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The review provides a detailed analysis of main trends in Russia's economy in 2007. The paper contains five big sections that highlight single aspects of Russia's economic development: the socio-political context; the monetary and credit and financial spheres; the real sector; social sphere; institutional challenges. The paper employs a huge mass of statistical data that forms the basis of original computation and numerous charts.

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Russia's Military Economy and Military Security in 2007

The development of the RF military economy in 2007 was mainly determined by the economic and political factors typical of the Russian economy as a whole and also by the necessity to carry on a struggle against terrorist bands. At the same time, the military economy was to a certain extent influenced (at least conceptually) by the military-political declarations and unfriendly intentions on the part of NATO and the USA, as well as by the requirements of military and military-technological cooperation.

The Socio-Economic Aspects of Military Personnel Policy

Among the military-political and socio-economic events which took place in Russia in the year 2007, the following three should be considered the most important:

- firstly, the beginning of transformations within the RF military establishment, reflected in the appointment of an authentically civilian person to the post of RF Minister of Defense, and in a number of far-reaching alterations of both the functions and the style of work of this ministry;
- secondly, the development and adoption of the federal budget, including that of RF military expenditures, for three consecutive years;
- thirdly, the completion of the Federal Target Program (FTP) “The switchover of a number of formations and military units to the system of manning by servicemen enlisted for military service under contracts, for the years 2004–2007”.

While the military-economic consequences of the first two events will become clear only in the years to come, the results of the third one are already apparent, and thus can be summarized, starting with a brief reminder of why the FTP was needed, and how it was developed and implemented. In this connection, our analysis cannot be limited to the events of the year 2007 alone.

After the annihilation of the main rebel force in Chechnya and Dagestan in 1999–2000, the RF Security Council, on 11 August 2000, took the decision that the size of the army should be considerably reduced (in particular, the number of personnel enlisted for military service in the RF Armed Forces under contracts was reduced to 400 thousand), and then, on 9 November, it instructed the Government and the General Staff to initiate the development of “a program for the switchover of the military establishment of the State to being manned *exclusively* by servicemen enlisted for military service under contracts”. It was planned that the Program would be ready by the autumn of 2001.

In this instruction, the word “*exclusively*” meant a radical approach to simultaneously resolving a number of other military and social problems. But such an approach, quite naturally, required heavy expenditures, at least at the initial stage. The 2001 budget absolutely lacked the necessary funds.

As a matter of fact, the consequences of the 1998 “default” effectively prevented any rapid and efficient transition to the absolutely voluntary principle of enlistment. Also, it was not safe to reduce the size of the army under conditions when military operations in the North

Caucasus were far from being over, and when potential military threats were all too real. In August 2002, the RF Security Council prepared, and the RF President approved, “The Fundamental Principles of the RF State Policy in the Sphere of Force Development for the Period Until the Year 2010”. This document stipulated that a special FTP should be developed in 2003 with regard to the transition of the armed forces to the new system of staffing, and that the transition should begin with the military units of permanent readiness and those on continuous alert, and that the draft should be preserved for the period up to one year for the sole purpose of preparing the necessary mobilization resources.

However, in February 2003, the journal “Voennaia Mysl” (Military Thought) published an article by the head of the General Staff’s GOMU, where the guidelines set forth by the RF President were “clarified”. It was no longer considered necessary that the FTP should be extended to military units on continuous alert. And in general, the only thing to expect was a “systematic increase in the numbers of servicemen enlisted for military service under contracts in the military units of permanent readiness, and in the future – in the other military units and in the military positions which determine their combat readiness (primarily in the NCO positions). It is planned that the rest of the military positions of soldiers, sailors, sergeants, and petty officers should be filled by servicemen drafted to military service”. In other words, the General was sure that the regular armed forces should continue to be staffed by both the volunteers serving under contracts and the draftees. And that the draft would not be abolished in the foreseeable future. At the same time, the author of the article offers no answer to the question as to which positions do not determine the combat readiness of the troops, thus being secondary in importance, and if they are really secondary in importance, then why should there be any servicemen to occupy them.

Before long, in the spring of 2003, the President came up with a somewhat modified vision of the forthcoming transformations in the system of staffing the RF military establishment:

“In accordance with the approved plans, we will continue to form professionally based units of permanent readiness in the land and airborne forces, and in the marines. This work should be completed in 2007. Also, military service will be based on the principles of professionalism in the internal service troops and the frontier troops. In plain and clear words it means the following (apart from other things, but this is the major conclusion): only well-trained and professional units will be employed in the hot spots and local conflicts, if Russia – God forbid – will ever have to answer these challenges. I would also like to point it out that it is the sergeant cadre of our Armed Forces (AF) that will be most urgently transferred to the professional basis. From the year 2008 onwards, the duration of compulsory military service will be reduced to one year. During the first half-year, the draftees will be mastering their military professions at the units. After this, they will be offered an option – either to serve for half a year in line troops or to be transferred to professional service under contract. Those who have served under contract for three years will be entitled to a number of preferences including the guaranteed right to higher education at the State’s expense”.

On 25 August 2003, the program under the title “The switchover of a number of formations and military units to the system of manning by servicemen enlisted for military service under contracts” was approved, for the years 2004–2007, by the RF Government’s resolution. The Ministry of Defense, which had been appointed state customer and coordinator of the Program, was instructed to submit, in the 4th Quarter of 2003, a “draft deferral law setting the duration of compulsory military service at one year”.

Those public figures who had taken part in substantiating the FTP and resisted all attempts to emasculate it were prevented from handling the matter at the stage of the Program's implementation under the pretext of secrecy. Control over the implementation of the Program was entrusted to the Ministry of Defense. Thus, this agency plans all the FTP-related measures, implements them, and controls its own activities.

The analysis of the FTP's tasks and goals, as they were initially formulated, and, more importantly, the results of its implementation, is summarized below in *Table 25*. In the left-hand column of the Table we present the major provisions of the FTP taken from the final version of the main document, and also some comments made by RF top officials so as to clarify the idea of military reform, while the right-hand column contains the assessments obtained at the IET on the basis of the published data.

Table 25

Assessment of the Results of Implementation of the Federal Target Program

Demands of RF President and Government, as presented in FTP; official statements of RF high officials	Assessment of initially formulated FTP's tasks and goals, and of results of its implementation as of December 2007. Comments
<p>Goals of the Program: - to ensure the transition to a new system, whereby the military positions filled by soldiers, sailors, sergeants, and petty officers will be staffed by servicemen enlisted for military service under contracts, and - to improve the combat readiness of the RF Armed Forces' military formations and units of permanent readiness, and of the military units of frontier troops and of the RF Ministry of Internal Affairs' internal service troops. These formulations of the goals presented in the FTP should be considered in the light of the RF President's preliminary instructions. In particular, one should take into account the following provisions: "One of the unquestionable priorities should be the continuation of military reform and the transition to a professional army, with the simultaneous reduction of the duration of compulsory military service". The reform is necessary for society, but first of all – for the army itself". "In accordance with the approved plans, we will continue the formation, on a professional basis, of units of permanent readiness in the land and airborne forces and in the marines. This work must be completed in the year 2007. Apart from this, service in internal-service and frontier troops will also be based on the principles of professionalism". Some of the President's instructions were further developed by the RF Minister of Defense. In his interview to the newspaper "Krasnaia Zvezda" ["The Red Star"] as of 17. 09. 2004, S. Ivanov said the following: "A partial switchover of the Armed Forces to a contractual basis is not a political declaration and not the goal of development of Russia's Armed Forces. It is one of the avenues to increasing the combat efficiency of Russia's Armed Forces" Major tasks of the Program: - to ensure the transition to a professional army based on the principle that the military positions filled by soldiers, sailors, sergeants, and petty officers should be held by servicemen enlisted for military service under contracts; - to carry out the stage-by-stage transition of these formations and military units to a system when the military positions filled by soldiers, sailors, sergeants, and petty officers are held by servicemen enlisted for military service under contracts in accordance with the time schedule (Annex No. 1, classified);</p>	<p>When formulated this way, the goals of the FTP take into account only the requirements of the RF military establishment – despite the directives of the Commander in Chief. The socially important goals (the reduction in the general number of citizens being drafted and in the duration of compulsory military service, and most importantly, the task of changing the aim of such service to simply training a person in a military occupation specialty; the improvement of conditions of compulsory military service and contracts, including the suppression of acts of harassment among servicemen and violations of human rights) were not included in the FTP. Therefore, there was no intention to achieve these goals. The results are apparent and could not be different. Of all the military – political goals formulated in the FTP, the first goal has not been achieved in full measure, both with regard to the initially specified numbers of contractees and (even) with regard to their later revised and significantly reduced numbers. The second goal has been achieved only fragmentarily: in the Frontier Service of the FSB, the quotas were exceeded (the draft was completely abandoned), while in the Internal-Service Troops of the Ministry of Internal Affairs the goals were achieved to a large measure. The major failure in implementing the FTP in full was observed in the units and formations of the RF Armed Forces. Most successfully the FTP was implemented in the units stationed in the North Caucasian Military District. In the Land Forces, 60 formations and units, with the overall strength of 100 thousand, were completely switched over to service under contracts. Although not mentioned in the FTP, submarine crews of the Navy were also made to serve under contracts. While considering the improvement of the combat efficiency of the RF military establishment's personnel to represent the achievement of the main military goal as expected by the Minister of Defense, it should be pointed out that this goal, as demonstrated by the estimates, has been achieved only with respect to the military units of permanent readiness; as regards Russia's Armed Forces on the whole, it has not been achieved by the end of 2007, and after the year 2008, their overall combat efficiency may even decline The formulated tasks of the FTP correspond to its goals, which means that they are practically unrelated to the concerns expressed by the citizens and society, although the FTP's certificate, when specifying the reason for introducing the Program, has clearly stated that it is "motivated by the military-political, economic, and social importance and the range of the tasks being solved by the Armed Forces and other troops, military formations and organs". As regards the time schedule of the military establishment's switchover to the new system of manning, it should be noted that the reason for its being classified is unclear, because when citizens were being attracted</p>

- to ensure the corresponding adjustment of the system for the training and accumulation of mobilization human resources;
- to ensure the improvement of combat readiness of the afore-said formations and military units by heightening the level of military training and professional capabilities of the servicemen enlisted for military service under contracts.

