

# Military Thought

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## The Makeup of the Russian Defense Budget

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**Abstract.** The author gives a schematized structure of government military expenditure; offers his own definition of the *defense budget* concept, and looks at the sources from which the budget is funded and at its role in providing the economic guarantee of the country's military security.

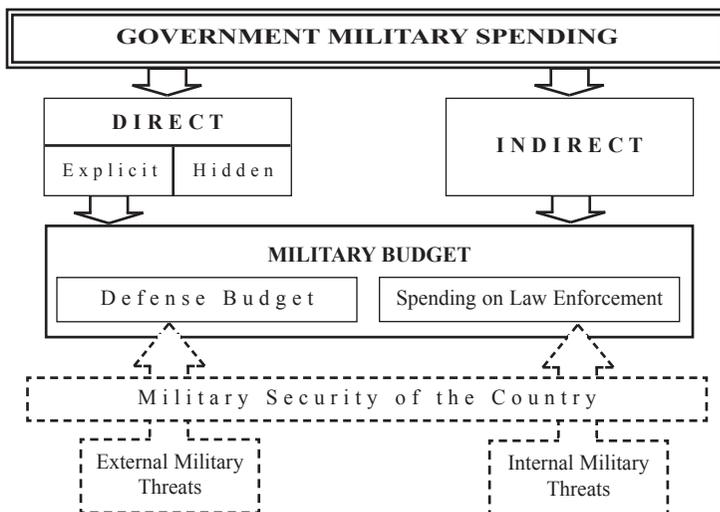
**Keywords:** military spending, direct military spending, indirect military spending, military budget, defense budget, revenue sources of defense spending.

The radical changes happening in every segment of society (political and socioeconomic, in the first place) are accompanied by changes occurring across the entire system of links and relationships between all parties involved. Without a doubt, the country's military organization, too, is exposed to the influences of the changes under way all around, including transformation of the structure and size of military spending in the federal budget.<sup>1</sup> Elaborate financial planning and spending of military allocations has always been a major item on the government's list of priorities that is related directly to the country's national security and successful socioeconomic development. Military spending yields no profit returns – rather, it soaks up a large proportion of the national wealth, siphoning away enormous funds that can, with a reservation, be identified as the *defense budget*, one of the most expensive items of the government budget.

As a concept, the defense budget is interpreted in many different ways in academic publications and periodicals that use similar terms – with a shade of difference, though – such as *military budget*, *military spending*, and *defense spending*, to give but a few examples. No doubts exist, of course, about the relevance of these terms, depending on the sense put into each of them. So broad a range of interpretations and the wide diversity of terms give cause, however, to manipulations with the costs involved. This applies, above all, to the financial planning and allocation of funding under the *National Defense* section of the federal budget, to a significant disadvantage of the Armed Forces' development and maintenance.

A few of the various terms currently used are defined in more detail below and differences between them shown.

**Military spending** is costs in cash the government pays for preparing the Armed Forces and nation for war, conducting war, and mitigating some of its consequences. Different approaches are taken to the content, makeup, and classification of military expenditures that are broken down, depending on their contribution to the nation's potential, into direct and indirect spending<sup>2</sup> (Fig. 1).



**Fig. 1. Structure of the government military spending.**

The government's *direct military spending* is the official expenditure based on estimates given by the military and several other agencies involved directly in efforts to maintain and increase the country's military power. Direct military spending accounted for 12.46% (1,278,027 million rubles) of the federal budgeted expenditures in 2010,<sup>3</sup> and is divided into explicit and hidden (undisclosed) spending.

*Explicit military spending* includes costs that budgetary statistics puts in the military category. Some of the explicit military spending is classified for understandable reasons.<sup>4</sup>

Growth in military spending encourages corruption in the Russian budgetary system that affects both the military economy and the country's economy in general. A brief period of relative financial openness was back in the tenure of Defense Minister I.D. Sergeev. To turn public attention to servicemen's problems and to get public inspection groups interested in how military funds were spent at that time, the *Krasnaya zvezda* newspaper published weekly features on amounts the Finance Ministry transferred to the Defense Ministry and on the way the Defense Minister distributed the money to the military districts and branches of the service. Experts believed that the paper had brought out abuses by top-ranking bureaucrats, and, indeed, publications were stopped six months later under the lame excuse of nondisclosure of military secrets.

***Hidden military spending*** is funds the government allocates to finance military needs under "civilians" headings of federal budget items that are not related directly to funding for military programs. Military spending can be concealed in a variety of ways. One is to avoid listing large amounts under the same budget headings and instead spread them out to many items to conceal the ends to which the funds are appropriated. Another is to give items and lines titles different from what the funding programs are intended for. Hidden military spending also includes construction costs of roads and other strategic infrastructure elements, and defense-related appropriations to finance programs undertaken by other agencies, such as the Ministry of Energy, the Ministry of Telecommunications and Mass Communications, the Ministry of Finance, the Ministry of Transportation, the Ministry of Education and Science, and so on.

