

# **Proceedings**

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Edited by

M. Peter van der Hoek

Erasmus University (Em.), Rotterdam, Netherlands

Academy of Economic Studies, Doctoral School of Finance & Banking,  
Bucharest, Romania

and

University of Electronic Science and Technology of China, Chengdu, China



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## Contents

List of contributors	iv
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### PAPERS

1. State retail sales tax productivity: identifying economic, legal, and administrative influences on c-efficiency ratios across the American States <i>John Mikesell</i>	1
2. Unstable convergence or regional convergence clubs? New evidence from panel data <i>Mariusz Próchniak and, Bartosz Witkowski</i>	22
3. Participation in local government decisions as the fundamental right of citizens <i>Livijo Sajko</i>	61
4. Laws, secrecy and statistics: recent developments in Russian defense budgeting <i>Vasily B. Zatsepin</i>	88
5. Optimization of Tax Policy in Strengthening The Small Medium Enterprises Sector in Indonesia <i>Aprilia Nurjannatin, Atika Florentina, Cindy Miranti, Clinta Natasa Depari and Dita Puspita</i>	110
6. Crisis phenomena in the process of formation of a market portfolio <i>Vigen Minasyan</i>	136
7. The career women: reconciling work and family lives <i>Mridula Gungaphul and Hemant Kassean</i>	162
8. 'It's a pleasure' - Is the local population resonating with the branding of Mauritius? <i>D. Nandoo, H. Kassean and M. Gungaphul</i>	175
9. Labor Market and Guidance <i>Eva Nagy and Gyula Filep</i>	188

## 4                    **LAWS, SECRECY AND STATISTICS: RECENT DEVELOPMENTS IN RUSSIAN DEFENSE BUDGETING**

Vasily B. Zatsepin<sup>†</sup>

Russian Presidential Academy of National Economy and  
Public Administration, and Gaidar Institute for Economic Policy,  
Moscow, Russian Federation

### **ABSTRACT**

*Russia's political leadership is going to spend more than Rb 20,000 billion till 2020 on armaments program assuming that this injection would modernize and diversify the economy. My doubts about the attainability of the goal are not related directly to the inability of the industry to manufacture arms for that amount, but to the quality of the budget process itself. There is a list of novelties of questionable quality in budgetary matters which make not only defense budgeting but all federal finance system more prone to money waste and corruption. My arguments are based on Budget code and federal laws' analysis, public statistics, publications in mass-media, and data of Open Budget Survey 2012.*

### **4.1. INTRODUCTION**

On April 14 the Stockholm International Peace Research Institute (SIPRI) published its Fact Sheet (Perlo-Freeman and Solmirano, 2014) of trends in global military expenditure in 2013 which is traditionally published prior to the SIPRI Yearbook in July (SIPRI 2013). According to the Fact Sheet, global military expenditure fell last year for the second consecutive time over the last 15 years. The fall was more significant (1.9%) than a year ago (0.5%) in real terms, and global military expenditure amounted to \$1.747 trillion, or 2.4% of global GDP.

In spite of Russia has lost its leadership in growth rates of military expenditure in a group of 15 countries with high absolute figures as it was in 2012, Russia's military expenditure increased in 2013 according to SIPRI data by 4.8% – or to 4.1% of GDP. It was underscored that Russia's "military burden exceeded that of the USA for the first time since 2003" (Perlo-Freeman and Solmirano, 2014).

So Russia (5.0% of global military expenditure) caught up with the United States (37% of global military expenditure) in the military burden on the

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<sup>†</sup> E-mail: [zatsepin@iep.ru](mailto:zatsepin@iep.ru).

economy, which is not the occasion for rejoicing. While President Obama believes that US military expenditure can be reduced to 2.4% of GDP by 2023 (OMB 2013: 191), beginning with a 6% reduction in 2012, the Russian Government has steadily accelerated its defense procurement implementing the State Armament Program for 2011-2020, under which it was planned to spend Rb 21.5 trillion (or \$767 billion at 2011 exchange rate) (Zatsepin, 2011).

However, the practice shows that there is a very big difference between ambitious plans of rearmament and their implementation, which cannot be smoothed away by reports behind closed doors as used by Russian deputy prime-minister Dmitry Rogozin:

Speaking of presidential series, as for what these financial statistics conceal in terms of specific weapons systems, military and special-purpose equipment, Mr Medvedev, I would like to tell you about this in private (Transcript, 2013).

Prime-minister Dmitry Medvedev himself being then the president of the Russian Federation (RF) has admitted in connection with defense budgeting that “at present many aspects are completely hazy” (Transcript 2011). Two years have passed and by this time he - as prime-minister - acknowledges the same again in connection with total budgetary situation:

...it is such a hazy situation really: everything looks almost good, on the other hand there are problems in the development caused by external factors and internal ones. I said justly in an interview that the budget really has the pre-crisis character. This is not a crisis budget, but the pre-crisis one (Transcript 2013a).<sup>1</sup>

The “haziness” mentioned by Dmitry Medvedev for years takes on a special meaning. Yet, if one attempts to look for answers about the nature of this haze and its origins, it then seems that all of it is the immediate result of actions of the Russian state authorities, the president and government themselves. Therefore it is worth to look more closely on the haze’s internal clockwork and immediate effects.

