

# Secrets, Lies, and Half Truths: The Decision to Disclose Soviet Defense Outlays

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# Secrets, Lies, and Half Truths: The Decision to Disclose Soviet Defense Outlays

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## *Abstract*

In the mid 1980s Soviet leaders began to regret the price they were paying in the international arena for extreme secrecy in military affairs. New evidence shows that in the autumn of 1986 they decided in principle to release more information about military force levels and defense outlays. They went on to agonize over this commitment over the next two and a half years. Senior military and other officials resisted and delayed implementation. The new figures that Gorbachev announced in 1989 may not have the whole truth, but were probably better than a half-truth. The episode throws more light on the burdens of secrecy than on the supposed burdens of military spending.

Keywords: Defense Outlays, Secrecy, Soviet Economy.

JEL Codes: H5, N4, P2.

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## Secrets, Lies, and Half Truths: The Decision to Disclose Soviet Defense Outlays

In 1989 the Soviet Union's leaders finally let go of one of their most valued secrets – one that Western agencies had devoted huge efforts to guessing or uncovering over more than two decades. This was the size of the USSR's military budget. Papers recently acquired by the Hoover archive show them agonizing over this decision: was continued secrecy helping them – or hindering the defense of the Soviet Union's vital interests? Would disclosure satisfy Western curiosity – or open the Soviet government up to demands for more revelations? Did the leaders themselves have access to the information some of them now wanted to disclose?

### Background

For the record, Soviet leaders rarely published figures that they knew to be false. The Russian archives have shown that there were generally not two sets of numbers, a false set for publication and a true set for internal use. For most purposes, they relied internally on the same statistics that they published, however mismeasured or distorted they may have been. When they wanted to conceal, rather than invent an outright lie, they preferred either to mislead by giving out half or a quarter of the truth, or else to say nothing at all.

Deliberate statistical fabrications were rare, but they did happen. They included the Soviet harvest in 1932 (disastrous), the size of the Soviet population in 1937 (decimated by famine and terror), and demographic losses in World War II (catastrophic).<sup>1</sup> And, of course, there was military spending.

In 1930 the Soviet government wanted to take part in the disarmament negotiations being held in Geneva under the League of Nations. R. W. Davies has shown that Stalin's Politburo decided to lie about the Soviet military budget. For a few years the published figure fell below the true one by a wide margin. By 1932, when the USSR reported defense spending of 130 million rubles (less than 4 percent of the total state budget) to the League of Nations, the true figure was 400 millions (nearly 11 percent of the state budget). In 1935, given the collapse of disarmament hopes and the rise of Nazism and Japanese militarism, it was decided there was nothing to lose from resuming

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<sup>1</sup> Davies and Wheatcroft (1994), p. 30.

truthful publication and this was done the following year with a figure of 1.5 billion (16 percent of the state budget and rising rapidly).<sup>2</sup>

Fifty years later, entering talks to limit strategic and theatre nuclear weapons, the Soviet Union faced the exact same problem, but was coming from the opposite direction. Its official statistics had lied for at least a quarter of a century about the true size of the Soviet military budget. Over this time the Soviet government reported only a small fraction of the truth – an annual budgetary allocation that in 1980 stood at 17.1 billion rubles, under 6 percent of the state budget and under 3 percent of the Soviet gross domestic product. The world was supposed to believe that, somehow or other, this tiny sum – less than the Soviet population spent on sugar and sweets in government stores – supported a military machine of the same caliber as that of the United States, which spent \$168 billion or 6 percent of its much larger GDP on national defense in the same year.<sup>3</sup>

Why the deception? After the Soviet Union collapsed, its former officials gave the same reason as in 1930: to influence the climate of arms control and armament negotiations.<sup>4</sup> From the 1960s onwards, Soviet leaders were making repeated proposals to the West for balanced cutbacks in military spending. They reported cuts in their own military spending to make the proposals more convincing. Cynically or otherwise, they did not expect the proposals to be acceptable, and so they continued to build up Soviet military spending in secret.