***Indirect military spending*** can take infinitely diverse forms because "indirect" costs, even if not related directly to the development, maintenance, and buildup of the country's military power, are undertaken either to create conditions for the military buildup or repair damage caused in previous wars or war preparations. These costs are related to direct military spending and derive from it in many respects. Indirect military spending typically includes payment of pensions and benefits to war veterans and the disabled and to the Defense Ministry's civilian personnel, the costs of weapon and military equipment disposal, conversion costs of munitions plants, costs of restoring buildings and facilities damaged in the hostilities, and making up for the loss caused by war or war preparations, and many other government spending items.<sup>5</sup>

In the context of military economics, direct and indirect spending is shown in the structure of the gross military product originating in the military industries producing:<sup>6</sup>

- capital goods for the operation of the military industries;
- consumer goods for people employed in the military industries; and
- ready-to-use military items.

In military (nonproductive) activities in the strict sense of the term, the gross military product is a military and political service that includes the military end product and reproduction of the military service capacity. Hence, military spending is a broader concept than military budget. Military spending is always, in any country, larger than the budgeted military expenditure, and the difference between the two, the hidden military spending, is used through other ministries and agencies for the needs of the country's defense and national security.

In the tradition of the general theory of finance,<sup>7</sup> the military budget is a centralized pool of finance set up at the federal government level to maintain the country's military security.

Military security of the Russian Federation is a situation in which protection is provided for the vital interests of the individual, society, and the state against external and internal military threats involving the use, and threat of use, of armed force, and in which no military threat exists or, if it does, the country can beat it off.<sup>8</sup> Internal threats are associated with the concept of *internal security* that is maintained by budgeting law enforcement and related activities. Existence of external threats evokes objectively the concept of *defense security* that is taken care of in the defense budget. Armed forces are raised to defend a country, and defense appropriations are an element of defense organization.<sup>9</sup>

The conclusion that can now be suggested is that the **defense budget is a centralized pool of finance provided at the federal government level to draw**

Table

Direct Military Spending under Section 02 "National Defense"  
of the Federal 2010 Budget<sup>10</sup>

Section and subsections	Million rubles	Growth from 2009, %	Share of the federal budget, %	Share of GDP, %
NATIONAL DEFENSE	1,278,027	-2.87	12.46	2.87
Russian Armed Forces	959,563	-2.02	9.36	2.16
Mobilization and out-of-forces preparation	2,607	-34.78	0.03	0.01
Mobilization preparation of the economy	4,895	31.27	0.05	0.01
Preparation for, and participation in, collective security maintenance and peacekeeping operations	11,087	3,713.09	0.11	0.02
Nuclear weapons complex	18,755	-10.89	0.18	0.04
Fulfillment of international obligations under cooperation projects in military technology	4,210	-14.32	0.04	0.01
Applied science research in national defense	148,680	-17.25	1.45	0.33
Other national defense spending	128,229	4.5	1.25	0.29

**on for protecting the country against external threats (maintaining the country's defense security).**

The defense budget is shown in concentrated form in the National Defense section of Russia's federal budget. With over 97% of the appropriations in this section being spent by the Defense Ministry, it is reasonable to claim that the budgeted amount is near the actual total of the defense budget. The absolute and relative figures of the basic components of the direct military spending appearing in the National Defense section of the 2010 federal budget are given in Table.

The remaining 3% of the funds are appropriated in the National Defense section for other federal ministries and agencies, and it is wrong to hold that the National Defense section covers the defense budget.

The greatest share (74%) of the explicit open defense expenditures goes for the maintenance of the Armed Forces, and the main budget spending items are combat training, logistics, and military units. In real terms, these expenditures are projected to grow at the same rate of around 6% as the country's economy is to expand, according to forecasts from the Ministry of Economic Development. In the period to 2023, modernization of the Armed Forces is expected to continue, and new generation equipment is to go into service. Today, 60% of the appropriations is used to maintain the Armed Forces, with 40% spent on equipment. By 2012, the ratio is to be half and half, to tilt toward equipment in the following years. This prospect sets tough demands on the optimization of current spending and size of the Armed Forces.<sup>11</sup> The experience of civilized countries points to different proportions as a rational option. The European Defense Agency advises the EU countries against lowering the share of spending on equipment in their military budgets below 20%.<sup>12</sup>

As a source of funding for Armed Forces improvement and maintenance and for other military programs, the defense budget has a key role in giving military security to the country. The defense budget shows, directly or indirectly, all important sides of military activities.

The essence of the defense budget is recognized in its functions that give an insight into its nature, significance, and mechanism for using it in practice. The defense budget fulfills three functions<sup>13</sup> – distributing, controlling, and stimulating.

