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APPRECIATION OF THE ECONOMIC POSITION OF NATO AND
WARSAW PACT COUNTRIES FOR THE PERIOD THROUGH 1982

Note by the Chairman of the Economic Committee

The attached appreciation of the economic position of the NATO and Warsaw Pact countries for the period through 1982 has been prepared by the Economic Committee in response to the request of the Defence Planning Committee. This report has been organized in accordance with the revised procedures for the NATO Defence Planning Review of May 1971. It describes the economic prospects of both the Alliance and the Warsaw Pact over the same time-span as the Military Appreciation and includes possible trends in defence expenditures.

2. It consists of:
 - an introduction
 - a summary appraisal
 - Part I: Economic developments in NATO countries
 - Part II: Economic developments in the Warsaw Pact countries
 - Statistical annexes.

3. In view of the prevailing uncertainties as to the future economic developments in the West, this preliminary appraisal might have to be reviewed to take into account rapidly changing circumstances.

(Signed) O. DEBUNNE

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This document includes: 1 Annex

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C.C.

APPRECIATION OF THE ECONOMIC POSITION OF NATO
AND WARSAW PACT COUNTRIES FOR THE PERIOD
THROUGH 1982

Report by the Economic Committee

INTRODUCTION

The first economic appreciation(1) prepared in 1972-73 covering the period up to 1980, while still valid as regards the evaluation of the main economic factors influencing defence, was based on the assumption that no radical changes would take place in world political and economic relationships. Following the strong worldwide inflationary development and the serious deterioration of the balance of payments of most NATO countries as a consequence of the energy crisis, the economic outlook for the period up to 1982 has worsened drastically. The same seems true for most East European countries. However, for the USSR the economic developments in the West have, if anything, made the outlook slightly more favourable than that described in the previous appreciation.

2. The longer term effects of the fundamental economic changes which have taken place since 1973 are very difficult to foresee at this early stage and only tentative forecasts could be made. The first part of the appreciation, which covers economic developments in NATO countries and the economic basis for defence in these countries, has been based on certain assumptions. It has been assumed that the current inflationary problem is brought under control, that the recycling of the oil exporting countries' incomes in the international monetary system is successfully arranged and that the restructuring and readjustment processes develop smoothly in Western economies.

3. The second part of the report covers the economic development in Warsaw Pact countries and the development of the ability of these economies to support the defence effort. The evaluation of the prospects for the Warsaw Pact countries in the 1972-73 appreciation remains broadly valid. The impact of external developments on their economies should be fairly limited, on the whole beneficial to the Soviet Union, detrimental to the East European countries.

SUMMARY APPRAISAL

4. The year 1973 was a turning point for the economic development of member countries. Up to that year it seemed

(1) AC/127-D/436, 12th April, 1973

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that the growth performance of the 1960s might be repeated in the 1970s and that the strength of the economies of NATO countries would increase substantially over the period under review, thus permitting a greatly improved resource base on which to draw for defence purposes. The strong inflationary developments from 1972-73 and the foreseeable balance of payments problems of NATO countries created by the steeply rising energy prices during the last quarter of 1973 have completely altered the growth outlook for the 1970s. These factors and increasingly difficult political and social problems have made the immediate outlook very uncertain and led to more fragile economic inter-relationships that make long-term economic projections hazardous. In such circumstances the possibility of recession taking a grip cannot be ruled out and decisions taken by any country could have considerable repercussions on the others.

5. On the assumption that NATO governments cope with the many difficult economic problems mentioned above, in the present far from clear situation, the outlook points to reduced growth rates with inflation only slowly being brought under control. Under the best conditions it will take time for corrective measures to become effective and therefore over the period to 1978 average growth rates of the order of 2% to 3% per annum appear a reasonable planning assumption. Growth rates may differ from country to country depending on developments relating to inflation, energy supplies, the balance of payments, the level of employment and the corrective policies applied. If these policies are successful, a gradual improvement in the annual rate of growth to 3.5% to 4.5% could be expected after 1978.

