



Laws, secrecy and statistics: recent developments in Russian defence budgeting

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Recent developments in Russian public finances

1. Medium-term (3-year) budgeting (2008)
2. New subdivision “Modernization of Armed Forces” (2008) added but since never used
3. Growth of opaqueness in federal budgets and reports of Federal Treasury (2008)
4. New Rb 20 trillion State armament program lunched (2011) and Finance Minister Alexei Kudrin fired
5. Governmental loan guarantees for defence sector emerged in federal budget (2011)
6. More opaqueness in the budget process at legislative level (2012)
7. 31th program “Securing of national defensive capability” in the preliminary program budget (2012)
8. Full scale program budgeting introduced but without 31st program (2014)

Achievements and plans

I. Federal budget defence expenditure, 2011-2016

	2011	2012	2013	2014	2015	2016
National defence, billion roubles	1,516.0	1,812.3	2,103.6	2,488.1	3,026.9	3,378.0
Federal budget (total), %	13.9	14.1	15.8	17.8*	19.7	20.6
GDP, %	2.7	2.9	3.2	3.4	3.8	3.9

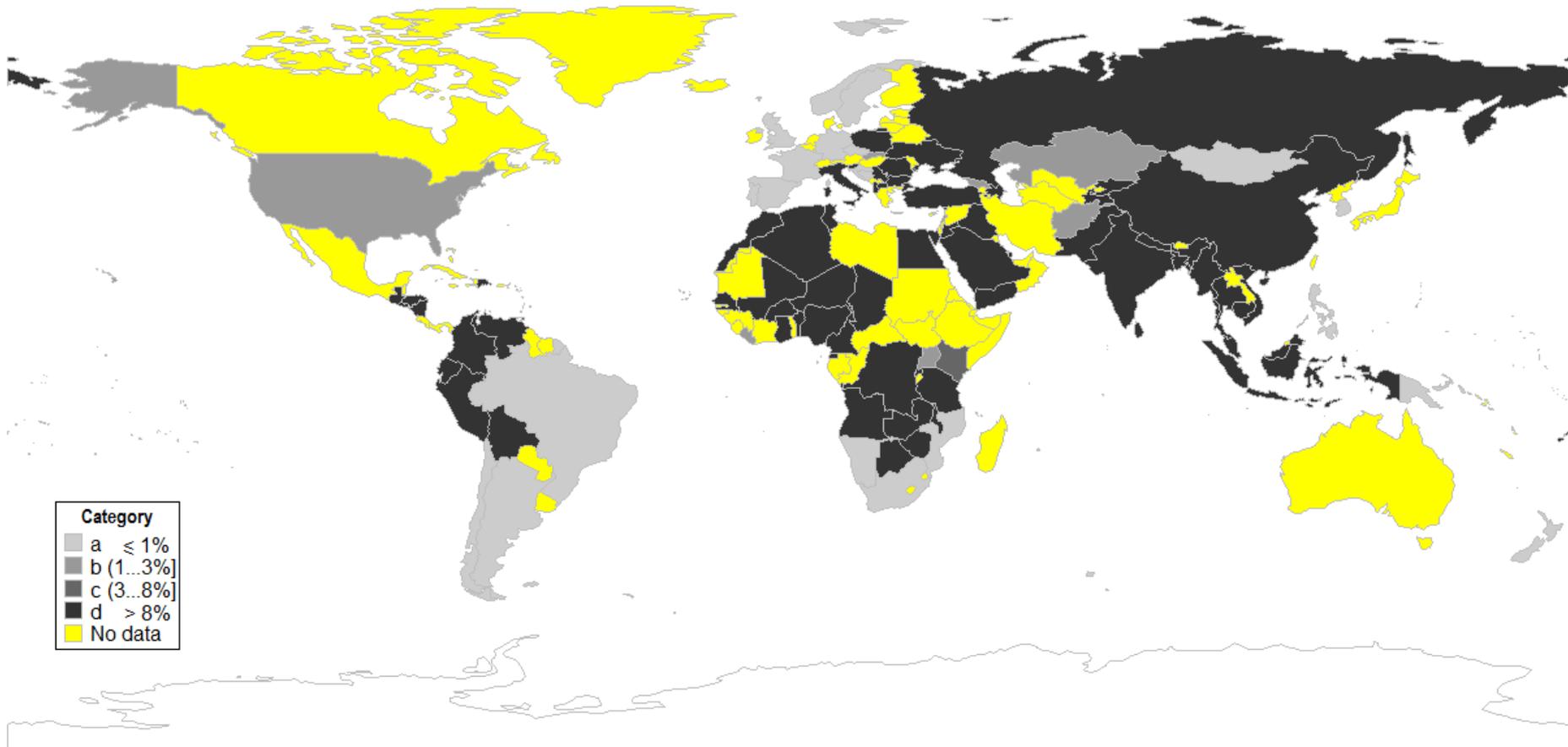
II. Percentage of secret expenditure in Russian federal budget, 2010-2016