The paper is structured as follows. It starts with a short overview of recent developments in Russian budgeting (Section 4.2). Then contradictory interconnection between budget openness, state secrecy and law is addressed (Section 4.3). A nexus between drawbacks on the side of official statistics and quality of management in Russian defense sector is treated in Section 4.4. I conclude that exaggerated bureaucratic secrecy can effectively be cured by means of statistics and that better statistics and improved budgetary transparency could help Russia to get up from its institutional trap that prevents it from catching up with developed countries.

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1. Translated by the author.

## 4.2. RECENT DEVELOPMENTS IN RUSSIAN DEFENSE BUDGETING

The mentioned pre-crisis character of current Russian budget has its roots in political decisions of years 2010-2011 when new state armament program for years 2011-2020 with fivefold increase in spending was signed and almost threefold raise in compensations for military personal approved. Then in September 2011 Dmitry Medvedev himself asserted that:

...regardless of anything else, both myself as Commander-in-Chief and my colleagues will always stand behind prioritizing spending on defense, new weapons, compensation for service members, their daily lives and their apartments as part of the government's efforts. We cannot have it any other way (Transcript, 2011a).

Making this thesis a general moral commandment ("...this is an imperative"), he built it on the premise that, "we will always have very high spending to support defense and security (however sad that might be for our budget); frankly, that is our mission with regard to our people and to our neighbors" (Transcript, 2011a) and associated that with such factors as the size of Russia's territory, its seat on the UN Security Council, and its nuclear arsenal.

Sadly, not only do the fruits of the then president's intellectual voltage force one to question his logic (at least, as far as Russia's mission with respect to its neighbors is concerned) and the accuracy of his factoring into the effect of relevance and signs of factors, but they proved being in a direct conflict with articles 23 and 112 of the National Security Strategy of RF until 2020 (NSS), which he personally approved two years before. The Strategy does not at all refer to military expenditures as one of major national security priorities or major characteristics of the state of the national security. Meanwhile, unlike "strategic national priority", the concept of "prioritizing spending on defense" has not been codified in the document at all.

Medvedev's simple-hearted reference to "prioritizing spending on defense" is not saved even by the moral pillar of the imperative and reference to Russia's "special mission". His failure to understand the concept of optimal balance manifested in NSS or his ignorance of it simply means the traditional preference to the great-power status over an increase in the citizenry's well-being, the necrosis of investment resources and decline in economic growth rates in the long run.

But not only policy has led to the current state. Russia's budgeting procedures themselves contributed significantly to that as well, being in transition since the adoption of Budget Code in 1998 with most recent major revisions in 2007 (Kraan et al., 2008) and 2013 (Federal Law, 2013).

The form of the revisions directed officially on implementing medium-term budgetary planning in public finances has devastating effects on its transparency. Despite a change of previously used ‘Publicity (Glasnost)’ in the heading of article 36 of Budget Code to the new term ‘Transparency (Prozrachnost)’ the transparency itself and consequently budgetary accountability have fallen as first victims of the novelties.

Even the form of presentation of federal budget itself has changed fairly substantially – to the extent that from officially published texts of the respective federal laws have been excluded usual annexes with breakup of appropriations across sections and subsections of the expenditure classification. Because of this doubtful innovation by the RF Ministry of Finance the law on the federal budget now gives no chance to know a full volume of budgetary appropriations not only on defense and security, but amazingly, on almost all other government functions except environmental protection.

So in the last five years one had to resort to the use of only secondary data: an explanatory note to the government's draft of the federal budget, a Russian Federal Treasury's monthly report on the implementation of the federal budget in January of the budget year and official resolutions on budget law from Defense Committee of the State Duma etc. The only good side of this was that the data were quite open. But the height of absurdity was achieved in the end of 2012 when both November resolutions of the Federal Assembly's Committees relating to the final version of current year's budget did not contain for the first time in the last five years the full amount for defense appropriations, showing only its redistribution (Decision, 2012; Resolution, 2012). The marked deterioration of the situation regarding transparency of Russian defense budgeting occurred after the public statement made in January 2012 on the intention of Vladimir Komoedov, the newly elected chairman of the Defense Committee of the 6th convocation of the State Duma, to take “a fresh look at the problem of the relationship between the public and private items of the military budget” (Miranovich, 2012).

Time series for the share of secret expenditure in the RF federal budget in 2008-2014 are shown in Table 4.1.

The very fact of existence of secret expenditures in most divisions and subdivisions of classification of the budget expenditures of the federal budget excludes completely the possibility of a correct analysis of the budget in general, which, unfortunately, is not always comprehended even by prominent Russian economists who have a pronounced tendency to scrutinize only public part of the budget (Delyagin, 2011).