6. The events that have hit NATO countries are likely to have an overall positive effect on the Soviet Union so far as it can take advantage of higher raw material prices in export markets, but possibly less favourable or even adverse effects on other Warsaw Pact countries. Nevertheless, even the latter will be less affected than the Allied countries. Economic growth could average some 5% per year in the Soviet Union and increase the economic strength of the Warsaw Pact.

7. The concentration of armaments production in the USSR and the very considerable R & D effort made over the last decade place the USSR in a relatively very favourable position to make optimal use of resources for military purposes over the coming years. The rate of increase of military expenditures of the Soviet Union in real terms is expected to accelerate to between 3% and 5% annually for the next year or two as conventional weapons are replaced or modernised and a new generation of strategic arms are brought into service. This reflects a cyclical

development that is expected to leave the longer-term trend in military spending in the Soviet Union at a rate of the order of 3% yearly in real terms.

8. While, due to the enhanced economic capability of the Soviet Union, the military potential of the Warsaw Pact is likely to increase relatively rapidly over the period under review, the resources available to defence in most NATO countries could increase only slowly, even on the favourable assumptions made above. However, the NATO resource base will continue to exceed considerably that of the Warsaw Pact. In both the Eastern and Western group of countries the impact of economic developments will vary considerably. For NATO member countries in particular, circumstances are likely to weaken their economies, to a greater or lesser extent, at least in the next few years. Nevertheless the economic capability of the Alliance, as a whole, would remain sufficient to meet the force goals agreed in May this year which would imply an increase in defence expenditures of possibly 3% to 4% annually in real terms. But for the hardest-hit countries implementation of such a defence effort might well be difficult because of economic and political problems. This underlines the necessity of obtaining the maximum effective value from the resources that countries allocate to defence through rationalisation and co-operation in arms procurement on a NATO-wide basis.

PART I. ECONOMIC DEVELOPMENTS IN NATO COUNTRIES

(a) Main economic trends over the 1972-1973 period

9. In spite of the breakdown in the early 1970s of the international monetary system set up under Bretton Woods, an economic upsurge started early in 1971 in the United States and during the winter of 1971-72 in Western Europe. For the Western world as a whole 1973 was a year of strong economic growth. In most countries growth tended to slow down somewhat by the end of the year, partly because of full capacity utilisation in several sectors of the economy, and partly because of measures taken by countries to dampen increasingly serious inflationary pressures. At the end of 1973 a slight slowing down in the economic growth was foreseen for 1974 (some 4% growth on average), but in the longer term economic growth was expected to be similar to that achieved in the 1960s, some 5% yearly on average. However, the increase in the price of oil contributed towards accelerating an already unprecedented rate of world inflation and changed fundamentally the economic outlook of most member countries.

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(b) The medium-term economic outlook, 1975-1978

10. The impact of the higher import prices for oil has not yet been fully reflected in domestic price levels. Nor have the external payments yet found a new equilibrium. These two key factors together with the social and political difficulties experienced in curbing inflation at a time of growing unemployment pose serious dilemmas for policy makers.

11. Assuming, however, that :

- (i) inflation is brought under control
- (ii) the recycling of the oil exporting countries' surplus funds in the international monetary system is successfully arranged, and the absorptive capacity of the OPEC countries' economies is increased
- (iii) the restructuring and readjustment processes develop smoothly in Western economies,

member countries may witness a slow growth of their economies up to 1978. Failure to cope successfully with these problems could cause serious consequences for NATO member countries individually and for the Alliance as a whole.

- Inflation

12. Measures now being taken by most governments aim at reducing the current high rates of inflation. This will certainly produce an economic slowdown in most countries. Some of the external factors which accelerated inflation in 1973 and 1974 are, however, unlikely to give a new push to inflation in 1975. Oil prices are not likely to rise drastically and, during 1974, raw material prices other than energy and food have declined considerably. However, lower import prices and the anti-inflationary measures now being increasingly applied by governments are not likely to have a decisive influence on consumer prices this year. By 1975 the combined effects of these factors should halt the acceleration and even begin to reduce the rate of increase of prices and costs (1). There is, nevertheless, a danger that governments squeeze their economies too long and too hard, causing reduced demand, higher unemployment and widespread

(1) See Annex table 2 for movement of prices of raw materials

social unrest. In summary, the outlook in the medium-term is for prices to rise less sharply than in 1974 but possibly considerably faster on average than the 3.0% increase realised in the 1960s.