In his interviews to the newspaper "Krasnaia Zvezda" of 6. November 2004 and 17 November 2004, Head of the General Staff Iu. Baluevskii stated that by the end of 2007, "the proportion of contractees holding the military positions to be filled by sergeants and soldiers will reach 50%", and, as a result, the RF Armed Forces will obtain a "rational system of mixed manning"

Major measures of the Program:

The Program's measures, designed to **create the conditions ensuring a stable functioning of the system of manning the Armed Forces** and other troops and military bodies by servicemen enlisted for military service under contracts, include:

- scientific backing for the Program;
- the improvement of the normative-legal base of military service under contract with regard to servicemen, in the military units being switched over to the new system of manning, who are holding military positions to be filled by soldiers and sergeants;
- the resolution of the organizational issues concerning the transition to the new system of manning whereby the military positions to be filled by soldiers and sergeants should be given, in the military units being switched over to the new system of manning, to servicemen enlisted for military service under contracts;
- the information support for the Program;
- the creation of a stable and centralized system of manning the Armed Forces, other troops, military formations and organs

The Program's measures aimed at **ensuring the attractiveness** of military service under contract envisage the following:

- payment of differentiated bonuses for special conditions of combat training;
- payment of compensations, to the afore-noted servicemen with families, for renting a dwelling, in accordance with the norms stipulated by RF legislation;
- bringing the level of providing the afore-said servicemen with clothing and small stores into correspondence with the norms set by RF legislation;
- ensuring the following rights of the afore-said servicemen:
 - to medical support, including the setting of compensations for sanatorium and spa treatment;
 - to the payment of the cost of travel of a serviceman and members of

to volunteer military service under contracts, they unavoidably had to be informed on the names and addresses of military units and formations by various means, including the mass media. Thus, the whole list of military units of permanent readiness, as well as the places of their stationing and the time table for their switchover to the contractual system have become known to the RF citizens being invited to serve under contracts.

Secondly, in the course of implementing the FTP, the federal authorities with troops at their disposal have been granted the right to introduce adjustments into the time schedule.

Nowadays, Minister of Defense A. Serdiukov states in his report concerning the results of the Ministry's activity in 2007 that the proportion of persons enlisted for military service under contracts in the positions reserved for privates and NCOs will reach 44%. And some top military commanders put to doubt the achievability of even this level of manning. This means that the system of manning which exists in our country is not rational, according to Baluevskii's definition. A similar conclusion could also be made on the basis of our calculations of indices of regular forces and on the ratio of their numbers and the size of mobilization resources

A stable system of manning has failed to materialize. Evidence for this is the failure to abide by the time schedule, and the facts of coercion to conclude contracts and of corruption at military registration and enlistment offices, which forced the Minister of Defense to issue, in 2006, a corresponding anti-corruption order. However, according to the Office of Public Prosecutor, in the course of nearly one and a half year since this memorable date the situation has not notably changed to the better.

As regards scientific backing for the Program, it can only be said that expenditures under this item did go up (when the FTP was repeatedly adjusted), while the results, according to non-classified sources of information, including the military-theoretical journal "Voennaia Mysl'" [Military Thought] remained modest at best. If the results of this research are classified, the reasons for this should be clarified, because the case in point is a socially important reform.

The normative-legal backing of the FTP contradicted its goals and the RF Government's instruction. The draft law on reducing the term of service was submitted with a delay and in one package with other draft laws, which resulted in it having been considered, behind closed doors, in haste and without a preliminary discussion by experts. Also, a number of drawbacks were revealed, including, in particular, the violation of the right of citizens who have completed one or two terms of service under contracts to labor pensions, which should have taken into account their money allowances during the period of service. The abolition of the draft in Chechnya, thus singled out from the rest of Russian regions, was implemented without having been duly substantiated by the adoption of a corresponding law, which can have negative consequences. From the legal point of view, the Regulation on Military Service does not eliminate the possibility of servicemen enlisted for compulsory military service being dispatched to the "hot spots". The information support for the Program turned out to be of low efficiency. A number of publications contained disinformation, which inspired justified criticism on the part of citizens and human rights organizations

The 3,300 rubles / month bonus, calculated in late 2003, was too small, even at that time, for the contractees' money allowance to exceed the average national wage, which has always been the necessary precondition to creating a volunteer army. And it had become less than scanty by the end of the FTP, because it had not been adjusted for inflation, which shot up to more than 40% over this period. The size of compensation for renting a dwelling also turned out to be insufficient and well below the minimum required level in the majority of RF regions.

The drawbacks in providing all the servicemen with clothing and small stores are forcing the new Defense Minister to start revising the norms and reconsidering the design of the uniform.

The ensuring of the rights to medical support and the payment of the cost of travel had a positive effect, but these measures cannot compensate for the low level of money allowance.

his family to another place of service, including the compensation for the expenses for travel to the place of use of leave and back;

- the encouragement of fulfillment of battle tasks and military training tasks in special (field) conditions;
- granting the right to free higher education or secondary special education

The measures aimed at **solving the housing problems** of contractees envisage a change in the billeting of servicemen enlisted for military service under contracts in the positions which should be filled ... (see above); to this end, it is planned to carry out:

- reconstruction (or refitting) of the existing barracks, in order to convert them into military hostels of a simplified type;
- construction of new military hostels;
- upgrading of objects in the barracks sphere, in order to bring them into line with the authorized standards;
- and development of the social and engineering infrastructure, in order to ensure the functioning of both the existing objects of the barracks sphere and those being put into commission

The Program's measures aimed at **improving the combat training and the material and technical support for military units** envisage:

- the relief of servicemen, enlisted for military service under contracts in the military positions which should be filled by soldiers and sergeants in the military units being switched over to the new system of manning, from the fulfillment of duties unrelated to combat (or special) training and their official duties;
- the improvement of the educational-material and technical base for combat training;
- organization of combat training in accordance with the demands set by RF legislation;
- the ensuring of exploitation of objects constituting the educational-material and technical base for combat training, and of an increased number of objects of infrastructure;
- and the ensuring of the most sophisticated forms of combat training to be carried out

The Program's measures aimed at **ensuring that military units are adequately equipped with technological means** envisage: the maintenance of weapons and military equipment in good repair (the current maintenance and repair of weapons and military equipment, made necessary by an increased intensity of exploitation in the course of combat training); maintenance of the objects of infrastructure of military units at a level ensuring the strengthening of combat readiness and the conduct of combat training

The Program's measures, aimed at **creating the conditions ensuring the strengthening of combat and mobilization readiness** of the Armed Forces, border troops and Interior troops during the military units' switchover to the new system of manning, envisage the following:

- ensuring the purchasing and assembly of additional security and alarm systems;
- the preliminary training at training centers and units, of the servicemen enlisted for military service under contracts in the military positions which should be filled by soldiers and sergeants in the military units being switched over to the new system of manning.

- ensuring that the afore-said formations and military units are ade-

Unfortunately, the payment of "field" and "combat" bonuses lacked due control, which led to financial fraud and court proceedings.

The right to free higher education or secondary special education is now envisaged by a corresponding law. This measure is useful. However, its efficiency has failed to duly manifest itself so far, due to the low initial educational level of the contractees being enrolled, and, first of all, due to the fact that many of them are disinterested in improving this level; in the future, the efficiency is expected to be low because it is planned to draft mainly graduates of higher educational establishments

As regards the construction component of the measures, it should be noted that expenditures on it were steadily growing during the period of implementing the FTP. Despite some undisputed achievements, even the Supreme Commander's assessment points to the fact that the results of construction are not totally adequate to the said expenditures. The housing problem was resolved most successfully in the military units and formations quartered in the North Caucasian Military District. During the period of implementing the FTP, the authorities developed the Law on the Funded Mortgage System for Providing Servicemen with Housing. Also included in the system were those privates and noncommissioned officers serving under contracts who were going to sign a second contract for continuation of military service. However, this incentive not only formally exceeds the bounds of the FTP, but also has failed to become an operative factor, because the new system has not been put into operation as yet

As regards the attainment of the normative level of combat training and of the material and technical support for military units and formations of permanent readiness, it should be noted that these measures, in fact, have little to do with the principle of manning, as it was repeatedly pointed out already during the period of feasibility studies for the FTP. It is not very rational, irrespective of the type of a system of manning, to continue the upkeep of the military units not engaged in combat training. This problem should be approached with regard to all regular forces. Otherwise, it would be unclear why they should be kept at all

The relief of servicemen from the fulfillment of duties unrelated to combat (or special) training and to their official duties is being successfully practiced in a number of military units by way of attracting, wherever possible, services from the outside, which are provided by commercial organizations at the localities where these military units are quartered. At the same time, human rights activists have exposed, and offices of military prosecutors have confirmed numerous instances of illegal employment of servicemen for performing work unrelated to their official duties, in commercial and other structures, outside their military units. In order to put an end to such violations, a special order of the Minister of Defense was issued, which, according to human rights activists, has failed to produce any palpable changes to the better as yet

The High Command of the Land Forces has developed a number of combat-training programs for the formations and units manned by servicemen enlisted for military service under contracts; from the academic year 2008 onward, the subunits are switched over to the one-year cycle of training.

The implementation of the FTP's measures has made it possible for the majority of objects of the educational material and technical base to be put in line with the demands stipulated in the guiding documents, and for the educational base to be in due time prepared for the beginning of a full-scale one - year combat training cycle.

