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The Economics of Disarmament and Arms Control through the Gorbachev era

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ABSTRACT

The paper examines the economic crisis in the Soviet Union and in this context analyses why arms control was so important from the Soviet point of view. It further discusses the organic relationship between disarmament and development, and rounds off with a case for conversion of Soviet military economy. The 'administered' economy of the Soviet Union was in glaring contrast to the 'market-economies' of the West. Unlike the Soviet type command economy, the Western capitalist economy had capital-intensive production, private proprietorship, competition between firms, production for the market and global reach.

Keywords— *Gorbachev, Soviet economy, military expenditure, disarmament, arms control, defense expenditure, defense industry, military spending, conversion*

1. THE SOVIET ECONOMIC SCENCE

The Soviet economy has for seven decades been a 'command' economy where the decisions for the whole economy were made by centrally controlled administrative bodies. The state monopolized all the decisions, it determined the quantity of goods to be produced, the prices were fixed by it, and also, the type of goods to be produced. This 'administered' economy of the Soviet Union has been in stark contrast to the 'market-economies' of the West. Unlike the Soviet type command economy, "the economy under capitalism has the following features: capital-intensive production, private ownership, competition between firms, production for the market (for exchange), wage labor and the extraction of surplus value or profit".¹

In reviewing Soviet economy, it was evident that it had undergone rapid industrialization since the late 1920s which transformed a "backward agrarian country into a powerful industrial state."² It accounted for over 20 percent of world industrial output, as against 3-4 percent in the pre-revolution days.³ This development could not be matched in other areas. Extensive deployment of the available economic assets yielded good returns, which in the long run backfired. The average annual economic growth rate began to slow down, it fell from 5.1 percent in 1971-75 to 3.1 percent in 1981-85.⁴ Failure to switch over to intensive exploitation of the economic assets was one of the major reasons for this downward trend in economic growth. The common complaint in the Soviet Union was that the essential commodities were in very short supply or sometimes not even available. Soviet Union was thus, witnessing the classic economic exposition --- too much money chasing and too few goods.⁵ Forecasts about further deterioration in the economic front are now common. And this was not without some justifications.

In the 1970s, the Soviet Union said that its economy grew 5.3 percent a year, but the Central Intelligence Agency (CIA) reported that the growth rate was only 3.7 percent. These figures have been dismissed by the Soviet economist Grigori Khanin⁶ as being too high. He puts the growth rate at 2 percent. Whereas, in the first five years of the 1980s, the economic growth was dreadfully low. The prominent Soviet economist, Abel Aganbegyan, who was then the economic advisor of Gorbachev, confirmed in 1988 that "in the period from 1981-1985, there was practically no economic growth".⁷ These shortcomings were exacerbated by the fact that the grain production in the Soviet Union is very low. It was supposed that "a Soviet farmer can feed between 7-9 people on an area of land from which a Dutch farmer could extract food for 1124".⁸ One of Gorbachev's worst nightmares were the empty shelves in the Soviet stores. Since 1965, consumer goods output rose less than 1 percent a year. And since 1985, it was falling by 3 percent a year.⁹

The more the resources were diverted to military preparations, the less there were for other things including investments in education and technological innovations, activities that contribute to economic growth and the bedrocks of economics and social development in the wider sense. Theoretically, if military expenditure retards growth, investment or productivity or both are likely to be adversely

affected. In Soviet Union, as elsewhere in capitalist economies, there was a negative relationship between military expenditure and economic growth, more so when the military expenditure was associated with large outlays on military research and development (R & D) and on extensive military- industrial capacity. Military expenditures and investment competed for the available non-consumption resources. In strictly economic sense, the output of the military sector can neither be consumed nor invested. In a relatively static economy with slow growth, military expenditures will exert severe inflationary pressures across a wide front. Further, a heavy emphasis on military technology tends to retard technical progress in the areas of economics activity not directly related to the military effort. In Soviet Union it was the negative effect of resources being diverted to the military sector has coupled with a static economy, that has led to the downward trend of economic growth.

