PREPARATORY COMMITTEE FOR THE
INTERNATIONAL CONFERENCE ON THE
RELATIONSHIP BETWEEN DISARMAMENT
AND DEVELOPMENT
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MILITARY SPENDING AND ECONOMIC STRUCTURE, WITH REFERENCE
TO CENTRALLY-PLANNED ECONOMIES

Contribution by the Institute for World Economics and
International Relations, Moscow
INTRODUCTION

1. In its resolution 40/155 of 16 December 1985, the General Assembly approved the report of the Preparatory Committee for the International Conference on the Relationship between Disarmament and Development. 1/ Paragraphs 19 and 20 of that report requested the Secretary-General of the Conference, inter alia, to update existing materials, to prepare background papers and bibliographies, and to compile information and an analysis relevant to the work of the Conference, including succinct papers on the three substantive items on the agenda. Those have already been published as information papers A/CONF.130/PC/INF.3 to 8.

2. In addition, paragraph 20 of the report stated that the "preparation of a number of other new documents and papers, on a strictly selective basis, might be necessary. In this connection, the Secretary-General of the Conference should make full use of the United Nations system and also be free to consult acknowledged expertise in the field". It should also be noted that a statement by the Secretary-General of the United Nations, contained in document A/C.5/40/52, "anticipated that approximately five research papers would be required".

3. In keeping with the above, the Secretary-General of the Conference, in consultation with the members of the Bureau, invited the Institute for World Economics and International Relations to prepare a contribution on military spending and economic structure with reference to centrally-planned economies, which is reproduced in the annex to the present document. The views expressed in the paper are solely those of the Institute.

Notes

Annex

MILITARY SPENDING AND ECONOMIC STRUCTURE WITH REFERENCE TO CENTRALLY-PLANNED ECONOMIES

By the Institute for World Economics and International Relations, Moscow

1. The contemporary world economic situation convincingly demonstrates that the arms race, absorbing as it does enormous resources and exerting a negative influence at all levels of social and economic life, is increasingly in conflict with the rules and requirements of normal economic development of individual countries and of the world as a whole. Policies aimed at exacerbating tension and settling international problems by armed force are the principal obstacle to the normal development of the global economy and of international economic co-operation. The stepping up of the arms race, especially the nuclear arms race, and the dangerous plans for the militarization of outer space divert vast resources needed for social and economic development. The arms race has become a colossal economic burden for mankind: hardly a country on earth has not, directly or indirectly, felt its negative influence. Countries with planned economies are no exception to that rule.

2. In the light of the arms race that has been thrust upon the countries of the socialist community, the Union of Soviet Socialist Republics and its allies have been compelled to respond with the measures needed in order to maintain their defence capabilities at the necessary level. This, of course, involves diverting a considerable amount of resources. However, the USSR does not allocate a single rouble more for such purposes than is absolutely necessary to ensure the security of the Soviet people, its allies and its friends.

3. The leaders of the Communist Party of the Soviet Union (CPSU) and of the Soviet State have repeatedly pointed out that the USSR is not striving for military superiority and considers that in order to guarantee security it is essential to maintain approximately equal military strength while lowering the level of military confrontation.

4. As was once again emphasized in the political report of the Central Committee of CPSU to the twenty-seventh Congress: "Genuinely equal security in our time is guaranteed not by the maximum but by the minimum level of strategic balance, from which it is essential completely to exclude nuclear and other types of weapons of mass destruction."

5. The inclusion of a military sector in the economic structure of socialist society is foreign to the very nature of socialism, whose ideal is a world without violence or weapons. However, from its very beginning, the first socialist State had to set up military production in order to defend the achievements of the October Revolution. The Second World War called for the maximum mobilization of the economic resources of the USSR in the interests of gaining victory over the Fascist aggressor. During the war years, both the absolute and the relative scale of military consumption increased sharply. Whereas in 1940, 15 per cent of the national income was assigned for military purposes, by 1942 that share had risen to ...
55 per cent. a/ The complete subordination of the country's military economic capacity to the interests of victory and also the enormous damage suffered by the national economy in the territory that was temporarily occupied had a substantial effect on the industrial and territorial structure of the Soviet economy during the Second World War and altered the traditional pattern and practice of a socialist country of subordinating economic decisions and allocations to the task of increasing the well-being of the population. During the "cold war" period, the USSR and the other socialist countries more than once found themselves faced with the necessity of taking measures to expand military production for the purposes of strengthening their national defence capabilities; inevitably, such measures impeded efforts to improve the standard of living of their people.