In the West, the true figure was a much analysed mystery. The U.S. Central Intelligence Agency maintained an Office of Soviet Analysis charged with evaluating the military activities and overall economic potential of the Soviet Union. Working out the likely Soviet military budget in both rubles and dollars was an essential part of this work. Doubts about CIA estimates prompted the Pentagon to get in on the act through its own Defense Intelligence Agency. A flock of independent scholars, intelligence mavericks, and Soviet emigrants all had their say. There was no consensus.<sup>5</sup>

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<sup>2</sup> Davies and Harrison (1997), pp. 369-370. I give ruble values from the prewar period in postwar money, taking into account that Khrushchev knocked a zero off the currency in 1961.

<sup>3</sup> On sugar and sweets purchased in 1986, see Goskomstat (1987), p. 464. U.S. defense outlays in that year are from the Bureau of Economic Affairs national accounts website at <http://www.bea.gov/national/>.

<sup>4</sup> Masliukov and Glubokov (1999), p. 105.

<sup>5</sup> For a general survey see Firth and Noren (1998).

The result – possibly, from the Soviet angle, the desired result – was statistical chaos. Take 1980: the lowest Western estimate, 48.7 billion rubles (from the Stockholm International Peace Research Institute) was nearly three times the published figure. The highest (from the U.S. Defense Intelligence Agency) more than doubled the SIPRI figure at 107 billions.<sup>6</sup>

In the Soviet Union, how many people had access to the true figure? According to a Russian military source the answer was: Four (the party general secretary, the prime minister, defense minister, and chief of the general staff).<sup>7</sup> According to Gorbachev: “Two or three.”<sup>8</sup> Some Western observers speculated that the answer was: None.<sup>9</sup> Maybe the decades of deception had led to a situation in which even the Kremlin no longer knew the true figure!

### **For Disclosure – and Against**

The Hoover Archive holds the papers of the late Vitalii Kataev, a senior Soviet defense industry manager and arms control negotiator. These papers show that in 1986 a new Soviet leader, Mikhail Gorbachev, was trying to persuade the West that the Soviet Union was neither a strategic threat nor a growing one. In that context, the budgetary lie was a reproach to Soviet credibility of long standing.

The Soviet government’s initial silence concerning the Chernobyl nuclear disaster in April 1986 had also done recent damage to international confidence in the Soviet willingness to negotiate frankly over military affairs and in Gorbachev himself.

On November 21, 1986, the party central committee approved a resolution “On increasing the openness of the military activity of the USSR.” The initiative evidently came from deputy foreign minister for disarmament Petrovskii (the foreign ministry was led at the time by Eduard Shevardnadze, later president of Georgia). We don’t have the exact words of the decree, but the Kataev papers include commentary on it in a memorandum by central committee secretary for the defense industry Beliakov.<sup>10</sup> Increased openness, Beliakov wrote, “in the

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<sup>6</sup> For a survey of 1980 specifically see Harrison (2003).

<sup>7</sup> Cited by Firth and Noren (1998), p. 260n.

<sup>8</sup> Gorbachev (1996), p. 215.

<sup>9</sup> Firth and Noren (1998), pp. 188-191.

<sup>10</sup> The Hoover Archive, Vitalii Leonidovich Kataev collection, Box 12, File 13 (“TsK KPSS. O predlozheniakh MID SSSR po povysheniiu otkrytosti voennoi deiatel’nosti SSSR,” dated November 1986). The

opinion of the USSR foreign ministry, would allow the Soviet side to take up an offensive position in questions of military activity in international forums, and not allow speculation that is inimical to us about the lack of sufficient information on these questions.” A handwritten addition, part of it torn away, goes on to describe the then current figure of 19 billion rubles as “unconvincing” from the standpoint of Soviet claims to strategic parity with the United States.

The Politburo commissioned a group of four to report back on ways and means of implementing greater openness. The four consisted of deputy heads of Gosplan (the economic planning board) Masliukov and Smyslov, deputy head of the KGB (security police) Emokhonov, and chief of the general staff Marshal Akhromeev.<sup>11</sup>

Six months passed without progress. In April 1987, central committee secretary for the defense industry Beliakov reported the reason for the hold-up: “Gosplan considers it impermissible to publish the factual size of outlays on the defense activity of the USSR, but does not propose any way out of the situation created as a result.” Beliakov then made a remarkable suggestion.<sup>12</sup>

It appears expedient not to publish the actual sum of outlays and in preparation of the documentation to proceed by way of artificial formulation of a figure for our “outlays on defense activities” that is acceptable for publication.