	2011	2012	2013	2014	2015	2016
Federal budget (total), %	10.1	11.3	14.2	16.7	21.2	24.8
GDP, %	2.0	2.3	2.9	3.2	4.1	4.7

* *Italics* – as planned.

Source: Federal Budget.

Percentage of secret expenditure in budgets of central governments throughout the world, 2012



Source: Excel database with data from 2006, 2008, 2010, and 2012. Washington, D.C.: International Budget Partnership, January 2013.

The official policy?



Finance Minister of the Russian Federation Anton Siluanov, 18 December 2012:

“[W]e have always advocated openness of the budget. In our [budget] articles secret spending can be on defence and security only.”

Source: tvrain.ru.

Secret expenditure in functional divisions of federal budget, %

Code and title of division	2013	2014
100 General public services	9.5	9.2
200 National defence	52.6	58.8
300 National security and law enforcement	27.4	29.0
400 National economy	4.9	5.2
500 Housing and utilities sector	11.0	11.1
600 Environmental protection	–	0.1
700 Education	4.3	4.7
800 Culture and cinematography	0.1	0.1
900 Health	2.7	2.9
1000 Social policy	0.1	0.0
1100 Physical fitness and sport	0.4	0.3
1200 Mass media	0.4	0.4

Source: Federal Budget.

The Russian secrecy's legal framework

Constitution of Russian Federation (December 12, 1993)

“... The list of data comprising state secrets shall be determined by a federal law” (article 29, item 4)

List No 1

Law “On State Secrets” No 5485-1 (July 21, 1993)

Article 4, item 2: “The President of the Russian Federation; confirms ... also the list of data referred to state secret.”

Article 5: “State secrets are comprised of:

2) data in the fields of economy, science and technology:

...
of the amount of the plan (task) of the state defense order, the output and delivery (in cash or in kind) of arms, military equipment and other defense products, the availability and raising of the capacity for their release...

4) data in the field of intelligence, counterintelligence and special investigative activities:

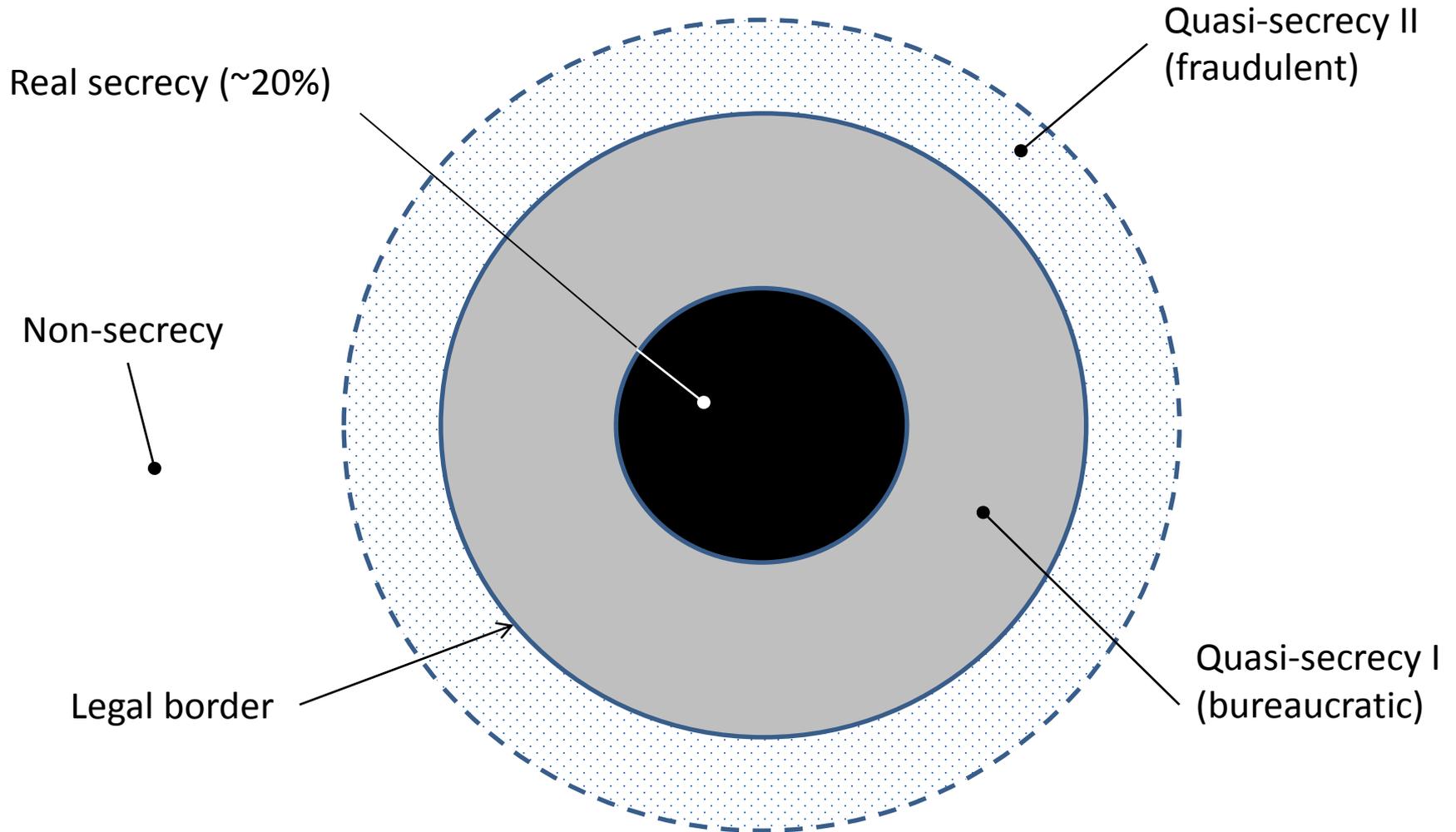
...
on the federal budget expenses related to the provision of defense, national security and law enforcement activities in the Russian Federation;
...

List No 2

Presidential Decree No 1203 (November 30, 1995)

The list of data referred to state secrets

The structure of secrecy



Economic effect, 1776

“...A **monopoly** granted either to an individual or to a trading company, has the **same effect as a secret** in trade or manufactures. The monopolists, by keeping the market constantly understocked by never fully supplying the effectual demand, sell their commodities much above the natural price, and raise their emoluments, whether they consist in wages or profit, greatly above their natural rate.”

Source: Adam Smith (1776), An inquiry into the nature and causes of the wealth of nations. London.