**Table 4.1. Secrecy in Russia's federal expenditure, 2008-2014 (% classified)**

Code and title of division and subdivision <sup>a</sup>	2008	2009	2010	2011	2012	2013	2014
1	2	3	4	5	6	7	8
Total federal expenditure	11.9	10.0	10.5	11.7	11.7	13.9	16.7
0100 GENERAL PUBLIC SERVICES	8.7	5.1	4.8	9.8	11.4	9.5	9.2
0106 Operations of financial, tax and customs agencies, financial (financial and budget ) oversight agencies	–	–	–	–	–	–	0.0 <sup>b</sup>
0108 International relations	–	–	–	–	–	–	0.0
0109 State material reserve	90.2	85.0	85.1	86.6	86.8	87.2	87.7
0110 Basic research	1.0	0.8	0.3	1.0	2.7	1.2	0.7
0114 Other issues, general public services	4.4	1.6	1.1	1.3	1.3	2.3	3.1
0200 NATIONAL DEFENSE	46.1	48.1	46.4	46.9	47.6	52.6	58.8
0201 Armed Forces of Russian Federation	39.0	40.2	39.0	40.9	41.2	48.3	54.3
0204 Preparation for economic mobilization	100.0	100.0	100.0	100.0	100.0	100.0	100.0
0206 Nuclear-weapons complex	100.0	100.0	100.0	100.0	100.0	100.0	100.0
0208 International obligations in military-technical cooperation	100.0	100.0	100.0	100.0	100.0	80.1	79.8
0209 Applied research, national defense	93.2	92.9	91.3	92.2	94.5	94.1	94.2
0208 Other issues, national defense	29.2	34.6	42.0	36.8	44.9	41.9	53.8
0300 NATIONAL SECURITY AND LAW ENFORCEMENT	31.8	30.8	32.1	32.5	23.3	27.4	29.0
0302 Internal affairs bodies	5.0	3.7	4.3	3.9	3.4	3.8	4.3
0303 Interior troops	10.3	8.2	8.3	7.9	4.6	4.5	5.4
0304 Agencies of justice	–	–	–	–	–	–	0.0
0306 Security services	99.1	99.6	97.1	99.6	99.6	99.7	99.8
0307 Border service bodies	100.0	99.5	98.6	99.1	99.1	99.6	99.9
0308 Agencies for control over the circulation of narcotics and psychotropic substances	–	–	–	–	–	–	0.1
0309 Prevention and liquidation of consequences of emergency situations and natural disasters, civil defense	51.4	51.0	51.3	47.0	42.6	40.7	38.6
0313 Applied research, national security and law-enforcement activity	75.5	79.4	92.1	86.0	85.9	91.4	82.4
0314 Other issues, national security and law-enforcement activity	56.3	68.4	67.9	78.3	13.6	12.3	85.3
0400 NATIONAL ECONOMY	0.6	0.6	1.6	1.8	2.4	4.9	5.2
0410 Communications and information technology	–	–	–	–	–	1.6	2.0
0411 Applied research, national economy	5.8	4.5	5.6	11.9	14.2	18.2	23.0
0412 Other issues, national economy	0.3	0.7	4.5	1.9	2.3	8.5	10.0
0500 HOUSING AND UTILITIES SECTOR	7.0	10.1	19.3	14.2	6.6	11.0	11.1
0501 Housing sector	16.0	12.9	20.8	20.7	8.5	21.3	24.1
0600 ENVIRONMENTAL CONSERVATION	–	–	–	–	–	–	0.1
0605 Other issues, environmental conservation	–	–	–	–	–	–	0.1

Table 4.1 (continued)

	1	2	3	4	5	6	7	8
0700 EDUCATION		2.6	3.1	3.6	4.0	3.2	4.3	4.7
0701 Preschool education		2.5	2.5	3.9	3.9	4.4	4.5	2.6
0702 General education		2.0	2.8	3.5	0.4	0.2	0.5	1.5
0704 Secondary professional education		0.9	–	–	–	–	–	0.0
0705 Retraining and professional improvement		1.8	2.5	9.4	17.4	8.6	6.2	2.9
0706 Higher and post-graduate professional education		3.1	3.6	4.1	5.2	4.1	5.2	5.3
0709 Other issues, education		0.3	0.5	0.6	0.3	0.4	0.4	0.9
<i>0800 CULTURE, CINEMATOGRAPHY, AND MASS MEDIA</i>		0.2	0.2	0.2	–	–	–	–
0800 CULTURE AND CINEMATOGRAPHY		–	–	–	0.1	0.1	0.1	0.1
0801 Culture		0.1	0.1	0.1	0.1	0.1	0.1	0.1
<i>0804 Periodical press and publishing houses</i>		2.6	3.1	3.6	–	–	–	–
<i>0900 HEALTH, PHYSICAL CULTURE AND SPORT</i>		4.1	3.5	3.0	–	–	–	–
0900 HEALTH		–	–	–	2.7	2.4	2.7	2.9
0901 In-patient medical care		3.2	2.8	2.4	2.3	2.0	1.8	1.7
0902 Out-patient medical care		13.9	4.3	3.8	2.9	3.1	4.2	4.4
0905 Sanatorium and health-improvement care		14.1	15.9	10.7	11.1	10.8	12.1	14.0
0907 Sanitary and epidemiological well-being		2.1	0.6	0.6	0.7	1.4	0.8	0.8
<i>0908 Physical fitness and sport</i>		0.4	0.3	0.6	–	–	–	–
<i>0910 Other issues, health, physical culture, and mass media</i>		1.7	1.1	1.0	–	–	–	–
0910 Other issues, health		–	–	–	0.4	0.4	0.3	0.6
1000 SOCIAL POLICY		–	–	–	–	0.1	0.1	0.0
1003 Social security		0.0	0.0	–	–	0.4	0.3	0.1
1004 Family and child welfare		–	–	–	–	–	–	0.0
1100 PHYSICAL FITNESS AND SPORT		–	–	–	0.3	0.2	0.4	0.3
1101 Physical fitness		–	–	–	62.0	41.6	9.1	9.8
1200 MASS MEDIA		–	–	–	0.3	0.3	0.4	0.4
1202 Periodical press and publishing houses		–	–	–	3.5	3.5	4.6	5.5

Note: a – current budgetary functional classification, the previous classification is shown in italics; b – under 0.05%.

Sources: 2008-14 planned budget data (for 2008-13 with all amendments).