Given this, to examine the actual outlays of the advanced capitalist countries on these uses and compare their outlays per head of population and in terms of per cent of gross national product. The figure of our outlays on defense activities (which should include the known outlays on defense – 20 billion rubles) in percentage terms should be not worse than the developed capitalist countries.

That seems clear enough. The original intention to publicise the true military budget had been sincere; otherwise, why resist it? It was a challenge to those who supported continued secrecy. Faced with the

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Kataev collection is based on a private archive. It is not always clear whether documents represent final or preliminary drafts, whether memoranda were sent, or whether recommendations were adopted. Sometimes this can be inferred from indirect evidence.

<sup>11</sup> Kataev collection, 12/13 (“TsK KPSS. K porucheniiu o povyshenii otkrytosti voennoi deiatel’nosti SSSR,” dated April 1987).

<sup>12</sup> Kataev collection, 12/13 (“TsK KPSS. K porucheniiu o povyshenii otkrytosti voennoi deiatel’nosti SSSR,” dated April 1987).

challenge, Beliakov was playing the joke of the business consultant who, on being asked to solve two plus two, lowers his voice to ask: “How much do you want it to be?” It is ambiguous what Beliakov meant by “not worse.” I think he meant “not less”: everyone understood that the published figure was too low, and the point was to come up with a new figure that showed the Soviet Union neither underplaying nor overplaying its hand as an equal partner of the United States.

There must be some doubt as to where the resistance originated. Beliakov blamed Gosplan, but possibly the planners were just saying what someone else told them to say. In a personal note, Kataev recalled that “traditionally the military determined the level of secrecy in the country.” He identified Marshal Akhromeev as the chief opponent of disclosure at that time, paraphrasing the latter’s views as follows.<sup>13</sup>

Who would believe that the USSR had such a small military budget? Among ordinary people, among the Supreme Soviet deputies, questions would immediately arise for the country’s leaders and for the military: how, on such a small budget, was it possible to secure parity with the Americans, whose budget was many times larger? It must follow that the leaders are deceiving the people under the cover of secrecy.

It would be complicated to answer such questions; one would have to go into the differences in labour and material costs in the USSR compared with abroad, the social channels of redistribution of part of the income in the USSR, and compare the purchasing power of the ruble and dollar. By publishing information about the low production cost of military equipment in the USSR, we will spoil our [international] military-technical cooperation, [where currently] we work at world prices and get a good profit. We are not ready to enter into such discussions. Let us come out onto the world level in our [international] economic relations in the 1990s, and then we will publish our military budget and have no more secrets.

On another occasion, reviewing his personal archive, Kataev suggested another dimension to Akhromeev’s defense of secrecy.<sup>14</sup>

A comparison of the budgets of the USSR and USA would prompt the thought that the claims of the USSR’s leadership to stand up to

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<sup>13</sup> Kataev collection, electronic files, 2002c48\_disk\_04\_mic.pdf (“Sovetskii VPK – vzgliad iznutri,” page 22).

<sup>14</sup> Kataev collection, 1/1 (“V.L. Kataev. Perechen’ arkhivnykh materialov. Kommentarii k nekotorym iz nikh,” undated).

the USA “on equal terms” was a bluff, since the USSR budget was several times smaller than the budget of the USA. At the same time, the USSR’s leadership would be accused of deception. Moreover, the propagation of myths about large outlays of the USSR’s budget on military purposes and the “cold war” was advantageous to the USSR’s leaders since it provided a justification (based on “huge” military outlays) of the low standard of living of people in the USSR.

It is clear, incidentally, that Akhromeev was simply following a basic tenet of Soviet conservatism. You’re in a hole? Keep digging! Go deeper! Is it getting dark? It must be working! The inability to shake this mentality off was a personal tragedy that he shared with the plotters of August 1991. (Akhromeev refused to join the plot, but hanged himself when it failed.)