According to the army mass media, the measures are being implemented without any visible violations that could have caused public concern.

quately equipped with technological means

Financing:

The funds to be allocated to the implementation of the Program amount to **98,913.31 million rubles (in 2003 prices)** (as written in the version of the RF Government’s Decree, of 07 September 2006, No. 549).

Initially, it was planned to allocate 79,091.65 million rubles.

The share of capital investments in the total volume of expenditures in the years 2004–07 amounts to **44 percent (43,577.52 million rubles)**.

In the first version of the FTP, their share was 34 percent (27,178.28 million rubles).

The volume and structure of the budget financing of the Program’s measures is subject to annual adjustment in accordance with the actual capacity of the federal budget and the degree of actual implementation of the Program’s measures

A number of publications in the army mass media have confirmed that these measures are indeed being implemented.

It is worth mentioning that state-of-the art security and alarm systems, as well as other means of automation and mechanization, are being successfully applied, especially in the RF frontier service.

The equipment of a number of training centers and the quality of training have been improved. A number of simulators and technical means of education have been developed and purchased

In spite of the fact that in the feasibility study concerning the FTP (and also that regarding its subsequent adjustments) the 2003 prices were applied, in the course of the FTP’s actual implementation the expenditures were initially not adjusted by the inflation growth index, and later on were adjusted only with delays.

The distribution of the aggregate amount of the funds was adjusted mainly in terms of increasing capital expenditures.

Out of the total amount of the expenditures’ increase (about 20 billion rubles in 2003 prices), virtually nothing was allocated to increasing the money allowance’s special increment, introduced in order to increase the attractiveness of service under contract, which significantly hampered the initiative of manning the Armed Forces on the voluntary basis.

Judging from the numerous limitations producing a negative effect on the FTP’s ultimate results, any increases in expenditures on research appear to be unmotivated and groundless

Table 26 presents a comparison of the expected results of the FTP to the estimations based on its actual preliminary results of the Program.

Table 26

Comparison between the Expected and Actual Results of the FTP

Expected results, according to FTP certificate	Estimation of preliminary results
<p>1) the creation of adequate conditions for switching over to the system of manning the armed forces with volunteers enlisted for military service under contracts in the military positions which should be filled by soldiers, sailors, sergeants, and petty officers</p>	<p>According to the actual data and the public statements made by a number of high-rank officers, the conditions necessary for the successful manning of military units on the contractual basis have not been created, which became the main obstacle to achieving success</p>
<p>2) the regular filling, in these formations and military units, of the military positions which should be filled by soldiers, sailors, sergeants, and petty officers by servicemen enlisted for military service under contracts (primarily in the military units fulfilling missions in the “hot spots” and (or) located therein).</p>	<p>The filling of a smaller number of positions at a higher cost does not attest to the successfulness of the FTP. Also, this process can hardly be characterized as regular, because the plans were adjusted towards weakening the demands. The exception is the Frontier Service of the FSB.</p>
<p>The RF President’s considerations concerning the sequence of introduction of the new system of manning are formulated differently than in his 2003 Message: “I should also like to note that the NCO component of our Armed Forces will be switched over to the professional basis at priority rates”</p>	<p>The undisputed achievement, very important for RF citizens, is that RF servicemen (according to the assurances given by high – rank officers) are no longer taking part in combat actions in the “hot spots”. However, some of the mass media affirm that, according to the servicemen themselves, this practice still survives. Moreover, the legal substantiation for such practice has not been abolished. In fact, the NCO component of the Armed Forces was not switched over to the contractual system of manning at priority rates. Such a switchover (for all military units) is now included in the new FTP</p>
<p>3) the creation of appropriate conditions for the first contracts to be concluded by citizens being enlisted for military service under contracts in the military positions which should be filled by soldiers, sailors, sergeants, and petty officers in the afore-said formations and military</p>	<p>Although formal conditions have indeed been created, they are totally unattractive. As a result, by the end of the FTP’s period, it had become problematic to induce a serviceman not only to conclude a first con-</p>

units

4) the increase of the number of servicemen enlisted for military service under contracts in these positions **from 22,1 thousand to 138,722 thousand**; in the initial version – **to 147,578**

5) the reduction of society's dissatisfaction with the existing system of manning the RF Armed Forces and other troops, military formations and organs, and with these servicemen being dispatched for military service in the "hot spots"

6) **the creation of preconditions for** reducing, from the year 2008, the term of compulsory military service to one year

tract, but also to prolong it (arrange the conclusion of a second contract)

The increase of the number of these servicemen has been adjusted downwards without reducing the expenditures on the FTP; on the contrary, these expenditures have been increased.

At the same time, contractees enlisted for military service in the units not included in the category of permanent readiness have not received even the tiny increment to money allowance which was introduced for the units of permanent readiness. As a result, the growing number of contractees in the units of permanent readiness was accompanied by an outflow of contractees from other military units, which means that the number of citizens who would be drafted after the year 2007 have reduced to a lesser degree (by almost 20 thousand) than it was expected at the time of substantiating the FTP

Owing to these circumstances, society's dissatisfaction will not be diminished, contrary to expectations. Instead, it will become even greater, because of the cancellation of deferments, primarily for young fathers and graduates of higher educational establishments. Besides, this dissatisfaction will grow as a result of the already appearing upward trends in the size of bribes and in the price of other "services" in the sphere of illegal draft evasion. Officers not serving in the units of permanent readiness are now also dissatisfied even more, because the level of their money allowance has become relatively lower

As a result of the FTP having been implemented in such a manner, the preconditions which appeared so promising to the developers of the FTP will, in effect, produce only slight improvements, while the growth of dissatisfaction caused by the cancellation of deferrals can produce an opposite effect, in the form of proposals to return to the two – year term of service, without reintroducing the deferrals

A more detailed quantitative analysis of the FTP's results can be performed on the basis of the data presented in *Table 27*, which contains the FTP's target indicators and indices of effectiveness. This table was added to the initial text of the FTP in accordance with the RF Government's Decree, of 07. 09. 2006, No. 549, in connection with the switchover to the principles of performance-based budgeting (PBB).

Table 27

The Target Indicators and the Indices of Effectiveness of the Program

Indicator	Financing of federal executive bodies	2004–2007, total	Including				Comments on the results of FTP
			2004	2005	2006	2007	
1. The number of servicemen enlisted for military service under contracts in the military units being switched over to the new system of manning	Ministry of Defense	125,359	18,215	40,842	24,405	41,897	In the interests of society, where the desire to minimize the scope of the draft and the economic costs shouldered by the families and the civil economy of the country is rather widespread, this indicator should have been augmented by stating the number of servicemen enlisted for military service under contracts and those drafted to the ranks
	Ministry of Internal Affairs	9,729	3,880	3,881	992	976	
	FSB	3,634	–	–	990	2,644	
	Total	138,722	22,095	44,723	26,387	45,517	
2. Number of places for housing servicemen enlisted for military service under contracts in hostels	Ministry of Defense	115,636	22,004	27,267	26,390	45,517	From the point of view of citizens and society, it is no less important to know the number of servicemen, espe-

with housing cells of simplified type	Ministry of Internal Affairs	9,764	2,048	2,582	3,871	1,263	cially of those with families, who are not provided with housing, and to be informed on the methods and the timelines for their housing problems to be solved
	FSB	1,180	–	–	660	520	
	Total	126,580	24,052	29,849	30,921	41,758	
3. Number of places reserved for training servicemen enlisted for military service under contracts	Ministry of Defense	25,478	502	2,562	4,377	18,037	In the interests of society it would be no less important to know that all the servicemen (both drafted and enlisted for military service under contracts) are actually provided, at the places of their service, with adequate facilities for combat training and for the fulfillment of their duties, and that all the prescribed safety measures are duly observed in the process
	Ministry of Internal Affairs	860	–	–	763	97	
	FSB	571	–	–	200	371	
	Total	26,909	502	2,562	5,340	18,505	

From the table it follows that there are no indices of effectiveness as such. At the same time, there indeed exist certain methods for assessing the combat ability of armed forces as an indicator of the FTP's military effectiveness¹.

If one makes use of these methods, it would become clear that the fighting efficiency of military units of permanent readiness grows in parallel with its decline in all the other military units, because they have already been remanned with citizens drafted not for 2 years but for 1.5 year, and from the year 2008 onward they will be remanned with those drafted for 1 year. The fighting efficiency of this category of regular forces will diminish, due to the insufficient level of training received by the servicemen, as well as the absence of incentives to serve efficiently, to master modern weaponry and to take care of it. It is estimated² that the fighting efficiency of the RF contingent of privates and noncommissioned officers as a whole will also decrease.

Thus, the implementation of the FTP appears to be distorted not only with regard to the needs of society and its citizens, but also to the military-political guidelines formulated by the President. The lowering (by comparison with the plan) of the number of contractees, whereas the total number of positions which should be filled by privates and NCOs remains unchanged, will lead to an increase in the number of persons being drafted, while the simultaneously introduced cancellation of deferrals will increase the number of citizens who are eager to pay the "ransom" and have the means to do this, because from now on the persons to be drafted will be, in the main, graduates of higher educational establishments who have acquired professions in demand on the labor market. Such a completion of the FTP will be profitable only to corrupt officials.

As regards the other aspects of the military personnel policy, several acts aimed at actually improving the situation were adopted last year. The RF President's Edict No. 1495, of 10. November 2007, has approved and put into force the new standard regulations of the RF Armed Forces: the Disciplinary Regulations; the Routine Duty Regulations; and the Garrison

¹ *Tsymbal V., Kardashevskii N.* Mnogourovnevnyi analiz problem prizyva na voennuiu sluzhbu v Rossii (A multi-level analysis of the problems related to military draft in Russia) // *Voprosy Ekonomiki (Issues of Economics)*. 2006. No. 1. Pp.70–85.