6. Because of the continuing threat of external military aggression, the military sector continues to function as a specific part of the national economic structure of the socialist countries; it is aimed at guaranteeing in economic terms the defence capabilities of socialism, and includes industries, enterprises and organizations participating in the development and the manufacture of weapons and military technology. In the face of the arms race which is imposed on them, the Soviet Union and the other socialist countries have to take account not only of purely economic but also of military considerations and interests to guarantee their defence and security when they are taking decisions on important economic questions, in particular, the scale of production capacity, the structure and geographical distribution of production, industrial specialization and organization along co-operative lines, the development of transport and communications, the training of specialists, and many other questions.

7. As is well known, the Soviet Union eliminated the nuclear monopoly of the United States of America in a very short space of time and was compelled to implement further effective measures to counter the growing military threat. With fewer overall economic resources available for that purpose than the capitalist States, the countries with planned economies were able to fulfil the historic task so vital for ensuring security and maintaining peace - that of achieving a strategic military balance between the USSR and the United States, between the member countries of the Warsaw Treaty and the North Atlantic Treaty Organization (NATO) as a whole.

8. The need to strengthen the defence infrastructure and maintain a reliable economic, scientific and technical basis for preserving the strategic-military balance has called for a considerable economic effort on the part of the socialist countries, and this had an impact on the structure of their economies.

9. In the interests of defence, the socialist countries are required to devote capital resources to the development of vital military branches of industry, and to the establishment and maintenance of an industrial, scientific and technical basis to ensure the necessary scale of production of such complex types of modern weapons and military technology as nuclear missiles, combat aircraft, warships and tanks.

10. In the socialist countries, military economic activities are organized and directed in accordance with principles that are fundamentally different from those that apply in countries with market economies.
11. In the capitalist countries military production is preponderantly carried out by private and above all very large military-industrial firms making up a nucleus of military-industrial complexes, which have become a powerful factor for expanding militaristic preparations. To further their own narrow interests, these military-industrial complexes strive to step up the arms race by all the means at their disposal, using increasing orders for and methods of pricing of military equipment to make super-profits. This explains to a large extent the enormous interest of military-industrial complexes in the implementation of the latest large-scale and costly military programmes, including those connected with the extension of the arms race in outer space.

12. Unlike countries with market economies, the socialist countries have neither social classes nor social strata nor professional groups that, from either an economic or a political standpoint, might be interested in continuing the arms race. The military production needed to reinforce the defence capability of the countries with planned economies is carried out by State enterprises, and the volume and nature of their output are established in direct accordance with the plans drawn up by the competent State organs.

13. State ownership of the means of production and centrally-planned management of the economy preclude the drawing of military production into the realm of profit and create the prerequisites for minimizing the cost of defence measures. Having no selfish interests of private ownership, a planned economic system allows the socialist countries to satisfy their defence requirements with the least possible detriment to socio-economic development.

14. A major purpose of the arms race, which was imposed on the socialist countries and is spiralling at steadily increasing cost, is to weaken and undermine their economies. Such plans are unrealistic primarily because they simply take no account of the above-mentioned and of other advantages of the socialist system of production, and that is why they incorrectly evaluate the military economic capacity of the socialist countries.

15. The principles behind the socialist system of maintaining a defence capability on an economic footing and the purely defensive nature of Soviet military doctrine make it possible to maintain strategic military parity at a relatively lower cost. Nevertheless, defence preparations have a considerable negative impact on the socio-economic development of countries with planned economies.

16. In the case of countries with planned economies, military production is an alien structural phenomenon uncharacteristic of the nature of socialism. Defence is a heavy burden for the socialist countries; it absorbs considerable human, financial, raw-material, energy and other resources. The channelling of such resources to military preparations eliminates the possibility of their being used productively and narrows the base for investment in the civilian sector of the economy.

17. Military expenditure is unproductive in nature; military output adds nothing to the economic potential of the State, since it falls outside the area of social production. It therefore follows that, from the standpoint of developing manufacturing potential, military spending is wasteful of society's limited resources.
18. Significant adverse consequences for the economy are linked to the expenditure of intellectual resources and the use of the achievements of science and technology to perfect weapons and maintain the military technical capability at a high level. Such compulsory expenditure efforts to step up holds back social production in the socialist countries through accelerated scientific and technological process. The manufacture of nuclear missiles and even conventional types of weapons is becoming an increasingly specialized sector of the economy. The production of up-to-date weapons requires, for example, technically advanced equipment and highly-qualified engineering and technological specialists and workers.

19. With respect to the dampening effect of defence measures on the economic development of the socialist States, it must be emphasized that the true economic cost of military expenditure consists not only in the diversion of valuable resources but also in the wasted opportunities for benefiting economically from their rational and productive use.