2. ECONOMICS OF DISARMAMENT

The structural weaknesses of the Soviet economy were contrasted by the “highly effective defence establishment which, because of its overriding priority has first call on the best available resources, to the detriment of the more mundane sectors of the economy.”¹⁰ The increasingly sluggish performance of the Soviet economy, in spite of its tremendous industrial potential and highly skilled manpower, could be perceptively seen in the negative relationship between defence expenditures and the rate of economic growth. Military preparations are an immense economic growth. In a centrally-planned economy, the decision to invest or otherwise was not a problem since the portion of output which was not to be invested was translated to effective accumulation. Hence, in such condition it was imperative that to “expand arms production it is necessary to divert workers and means of production away from other activities.”¹¹ The choice between “guns and butter” and “swords and ploughshares” in such a situation became evident. This implies that it was necessary to sacrifice some activities to increase arms production. In other words, diversion of resources to military expenditure from other expenditures was necessary to maintain the fluctuating demands of armaments.

The military spending became a heavy burden on the Soviet economy and the Soviet leadership was anxious to reduce the military expenditure. It was an obvious fact that disarmament was intertwined with progress. Disarmament was a unique way to free the immense resources diverted to the arms race and re-channel the same for hastening social and economic development. This was clearly reflected in the new political thinking of the Soviet leader, Gorbachev. In the political report of the 27th Congress of the CPSU, Gorbachev emphasised the “elaboration of principles for utilising part of the funds released as a result of a reduction of military budgets for the good of the world community...”¹² The historical reasons for disarmament to end the arms race and easing the economic troubles were again being recognised, thanks to the spirited and bold diplomatic initiatives taken by Gorbachev. The Soviet leadership acknowledged that the burden of defence expenditures was colossal. N. Baryshnikov, a *Gosplan* official, said in 1964, that “our national income is 65% of the US. Yet it is obvious that we cannot spend less than the US does on national defence.... This means the defence burden of our country is much greater than that of the US.”¹³

3. ESTIMATING SOVIET DEFENCE EXPENDITURE

The Western specialists differed in their estimations regarding the Soviet defence budget. One school of thought believed that the defence budget of the USSR covered “the cost of weapons, ammunition, technical equipment, fuel, food and other equipment supplied to the armed forces, military schools, ... pay of those employed, and the financing of capital construction.”¹⁴ Whereas, Kaser¹⁵ suggested a different view, he opined that only non-capital procurement that was covered in the defence budget go the Soviet Union, while pay and other costs are covered in the undesignated parts of the state budget. The divergent interpretations concerning the Soviet defence budget was because of the fact that secrecy obscured the actual expenditure on defence and related fields. The Soviet budget statistics were “the most impenetrable”¹⁶ and thus lead to many conflicting hypotheses aimed at studying the budget estimates of the Soviet Union. This had given opportunity to the western specialists to make “a variety of estimates of Soviet military spending... each based on different assumptions and serving different purposes.”¹⁷

In the absence of any concrete official data regarding the Soviet military spending, the western scholars based themselves on two conventional methods aimed at estimating the Soviet National Security Expenditures (NSE) in roubles: the direct-costing approach of the Central Intelligence Agency (CIA) and the Stanford Research Institute (SRI) method developed by Stanley Cohn. The direct-costing approach of the CIA “purports to tell the policy makers how much the Soviets are spending in roubles... by counting weapons, pricing them in dollars, and then converting dollars to roubles by estimated rouble/dollar conversion ratios.”¹⁸ Stanley Cohn, on the other hand, accepted the published ‘Defence’¹⁹ appropriations and ‘Science’ expenditures as total USSR outlays for NSE and for civilian research and development (R & D). According to Cohn, the ‘Defence’ appropriation covered all Ministry of Defence (MOD) outlay, excepting for (R & D). He believed that 50-100 percent of the budget appropriations to ‘Science’ represented all military R&D and space outlays in the USSR.²⁰

The most commonly accepted and used estimated of Soviet military spending were those presented by the CIA, though it was acknowledged that the direct-costing methods adopted by the CIA had a 10-15 percent range of error. It was less than 35 percent range of error assigned to SRI method of Stanley Cohn.²¹ Moreover, it was argued “that so-called ‘other expenditures’ of national income contain current material expenditures of the defence industry rather than the total cost of weapons.”²² This ‘hidden expenditure’ of the military sector disregarded exports of weapons which were clubbed with Soviet national accounts together with export of civilian goods. Consequently, if the above hypotheses were accepted, the total defence expenditure was much more than what the CIA estimated through its direct-costing method. According to a CIA estimate, “the Soviet defence burden increased from 12-14 percent in the early 1970s to 15-17 percent in the early 1980s.”²³ The former US National Security Adviser, Zbigniew Brzezinski²⁴, put it at 19 percent of its total national output. According to him, this figure was divulged by Edward Shevardnadze in a discussion with George Schultz, then US Secretary of State. If factual, this figure of 19 percent exceeded the estimated figure given by the CIA which claimed that the Soviet Union was spending around 15-17 percent of its gross domestic product (GDP) on military.²⁵ Nevertheless, drawing inferences from this number was fraught with danger; the actual military expenditure calculated

from this figure varied considerably, depending on the measure of national output used, that is, whether rouble or dollar figures were being used as well as on the exchange rates needed for converting figures from one currency to another.