² *Vorob'ev E., Tsymbal V.* Sistema komplektovaniia voennoi organizatsii gosudarstva (The system of manning the military establishment of a State) // *Mirovaia ekonomika i mezhdunarodnye otnosheniia (The world economy and international relations)*. 2007. No. 3. Pp. 85–93.

and Guard Duty Regulations. The following decisions were adopted: on accelerating the increase, in 2008, of the money allowance of servicemen; on repaying the arrears, dating back to 1995, to military pensioners; and on the cancellation of the drafting to officers' positions of graduates of higher educational establishments with military chairs. There are some evident successes in the provision of housing to those servicemen who have received the right to the ownership of housing, and to those who are in need of service housing.

However, so far as the contingent of privates and sergeants is concerned, the planned increase of their pay will not raise their money allowance above the average national wage level, and therefore will not enhance the attractiveness of military service under contracts. The new additional payments introduced by the Minister of Defense's Order, of 01. 11. 2007, No. 450 will merely increase the money allowance of servicemen who serve in the central apparatus of the Ministry of Defense, and not of those who are in the greatest need of this.

The Provision of Technical Equipment and the Ensuring of Functioning of the RF Military Organization

Russia's arms policy was expressed in the classified State Weapons Program (SWP) for the period until the year 2015.

According to the unclassified materials of the year 2007, one could only surmise that the implementation of the Program is snagged by the already well-known problems: the higher is the degree of monopolization (vertical integration being fraught precisely with this), and the weaker is competition, the more costly is production. The system of orders for weapons and for war and special equipment (WWSE), as well as the operation of enterprises in the defense-industrial complex have offered numerous examples in proof of this rule. Here are some of them. During the past three years, the cost of the strategic ballistic missile (BM) "Topol' – M" increased more than two-fold, or well above the general level of inflation. Therefore, the rise in expenses on purchasing the BM will not increase the volumes of purchases. The actual rate of innovating the land-based offensive strategic means will remain at the same level of 7 missile complexes per year, which does not correspond to the existing agreements with the USA concerning the levels of strategic weapons. The transmission of the order for the development of the sea-based BM "Bulava" to the traditional developer of land-based BMs resulted not in the promised economy of the funds (due to unification), but in their being overspent, and in a failure to timely commission new naval missile-carriers.

The second military-economic thesis, repeatedly mentioned in the programs of modernization of the DIC, that the DIC is the "locomotive" that will virtually haul the kindred sectors of civilian machine-building to the world level of high technologies, is by no means absolutely correct, either. For this "locomotive" to be operable, it would be necessary for the rules of competition to be observed and for independent civil control to be implemented; also, the thesis needs a scientific substantiation.

In conclusion of this sub-section, we should like to note that the problems of military production development have been aggravated by the deficiencies of military personnel policy, referred to in the previous sub-section. At a special conference, which took place under the chairmanship of First Vice-Premier D. Medvedev, Head of the State Corporation "Russian Technologies" S. Chemezov presented a very grim picture of Russia's defense industry. According to him, the rise in sales of Russian weapons on the external market (by the results of 2007 – 8 billion USD), and in sales within the framework of state defense order, has revealed

one of the most acute problems – the lack of regular work force. Today, the average age of a worker is 45 years, while that of a highly qualified worker – 53 years. Despite having enormous funds at their disposal, enterprises simply cannot cope, in a timely and adequate manner, with the tasks assigned to them. For example, the Severodvinsk Machine-Building Enterprise has failed to fulfill India's order for the re-equipment of the aircraft carrier "Admiral Gorshkov". The reason was trivial – the plant did not have enough welders.

In order to improve the situation, it is suggested that the system of vocational training schools and specialized secondary schools should be resurrected under the aegis of the State; besides, incentives should be created for graduates of technological higher educational establishments to go to work, at the DIC's enterprises. Their attractiveness could be achieved, for example, by the provision of these graduates with housing by the employer. But there are other suggestions as well: either to restore the deferral for DIC's workers, or to equate work at these enterprises with alternative civilian service (ACS). The State Duma of the new convocation will consider the corresponding draft law as early as spring 2008³.

The Military Expenditures of the Federal Budget

The 2007 federal budget⁴ envisaged the spending of 822,036 million rubles, which amounted to 2.63% of GDP, or 15% of the federal budget's expenditure under Section 02 "National Defense". Although it seemed that the May adjustment of the federal budget⁵ did not openly interfere with military expenditures, as early as February the reports of the Federal Treasury⁶ began to assert that the allocations under this sections had been set, by the Law, in the amount of 825,169 million rubles; by November, they had grown, without the Law having been formally altered, to 833,978 million rubles. After the 2007 federal budget's acquiring its final shape in November⁷, with the expenditures under Section 02 being fixed at the level of 839,103 million rubles, the discretionary growth of expenditures, nevertheless, continued. Thus, the Government's adjusted budget revenue and expenditure⁸ authorized the spending, under this section, of as much as 840,623 million rubles in November, and of 843,222 million rubles in December.

In the final version of the federal budget, expenditure rose from 5,463 billion rubles to 6,531 billion rubles, or by 19.6% by comparison with the version dated as of the end of 2006. At the same time, the expenditures under Section 02 "National Defense" grew by 2.1% to 839,103 million rubles, or 2.61% of GDP, or 12.9% of the federal budget's expenditure. It should be noted that the expenditures under the other sections of the budget increased more considerably (with the exception of Section 03 "National Security and Law-Enforcement Activity", where the rise in expenditures amounted to 1.8%).

3 *Litovkin D.* Opiat' tebe broniu daet rodnoi zavod "Kompessor"! Kvalifitsirovnykh rabochikh budut osvobozhdat' ot armii (And once again our dear plant "Compressor" gives you a draft deferral! Skilled workers will be exempted from military service) // *Izvestiia*. 12 July 2007.

4 Federal Law "On the 2007 Federal Budget", No. 238-FZ.

5 Federal Law "On the Introduction of Alterations in the Federal Law "On the 2007 Federal Budget", No. 74-FZ, of 15. 05. 2007.

6 Reports on the implementation of the Federal Budget (see <http://www.roskazna.ru/reports/fb.html>).

7 Federal Law "On the Introduction of Alterations in the 2007 Federal Budget", No. 267-FZ, of 23. 11. 2007.

8 See the Federal Treasury's data on the implementation of the Federal Budget.

Due to a more significant growth of expenditures under the unclassified sections of the final version of the federal budget, there was a certain decrease in the degree of its general secretiveness, by comparison with both the initial version (from 12.2% to 10.3%) and the two previous federal budgets (see *Table 28*). However, the secret expenditures of the 2007 federal budget did increase in absolute terms from 669,025 million rubles in the initial version to 674,747 million rubles in the final version.

The 2007 federal budget was the first one where some of the allocations were classified, namely those under Section 11 “Interbudgetary Transfers” and Sub-section 0410 “Applied Scientific Research in the Sphere of the National Economy” of the functional classification of the federal budget’s expenditures. And although it is very tempting to believe that the declassification, in 2007, of the allocations under subsection 0806 “Other Issues in the Sphere of Culture, Cinematography and Mass Media” would set a good example for all the developers of the Russian federal budgets, an analysis of the federal budget for the year 2008 and for the 2009–2010 planning period 2008 indicates⁹ that the tendency toward a steady decrease in the transparency of the main financial document of this country is very much alive.

Table 28

The Share of the Classified Expenditures of the 2003–2007 Federal Budgets, in %

Code and name of item (or sub-item) that contains classified expenditures	2003	2004	2005	2006	2007
Total expenditure of federal budget	9.73	9.83	11.33	11.80	10.33
01 ISSUES OF NATIONAL IMPORTANCE	No data ¹⁰	No data	3.67	6.28	5.52
0108 International relations and international cooperation	31.88	18.04	–	0.01	< 0.01
0110 State material reserve	97.73	93.33	82.86	89.23	92.18
0111 Fundamental research	–	–	2.13	1.22	1.12
0115 Other issues of national importance	No data	No data	0.05	0.72	0.28
02 NATIONAL DEFENSE	37.22	38.40	42.06	42.77	45.33
0201 Armed Forces of Russian Federation	35.39	36.11	33.07	35.59	37.11
0203 Preparation of economy for mobilization	100.0	100.0	100.0	100.0	100.0
0204 Preparation for and participation in ensuring collective security and peace-keeping activity	–	–	100.0	100.0	100.0
0205 Nuclear weapons complex	100.0	100.0	100.0	100.0	100.0
0206 Implementation of international obligations in sphere of national defense	100.0	41.05	45.22	46.90	50.65
0207 Applied scientific research in sphere of national defense	No data	No data	98.37	93.94	93.69
0208 Other issues in sphere of national defense	No data	No data	2.49	8.79	24.38
03 NATIONAL SECURITY AND LAW-ENFORCEMENT ACTIVITY	23.33	20.79	28.52	31.64	31.07
0302 Internal security agencies	3.40	3.01	4.76	6.31	5.16
0303 Internal service troops	13.21	11.10	11.76	10.31	9.80
0306 Security agencies	100.00	98.91	97.80	95.49	97.31
0307 Frontier service agencies	19.73	22.88	100.00	98.97	97.62
0309 Prevention and liquidation of consequences of emergency situations and natural disasters, civil defense	43.69	41.74	59.02	62.39	50.65
0311 Applied scientific research in sphere of national security and law-enforcement activity	No data	No data	73.95	66.41	64.43
0313 Other issues in sphere of national security and law-enforcement activity	No data	No data	8.26	50.71	39.95
04 NATIONAL ECONOMY	No data	No data	0.05	0.02	0.44
0402 Fuel and power engineering	No data	No data	–	–	5.23
0411 Other issues in sphere of national economy	No data	No data	0.12	0.06	< 0.01
05 HOUSING AND UTILITIES SECTOR	No data	No data	–	3.42	0.85

⁹ See *Ekonomiko-politicheskaia situatsiia v Rossii. 2007. August*. (The economical and political situation in Russia. 2007. August). Pp. 44–48.