20. Defence efforts may be cited as one of the reasons why temporary imbalances and deficits have emerged in various sectors of the Soviet economy. Military expenditure gives rise to negative trends and difficulties in the socialist economy and has an unfavourable effect on its structure and the standard of technical facilities in individual sectors. It complicates efforts to perfect the structure of the economy, ensure its balanced development and eliminate emerging imbalances in the development of individual sectors and branches of production. Although the socialist economic system incorporates means of hindering the growth of such tendencies, it is not able to avert the various adverse effects of the arms race on the economic structure of States with planned economies, including its effect on the standard of living of the population.

21. Defence measures that divert considerable manpower resources, in particular highly-qualified members of the work force and engineering and technical specialists, to serve in the armed forces and to manufacture products for the military sector, aggravate, to a certain extent, the existing demographic problems of the USSR. The unfavourable demographic situation in the 1980s derives chiefly from the prolonged consequences of the huge population losses suffered by the Soviet Union during the Second World War. In these circumstances a reduction in military employment would be of great significance in providing personnel to meet a number of the needs of the USSR's economy. The socialist planning system affords the broadest possibilities, in the event of conversion of the military economy, to provide work for all the members of the work force thus released and to make effective use of them for peaceful purposes.

22. The very nature of socialism, together with the large-scale and long-term plans adopted by the Soviet Union to accelerate the country's socio-economic development through scientific and technical progress, determines the international strategy of our State, which is designed to ensure lasting peace, a halt to material preparations for nuclear war, a cessation of the arms race and disarmament. However, the transition to disarmament depends not only on the willingness of socialist countries to accept it but also on the position of Western countries.
23. Disarmament has in our time become one of the most important global problems affecting mankind, not only with respect to averting a nuclear catastrophe, but also to removing the heavy burden of growing military expenditure. The Soviet Union, together with the other socialist countries, has repeatedly put forward numerous concrete and realistic proposals for a curtailment of the arms race and a transition to disarmament. Among these, particular emphasis should be given to the latest peace initiatives of the USSR, put forward in the statement by the General Secretary of the Central Committee of CPSU, Mr. M. S. Gorbachev, of 15 January 1986, and further developed in the political report of the Central Committee of CPSU to the Party's twenty-seventh Congress.

24. The programme proposed by the Soviet Union for guaranteeing universal international security through disarmament is intended to deliver mankind once and for all from the threat of a nuclear catastrophe. The adoption of active measures to curb the arms race and reduce armaments is also an essential prerequisite for the solution of global problems that are growing ever more acute, such as the destruction of mankind's environment, the need to investigate new sources of energy, and the struggle against economic underdevelopment, hunger and disease. Mr. Gorbachev emphasized in his statement: "In place of the principle imposed by militarism - arms instead of development - the position must be reversed: disarmament for development."

25. With the adoption of workable measures relating to disarmament, practical expression would be given to the question of converting military production, i.e., of adapting it for the output of products of a civilian character. No credence should be given to assertions that disarmament would inevitably lead to a slump and increased unemployment. Naturally, to dismantle the established economic machinery of war would not be so simple.

26. However, past experience of conversion, together with research carried out by Western and Soviet scholars, demonstrates convincingly that conversion, although entailing certain complications, may in practice be effected without any serious adverse consequences either in socialist or in capitalist countries.

27. In the socialist countries State ownership of the means of production and the centralized, planned character of the economy afford a real possibility for the successful conversion of military industry and for the rapid transfer of resources from the military to the civilian sector, provided that the necessary economic balances are maintained. This is demonstrated by the experience of conversion of the economy of the USSR after the end of the Second World War. Even while the war was still in its closing stages, the Soviet Union began to rebuild the economy along peaceful lines. Conversion of the defence industry was carried out in a planned manner, without serious complications, and included such highly important measures as a reduction of military expenditure, increased capital investment in the economy, and redistribution of the work force, raw materials, materials and supplies, etc. Reconstruction of the country's economy along peaceful lines was already complete by 1946. In a short period of time, military enterprises were adapted for the output of civilian products, in an organized manner and with due regard for their specific character. Tank factories started to turn out tractors, locomotives, railway carriages and other products. Artillery factories were
converted for the production of excavators, presses, drilling equipment and rolling-mills. Corresponding changes also took place in light industry. Eight-and-a-half million members of the armed forces had been demobilized by the beginning of 1948. Courses to improve their skills or to teach them new trades were organized throughout the country.

28. The conversion of the defence industry of the USSR was not, of course, achieved without certain difficulties, but the measures taken by the Soviet Government allowed them to overcome. The total volume of industrial production had already exceeded its pre-war level by 1948. b/ By 1950, the gross domestic product of the USSR had increased almost twofold over that of 1945. c/ The conversion of the military economy was accompanied by rapid economic development and by a rise in the standard of living of the Soviet people.

