversights. More serious efforts will be required to overcome systematic errors, caused for example by the accounting approaches used in the data collection. The IET series can be regarded as a reliable lower bound, however, as our experiments with using different weighted estimates for pensions in paramilitary forces and other adjustments³⁵ show the possibility of an increase of about 10 percent in the data for 2005-2007 (at the MILEX₂-level).³⁶

A second concern regards off-budget and extra-budget military expenditure. Presently, it is impossible to account for these without insider information or a substantial decrease in the level of secrecy in Russia's defense and security sector. Unfortunately, as Russia's public administration reform appears to have come to a stop, a full release of Ministry of Defense budget requests and annual reports and accounts does not appear imminent.

Russia's defense management is a case of government failure,³⁷ largely on account of limited information and limited control over bureaucracy (e.g., undue secrecy, lack of quality statistics, and questionable priority setting in the security sector). Failures imposed by the political process were not the focus of this article but my view on this matter is that the successful erection of a so-called "power vertical" does not offer much hope for democratic control of the defense and security sector and its rational management. Russia finds itself in an institutional trap: one pincer is formed by the secrecy obsession of its high-ranking officials, the other by the vital necessity to manage the country's resources efficiently. As regards the main theme, it will be interesting to research and debate the determinants of Russia's recent military expenditure. Already it is widely acknowledged that they are mainly of an internal nature and not connected to external threat levels.³⁸

As to the near-term future, it is safe to predict that the current year's federal budget will be increased more than once. For example, lack of fuel for combat training will be excused by "unplanned" price growth (rather than acknowledged as intentional budget policy) and result in higher-than-planned outlays. Also, it seems very likely that most procurement outlays will again be executed in the last quarter of the year. And the secrecy level in Russia's federal budget is likely to grow as well, at least until 2008 when, one hopes, a newly elected president may change Russia's budgetary ways.

Notes

Vasily Zatsepin is with the Department for Military Economics at the Institute for the Economy in Transition, Moscow, Russia, and can be reached at zatsepin@iet.ru. He

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1. Crane, *et al.* (2005, p. 91).
2. Rosefielde (2005).
3. Harrison (2003).
4. For example, Cooper (2006), Fontanel (2003).
5. For example, WMEAT (2002).
6. <http://www.iet.ru/publication.php?folder-id=44&category-id=2083&lang=en>.
7. United Nations (2002); CEPAL (2005).
8. CEPAL (2005, p. 63).
9. CEPAL (2005, p. 63).
10. For example, Brzoska (1995).
11. IMF (2002) .
12. WMEAT (2002, p. 194).
13. Law (1993).
14. Annex 8 in (Federal Law, 2005).
15. Annex 46 in (Federal Law, 2005).
16. For example, Kosiak (2006).
17. Matveev (2006).
18. "Unallocated" means not assigned to a particular spending category.
19. See Mikhailov (2006); also see United Nations (2006).
20. Budget Code (1998); Diamond (2002).

21. Betz (2002).
22. Fedorov (2002).
23. Regulation (2006a).
24. Law (1993).
25. Putin (2004).
26. Federal Law (1996).
27. In Russian “*Plan primeneniya Vooruzhennykh Sil*,” “*Plan stroitel’stva Vooruzhennykh Sil*,” and “*Gosudarstvennaya programma vooruzheniya*,” respectively.
28. Baluevskiy (2005). The *Conception of National Security and Armed Forces Development Until 2021* (“*Kontseptsiya natsional’noy bezopasnosti i stroitel’stva Vooruzhennykh sil na period do 2021 goda*”) and the *Intention for Organization and Development of Army and Navy until 2016* (“*Zamysel stroitel’stva i razvitiya armii i flota na period do 2016 goda*.”)
29. Ivanov (2005). In Russian “*Kompleksnaya programma otnosheniya soedineniy i voinskikh chastey Vooruzhennykh Sil Rossiyskoy Federatsii na 2006—2015 gody*.”
30. Kvashnin (2001).
31. Moreover, the previous Russian armament program finished in 2005, and we now witness a strange one-year pause as the next State Armament Program commences only in 2007.
32. Burenok (2004).
33. Chernyak and Gavrilov (2005).
34. Kudelina (2006).
35. For example, separation of military from non-military parts in subdivisions “0312 Applied Research, National Security and Law Enforcement Activity” and “0313 Other Issues, National Security and Law Enforcement Activity.”

36. Even higher estimates would be achieved by taking into account the appropriate (“military”) part of interest charges on government debt (see Brauer, 2004). Of course, this does not change the difficulty of collecting the underlying military expenditure data in the first place.

37. Stiglitz (2000, pp. 9-10).

38. Ovsienko (2005).

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