¹⁰ Can not be applied due to changes in the budget classification’s structure.

0501 Housing sector	No data	No data	–	4.22	5.69
07 EDUCATION	–	–	2.76	2.69	2.39
0701 Pre-school education	–	–	2.03	2.17	2.44
0702 General education	–	–	1.51	1.91	2.14
0704 Secondary vocational education	–	–	1.06	1.03	1.02
0705 Retraining and advanced training	–	–	16.85	15.78	17.22
0706 Higher vocational education	–	–	3.15	2.93	2.53
0709 Other issues in sphere of education	–	–	0.30	0.33	0.28
08 CULTURE, CINEMATOGRAPHY AND MASS MEDIA	–	–	0.17	0.17	0.21
0801 Culture	–	–	0.14	0.10	0.16
0804 Periodical press and publishing houses	–	–	13.46	7.45	2.57
0806 Other issues in sphere of culture, cinematography and means of mass communication	–	–	0.02	0.15	–
09 PUBLIC HEALTH CARE AND SPORT	–	–	4.30	3.99	2.57
0901 Public health care	–	–	5.61	4.66	2.94
0902 Sport and physical culture	–	–	0.28	0.26	0.24
Total expenditure of federal budget	–	–	–	–	0.16
01 ISSUES OF NATIONAL IMPORTANCE	–	–	–	–	0.50

Source: IET estimates based on the data of the 2003–07 federal budgets (the data for the years 2003–04 are presented under the corresponding items and subitems of the existing budget classification).

The absolute and relative values of the major components of the RF's military expenditures, and their change by comparison with the year 2006 in accordance with the final version of the 2007 federal budget, are shown in *Table 29* (recalculation into 2006 prices has been performed on the basis of Rosstat's first estimation of the GDP deflator index for the year 2007¹¹).

Table 29

Direct Military Expenditures of the Federal Budget under the Section “National Defense”

Sections and subsections	2007 million rubles / same in 2006 prices	Change in 2007, by comparison with 2006, million rubles / growth in %	Share of 2007 budget expenditures, in % / change by comparison with 2006, in p.p.	Expenditures as percentage of GDP / change by comparison with 2006, in p.p. of GDP
NATIONAL DEFENSE	839,103	53,149	12.85	2.54
	739,297	7.75	–2.64	–0.01
Armed Forces of Russian Federation	606,163	18,701	9.28	1.84
	534,064	3.63	–2.35	–0.08
Mobilization-related and military training for civilians	4,157	146	0.06	0.01
	3,662	4.14	–0.02	–
Preparation of economy for mobilization	4,736	672	0.07	0.01
	4,172	19.21	–0.01	–
Preparation of and participation in ensuring collective security and peace-keeping activity	117	43	0.00	0.00
	103	71,92	–	–
Nuclear weapons complex	12,099	–,770	0.19	0.04
	10,659	–6.74	–0.07	–
Implementation of international obligations in sphere of military-technological cooperation	6,665	–71	0.10	0.02
	5,872	–1.20	–0.03	–
Applied research in sphere of national defense	122,759	14,887	1.88	0.37
	108,158	15.96	–0.23	0.03
Other items in sphere of national defense	82,408	19,542	1.26	0.26
	72,606	36.83	0.06	0.05

Source: IET estimates based on the data of Federal Laws No. 238-FZ, of 19 December 2006, and No. 267-FZ, of 23 November 2007.

¹¹ Sotsial'no-ekonomicheskoe polozhenie Rossii: Doklad. (The socio-economic situation in Russia: a report). Moscow: Rosstat, 8 February 2008.

One further part of military expenditures incurred at the expense of other sections of the Russian federal budget is presented in *Table 30*. In contrast to previous years, it now includes the estimates of the low bound of the military establishment's expenditures incurred under such traditionally civilian budget sections as 04 "The National Economy", 05 "The Housing and Utilities Sector", 07 "Education", 08 "Culture, Cinematography, and Mass Media", 09 "Healthcare and Sports", and 11 "Interbudgetary Transfers".

The indirect military expenditures related to previous defense activity are presented in *Table 31*, while the aggregate indices of the RF's military expenditures in the year 2007 are presented in *Table 32*. The observed unprecedented rise in expenditures on pensions was caused by the October decision¹² to repay the State's liabilities, dating back to 1995–98, to pensioners of the Ministry of Defense and of the Frontier Service. The corresponding funds in the amount of 42.615 billion rubles were allocated, in due course, to the RF Ministry of Finance. Without taking this sum into consideration, the Ministry of Defense's pension expenditures in 2007 declined by 2% in real terms.

Table 30

Direct and Indirect Military Expenditures under Other Items of the Federal Budget

Sections and subsections, or character of expenditures	2007, million rubles / same in 2006 prices	Change in 2007, by comparison with 2006, million rubles / growth in %	Share of 2007 budget expenditure, in % / change by comparison with 2006, in p.p.	Expenditures as percentage of GDP / change by comparison with 2006, in p.p. of GDP
Expenditures on military establishment under Section "National security and Law-Enforcement Activity"				
Internal service troops	<u>46,394</u>	<u>2,451</u>	<u>0.71</u>	<u>0.14</u>
	40,876	6.38	-0.16	-
Security agencies	<u>115,955</u>	<u>9,345</u>	<u>1.78</u>	<u>0.35</u>
	102,163	10.07	-0.32	0.01
Frontier-service agencies	<u>56,927</u>	<u>-682</u>	<u>0.87</u>	<u>0.17</u>
	50,156	-1.34	-0.28	-0.02
<i>Units of Ministry for Emergency Situations' forces, and civil defense</i>	<u>24,457</u>	<u>-421</u>	<u>0.37</u>	<u>0.07</u>
	21,548	-1.92	-0.12	-0.01
Expenditures on military establishment under Section "National Economy"				
Military types ¹³ of expenditures	<u>10,410</u>	<u>4,134</u>	<u>0.16</u>	<u>0.03</u>
	9,172	82.07	0.05	0.01
Classified expenditures	<u>3,187</u>	<u>2,753</u>	<u>0.05</u>	<u>0.01</u>
	2,808	5,004.34	0.05	0.01
Expenditures on military establishment under Section "Housing and Utilities Sector"				
Military types of expenditures	<u>15,452</u>	<u>-7,591</u>	<u>0.24</u>	<u>0.05</u>
	13,614	-35.80	-0.24	-0.03
Classified expenditures	<u>2,511</u>	<u>353</u>	<u>0.04</u>	<u>0.01</u>
	2,213	18.99	0.01	-
Expenditures on military establishment under Section "Education"				
Expenditures of Ministry of Defense	<u>27,971</u>	<u>-5,131</u>	<u>0.43</u>	<u>0.08</u>
	24,644	-17.23	-0.24	-0.03
Classified expenditures	<u>6,862</u>	<u>336</u>	<u>0.11</u>	<u>0.02</u>
	6,045	5.89	-0.02	-
Expenditures on military establishment under Section "Culture, Cinematography, and Mass Media"				
Expenditures of Ministry of Defense	<u>2,429</u>	<u>376</u>	<u>0.04</u>	<u>0.01</u>
	2,140	21.34	-	-
Classified expenditures	<u>148</u>	<u>37</u>	<u>0.00</u>	<u>0.00</u>

¹² Edict of the RF President of 18.10.2007, No. 1373s "On some measures designed to guarantee the social protection of individual categories of pensioners".

¹³ Items 145, 215, 220–252, 256 and 472 of the current budget classification.

	131	39.05	-	-
Expenditures on military establishment under Section "Healthcare and Sports"				
Expenditures of Ministry of Defense	<u>21,434</u>	<u>-2,414</u>	<u>0.33</u>	<u>0.06</u>
	18,884	-11.33	-0.15	-0.01
Classified expenditures	<u>7,112</u>	<u>-125</u>	<u>0.11</u>	<u>0.02</u>
	6,266	-1.97	-0.04	-
Expenditures on military establishment under Section "Interbudgetary Transfers"				
Federal subsidies, subventions and interbudgetary transfers to closed administrative and territorial units	<u>19,842</u>	<u>1,645</u>	<u>0.30</u>	<u>0.06</u>
	17,482	10.39	-0.05	-
Subventions to budgets to finance the exercise of powers with regard to initial registration for military service	<u>1,189</u>	<u>48</u>	<u>0.02</u>	<u>0.00</u>
	1,048	4.79	-	-

Source: IET estimates based on the data of Federal Laws No. 238-FZ, of 19 December 2006, and No. 267-FZ, of 23 November 2007.

Table 31

The Indirect Military Expenditures Related to Previous Defense Activity

Sections (subsections) or items	2007, million rubles / same in 2006 prices	Change in 2007 by comparison with 2006, million rubles / growth in %	Share of 2007 budget expenditure, in % / change by comparison with 2006, in p.p.	Expenditures as percentage of GDP / change by comparison with 2006, in p.p. of GDP
Pension provision (Ministry of Defense)	<u>129,967</u>	<u>36,025</u>	<u>1.99</u>	<u>0.39</u>
	114,509	31.46	0.22	0.10
Material support for employees of nuclear weapons complex	<u>1,845</u>	<u>208</u>	<u>0.03</u>	<u>0.01</u>
	1,625	12.79	-	-
Housing subsidies for servicemen already discharged or being discharged from service	<u>29,381</u>	<u>9,908</u>	<u>0.45</u>	<u>0.09</u>
	25,886	38.28	0.09	0.03

Source: IET estimates based on the data of Federal Laws No. 238-FZ, of 19. 12. 2006, and No. 267-FZ, of 23. 11. 2007.