The *distributing function of the defense budget* comprises deriving, allocating, and using the military budget resources. This function serves to raise all resources that go into the defense budget as a component of the military budget and assign a share of the pool of government monetary resources to finance development and maintenance of the Armed Forces. The government uses extensively the distributing function of the budget to control cost proportions and military economy growth rates by providing funds for the military budget or taking them back. It distributes that portion of the national income that is allocated for military needs. The legislators who vote on appropriations for the country's defense from the federal budget allocate a share of the national income that translates into armaments, military and specialized equipment, supplies, and other materials used up by the Armed Forces.

Just as important as the distributing function of the defense budget is the **controlling function** that turns the defense budget into an important tool for controlling the military economy operations through the budget. The controlling function of the defense budget and the signals it sends make society aware of the existing proportions of the defense budget structure, the share of the military resources as it takes shape in the government budget, and the way in which these resources are used to finance the needs of the country's defense. The controlling function of the defense budget takes many forms and is exercised as financial information provided about the preparation and use of the budget. In particular, this function can take the form of military budget details such as the size of the defense budget in general and the share of any expenditure group in it. These details are shown in statistical and operational returns on which remedial measures are taken. The scope and extent to which the controlling function of the budget is exercised depend largely to the measure of openness of government military spending and its accuracy and authenticity.

Their immense diversity notwithstanding, the distributing and controlling functions do not exhaust the potentialities of the defense budget. The defense budget can, for example, exercise its potential ability to raise and use finance to influence the quality standards and performance results of the military economy, the socioeconomic interests of suppliers of military products, and the interests of groups of servicemen and every one of them.

This quality of the defense budget is really its **stimulating function** that is exercised in the military economy as financial incentives, including financial economic sanctions, among military budget incentives. It is reasonable, in this context, to regard military budget incentives for the military economy as a government-regulated form of relations maintained over the military budget and offering appropriate ways of raising and using finance in the interests of suppliers of military products, groups of servicemen, and uniformed individuals. On their part, financial and economic sanctions are a form in which the above categories of beneficiaries assume material responsibilities.

The defense budget is an *estimate* of revenue and expenditure for the needs of the Armed Forces' development and upkeep to be financed from revenue coming from specified sources. In an environment of commodity-money relations, the Armed Forces are maintained from economic and financial sources that are the physical and value sides of the country's defense expenditure (Fig. 2).

The national income of a country that amasses monetary funds it needs for distributing the national income is the principal internal source of revenue to cover defense expenditure. The government does this by collecting taxes for the federal budget and by borrowing, issuing money, and in a variety of other ways. A close link between the state's taxes and expenditures in the defense budget has evolved over the history of the Russian tax system beginning in the 16th century to meet the government's military needs, as a rule, by introducing new taxes. For example, permanent, and particularly direct, taxes (of which there was a

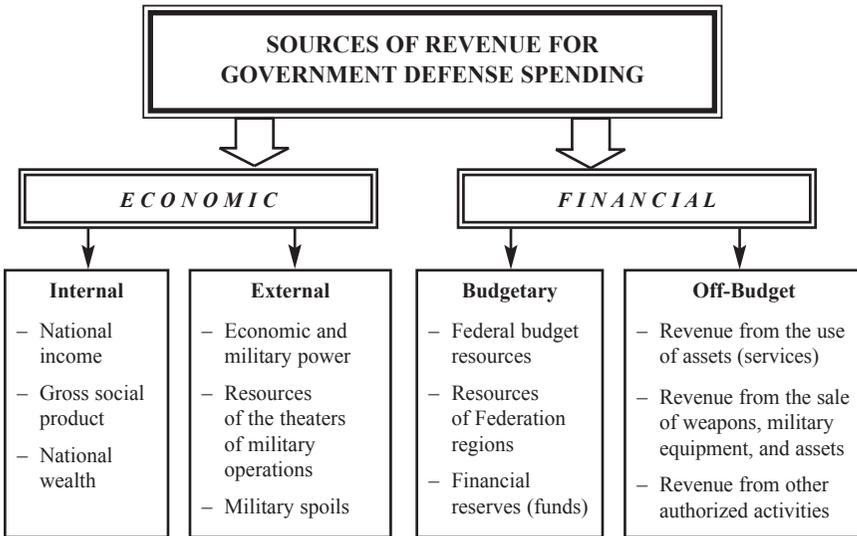


Fig. 2. Revenue sources of the defense budget.

great diversity imposed on every taxable activity) after the mid-16th century were levied to maintain infantry, a new service of the armed forces.<sup>14</sup>

Modern warfare might most probably be fought by coalitions, and stronger advanced member countries of coalitions would in peacetime already help their weaker and less developed partners by providing them with resources such as loans, credit, and tangible economic and military aid.