Western scholars expressed serious reservations as far as dependence on Soviet figures²⁶ are concerned, which could be influenced by the Soviet authorities to disguise the figures they would like to hide. On the other hand, the estimates provided by the CIA had also drawn fair amount of criticisms, mainly directed at the CIA's dollar estimates of Soviet defence spending, since they are intended to allow comparisons with US military expenditure. The figures provided by the CIA came under severe scrutiny after 1976 'doubling', when the CIA doubled its estimate of the rouble value of the Soviet military budget because, according to CIA, the previous rouble estimates of the Soviet defence expenditure had been undervalued by almost 50 percent. The revisions of the cost estimates were performed in-house by CIA analysts and involved a review of all Soviet defence activities. The explanation provided by the CIA for the revised estimate was that the percentage of Soviet Union's gross national product (GDP) going to defense programs were larger because the efficiency of the defence sector was much less than previously believed to be.

4. SYMBOTIC RELATION BETWEEN DISARMAMENT AND DEVELOPMENT

Departing from the usual practice of being secretive about the country's military spending, Gorbachev became the first Soviet leader to announce, "that the country's current military spending stood at 77.3 billion roubles (Rs 1,625 billion)..."²⁷ In his report to the Congress of People's Deputies he disclosed that "in 1987-88 it was frozen, saving 10 billion roubles."²⁸ In a major departure from the past the Soviet President declared that in 1990-91 the military spending would be slashed by another 10 billion roubles or 14 percent and "urged the Supreme Soviet to review the issue in line with domestic considerations."²⁹ The candidness *vis-a-vis* the military spending was progressively linked with the new political thinking unleashed by Gorbachev. Indeed, the conditions in the Soviet Union, after the great expectations raised by *perestroika* and *glasnost*, was such that secrecy prevailing until then had become superfluous". "... the Soviet Union under Gorbachev's leadership realised the implications of ... Development first, presumably because the stagnation in the Soviet economy was more pronounced than that in the US and Western countries."³⁰

A close interrelationship, both politically and economically, between disarmament and development was perceptible. The concept of disarmament for development was based on the realisation that real disarmament might stop or greatly reduce the huge waste of resources on war preparations. Disarmament released additional material and intellectual opportunities for accelerating social and economic development. In Soviet Union, the arms race had a tremendous negative impact on its economy. "Its best brains (have been) devoted to defence R&D (since) the cold war has cut off the Soviet Union from access to Western technology and put various constraints on trade and financial flows which would have contributed to its economic growth."³¹ The process of restructuring in Soviet Union was fundamentally associated to the peace offensive launched by Gorbachev. Given the bad shape of the Soviet economy it was necessary that real resources, that is, monetary, manpower and R&D were released from the military section. Gorbachev's civilian economic reform programmes³² were technology - intensive. To achieve this, Soviet Union needed enough resources. For example, it was estimated that every year 20,000 dollars were spend on a single soldier.³³ These resources could be used to the advantage of the Soviet Union's general economic health and dynamism, which were "pre-requisites for sustainable military might."³⁴

At the Third special session on Disarmament in New York in 1988, the Soviet Foreign Minister Edward Shevardnadze "pointed out that the disarmament measures the Soviet Union had taken, had already released considerable resources for the internal social development."³⁵ But at the same time it was emphasised that the initial expenses that were to be incurred during the elimination process of various weapons would be considerable. Albeit, in the long run the advantages that would accumulate from disarmament would outweigh the money spent during the various stages of elimination. "... more money could be saved because of not having to fund the training and maintenance of the military personnel servicing these weapons."³⁶ The INF Treaty provided the opportunity to the Soviets to remodel the various military trucks, tractors and other special towing vehicles according to the needs of the civilian industries. One of the Soviet enterprises, the Odessa Tractor Plant, in 1988 joined hands "with a Swiss West German company, 'Liebherr' (to) covert SS-20 missiles transports vehicles' chassis into giant mobile telescopic cranes."³⁷ In some of the factories which were earlier producing missiles and defence items were now being used to produce "high quality and chronically short-supplied consumer goods like washing machines, fridges, bicycles."³⁸ Moreover, highly skilled workers, technicians, engineers and scientists could now use their skill in the development of the economy by productively participating in various civilian sectors. The resources from military R&D could be effectively used in the civilian industries and factories. The "substantial savings of financial, material and labour resources.... will greatly offset the initial expenses."³⁹