Table 32

The Aggregate Indices of Military and Associated Expenditures

Type of expenditures	Total expenditure, million rubles	Share of 2007 budget expenditure, in % / change by comparison with 2006, in p.p.	Expenditure as percentage of GDP / change by comparison with 2006, in p.p. of GDP
Aggregate direct military expenditures	1,201,383	<u>18.39</u>	<u>3.64</u>
		-4.18	0.08
Aggregate direct and indirect military expenditures related to current and previous defense activity	1,362,576	<u>20.86</u>	<u>4.13</u>
		-3.87	0.05
Total expenditure on national defense, law – enforcement activity, and state security	1,513,893	<u>23.18</u>	<u>4.59</u>
		-4.86	-0.03
Total direct and indirect federal expenditure related to current and previous defense, law – enforcement activity, and state security	1,842,542	<u>28.21</u>	<u>5.59</u>
		-5.39	0.05

Source: IET estimates based on the data of Federal Laws No. 238-FZ, of 19. 12. 2006, and No. 267-FZ, of 23. 11. 2007.

The data on the month-by-month implementation of the 2007 federal budget's military and associated expenditures are presented in *Table 33*.

The results of a comparison, by means of *Figures 8–10*, of the implementation of federal budget expenditures, by each of the major components of direct military expenditures listed in Section 02 “National Defense”, have provided no grounds to suggest that the change of the Ministry of Defense’s leadership in February 2007 have indeed had any impact on the implementation of expenditures.

On the whole, the dynamics of Russia’s military expenditures in the post-crisis period of 1999–2007, reflected in *Table 34*, lend credence to the views of those¹⁴ who eight years ago were warning us about the futility of increasing military expenditures without reforming the institutions inherited by Russia from its Soviet past.

Table 33

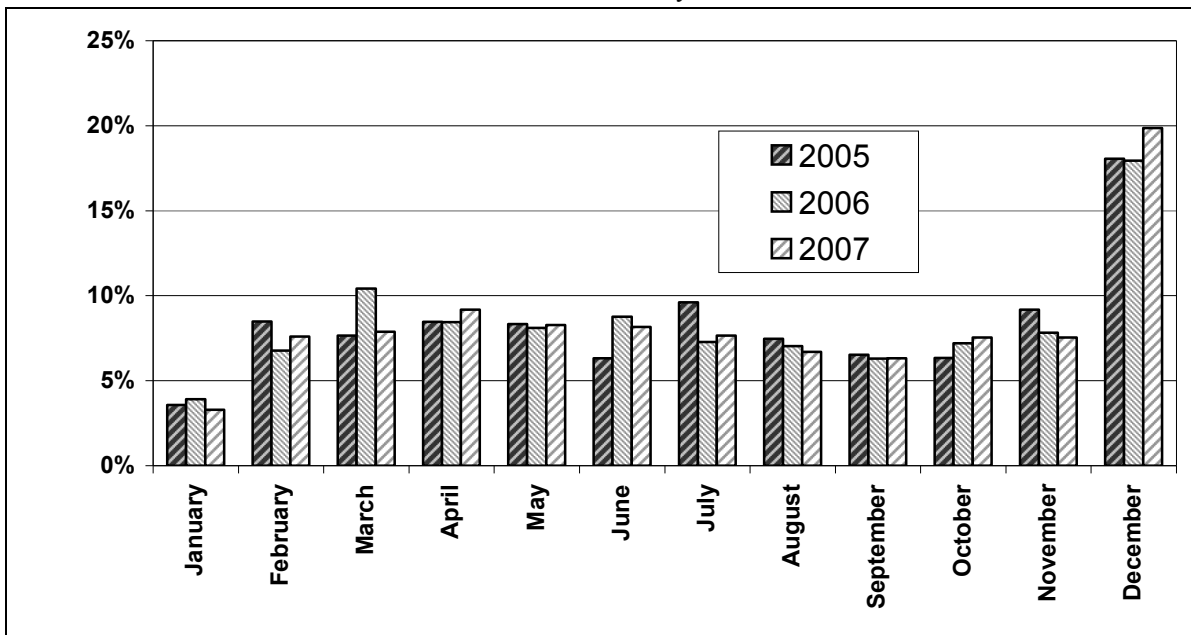
Implementation of Military and Associated Expenditures of the Federal Budget 2007, by month, billion rubles

Expenditure items	Envisaged in FB - 2007	FB – 2007, amended.	January	February	March	April	May	June	July	August	September	October	November	December	Economy (overspending)
National defense	822.0	839.1	22.5	61.1	66.5	72.6	68.5	65.9	67.4	52.9	50.1	60.9	63.8	181.7	7.2
RF Armed Forces	549.9	606.2	20.0	46.2	47.8	55.7	50.2	49.6	46.5	40.6	38.4	45.8	46.4	116.0	4.0
Mobilization-related and military training for civilians	5.9	4.2	0.0	0.1	0.4	0.2	0.2	0.8	0.2	0.2	0.2	0.2	0.4	1.0	0.3
Preparation of economy for mobilization	3.5	4.7	0.0	0.1	0.1	0.6	0.4	0.4	0.6	0.3	1.5	0.5	0.9	0.3	(0.9)
Preparation of and participation in ensuring collective security and peace-keeping activity	0.1	0.1	–	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	–
Nuclear weapons complex	12.1	12.1	0.8	3.3	1.5	0.6	1.1	0.4	0.7	0.6	0.8	0.9	0.9	1.2	–
Implementation of international obligations in sphere of military-technological cooperation	6.0	6.7	0.8	0.1	0.2	0.8	0.0	0.2	0.8	0.1	0.1	0.7	1.4	0.6	0.3
Applied research in sphere of national defense	120.5	122.8	0.6	10.8	13.1	7.3	10.9	6.5	13.1	5.5	4.3	6.0	4.9	38.5	1.9
Other items in sphere of national defense	79.1	82.4	0.2	0.6	3.4	7.4	5.6	8.1	5.6	5.5	4.9	6.8	8.8	24.1	1.7
National security and Law-Enforcement Activity	662.9	674.8	27.9	42.7	48.4	53.0	49.1	55.7	50.2	51.2	52.6	55.0	60.9	116.5	7.8
Internal service troops	45.9	46.4	1.3	2.5	2.9	3.8	3.8	3.6	3.8	3.8	3.8	3.7	5.0	8.3	(0.4)

¹⁴ *Shlykov, V.* Neizbyvnyi kompleks (The indelible complex) // *Ъ-Vlast'*, 5 May 2000 (№ 19).

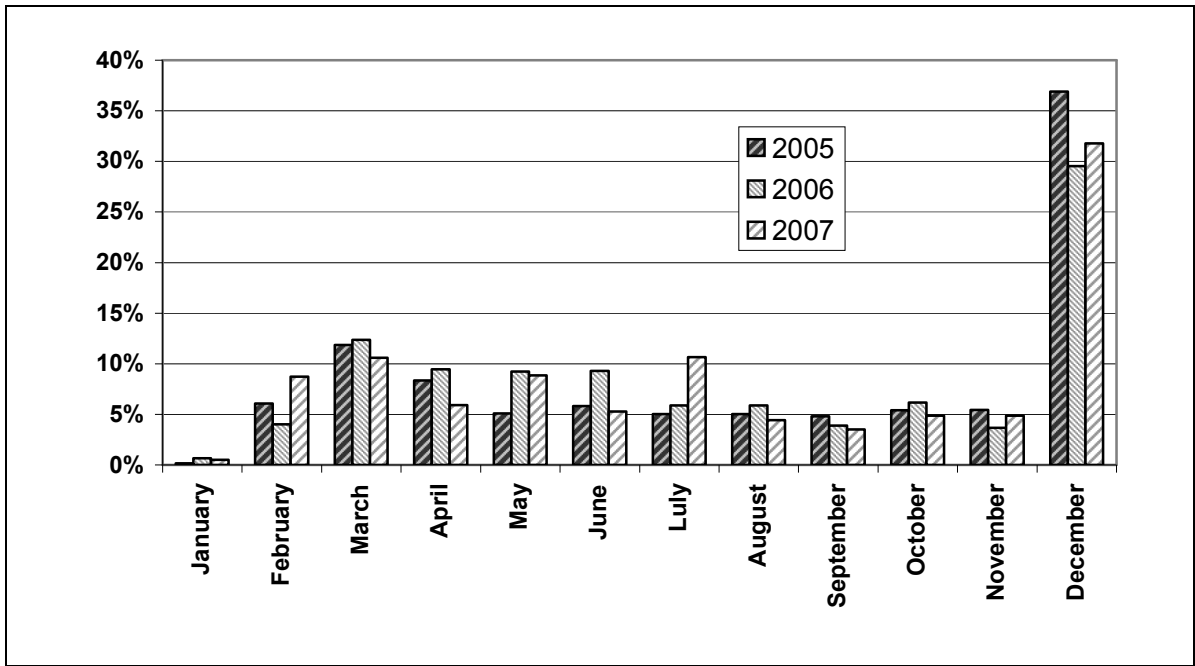
Security agencies	113.2	116.0	5.1	6.9	7.8	10.3	7.7	9.1	9.8	9.8	9.3	9.2	9.6	21.5	(0.9)
Frontier-service agencies	55.3	56.9	1.7	3.2	3.1	4.0	3.6	4.1	4.6	4.2	4.1	4.5	5.5	10.1	3.1
Prevention and liquidation of consequences of emergency situations and natural disasters, civil defense	40.3	42.0	1.6	3.8	4.0	3.8	2.8	3.2	2.6	2.8	2.5	5.2	3.3	6.2	(0.4)
Applied research in sphere of national security and law-enforcement activity	4.7	5.1	0.2	0.3	0.3	0.3	0.3	0.5	0.3	0.3	0.4	0.3	0.5	1.3	0.1
Other issues in sphere of national security and law-enforcement activity	11.2	5.92	0.2	0.5	0.2	0.5	0.2	0.1	0.4	0.2	0.2	0.3	0.2	0.5	2.4

Source: IET estimates based on the data of the Federal Treasury.