Since the autumn of 2007 errors in understanding, transmission and use of budget information caused by its unjustified classification have become widespread among Russian politicians, economists and journalists. In due course, these errors began to appear also in newspapers and journals (the author has spotted more than 10 such cases in autumn 2012 publications alone) and then



found their way into some textbooks (Moiseev, 2010: 418) and even scenarios of economic development (Grigoriev, 2012: 28). And sometimes one can get a feeling that even the Russian prime-minister has access only to the public part of RF Ministry of Defense (MoD) budget (Zatsepin, 2012).

**Table 4.2. Russian military expenditure, 2008-2013**

	2008	2009	2010	2011	2012	2013
1	2	3	4	5	6	7
<i>Panel A (billions, constant Rb; base year = 1999)</i>						
DefEx (outlays)	137.9	143.0	141.7	148.8	149.5	153.3
DefEx (budget)	136.7	143.5	141.9	150.9	152.3	153.9
DefEx (outlays/budget. %)	101%	100%	100%	99%	98%	100%
DefEx outlays growth (1999=100%)	119%	124%	123%	129%	129%	133%
MilEx (budget)	189.9	209.0	210.2	216.9	218.7	217.9
<i>Panel B (as percentage of GDP)</i>						
DefEx (outlays)	2.5	3.1	2.8	2.7	2.9	3.2
DefEx (budget)	2.5	3.1	2.8	2.8	3.0	3.2
MilEx (budget)	3.5	4.5	4.1	4.0	4.3	4.5
SIPRI <sup>a</sup>	3.3	4.1	3.8	3.7	3.9	4.1
<i>Panel C (billions, current Rb)</i>						
DefEx (outlays) <sup>b</sup>	1,040.8	1,188.2	1,276.5	1,516.0	1,812.3	2,103.6
DefEx outlays change (year-on-year, %)	25%	14%	7%	19%	20%	16%
DefEx (budget)	1,031.6	1,192.9	1,278.0	1,537.4	1,846.3	2,111.7
MilEx (budget)	1,433.8	1,736.6	1,893.6	2,209.9	2,651.3	2,990.6
<i>Panel D (billions, current US \$)</i>						
DefEx (outlays)	72.6	83.6	81.5	87.0	97.9	110.5
DefEx (budget)	71.9	83.9	81.6	88.3	99.7	111.0
MilEx2 (budget)	100.0	122.1	120.9	126.9	143.2	157.2
<i>Auxiliary statistics</i>						
GDP <sup>c</sup> , billions, current Rb	41,276.8	38,807.2	46,308.5	55,644.0	61,810.8	66,689.1
Deflator of collective consumption expenditure by government (%)	122.7%	110.1%	108.4%	113.1%	119.0%	113.2% <sup>d</sup>
Purchasing power parity, Rb/\$	14.34	14.22	15.66	17.42	18.52	19.03 <sup>e</sup>

Sources: a – SIPRI, 2014; b – Russian Federal Treasury; c – Rosstat; d, e – own estimations.

There is no doubt, that the asymmetry of information corresponding to the misunderstanding shown above supports observed growth of Russian military expenditure, which pretends by this to be too small at least in the eyes of Rus-

sian citizens. Of course, this weak militarization effect does not work abroad where Russian military expenditure is under longstanding scrutiny of not only many governmental agencies, but also of international organizations, among which SIPRI plays an outstanding role.

Compiled in the Gaidar Institute since 1999, statistics of Russian military expenditure (Gaidar Institute, 2014) are shown for the years 2008-2013 in Table 4.2: *DefEx* – expenditure according to division 0200 “National defense” of budgetary classification, and *MilEx* – military expenditure according to (UN, 2011). Note that in contrast to previously published time series for 1999-2007 (Zatsepin, 2007:53) expenditure on subdivision 0306 “Security services” of budgetary classification and everything related to civil defense are excluded on all time span since 1999 in an effort to harmonize national statistics with the latest international practices (UN, 2011).

One more question concerns Russian military expenditure on sub-national levels of budgetary system. Contrary to prevalent opinion in international financial organizations like expressed in (Kraan et al., 2008: 47), there are quite visible efforts (Kochergin, 2014) on regional level to support local industry mobilization and reserve military training (Table 4.3).

**Table 4.3. Military expenditure in consolidated budgets of the RF subjects, 2008-2013 (Rb million, current)**

Code and title of subdivision	2008	2009	2010	2011	2012	2013
0201 Armed Forces of Russian Federation	<u>0.3</u> 0.3	–	–	–	–	–
0202 Modernization of Armed Forces of Russian Federation and military units	<u>1.0</u> 0.5	–	–	–	–	–
0203 Mobilization and reserve military training	<u>1,797.9</u> 1,702.2	<u>2,116.0</u> 2,021.6	<u>2,003.7</u> 1,958.4	<u>2,250.0</u> 2,187.3	<u>2,366.7</u> 2,316.4	<u>2,506.5</u> 2,444.7
0204 Preparation for economic mobilization	<u>1,137.2</u> 1,063.9	<u>1,045.4</u> 989.7	<u>1,298.4</u> 1,247.8	<u>1,351.2</u> 1,266.3	<u>1,781.0</u> 1,689.1	<u>2,343.1</u> 1,935.1
0208 Other issues, national defense	<u>0.7</u> 0.5	<u>4.4</u> 4.4	<u>&lt;0.1</u> <0.1	<u>2.7</u> 2.7	<u>3.2</u> 3.0	<u>3.2</u> 2.9
0303 Interior troops	<u>0.3</u> 0.3	–	–	–	–	–

Source: Russian Federal Treasury.