### Compromise

Akhromeev’s anxieties resonated with others; the resistance crystallized. The Kataev collection includes a memorandum from the summer of 1987, prepared for signature by seven senior figures including prime minister Ryzhkov, defense minister Iazov, foreign minister Shevardnadze, former ambassador to Washington Dobrynin, and central committee secretaries Zaikov and Iakovlev. The name of KGB chief Chebrikov is crossed out, and that of his first deputy Bobkov is added by hand.<sup>15</sup> All but Bobkov and Dobrynin were Politburo members: a truly heavyweight alliance.

The seven accepted that the published 20 billion ruble figure lacked credibility. They cited the CIA’s much higher estimates of the time – 15 to 17 per cent of Soviet GNP.<sup>16</sup> They warned, however: “Disclosure of the actual scale of overall allocations to the needs of defense of the USSR at prevailing prices will not yield a positive political outcome and can even lead to adverse consequences for the USSR.”

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<sup>15</sup> Kataev collection, 12/13 (“TsK KPSS. V sootvetstvii s porucheniiem TsK KPSS dokladyvaem ...”). This document has a number of pencil annotations including a date, July 20, 1987, and, above the heading, the reference “P78/VII.” This seems to correspond with resolution P78/VII on the future declassification of the defense budget, adopted by the Politburo on August 6, 1987, mentioned in other documents in the same file (“T.t. Masliukovu Iu.D. (sozyv) ...”, dated August 13, 1987), and 11/31 (“Spravka. Dlia aktivizatsii nashei vneshnei politiki,” accompanied by a memo dated March 22, 1989).

<sup>16</sup> Compare Firth and Noren (1998), p. 130.

If we set out along the road of detailed justification of our defense outlays at current prices, then we will have to enter into fruitless discussions about the comparative costs of the basic types of weapons and military equipment, constructive work and other items at home and in the West. At the same time, to announce the true prices of domestic military products would create particular difficulties in the sale of our weapons to foreign countries.

In the situation before us, it appears possible ... to start from the proposition that the published defense budget of the USSR expresses [only] the outlays of the USSR ministry of defense on personal maintenance of the Armed Forces, their material-technical provision, military construction, the provision of pensions, and a number of other outlays.

Concerning the financing of scientific research and experimentation and also the procurement of munitions and military equipment, it can be announced that we make the necessary allocations under other headings of the USSR state budget; comparison of this part of the outlays of the USSR with the outlays of other countries on analogous uses has no sense because of fundamental differences in the structure of the armed forces, prices of weaponry, and the mechanism of price formation.

Public comparison of the USSR and USA budgets, they concluded, “will be possible in 1989 to 1990 after the Soviet Union has implemented the proposed radical reform of price formation in the course of restructuring the administration of the economy,” that is, in the next “two to three years.” To announce this position would “allow us in some degree to lift the pressure which has existed for a long time on the question of the size of the USSR military budget.”

In the short term, therefore, Akhromeev got his way. On August 6, 1987, the Central Committee adopted the position that the defense budget would be declassified only within the next two to three years.<sup>17</sup> It was buying time for the experts to come up with a number that would be both credible and meet the foreign objectives of Soviet diplomacy.

The compromise was revealed in stages. Speaking at the Geneva disarmament conference on August 25, 1987, Gorbachev affirmed that the Soviet Union was committed to greater military openness – in principle.<sup>18</sup> The following day, deputy foreign minister Petrovskii told

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<sup>17</sup> Kataev collection, 12/13 (“T.t. Masliukovu Iu.D. (sozyv) ...”)