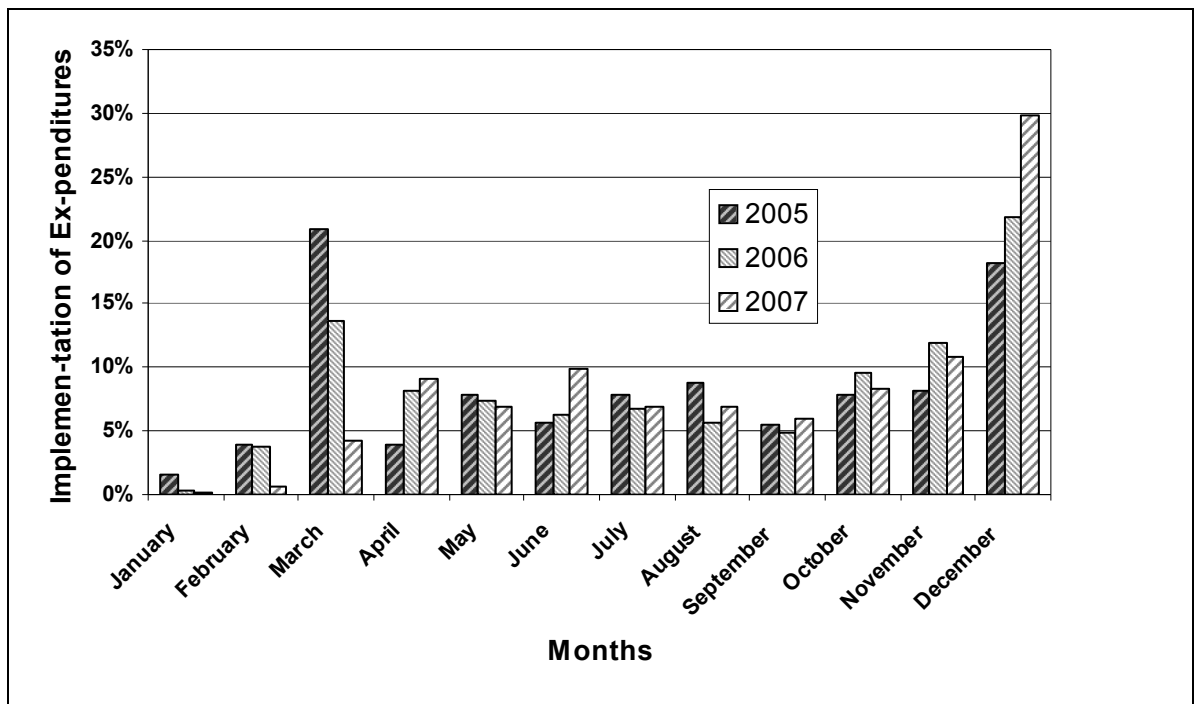
Source: IET estimates based on the data of the Federal Treasury.

Fig. 8. The Implementation of the Federal Budget’s Expenditures under Subsection 0201 “The Armed Forces of the Russian Federation” in the Years 2005–07



Source: IET estimates based on the data of the Federal Treasury.

Fig. 9. The Implementation of the Federal Budget’s Expenditures under Subsection 0207 “Applied Scientific Research in the Sphere of National Defense” in the Years 2005–07



Source: IET estimates based on the data of the Federal Treasury.

Fig. 10. The Implementation of the Federal Budget’s Expenditures under Subsection 0208 “Other Issues in the Sphere of National Defense” in the Years 2005–07

Table 34

**The Basic Indicators of the Russian Federation's Military Expenditures
in 1999–2007**

	1999	2000	2001	2002	2003	2004	2005	2006	2007
1	2	3	4	5	6	7	8	9	10
1. In nominal terms (current prices), billion rubles									
Execution of FB's expenditures under Section "National Defense", in current budget classification ^a	115.6	191.7	247.7	295.4	355.7	430.0	581.1	681.8	831.9
FB's allocations under Section "National Defense": in current budget classification	93.7	209.4	214.7	284.2	354.9	427.4	578.4	686.1	839.1
withdrawn to other sections of budget classification ^b	–	–	–	–	–	–	44.3	77.7	91.3
in a comparable budget classification	93.7	209.4	214.7	284.2	354.9	427.4	622.6	763.9	930.4
Military expenditures, according to UNO ^c	–	202.6	294.4	325.9	447.0	499.0	665.0	822.1	–
Overall direct military expenditures ^d	128.9	270.4	283.4	353.1	456.5	544.5	759.6	992.5	1,201.4
Overall direct and indirect military expenditures related to current and previous military activities ^e	144.0	304.6	329.6	455.6	594.6	630.7	844.4	1,079.0	1,362.6

Table 34 (continued)

1	2	3	4	5	6	7	8	9	10
2. In real terms (in the 2007 prices)^f, billion rubles									
Execution of FB's expenditures under Section "National Defense" in current budget classification	926.8	1,109.9	933.5	828.3	786.0	797.1	900.0	854.3	831.9
FB's allocations under Section "National Defense": in current budget classification	751.3	1,212.4	809.1	796.8	784.2	792.3	895.7	859.7	839.1
withdrawn to other sections of budget classification	–	–	–	–	–	–	68.6	97.4	91.3
In comparable budget classification	751.3	1,212.4	809.1	796.8	784.2	792.3	964.2	957.1	930.4
Military expenditures, according to UNO	–	1,173.1	1,109.6	913.9	987.8	925.0	1,029.8	1,030.1	–
Direct military expenditures	1,033.5	1,565.5	1,068.1	990.2	1,008.8	1,009.3	1,176.4	1,243.6	1,201.4
Overall direct and indirect military expenditures related to current and previous military activities	1,154.7	1,763.5	1,242.1	1,277.7	1,313.9	1,169.1	1,307.8	1,352.0	1,362.6
3. In real terms (in 1999 prices), billion rubles									
Execution of FB's expenditures under Section "National Defense" in current budget classification	115.6	124.8	120.0	112.8	113.9	115.0	125.8	117.8	114.7
FB's allocations under Section "National Defense": in current budget classification	93.7	136.4	104.0	108.5	113.7	114.3	125.2	118.5	115.7
withdrawn to other sections of budget classification	–	–	–	–	–	–	9.6	13.4	12.6

fication									
in comparable budget classification	93.7	136.4	104.0	108.5	113.7	114.3	134.8	132.0	128.3
Military expenditures, according to UNO	–	131.9	142.6	124.4	143.1	133.5	143.9	142.0	–
Overall direct military expenditures	128.9	176.1	137.3	134.8	146.2	145.7	164.4	171.5	165.6
Overall direct and indirect military expenditures related to current and previous military activities	144.0	198.3	159.6	173.9	190.4	168.7	182.8	186.4	187.9

4. Military burden borne by national economy, as % of GDP

Execution of FB's expenditures under Section "National Defense" in current budget classification	2.40	2.62	2.77	2.73	2.69	2.52	2.69	2.54	2.52
FB's allocations under Section "National Defense" in current budget classification	1.94	2.87	2.40	2.62	2.68	2.51	2.67	2.55	2.54
withdrawn to other sections of budget classification	–	–	–	–	–	–	0.20	0.29	0.28
in a comparable budget classification	1.94	2.87	2.40	2.62	2.68	2.51	2.88	2.84	2.82
Military expenditures, according to UNO	–	2.77	3.29	3.01	3.38	2.93	3.08	3.06	–

Table 34 (continued)

	1	2	3	4	5	6	7	8	9	10
Overall direct military expenditures		2.67	3.70	3.17	3.26	3.45	3.19	3.51	3.69	3.64
Overall direct and indirect military expenditures related to current and previous military activities		2.99	4.17	3.69	4.21	4.49	3.70	3.91	4.01	4.13

5. By parity of purchasing capacity (current prices), billion USD

Execution of FB's expenditures under Section "National Defense" in current budget classification	21.9	26.8	30.2	31.9	34.2	36.2	44.4	47.5	53.4
FB's allocations under Section "National Defense" in current budget classification	17.7	29.3	26.2	30.7	34.1	35.9	44.2	47.9	53.8
withdrawn to other sections of budget classification	–	–	–	–	–	–	3.4	5.4	5.9
in comparable budget classification	17.7	29.3	26.2	30.7	34.1	35.9	47.6	53.3	59.7
Military expenditures, according to UNO	–	28.3	35.9	35.2	42.9	42.0	50.8	57.3	–
Overall direct military expenditures	24.4	37.8	34.6	38.1	43.9	45.8	58.0	69.2	77.0
Overall direct and indirect military expenditures related to current and previous military activities	27.2	42.6	40.2	49.2	57.1	53.0	64.5	75.2	87.4

For reference

Deflator of GDP, as % of a previous year	172.5	137.6	116.5	115.5	114.0	120.1	119.2	115.7	113.5
Deflator of expenditures on final consumption of state administration ⁵ as % of previous year	138.5	153.6	134.4	126.9	119.2	119.7	123.6	125.3	125.3

Parity of purchasing capacity^h, rub / USD 5.29 7.15 8.19 9.27 10.41 11.89 13.09 14.34 15.59

^a For 2006–2007 – the preliminary data on the execution of federal budgets, released by the Federal Treasury.

^b The aggregate expenditures of the Ministry of Defense plus the classified expenditures under sections 04-09 and 11 of the 2005–07 federal budgets.

^c The data for 1999 were not submitted by the RF Government to the UNO; the data for 2007 will be submitted in 2008, including the expenditures on the upkeep of the Internal Service Forces, frontier guards and civil defense.

^d Including on the upkeep of Internal Service Forces, frontier guards, civil defense, and other elements of the military organization.

^e Including pensions paid to ex-servicemen.