- The problem of external payments imbalances

13. - During 1974 huge external payments imbalances are building up as a consequence of the oil price rises. Surpluses of the oil exporting countries are by far the largest element of these imbalances.

(i) The size of the problem

14. High oil prices are gradually reducing the consumption of imported oil and will, in the longer term, stimulate the development of internal fuel resources. The effect of such adjustment processes will, however, be only marginal in 1974 when the oil exporting countries are estimated to realise a \$60 billion increase in their receipts compared with 1973. The current balance of payments deficits of NATO countries will grow substantially over the next five years from \$25 billion in 1974 to \$50 billion in 1978(1). In these circumstances deficits aggregating between US \$200 and US \$300 billion will have to be financed by NATO countries to pay for their oil requirements over these years.

(ii) Possible solutions through foreign trade policies

15. If all countries tried to solve their balance of payments problems by increasing exports and decreasing imports a destructive trade war might develop. To avoid this, the OECD member countries, on 30th May, 1974, pledged to avoid new restrictions on international trade for a period of at least one year.

(iii) The recycling of international liquidity

16. Because of the oil price increases, NATO member countries as a whole are not expected to attain current account equilibrium for some years. During this period, financing of import needs will be one of the major economic problems.

(a) Borrowing through banks

17. It now seems likely that the major part of the oil consumers deficits in 1974 will be met, at least in the case of

(1) Based on estimates made by the OECD and the World Bank

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NATO countries, from bank-arranged borrowing through the Euro-dollar and other capital markets. Oil producers have, in recent years, invested the bulk of their reserves in Eurodollars. It is, however, impossible to know whether these markets can make arrangements for their surpluses on the present scale, and the future of the financial markets in industrial countries is very uncertain.

(b) Investments by oil producing countries

18. Even assuming that surplus oil funds will find their way back to the oil consuming nations either in the form of oil producer investments or loans this will nonetheless call for considerable readjustment if disruptive effects are to be avoided. The direction of investment flows will in part depend upon the attractiveness and security of investment markets in individual member countries. The bulk of the oil producers' funds seems likely to be invested in the major financial centres. The oil producers have also turned to multilateral channels such as the IMF oil facility and to bilateral assistance. So far this has not been sufficient and the economic situation of the developing countries might take a serious turn for the worse during the next few years. On the assumption that the borrowing needs of member countries can be satisfied, they will gain the time needed to adjust and restructure their economies to the new situation.

- Structural changes necessitated by high energy prices

19. To reach a higher degree of self-sufficiency in energy is a longer-term task requiring considerable capital resources. For some countries, sufficient amounts of capital might not become available for this purpose.

20. Energy conservation offers the most immediate means of alleviating the problems associated with increased oil expenditures, until new technology for energy production can be developed and in the absence of new sources of fossil fuels. As a consequence of measures taken, the growth of consumption of energy in EEC countries is expected to drop considerably from the 6% level achieved between 1968 and 1973. In terms of balance of payments the energy deficit which will grow substantially up to 1978, might stop rising after that year and start to fall considerably by the end of the period (1982). In the longer run, during the next four or five years, efforts must be directed to increases in domestic production among the oil-importing nations, to the development and implementation of new technology for energy production. At the same time the creation of machinery to permit continuing discussion with oil exporters, dissemination of information about production and pricing of fossil fuels, and the establishment of emergency facilities including stockpile and pooling arrangements will be required.

- Implications for the standard of living

21. All deficit countries will be facing a difficult choice as to the rate at which domestic demand should be controlled in order to make way for a shift of resources for the benefit of the oil producing countries and the restructuring programmes to ease the balance of payment pressures. As there seems to be no escape from a certain contraction of the growth of internal demand if the problems are to be solved, the standard of living increases experienced during the last 20 years might well not be repeated in the medium term.