5. DEFENCE SPENDING AND DÉTENTE

According to the CIA estimates the annual rate of growth of defence spending in the Soviet Union declined to about 2 percent during 1977-83 from 4-6 percent during 1965-76, calculated in constant 1970 roubles.⁴⁰ Coupled with this decline was the dwindling of the procurement of military hardware, which "levelled off during 1975-82."⁴¹ This resulted in maintaining the share of Soviet defence spending in the declaring Soviet GNP at roughly 12-14 percent during 1977-82.⁴² According to Desai, the Soviet "urgings for a return Detente" was a strategy of a return to external borrowing and importation of credit financed knowhow".⁴³ She perceived a logical relation between the confrontational atmosphere during the first Reagan administration and the normalized relations between the two superpowers in the latter half of the 1980s. Desai and Balbir Sihag indicated that "productivity of the imported equipment is substantially higher than that of the domestic equipment, but by a more plausible factor ranging up to five time (by deploying) general production function, and an augmented data set."⁴⁴

Although, it is difficult to draw inferences from the substantial initiatives taken by Gorbachev in the field or arms control, it can be safely presumed that there was more of earnestness of approach rather pollinations to outwit the Americans and its allies in a bid to partake technical know-how from the west. Even the western scholars accepted that the Soviets were not lagging behind as far as

modern technologies were concerned. The advances made by the Soviet Union in the field of armaments and military R&D were enough evidence of its capability to match the west in science and technology.⁴⁵ Détente, on the other hand, allowed the Soviet Union to overhaul its economy. Moreover, it provides for the elimination of the strongest motive for aid to the friendly countries. Indeed, the Soviet Union now became a heavy borrower of funds. No wonder, Gorbachev found it necessary to state that “the Soviet Union was ready for inclusion of its economy in the world economy on a mutually beneficial and equal basis.”⁴⁶

6. THE IMBROGLIO

For years, the Soviet defence sector competed with civilian heavy industry. In the process it received a substantial share of metallurgical products and a much larger share of machinery. The defence industry and the armed forces limited the growth of the civilian labour forces, with the former taking the major share of the highly skilled manpower.

The “opportunity costs of defence,”⁴⁷ which, otherwise could have gone to the society, have been extremely high for the USSR. A top ranking Soviet social scientist, N.N. Inozemtsev has acknowledged in 1979 that “the Soviet Union, possessing a total economic potential that is less than the USA, has been able.... to achieve equality and parity with the USA in such a vitally important sphere as strategic areas.”⁴⁸ Naturally the opportunity costs of defence is much higher for USSR than in the USA. Moreover, due to slow economic growth in the seventies, the opportunity costs of Soviet defence activities had increased considerably.

Due to the high cost of defence at a time of slow growth of national income, the Soviet Union is undergoing a major capital scarcity. This had endangered the Soviet industries in general. In a supply-constrained economy, like that of the Soviet Union, aggregate demand was too high relative to total output, and, the resources devoted to the military had to be at the expense of some other category of national expenditures. In the Soviet Union, the consumer sector thus increased level due to the arms race between the arms race between the super powers. Hence, any economic reform aimed at increased consumption had to entail reductions in the defence budget. The interrelationship between Soviet domestic economic liberalization and international security concerns was emphasized by the Foreign Minister Eduard Shevardnadze as, “the main thing (is) that the country not incur additional expenses in connection with the need to maintain its defence capacity and protect its legitimate foreign policy interests.”⁴⁹

It follows from the discussion that the general economic repercussions of defence spending were substantial. Exposure to the negative effects of the lasting arms race was massive, as also to the damage emanating from high-quality resources being absorbed by defence. The burden of defence decelerated economic growth and thus narrowed the physical framework for comprehensive satisfactions of the needs and requirements of the general public. It blocked manpower that was urgently required for economic development.