Note: Numerator – budget, denominator – outlays.

But this expenditure cannot be simply added to that of the federal budget because of a possible double counting error due to inter-budget grants’ effect as shown for 2011 in (Rosstat, 2012:27) where consolidated outlays on national defense are about Rb 2.3 billion less than those derivable by direct summation. According to Rosstat’s year-books and Federal Treasury’s reports in the

period since 1998 federal transfers (from Rb 0.1 to 2.5 billion) to local budgets are observed only in 2005, 2008, and 2011-2013. Their real mechanics is still unclear and seems just an additional aspect of Russian budgetary haziness.

Beside expenditure on national defense and national security on sub-national level there existed practice of social grants from Moscow's city government to Sevastopol's municipality in Ukraine through "Moscow-Sevastopol" foundation to support families of Russian Black Sea fleet's seamen and veterans. According to Voronov (2011) in 2004-2011 Moscow city has spent on this Rb 950.0 million. Newly appointed mayor Sergei Sobyanyin has made an attempt in 2011 to cease the program as too hazy, but was allegedly restrained from Kremlin. And according to laws on the Moscow city budget in years 2012-2013 the resumed spending amounts to Rb 70.6 and 77.6 million correspondingly, but through a new channel – this time it is state unitary enterprise "Moscow's Centre of International Cooperation", not the mentioned foundation.

Both this kinds of expenditure on sub-national level are negligibly small relative to Russian military expenditure on federal level and have mostly symbolic significance for internal policy only (Kochergin, 2014).

A similar symbolic significance, but this time on level of the Union state with the Republic of Belarus, has Rb 507.2 million spent in RF in 2008-2012 according to combined military infrastructure development program funded through Union state's budget (Kuz'mitsky and Bogomolov, 2013). RF MoD's share in Union state's budget for year 2013 amounts to Rb 29.3 million (Union state, 2013).

The most recent revision of the Budget Code (Federal Law 2013) according to a basic idea of its proponents in the Russian government should introduce in power long awaited program budgeting. And so major revamping of used budgetary system lies ahead. Some visible caveats can be made. First, according to Russian finance minister Anton Siluanov the previous major revamping of budgetary system to medium-term planning in 2007 gives actually nothing:

... we have a three-year budget and practically no one takes advantage of the three-year budget, and the situation is even worse in the second and third years of the three-year period. As of today, only 9.9% of the transfers for the second and third years were distributed for 2014 and 8.9% for 2015. Whatever happened to the three-year contracts that we are talking about? In reality, no one signs them (Transcript, 2013a).<sup>2</sup>

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2. Translated by the author.

Second, there is negative experience with state armament programs, which are used in Russia to fail in every of its goals (Cooper, 2012: 174), but still too many people in Russia do not see any link between efficiency and transparency. So the country moves to program budgeting without success stories and lessons learned in the most important and longstanding of existing programs, which increases risks.

And third, the last year's attempt to work out a program structure for budgetary system looks quite disastrous (Minfin, 2012): 31st program "Ensuring the country's defense capability" should amount Rb 1,088.4 billion in 2013 (i.e. half of budget division "National defense"). So other half of Russia defense expenditure supports some other state programs (and goals), what is a quite spectacular result of this first program budgeting implementation. Evidently at best, that the rest may fall on unlucky state armament program.

Further details can be added after some analysis of program participants and sources. Among 38 ministries and other governmental agencies participating in that program only seven have their budgets from division 0200 "National defense". The rest 31 should use for Russia's defense capability Rb 10.7 billion in total from other functional divisions of federal budget expenditure – from 0100 "General public services" to 1200 "Mass media". How to treat this quite modest amount is still not clear, but complete vanishing of the 31st program from updated version of state programs published on 14 May 2013 (Minfin, 2013) is noteworthy itself. At the same time, the situation could be admittedly more serious because in developing Russia's Defense Strategy have participated 49 ministries and agencies (Transcript, 2013b) rather than 38.

### **4.3. SECRECY VERSUS OPENNESS AND LAW**

The most recent amendments of the federal budget for 2013 according to (Decision 2013) are shown above in Tables 4.1 and 4.2 (only total and defense expenditure). Specific haziness in these changes becomes apparent just by comparing announced reduction of expenditure in division 0200 "National defense" by Rb 6.5 billion to implicit increases in the secret part of total budget expenditure by Rb 12.9 billion. Of course, this phenomenon should be explained by reallocation of expenditure in favor of the state defense order i.e. the state armament program, which in Russia is almost completely hidden. And the tendency in it is quite clear (Table 4.4) if to extend data series from Table 4.1 and to take into account planned expenditures according to federal budget for 2014-2016 (Federal Law, 2013a).

Knowing the tendency one could be surprised by Russia's gain in Open Budget Index 2012 to 10<sup>th</sup> place (74 points) from 21<sup>st</sup> (60 points) two years ago (IBP 2013). And despite that an alternative appraisal (Zatsepin, 2013)