- The growth prospects up to 1978

22. With regard to the period up to 1978, there remain three major areas of uncertainty:

- the success of the anti-inflationary measures which are now being taken by all governments. If the squeeze is too hard a worldwide deflation might result;
- the behaviour of world trade under present conditions whereby many countries may be trying to expand exports and cut down on imports to ease their balance of payments difficulties;
- the international shortage of credit that will develop as a consequence of the financing of oil imports during this period might necessitate increased domestic savings to finance vital restructuring and adjustment programmes. Such savings would tend to reduce further internal demand and thus economic growth.

23. In the current confused international economic situation it is very difficult to make even approximate forecasts of future economic growth. Recent EEC and OECD studies vary widely in their estimates even for the year 1975. For example, for the four major European countries the OECD, without exception, takes a considerably less optimistic view and indicates a growth rate for these countries taken together, of just over 1% compared with over 3% in the EEC estimate. Such differences are due to the assumption on which the projections are based. Even if NATO governments cope with the many difficult economic problems mentioned above, in the present far from clear situation, the outlook points to reduced growth rates with inflation only slowly being brought under control. Under the best conditions it will take time for corrective measures to become effective and therefore over the period to 1978 average growth rates of the order of 2%

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to 3% per annum appear a reasonable planning assumption. Growth rates will differ from country to country depending on developments relating to inflation, domestic energy resources, the balance of payments, the level of employment and the corrective policies applied.

(c) The longer-term economic outlook, 1978-1982

24. A general improvement in the economic conditions of member countries might be expected in the years 1978 to 1982. National efforts to save energy and to increase domestic production must be expected to have made important progress by 1978. During the five year period through 1982 further considerable improvements might be expected. Such a development would progressively allow countries to direct economic resources from restructuring purposes to other sectors of the economy, thus making higher rates of economic growth possible during the last years of the period. If successful, members of the Alliance could expect a gradual improvement in the annual growth rate to 3.5% to 4.5% after 1978.

25. The accumulation of a debt burden during the years up to 1980 of perhaps US \$300 billion or more would impose limitations on the rate of increase of standards of living. Interest payments alone on this debt might for NATO countries amount to US \$30 billion per year in 1980.

26. Even if the situation on the whole is likely to improve in the given conditions, the development and the severity of the economic problems will vary between member countries. The basic energy position of the United States and Canada is much stronger than that of most European member countries, and the ability of their economies to cope with the current problems consequently better. The longer-term balance of payments problem for the United States and Canada should be less serious as relatively less resources will be needed to implement restructuring programmes than in Europe. For the whole period up to 1982 economic growth might, therefore, be higher than in Europe.

27. In Europe the earlier OECD projections of economic growth for the years 1975-1980 have been largely invalidated by the eruption of inflation and balance of payments problems. Exceptions are the three oil and gas producing member countries, which should see their economic conditions improve considerably. For Europe as a whole economic growth might, however, pick up from some 2% to 3% on average between 1974 and 1978 to some 3% to 4% during the last years of the period.

(d) Economic Basis for Defence

General

28. The uncertainties which surround even the short-term economic outlook, severely reduces the reliability of assessments

of resource availability for defence during the next few years. In view of this uncertainty a periodic reappraisal of the economic outlook is called for at more frequent intervals than in the past. For most countries economic resources might continue to grow slowly over the period under review if the main assumptions made above prove correct. This would create the necessary economic foundation for the maintenance or a slight increase of the defence effort of member countries as a whole, particularly during the period after 1978. Not only the economic growth but also the growth of the population is expected to slow down during the next eight years. This factor is not, however, likely to affect seriously recruitment of military manpower.

Key economic factors influencing resource allocation to defence

(i) Rising prices and costs

29. The much higher rates of inflation that are now in prospect compared with past experience have very serious implications for defence. Anti-inflationary policies are likely to have a distorting effect on allocations within the defence budget unless provision is made for necessary adjustments.