<sup>18</sup> *Pravda*, August 26, 1987.

the conference that the published Soviet military budget, now 20.2 billion rubles, was accounted for largely by the maintenance of the troops and so forth, and so was only a fractional component of the true total.<sup>19</sup> Finally, after three more weeks, Gorbachev announced that transparent and comparable figures for the Soviet defense budget would be made available within “two to three years.”<sup>20</sup>

Not much is visible of the work done over the next eighteen months. The accounting was in hand – some of it creative, perhaps. There was no sign, however, of the “radical reform of price formation” that had been set as a precondition for disclosure of the true defense budget. There could be no price reform while resistance and indecision blocked the way to economic reforms more generally. Meanwhile, the clock was ticking: both external and internal considerations were eating away the time left for full disclosure. Internally, under new constitutional arrangements, oversight of the military budget was to be delegated to a parliamentary committee of the USSR Supreme Soviet. For review of the 1990 budget, figures would have to be laid before the committee in the autumn of 1989.<sup>21</sup> Externally, Gorbachev was about to visit Margaret Thatcher in the United Kingdom and wanted to know what to tell her about Soviet force levels in Europe.<sup>22</sup>

### **Out in the Open?**

At last, a new figure began to appear in the documents: 77.3 billion rubles for defense in the 1989 budget, falling to 71 billion rubles in the following year.<sup>23</sup> The 20.2 billions were there too, listed as maintenance, construction, and pensions. The rest of it was munitions and equipment, research and experimentation, and “other.” The figures

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<sup>19</sup> *Pravda*, August 27, 1987.

<sup>20</sup> *Pravda*, September 17, 1987.

<sup>21</sup> Kataev collection, 11/31 (“Spravka. Dlia aktivizatsii nashei vneshnei politiki,” no date but evidently March 1989).

<sup>22</sup> His briefing is in the Kataev collection, 11/31 (“General’nomu sekretariu TsK KPSS” dated March 1989), and possibly also 12/13 (“K poezdke”). In the event, Gorbachev spoke in London about Soviet force levels but made no announcement about military spending, saving that for the Supreme Soviet a few weeks later.

<sup>23</sup> Kataev collection, 11/31 (“O raskhodakh na oboronu,” accompanied by a memo dated March 22, 1989).

for 1989, always placed in the context of U.S. outlays on national defense in the same year, can be summarized as follows.<sup>24</sup>

	<i>USSR</i>	<i>USA</i>
Defense outlays, billion rubles or dollars	77.3	308.9
Share of state or federal budget	15.7%	27.2%
Share of gross domestic product	8.4%	5.9%

So, the new numbers met Beliakov's criterion for disclosure: they showed the Soviet Union, with fewer national resources than its superpower rival, to be bearing a heavier military burden relative to its GDP, and thus eligible for strategic partnership.

To judge from these documents there was still a residue of defensiveness about going public. The point was made that the forecast figures would show defense outlays falling through 1990 and 1991, underlining the Soviet commitment to peace; it was emphasized that *not* to disclose the figures would mean renegeing on the public promises made in 1987.<sup>25</sup> There was no going back. In a speech to the USSR Supreme Soviet on May 30, 1989, Gorbachev finally released the 77.3 billion ruble figure.

The long wait was over. Or was it? The new figures were much debated at the time.<sup>26</sup> There were two sources of scepticism. One was completeness; was this really the full defense budget on a western concept? The other was the possible extent of hidden subsidies to industry; these would mean that the figures for the procurement of equipment had been squeezed artificially by an unknown margin. The agonizing that preceded the release makes it likely that there was still an underestimate. Second-guessing developed through 1989 and 1990; even Russian officials joined in the game which soon became nearly as chaotic as when the figures were entirely secret. When the late Dmitri Steinberg consulted with experts in Moscow at this time, however, he was able to raise the upper limit of defense costs in 1989 to 133 billion rubles, but no higher.<sup>27</sup> This would put the true burden of defense on

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<sup>24</sup> Somewhat higher figures for U.S. outlays on national defense in 1989 are available currently from the Bureau of Economic Affairs at <http://www.bea.gov/national/>: 362.2 billion dollars and 6.6 percent.

<sup>25</sup> Kataev collection, 11/31 ("Spravka. Dlia aktivizatsii nashei vneshnei politiki").

<sup>26</sup> For surveys see Cooper (1998) and Firth and Noren (1998), pp. 185-188.

<sup>27</sup> Steinberg (1992).

Soviet national resources in that year at just over 15 percent of the gross domestic product – close to the much criticized estimates of the CIA earlier in the decade. If so, then the newly published figure was not the full truth, but no longer an outright lie, and probably better than half the truth: a two-thirds truth, say.