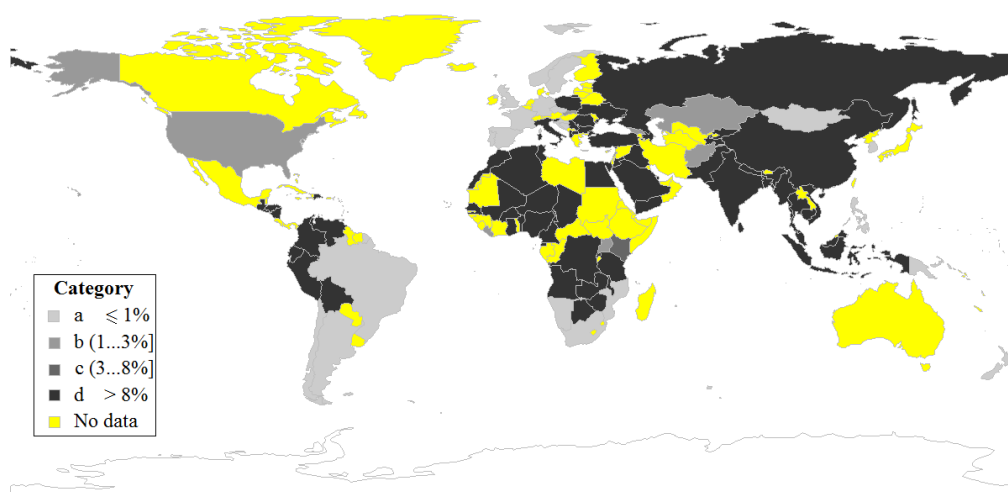
shows more appropriate ranking for Russia with 34-35<sup>th</sup> places (54 points) shared with Ukraine behind another our neighbor Georgia (32-33<sup>rd</sup> places with 55 points), one should appreciate efforts of International Budget Partnership because their comprehensive database (IBP 2013a) has allowed at last to look on budgetary secrecy all over the world and to do comparative international measurement (Figure 4.1).

**Table 4.4. Share of secret expenditure in Russian federal budget and economy, 2010-2015 (% classified)**

	2010	2011	2012	2013	2014	2015	2016
Federal budget expenditure, total	10.5	11.7	11.7	13.9	<i>16.7</i>	<i>21.2</i>	<i>24.8</i>
GDP	2.0	2.0	2.3	2.8	3.2	4.1	4.7

Note: In *italics* as planned.

**Figure 4.1. Percentage of secret expenditure in budgets of central governments throughout the world, 2012<sup>3</sup>**



Of course, the question arises how can the country's ranking in Open Budget Index grow simultaneously with growing secrecy in its budget? One can only hope that this contradiction will be resolved during the next Open Budget Survey in 2014.

In case of Russia's budgetary secrecy the main driving factor is well known bureaucratic secrecy (Aftergood, 2009: 402) with a longstanding tradition. Russian state budget was published for the first time only 150 years ago after special efforts by finance minister Michael von Reutern. In spite of that in the very beginning of 20th century a contemporary has observed:

3. The choropleth is produced in R with packages *XLConnect* and *rworldmap* and using data from (IBP, 2013a).

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 (Avinov, 1906: 23).<sup>4</sup>

After October 1917 the secrecy was partly relaxed in some of administrative areas including state finance but soon reinstated (Bone, 1999: 68). And the tendency has developed to absurdity in late 1980s. Yury Maslyukov, a head of the Soviet military-industrial commission and Gosplan in Mikhail Gorbachev's times has acknowledged:

The totals on defense 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 (Maslyukov and Glubokov, 2005: 50).

Of course, the collapse of the USSR in 1991 has too many factors but such absurd secrecy in military spending seems now one of the main (Harrison 2009), likening the Soviet leaders to car drivers with tied eyes. In the early post-soviet period of new Russia's history some lessons were learned and until 2007 transparency and accountability in Russian defense budgeting have slowly but almost steadily improved till medium-term budgetary revamping. And one could not say that the problem with mismanagement of secrecy in the defense sector as a whole and in military expenditure particularly remains unnoticed by the Russian leadership.

Besides the above mentioned failed attempt of State Duma's Defense Committee's Chairman Vladimir Komoedov (Miranovich, 2012), questions on the subject were raised in 2012 at least two more times. First, in Vladimir Putin's article on defense and security published in February:

...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 (Putin, 2012).

Second, almost two months later in April, on a meeting of the Open Government working group the subject of secrecy was touched upon about 10 times by three of the meeting's participants, one of them was then acting President Dmitry Medvedev himself:

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4. Translated by the author.

...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, and, of course, the solutions must change the nature of the relationship between the Ministry of Defense, the developers of military equipment and manufacturers as well (Transcript, 2012).

But all this was before the change of presidents in office on May, 7th 2012. After Putin's return to the helm of state, none of the ideas expressed in February and April have appeared in his inaugural executive order on the improvement of public administration (Executive Order, 2012). Of course, one can explain that as an effect of the march on Bolotnaya square a day before, but most likely we have here some 'speechwriter's effect' – when the idea written in Putin's text in February was just not known (or seems not reasonable enough) to the Executive Order's writer(s) two months later.

But the most specific feature of the problem of the Russian budgetary secrecy is that its solution does not require any new executive orders or new laws but only to overcome the centuries old national bureaucratic disease called 'misinterpretation of laws' (in Russian: 'prevratnoye tolkovanie zakonov']). It can be shown (Figure 4.2), that despite a quite clear legal conflict of article 4 of Law "On State Secrets" with article 29 of the Constitution which leads to two different lists of legally secret data, in the Russian federal budget the secret expenditure can be in divisions "National defense" and "National security and law enforcement activities" only on intelligence, counterintelligence and special investigative activities.

Classification of expenditure of state defense order comes out from fraudulent or negligent bureaucratic collusion (do not matter explicit or implicit in the case) what is proved by Russian budgetary practice of 2003-2005 when appropriate data on state defense order was published as individual annex to the Federal Law on federal budget.