7. A CASE FOR CONVERSION OF MILITARY ECONOMY

Conversion of military economy concerned “the release and utilization of resources currently being consumed by the arms race for peaceful purposes.”⁵⁰ This process had an important bearing on the ability of a nation to participate in any reversal of the arms race. The INF Treaty provided an opportunity to implement conversion measures effectively. A military economy needed the support of a large material and manpower resources, which inevitably created “a special interest group that is tied to the continuation or expansion of military economy.”⁵¹ As far as the Soviet Union was concerned the military economy was different from the civilian economy in that the former got precedence which governed access to every kind of supply for enterprise operation. The managers and engineers of civilian sector were at a relative disadvantageous position *vis-à-vis* the powers and privileges of the managers and engineers of Soviet military enterprises. In the USSR, in contrast to the US and other industrialized West European nations, the industrial reconstruction after the second world war saw an emphasis on heavy industrial base and a collateral military economy. This priority had an important bearing on the civilian industry and its relation to the military and allied heavy industry base.

Growing military spending demanded a large supply of labour resources to provide for both larger armies and military industrial expansion. This called for a reallocation of manpower from the civilian sector. But disarmament released a large number of manpower which could be productively utilized in the civilian sphere. Inga Thorson, in a United Nation sponsored study of the socio-economic effects of disarmament, said that, “On the key issue of employment, there is, Persuasive evidence that virtually all possible alternatives to military expenditure and production will result in at least as many and, in most courses, more jobs being created.”⁵² The jobs lost by general disarmament measures would, in the long run, be compensated by those created in the non-military spheres. For a country, like the Soviet Union, which was undergoing labour shortages, the employment effect of curtailing military expenditures will be equally beneficial.

“Conversion, far from entailing unemployment, is an active counter-agent to unemployment, a powerful job-creating catalyst.”⁵³ As it stands, the dialectics of global development led humanity to the conclusion that it was dangerous, and even impossible, to advance the economy while speeding up the arms race. Thus, it was an obligation to put a stop to ever-increasing expenditure on armaments and channelize them into people’s everyday needs. The extant arms race consisted of sophisticated weapons of mass-destruction on which billions and billions of dollars (or roubles) were squandered. Economically speaking, expenditures on the arms race created relatively few additional jobs. Conversely, employment in the military sectors led to job losses in the civilian sectors. In Soviet Union (or for that matter in all other socialist countries) reduction in the size of armaments was a welcoming feature. In a socialist economy there was no private capitalist who were in the business of arms production. All such production was carried out totally at state-owned plants and, hence, no groups or individuals had any stake in the maintenance of an arms industry. Since many branches of the Soviet economy were perennially short of skilled labour, it would have economically beneficial to divert this skilled manpower to the civilian sectors. As Konobeyev points out, “As soon as the prospect of an agreement on arms reductions became a reality the Soviet State Planning Committee (*Gosplan*) would be able to start planning the necessary measures. Its plans would evidently

specify the main lines of the conversion of each defence industry with due regard to the likely requirements of the economy for the post-conversion period.”⁵⁴

Conversion has neither been too complex a process nor by any standards an idealistic dream. Naturally it entailed a series of measures in the technological economic and social spheres, which was not likely to affect the economy negatively. It was pointed out that what would have to be done in the course of converting arms production was constantly taking place, in effect, in the various civilian branches. Actually, in the post-war years, quite a handful of the Soviet defence industry was associated in the production of civilian goods. The end product was generally of a good quality. Consequently, now it called for a greater deployment of the defence establishments in the civilian sectors.

All these evidences demonstrated that conversion was a sustainable stratagem and would not be an impediment to the economy or threaten greater redundancy. Rather “conversion would enable humanity to gradually shed the socio-economic yoke of militarization and to release the resources, that are presently being squandered, for the benefit of all humanity.”⁵⁵ Conversion was an economic component of disarmament and, hence, would be essential in the event of reversal of arms race. As regards Soviet Union, it was not difficult to decide on the types and items of alternative production, given the large market for various industrial goods and services needed by the population. Consequently, overcoming temporary snags and outlays that was likely to be involved, conversion was carried out on a major scale to benefit the humanity and improving the international climate.

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- [4] Mukerjee, *Ibid*. p. 26. Gorbachev in his address delivered to the 27th Congress of the CPSU stated that “the targets for economic development set in the CPSU Programme, and even the lower targets of the 9th and 10th five year plans, were not attained. . . . we had failed to produce a timely political assessment of the changed economic situation, that we failed to apprehend the acute and urgent need for converting the economy to intensive methods of development and for the active use of the achievements of scientific and technological progress in the national economy . . . the economy continued to develop largely on extensive basis (XXVII CPSU Congress: CPSU Congress: Documents and Resolutions, New Delhi: 1986, p. 29).
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