### Conclusions

In this and other ways, the last years of the Soviet Union saw its military-industrial complex gradually being flushed out into the light of day. What can we learn from this story? There is one obvious thing, and another that is less obvious – until you think about it.

Obvious is the historical burden of secrecy. Secrecy is freedom from accountability; it is also the freedom to lie. Secrecy, half truths, and lies (and they say that “half the truth is a whole lie”) were deeply ingrained in the core practices of Soviet politics. Kataev thought, sincerely, that it was the military that fixed the level of Soviet secrecy, but most likely there was more to it. Every country has a military, and every country has its secrets, but how many raise it to a pitch where – never mind the public – not even the foremost people in the government can work out how much the military is costing them? Moreover, Soviet secrecy was not just for military matters. It pervaded civilian activities nearly to the same extent. Historically, Soviet secrecy ran all the way back to the conspiratorial origins of the Bolshevik state and the secret practices of an illegal party of underground conspiracies and revolutionary plots.

The secrecy that lasted into the Soviet Union’s final years not only prevented political debate and public accountability. It undermined the claim of Soviet leaders to be believed and trusted by the west and by their own people. It made the Soviet economy and society completely unfit for the age of information and the internet. It was a crushing burden.

It is less obvious until you think of it, but then it is absolutely remarkable that *none* of these people saw the Soviet Union being crushed under an unbearable *military* burden. Recall the reasoning of Marshal Akhromeev. He wanted to be able to defend the poor state of the Soviet economy in the international arena. He suggested explaining it by pretending to hide a “huge” defence budget. But this was a cynical maneuver, made necessary by the fact that disclosure would reveal the defense budget to be small! The Soviet economy was good at making weapons! Soldiers and equipment were cheap! When they exported weapons, they made a good profit – which they wanted to preserve. In an economist’s terms, the Soviet Union had a revealed comparative advantage in military activities. Akhromeev’s mindset was completely at odds, therefore, with the stereotype of the Soviet Union being driven into bankruptcy by U.S. military spending.

Were they living in a fool's paradise? If military prices and wages were kept low by conscription and subsidies, then the relative cheapness of Soviet defense was to some extent artificial. Still, the degree of illusion was not overwhelming: even 133 billion rubles was still only 15 per cent of the Soviet national income. Moreover, the defense burden on the Soviet economy had been close to that rate for years; there was no sudden rush that could have tipped the economy over the edge into bankruptcy.<sup>28</sup>

Where does this leave us? I think it leaves us with secrecy. The Soviet military budget lay deep inside a mountain of secrets. Into the mountain led many tunnels, but most of them went nowhere. Because of the mountain, people couldn't get by. They couldn't see where they were going or where they had come from. They couldn't find each other to build businesses, networks, or markets. They couldn't learn what was going on over the mountain, in other regions or countries. A lot of people lived under the mountain, but those that did were lost in darkness, cut off from the light. The most precious resources of the country lay under the mountain, and nobody could find them any more. That was why the Soviet Union got stuck the way it did at the end of the twentieth century. Perhaps Gorbachev hoped to shine a light into the mountain, and help things that way, but in the end the whole mountain had to come down.

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<sup>28</sup> Masliukov and Glubokov (1999), p. 105, projected the annual Soviet defense budget on its published 1989 basis, in both rubles and percent of Soviet GDP, back to 1960. Their figures show that the defense burden peaked in 1988 at 8.9 percent of GDP, but was little less than that in 1980 (7.4 percent), 1970 (7.3 percent), or 1960 (7.5 percent). Admittedly, all these figures may have been affected by underreporting. In 1989, according to Steinberg (1992), the understatement could have been up to 40 percent of the true figure. If we apply this to earlier years, then, unless there was some sharp increase in underreporting over the period, the true defense burden on Soviet national resources changed little from 1960 to 1980 and may even have fallen. As 1980 to 1988, the published figures suggest that the defense burden rose by around 1.5 percentage points of GDP up to 1988. If underreporting was steady at around 40 percent, the increase in the true burden up to 1988 must still have been less than 3 percentage points, or roughly one sixth of the overall increase in the real total GDP of the Soviet Union (from Maddison 2003) over the same period.

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