#### **4.4. STATISTICS OF DEFENSE SECTOR**

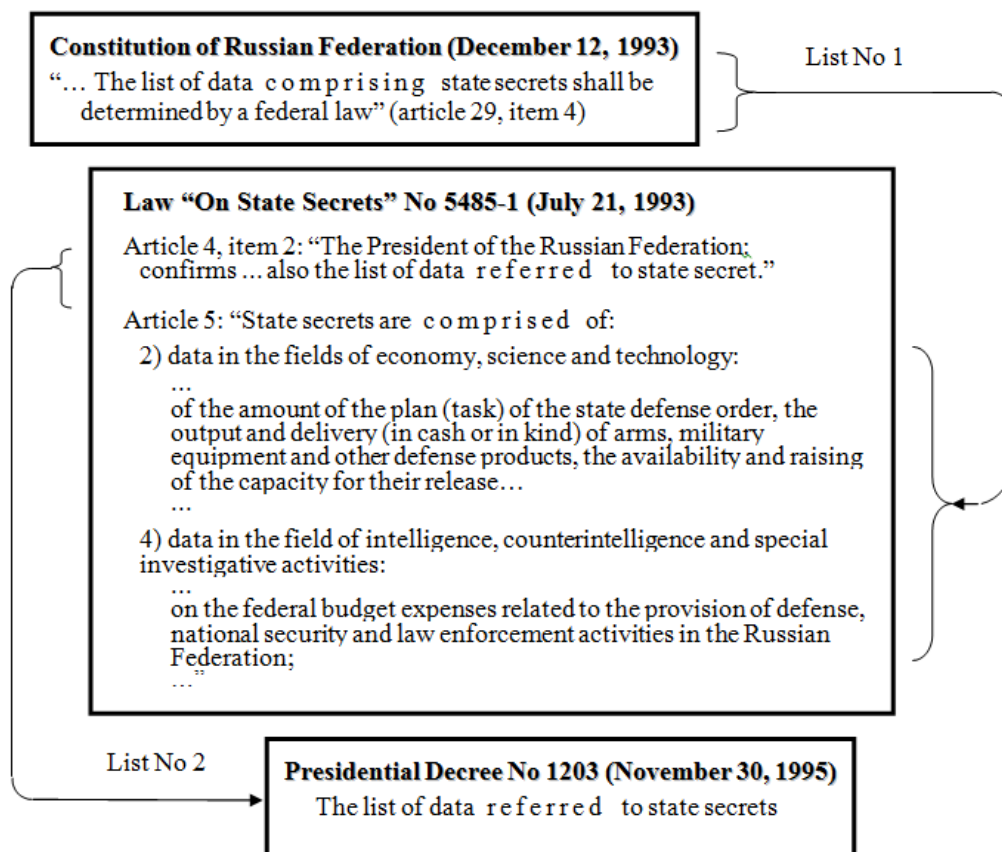
One of the first victims of redundant secrecy in Russia is official statistics of defense sector. It is indicative that serious distortions present even in such simple figure as quantity of enterprises in defense sector.

So, Yury Borisov, then first deputy of the Chairman of the Military-Industrial Commission under the RF government, has claimed last year before the State Duma that in defense sector:

...the number of bankrupt corporations is down by one-third. It can be argued that the situation has stabilized in this respect, thanks to the very drastic increase

in the volume of the defense order over the past three years. The outflow – the fall in the number of enterprises, which recently accounted for some 5-7% annually – has decelerated today, and now the situation has stabilized (Transcript, 2012a).

**Figure 4.2. Russian secrecy legal framework**



One can call into question the kind of statistics used by the Military-Industrial Commission for statements before the State Duma and what time span is covered by 'today' and 'now'. According to officials who bear a significant responsibility for the MIC's advancement, between March 2011 and April 2012 the number of corporations included in the consolidated register of enterprises in defense sector tumbled from 1,729 (Transcript 2010) to 1,353 (Transcript 2012b), i.e. less 21.7% over the two years in question, or by an average annual 11.5%, or nearly twice as much as the figures used by Borisov in the State Duma.

The data collected by the RF Ministry of Industry and Trade in accordance with the Federal Plan of Statistical Works does not add much clarity either. As Igor Karavaev, the Deputy Minister, claims that there has been over 1,300 enterprises of defense sector in the country employing over 1.3 million (Nakanune.RU 2012). Several days later one of his subordinates reckoned that



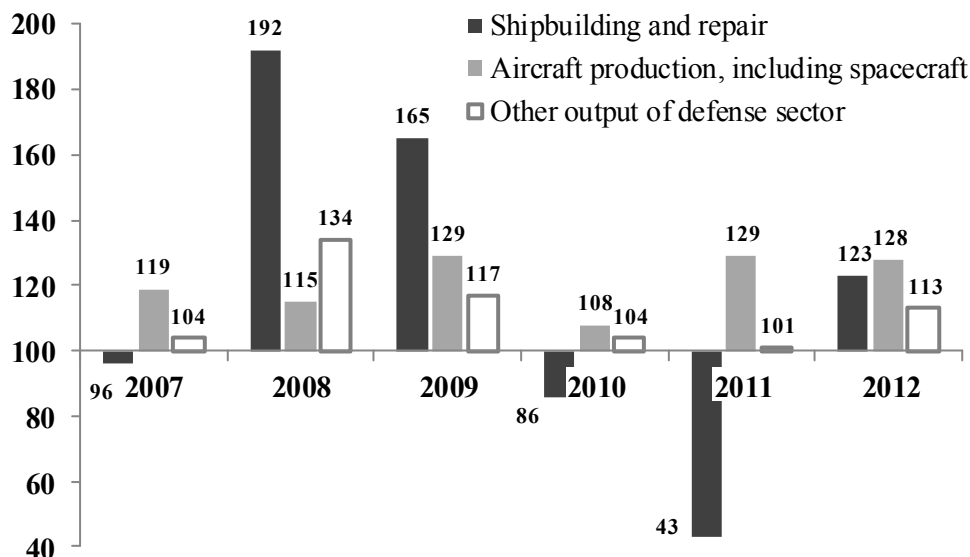
the number of employees in the defense sector was about 2 million (Ryazantsev, 2012). It is impossible to judge whether the word “aggregate” in the latter update is indeed meaningful without checking the RF Ministry of Industry and Trade’s statistical data tagged as classified; however, the 700,000-strong difference is quite remarkable.