In Russia, funding from the federal military budget in which by far the biggest portion is itemized in the National Defense section is the principal budgetary source to cover defense costs. In 2009, the share of expenditures allocated in this section was 15.33% of the total federal budget expenditure, and 12.46% in 2010, second only to the expenditures under the Interbudgetary Transfers section.<sup>15</sup>

Funds derived from off-budget sources are the next most important source of funds to meet the Armed Forces' needs. The principal sources of off-budget funds include the lease of assets (provision of services) contributing 61% of the funds, sale of weapons, military equipment, and assets, with another 19%, sale of disposal products, 10%, and 10% added by other earnings. The funds raised from these sources can be spent without being shown in the incomings and outgoings of the federal budget as an additional source of funding the forces' needs.<sup>16</sup>

Defense budget funding is an integral part of federal budget expenditure planning enacted by the same document, the federal law on the federal budget for the next financial year and for a plan period of two more years. As well as a part of the federal budget legislated to cover the costs of maintaining and developing the

Armed Forces, the defense budget is an important tool for implementing military policies in science, technology, social services, and politics.<sup>17</sup> For this reason, the defense budget has a key part in maintaining the country's security, activating all military potentials, including economic, scientific, technological, social, and strictly military ingredients of the country's defense capacity, on which the nation's security rests. The role of the defense budget shows up in the result it produces in a particular activity to maintain the country's military security.

The possibility of the defense budget influencing the country's defense capacity and military security depends on funding from available military budget resources to channel material and manpower resources into national defense now that the country relies on commodity-money relationships.

- The effect of the defense budget on the level and functions of the country's military security components shows through, *first*, accurate estimates of the Armed Forces' needs for allocations on research and development projects, procurement and maintenance of weapons, military equipment, and assets, and capital construction for the benefit of the country's defense.<sup>18</sup> Estimates of the needs for military budget resources are made, above all, with the aim of establishing an optimal ratio between spending on current maintenance and expenditure in the long-term.
- *Second*, the defense budget is used, in part, to reimburse suppliers of ready-made military equipment for the costs they incur. Full reimbursement of the costs in time helps toward a higher efficiency of the munitions industry and faster modernization of technologies in the defense-industrial complex, and, as a result, full-scale production of modern weapons and greater reliance on progress in science and technology. Suppliers of ready-made military equipment are also encouraged, to an extent, by financial and economic preferences and sanctions applied within the scope of the stimulating function of the defense budget.
- *Third*, the defense budget is used to promote productive economic activities of the country's military organization. The quantity and quality of industrial, maintenance, construction, and farming output and military commerce within the framework of the country's military organization have a significant effect on the condition and operation of the military economic and strictly military ingredients of the country's military security.
- *Fourth*, the ingredients of the country's defense capacity are influenced by monitoring the legality of military budget allocations and the purposes for which they are used or misused.

Further, the defense budget may have an effect on the material and physical ingredients of the country's defense capacity and also on the human factor, the military social component, and the military social policy in general. The military social policy in the Armed Forces comprises a system of measures enforced to

provide social protection to servicemen, civilian personnel, military service veterans, and members of their families. Social protection of servicemen, in particular, includes the rights they can exercise, social guarantees and compensation they receive, protection of their life and health, and other measures taken to give them dignified living conditions they deserve because of the nature of military service and its role in society.<sup>19</sup>

Fulfilling servicemen's physical and spiritual needs must have a key role, along with their guaranteed rights and freedoms, in the social protection system for members of the Armed Forces. The extent to which servicemen's physical and spiritual needs are fulfilled has a marked effect on their living standards and their attitudes to their service. Expenses on salaries paid to servicemen and civilian personnel and pensions for which military service veterans are eligible hold a special place among areas where the defense budget has the greatest effect on the military social ingredients of the country's defense capacity.

Expenses on food, personal belongings, transportation, everyday services, including trade, healthcare, and insurance for servicemen are yet another, a no less important, area where the defense budget influences military social policy in the Armed Forces. Today that the Armed Forces are given a new makeup and their size is reduced, expenses on severance pay to servicemen discharged from the forces and pensions to military service veterans are truly important for military social policy and military social ingredients of the country's defense security to take effect.

To sum up, a defense budget that is a part of the military budget has a size and structure dictated by external threats to the country. The nature of the defense budget is evident from its functions – distributing, controlling, and stimulating – that give an idea of how it operates within the framework of relationships shaping up over the military budget and are relevant for the specified period of the budget.

The size of budget allocations for defense needs and the conditions in which funds are raised and used have an effect on the status of the country's military security ingredients. The defense budget is, though, constrained significantly in its capacity as a value tool to influence military aspects of the economic, scientific, technological, and social policies and military policy itself by the amount of appropriations provided for the maintenance of the Armed Forces.

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