Social nature, 1843

“The general spirit of the bureaucracy is the secret, the mystery, preserved inwardly by means of the hierarchy and externally as a closed corporation. To make public the mind and the disposition of the state appears therefore to the bureaucracy as a betrayal of its mystery.”

Source: Karl Marx (1843), Critique Hegel's Philosophy of Right.

Late Russian Empire experience, 1906

“Appointed on various administrative areas, secret assignments unwittingly cast doubt on their accuracy, appropriateness and legality. Secret assignments allow operate under cover of special secrecy to such bodies of public administration, in which according to essence of their function can be nothing of secret. Such, for example, are the Department of Agriculture, the Department of the State Land Property, Ministry of Education, General Directorate of Excise Taxes.”

Source: Avinov (1906).

Late Soviet experience, 1988

“The totals on defence of the country until 1988 were considered as secret of exceptional state importance, and limited circle of people (leadership of the USSR State Planning Committee, and not even all the members of the Politburo) was familiar with them. Figures were not allowed to print in the typing pools, and they were inserted in printed documents manually by the authorized persons.”

Source: Maslyukov and Glubokov (2005).

The recent lessons learned, 2012

January: “[To take] a fresh look at the problem of the relationship between the public and private items of the military budget.”

Vladimir Komoedov, Chairman of State Duma’s Defence Committee

February: “...the situation calls for innovative approaches towards the principles underlying the exchange of information and the revision of obsolete approaches to the protection of state secrets.”

Vladimir Putin, then the Prime-Minister of Russian Federation

April: “I happen to come across almost every day when visitors bring me for signing all kinds of papers, completely opaque. Because it really is not clear who will do, how will do, and, of course, the whole of them are also classified. One can only hope in the good faith of the employee. It is time to put things in order there...”

Dmitry Medvedev, then the President of Russian Federation

April: “And most importantly, because of the so-called secrecy we do not give the possibility to a potential partner coming from the private sector to understand the scope of services and the volume of production, which makes the entire military-industrial complex.”

Dmitry Rogozin, vice-premier on defence sector

State secrecy vs. statistics

1925

Decree of the Central Executive Committee and the Council of People's Commissars of the USSR "About espionage, as well as on the collection and transfer of **economic data** that are not subject to publication"



Wassily W. Leontief leaves USSR and then develops input-output analysis (I-O tables)

1995

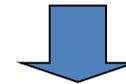
Rosstat develops basic input-output tables for **220** industries of Russian economy according to UN 1993 SNA and is going to publish the tables for **110** industries



Russian Ministry of Defence using the Interdepartmental Commission on Protection of State Secrets limits the tables to **24** industries

2011-2015

Rosstat develops basic input-output tables for year 2011 (**298** industries and 642 commodities) and is going to publish the tables in late 2015 for **188** industries and 338 commodities



What we'll see in 2016 after intervention of the Interdepartmental Commission on Protection of State Secrets?

Situation in Russian official statistics

1. Development of basic input-output tables for 2011 (2009–2015)
2. Publication of detailed accounts for 57 industries in National Accounts of Russia since 2010
3. To facilitate development of basic input-output tables for 2011 Rosstat conducted pilot survey of manufacturing costs in defence sector in 2010-2011 according form 1-SR
4. Publication of breakdown of final expenditure by government in National Accounts of Russia since 2012
5. Rosstat in June 2012 became independent from the Ministry of Economic Development
6. Implementation of SNA 2008 will require major adjustments in reports of Federal Treasury according to international standards of Government Finance Statistics

Conclusions

1. The growth of secret share in federal budget expenditure should be explained by “victory” of Russian Military-Industrial Complex. We’ll see will be this victory Pyrrhic or not
2. In the same time according to the Law “On State Secret” Russian budgetary “secrets” can be exposed at no cost (except bureaucracy’s resistance) what will pave way to really open budget with secret share in expenditure below 1%
3. Significant improvement in the quality of defence budgeting can not be achieved without putting the Russian official statistics on the level of world standards, which can not be expected before 2017