29. The Soviet Union also has post-war experience of a transfer of resources from military to peaceful purposes. For example, in January 1960 the Supreme Soviet of the USSR passed a law relating to a further significant reduction in the armed forces of the USSR. d/ In accordance with this law 1.2 million persons were discharged from the army and the navy. At the same time, the Central Committee of CPSU and the Council of Ministers of the USSR detailed a whole series of measures designed to ensure the organized and smooth transfer of the discharged military personnel to civilian work. These carefully considered measures enabled the former military personnel to be provided with work in the civilian sector of the economy within a short period of time.

30. The means of production released as a result of the reduction in the armed forces were directed into various sectors of the economy, such as the establishment of new house-building combines and a considerable expansion in the construction of dwellings in the country.

31. In conditions of peace, the defence industry of the Soviet Union assists in the production of many consumer items, including television sets, refrigerators and washing machines. If military production were to be converted, it would be possible to switch defence enterprises over fully to the output of civilian products and, in particular, to the development of highly efficient types of machines and equipment, etc.

32. For the Soviet Union and the other socialist countries, disarmament would constitute a significant spur to socio-economic development and to the performance of the economy. It would permit more effective use of existing natural, material and financial resources, channelling of the resources released from the military sector into crucial areas of the economy and acceleration of the pace of its development, the allocation of significant additional investments for the solution of social problems, an improvement in the well-being of the population and a more complete fulfilment of the material and spiritual aspirations of workers in the socialist countries. A redirection of the efforts of scholars and engineering and technical specialists towards the acceleration of scientific and technical progress in the civilian sector could have an enormous economic effect.

33. The curbing of the arms race and conversion of the military economy are of vital interest to all countries, whether socialist, capitalist or developing.
34. If disarmament is achieved, the saving in resources will provide an opportunity for many countries significantly to increase investments in the civilian economy and thus to quicken the pace of its growth. The prerequisites would also be created for alleviating the tax burden and for broader financing of social programmes, which in many countries are at present subject to "economies" and are being sacrificed in favour of the stockpiling of armaments.

35. A curtailment of the arms race would also facilitate the solution of current global problems. It would provide substantial prospects for an increase in economic, scientific and technical aid to developing countries on the part of the highly-developed States, the reorganization of international economic relations along equitable and democratic lines and the establishment of a new international economic order.

36. With respect to the economic benefits that would be afforded by disarmament, particular emphasis should be laid upon the additional positive, cumulative effect on the economies of individual countries, and on the economy of the world as a whole, of such factors as an enhancement of the structure of the economy, an improvement in global economic links, non-use of economic links as an instrument of political pressure and a fuller exploitation of the advantages of the international division of labour and of economic co-operation among States. Naturally, the achievement of these goals would also require a comprehensive system of international economic security which would protect each State, on an equal basis, against discrimination, sanctions and other features of imperialist and neo-colonialist policies. Such a system, as is emphasized in the political report of the Central Committee of CPSU to the Party's twenty-seventh Congress, would, together with disarmament, constitute a firm basis for international security in general. The USSR would, in the future, attach particular importance to the convening of an international congress on problems of economic security, at which it would be possible to undertake a comprehensive discussion of all the problems obstructing global economic links.

37. It would be of considerable importance for curbing the arms race if an understanding were to be attained on preventing of an increase in, and subsequently reducing, military expenditures. In the post-war years, the USSR and the other socialist countries repeatedly made concrete proposals for preventing an increase in, and subsequently reducing, military expenditure, in either percentage or absolute terms. In the political report of the Central Committee of CPSU to the twenty-seventh Congress, the proposal was once again put forward for a proportional and balanced reduction in military budgets as a basic condition for the creation of a comprehensive system of international security. At the same time, the Soviet Union stated its support for the formulation of principles whereby part of the resources to be released as a result of the reduction of military budgets would be used for the benefit of world society and especially for developing countries.

38. Disarmament would, indeed, permit the elimination of economic imbalances that have largely arisen as a result of military preparations over a period of many years, as well as optimization of the structure of the economy and the balanced development of its various sectors. An opportunity would be provided in each country for the formulation of such alternative means for use of the resources released as would best facilitate an improvement in the living conditions of the population and an acceleration of scientific and technical progress and of the socio-economic development of States.
Notes


b/ 50 Years of the Armed Forces of the USSR, Moscow, 1968, p. 479.

c/ The Economy of the USSR over 60 years, anniversary statistical collection, Moscow, 1977, p. 17.