No questions would be asked, had the Ministry concerned, as well as Rosstat, been published aggregate data by all the federal statistical observation forms (including 1-PO, 1-SR and M-GOZ). Alas, this is impossible at present juncture, as these data are hidden from, and not available to, both outsiders and, given the situation with the aggregate numbers of enterprises and the number of their employees, the leadership of the Russian defense sector. There is no conundrum about this, as the Ministry of Industry and Trade has no statistical division. No doubt, statistics are collected there – data from the classified aggregate register of defense sector enterprises can be purchased from affiliated close corporation, but statistics-wise, our defense sector’s administration bodies generally are a failure. There is nothing new about this, unfortunately – during WWI, the Special Commission on State Defense established its own Statistical Bureau only “thanks to vigorous pressure on the part of our former allies who nearly mocked us for the absence of badly needed statistical data“.

So, not surprisingly, when it comes to defense sector, the decision making style a-là russe implies largely ‘debates’ (Putin, 2012), aka ‘discussions’ (Transcript, 2010). To better discern its effects for a distant year of 2020 (until then it is planned to spend from federal budget Rb 20 trillion on the state armament program and another 1.8 trillion – on modernization of defense sector), as well as for the recent crisis period of 2008-2009 which saw the injection of Rb 120 billion (equivalent of 0.3% of 2009 GDP), it appears appropriate to examine detailed statistics of national accounts published by Rosstat since 2010 (Rosstat, 2013: 220).

As shown by the dynamic of gross value-added deflators (Figure 4.3), the extra aid the Government provided to the defense sector in the form of subsidies, purchases of equity and enterprise bail-outs mysteriously concurred with a significant price rise: e.g. shipbuilders increased their prices three-fold over the two crisis years, while aircraft and conventional arms manufacturers’ appetite proved more modest and their price tags mirrored a ‘meager’ 150% price increase.

**Figure 4.3. Deflators of gross added value across Russian defence sector's branches, 2007-2012 (Rosstat, 2013: 220)<sup>5</sup>**



After the aforementioned abnormal price rise for shipbuilders' production during the crisis, the Joint Shipbuilding Corporation's bold refusal to disclose the price structure of its produce to the MoD may have a pretty banal explanation: it is just impossible to give a rationale for its prices (at least, without having investigative agencies involved).

The Russian leadership's confidence in massive financial injections in the defense sector being capable of starting the mechanism of innovation-based economic growth was hammered in the above debates and appears insufficiently grounded in the Russian case:

Technological breakthroughs in individuals sectors related to the defense industry could not affect the general trend: because of closeness of this sphere, achievements were not used beyond it. This contrasts the US's practice of transferring solutions and ideas from military-industrial complex to the civil sector (Tsedilin, 2012: 110).

In this connection, certain optimism is buoyed by Rosstat's efforts to develop new basic input-output tables for 2011. By late 2015 the agency is going to publish the tables covering 185 industries and 337 commodities (Mikheeva, 2011: 143). If successful, the undertaking will enable Russia to have by 2020 a state armament program grounded on a solid statistical basement, provided that the Interdepartmental Commission on Protection of State Secrets, which

5. Other output of defense sector includes according (Rosstat, 2013) processing of secondary raw materials (sic!), production of nuclear materials, manufacture of explosives, weapons and ammunition.

once banned publication of the detailed 1995 input-output tables, will not step in.

#### 4.5. CONCLUSION

There is no better remedy to ultra-secrecy than statistics: annual public accounts by the Interdepartmental Commission on Protection of State Secrets on the number of new classified and declassified documents, publishing in federal budget allocations on operations of agencies that protect state secrets and on extra allowances to civil and military servants engaged in operations with classified data can become a first step of a long way.

At this point, an alarm bell is a total and utter absence of authorities' efforts in this respect: after the nation's leadership fairly shrewdly admitted the challenge in 2012, there have been no subsequent activities, while the Executive Order No. 601 on public administration simply omitted the matter (Executive Order, 2012). But lost time is never found again, and despite visible efforts to establish the Foundation for Advanced Research one should count on the fact that prevailing Russian mentality appears protective, rather than pioneering. Plus, tendencies in the current domestic policy do not seem to encourage either, despite all the pep talk about transparency and Open Government.

As for the aggressive rhetoric practiced by the national military-industrial complex establishment, it is just a proof of absence of an adequate appreciation of the challenges it is currently facing, the prevalence of unprofessionalism in the organization of public administration, and the authorities' genetic propensity to Soviet-style agitprop methods.

It is just better statistics and a whole lot of budgetary transparency, which would enable Russia to successfully close the gap with global leaders.

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