^f Deflated by applying final consumption deflator to state administration expenditures.

^g For 2007 – the IET's estimates.

^h For 2005–2007 – the linear trend of values for previous years (the IET's estimates).

Sources: The Federal Laws on the 1999–2007 Federal Budgets and on the execution of the 1999–2005 Federal Budgets; *Natsional'nye shcheta Rossii v 1997–2006 godakh. Statisticheskii sbornik.* [Russia's national accounts in 1997–2006. Collection of Essays on Statistics]. Moscow: Rosstat, 2005–2007; *Ob'ektivnaia informatsiia po voennym voprosam, vkluchaiia transparentnost' voennykh raskhodov. Doklady General'nogo sekretaria OON 2001–2007* [Objective information on military issues including the transparency of military expenditures. The reports of the UNO Secretary General, 2001–2007]; Rosstat; the Federal Treasury.

The Trends and Outlooks of Development of Russia's Military Economy

Although the implementation of the FTP “The Switchover of a Number of Formations and Military Units to the System of Manning by Servicemen Enlisted for Military Service under Contracts”, adopted in 2003, was formally completed in December 2007, in fact, the plan for its implementation has been foiled. From time to time the mass media publish information¹⁵ that the Program should be “supplementarily” implemented in 2008, after which it would become possible to initiate, in 2009, a new FTP aimed at the switchover of the whole NCO component of the RF military organization to the system of manning by volunteers enlisted for military service under contracts.

The undisputed successes achieved in recent years have confirmed once again, especially in the struggle against terrorists and armed bands in the North Caucasus, that the military security of this country should be ensured by professionals. The most successful changes have taken place in the Border Service of the FSB, where the draft was completely discarded, while some lesser, although still very substantial, changes occurred in the Interior troops of the Ministry of Internal Affairs. The worst situation is observed in the RF Armed Forces.

However, due to the outflow of contractees from the military units not included in the list of military units of permanent readiness and their replacement with draftees, the overall capability of the RF Armed Forces will decline, this being the result of the lower combat efficiency of the present-day draftees, and especially of those draftees who will serve one year only.

The attractiveness of military service under contracts will not increase either, as proved by the attitude towards it displayed by the Ministry of Defense's leadership during the FTP's implementation. Over that period, the program was adjusted four times. The expenditures on the FTP rose by almost 20 billion rubles in the 2003 prices. The number of positions to be filled by contractees diminished by almost 9 thousand. Not a single penny of the additional (with respect to the initial plan) allocations was spent on increasing the increment to money

¹⁵ See *Iuzbashev, V.* *Intellekt staviat pod ruzh'e.* [Intellect under arms] // *Nezavisimoe voennoe obozrenie* [The independent military review], 2007, 21–27 December (No. 45), p. 3.

allowance, although it is this increment that largely determines the attractiveness of military service under contracts. Despite the fact that the overall rise in expenditure amounted to 20%, the expenditures on capital construction and repairs grew by 44% against the initially set amount; the expenditures on scientific research increased by 15%; and the other expenditures – by 7%, the increment to money allowance introduced in order to increase the attractiveness of military service under contracts has not been indexed since 2003. As inflation rose to more than 46% over the past four years, this increment has by now been depreciated by almost 75%. Neither the 15% rise in payments from 1 December 2007, nor their increase in 2008 promised by the President will be able to change the situation.

The socially significant results expected from the FTP, which are more important for society than for the army, cannot be considered to have been fully implemented either. The case in point is the following task of the FTP, declared in its certificate: “the reduction of society’s dissatisfaction with the existing system of manning the RF Armed Forces and other troops, military formations and organs, and with these servicemen being dispatched for military service in the “hot spots”. The cancellation of the socially significant draft deferrals (carried out simultaneously with the reduction of the term of service”) will produce a reverse effect – the growth of society’s dissatisfaction; or, to be more specific, it will result:

- in undermining the tentative achievements in the State’s demographic policy (because of the drafting of young fathers), as it is absolutely clear to everybody that a compensation in the amount of 6 thousand rubles / month per every child whose father will be drafted cannot be considered as adequate, bearing in mind that the average wage in the country approaches 14 thousand rubles per month;
- in reducing the personnel potential of defense industry (because of the drafting of the young workers with the most sought after specialties, who used to be granted deferrals, and the drafting of young engineers who have oriented themselves to work in the DIC;
- in increasing the intensity of the “brain drain” (because of the drafting of the majority of graduates from higher educational establishments irrespective of their specialties, who are afraid of army service as such, in addition to the potential resulting loss of qualification and career prospects).

There is one real achievement among the socially significant results of the FTP: according to the assurances of high-rank officers, no draftees are serving in Chechnya. However, the legal possibility of servicemen enlisted for compulsory military service being used in combat action in time of peace had not been eliminated. At least in the existing Military Service, Item 3 of its Article 2 still reads: “Servicemen enlisted for compulsory military service can be dispatched (including within a subunit, unit, or formation) to perform tasks in conditions of armed conflicts (or for taking part in combat action) after their having served for no less than six months and after their having been trained in military occupation specialties”.

A similar situation exists with regard to many other factors determining society’s dissatisfaction not only with the current system of manning, but also with the general state of affairs in military units. The reasons for citizens’ discontent and the facts of violation of their rights are as numerous as ever. It is typical that in the period after the year 1999, the number of servicemen who perished outside of the zones of combat activity (“non-combat casualties”) was approximately equal to that of combat casualties.

Thus, the military personnel policy, already demonstrated in the period of the FTP's implementation, could be beneficial only to criminal structures who profit on the deficiencies of the system of manning the army and on the citizens' fear of military service.

After the year 2007, it could lead the country to a social explosion.

There is no need for any new recommendations to be invented in this connection. One has simply to recall some of the existing ones:

1. To discuss the results of the FTP at an open joint meeting of the Interdepartmental Commission, created to analyze the FTP's progress, and representatives of all non-governmental organizations who capable of presenting independent estimates of the FTP's results and of the state of affairs in regard to compulsory and contractual military service. It is important that the participants should be on a timely basis provided with complete financial and economic information on the FTP and its previous substantiation. Only after all the deficiencies of the previous FTP are taken into consideration, a new one can be initiated.

2. To urgently increase the level of money allowance of all contractees, from soldier and sailor upwards (and not only in military units of permanent readiness), to a level by 20% higher than the average wage in the country. This level should be then sustained on the annual basis. It should be noted that the afore-said level has remained stable since the 2001 survey conducted by the All-Russian Center for Public Opinion Studies and referred to in the IET's previous publications. The results of surveys carried out by the Russian State Insurance Company have confirmed this conclusion¹⁶. The size of a "just" wage for workers of budget-funded institutions is estimated in accordance with the age and the level of well-being of the respondents. Young people aged up to 26 years are sure that private contractees should get the highest wages (23,400 rubles). Female respondents also "voted" for contractees (26,300 rubles). The most generous wages were suggested by Muscovites (up to 35,000 rubles), while the lowest (from 13,000 rubles upwards) ones – by residents of small towns.

The money allowance of officers, warrant officers and midshipmen should also be accordingly increased. It should be necessary to simultaneously reduce the number of troops, mainly in those military units that are not included in the category of "permanent readiness" or are not on stand-by duty.

3. It is necessary to urgently revise (in cooperation with non-governmental organizations, which is absolutely essential) the legislative base of military service, and to eradicate its defects concerning the draft procedure and the procedure for the enrollment of contractees, as well as the terms of contractual and compulsory military service. It should be laid down in a law that the only purpose of military service in time of peace should be the acquisition, by a serviceman or woman, of a military occupation specialty necessary for his or her further service in regular forces and for his or her being included in military-trained manpower resources (or reserve), if the military-political situation in the world would require it to be sustained at a corresponding level.

4. It is equally crucial to lose no time in initiating an open discussion of the main directions of RF military-technological policy in the part concerning the rational use of know-how and dual-purpose technologies in the interests of the development of the civil economy and for the sake of achieving all types of beneficial economic effects, including the military, economic, and commercial ones.

¹⁶ *Vedomosti*. 2007. 19 December (No. 240).

5. The recommendations regarding the problems faced by the military budget also remain unchanged.

It is high time to coordinate the RF budget classification with the mission, objectives and tasks of the RF military organization's activity, and to establish a strict correlation between the indices characterizing this activity and the amounts being spent on their implementation. Without this, as far as the prospects for the future are concerned, RF military expenditures will be implemented without any control – at least during the period until the year 2010.

RF military expenditures will continue to be overclassified in excess of any reasonable norms and, most importantly, this will be done with violation of the federal law on State secrets. This corruption-generating defect of Russian budgetary system will surely exert a very negative influence not only of the military economy of the Russian Federation, but also on its national economy as a whole.

Of course, the actual military expenditures of the RF, if estimated by the international standards of military expenditures of states (it is not without interest that they are acknowledged by Russia), indeed exceed the level, in percentage points, of GDP as shown in the budget and as declared by the military-political leadership of the RF. This situation by no means improves the image of the State in anybody's eyes.

So far as the issue of manning is concerned, equally detrimental is the fact that among all G-8 countries, compulsory military service is preserved only in the RF and Germany, although the term of service in Germany is only 9 months, while the level of support for every serviceman, including those who are enlisted for compulsory military service, is better than that enjoyed by the Russian contractee. The same is true of the conditions of military service.

As regards the declared advantages of the three-year planning of the budget, especially that established for the military organization, the results already visible at end of 2007 (after the final approval and the subsequent publication of the budget) has shown that the budget needed adjustment even for 2008, the first of the three years under consideration. And this indeed happened in early 2008 with regard to the expenditures on combat training, the money allowance of servicemen, and, correspondingly, the pensions of former servicemen are relatively ready for implementation are becoming considerably more expensive because of competition among investors. This results in lower efficiency of spending budget resources allocated to the support of the sphere of innovations.