30. In this respect the most marked effect of inflation over recent years has been on personnel costs. With much higher general rates of inflation now in prospect and the replacement in many countries of conscript service with regular recruitment, the outlook is for an even sharper escalation of personnel costs over the years ahead. Experience has shown that failure to accommodate at least that part of the increase due to higher pay could severely distort the allocation of expenditure within the defence budget. The system adopted by some member countries of supplementary appropriations for meeting the wage increases of all public employees, considerably alleviates the problems that arise. This system, if adopted by all member countries, would contribute to resolving the problem in this sector.

31. Inflationary price and cost increases for major equipment which will also be much higher than in recent years pose special problems. The setting of specific percentages of total defence expenditures for meeting military equipment needs provides a rough criteria, that will take care of the inflation factor. However, inflation coupled with the continuing sharp rise in costs due to sophistication of equipment, will make it essential for economies to be achieved through equipment standardisation, rationalisation measures and co-operative production/procurement on a scale that has not yet been achieved in NATO.

(ii) Public expenditure trends

32. The immediate implications of the economic situation and outlook for budgetary policies are that the rapid increases in public expenditures of recent years will need to be slowed down. Between 1968-1973 the budgets of member countries increased considerably faster rate than GNP.

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Defence budgets rose less rapidly and their share in the budget total has, with few exceptions, declined. The drastic reallocation of resources that has taken place increases the need for a close scrutiny of the priorities in national budgets. This has been made more urgent by the additional claims on resources that are required for meeting investment and other expenditures for economic restructuring and readjustment programmes.

Possible trends in defence expenditures

33. Projections of defence spending provided for the NATO force goals exercise covering the 1975-1980 period, give one indication of possible future trends. The International Staff estimates of defence expenditure increases over this period as summarised in the final report are reproduced in the attached statistical Annex. The increases in defence expenditure required to implement the force goals agreed in May this year varies considerably from country to country. For the NATO European member countries taken as a whole the yearly average increase is of the order of 3.5 to 4 % in real terms and just under 3 % in North America. For NATO Europe and Canada the projected rise is substantially higher than the rate of increase actually implemented over the years 1965-1973.

34. Assuming economic growth rates of only 2 to 3 %, the implementation of the Force Goals would imply an increase of the share of GNP taken by defence. Such a development would be no more than a continuation of the trend of the last few years of slowly rising defence share of GNP for this period and, a levelling off after 1978 when economic growth rates are assumed to be higher. However, the economic situation in some member countries is likely to become difficult over the next few years. In such countries conditions could be created that might affect unfavourably their economic and political stability. For the hardest hit countries the implementation of a defence expenditure growth as recommended in the Force Goals 1975-80 might raise difficult economic and political problems.

PART II : ECONOMIC DEVELOPMENTS IN THE WARSAW PACT COUNTRIES

(a) Current trends

- Performance in 1972-73

35. Economic growth in the Warsaw Pact countries in the years 1972/73 was slightly less than in the NATO countries. Progress in the East European countries was steady at about 5½ percent a year. In the USSR, on the other hand, performance was uneven. Growth in 1972 was the lowest in the post war period, owing largely to a poor harvest. In 1973 the harvest reached record levels, and overall growth probably exceeded 7 percent. The average for the two years was about 4.6 percent.

36. The trade of the area is growing fast. In 1973 there was an unprecedented rise in East-West trade, Soviet turn-over in particular rising by more than 40 per cent, only partly accounted for by the inflation of Western prices. The Warsaw Pact countries have easier access to western credits, as the result of détente, but the USSR, and to a lesser extent Poland and Romania, also benefitted from the increased price of raw materials and fuel. The financial position of the USSR has been greatly strengthened: according to Soviet trade returns earnings in the industrial West rose by about 1.3 billion rubles in 1973. Moreover, the Arab countries were in a position to pay cash for supplies of arms.

- The 1974 situation

37. In the Soviet Union economic prospects for 1974 are mixed. Industrial production is rising slightly faster than in 1973, but still slower than in the sixties. The harvest though smaller than in 1973 is the second largest on record, and overall growth is likely to be somewhat less than in the previous year. External factors are favourable to the USSR. Owing to the high level of commodity prices, the Soviet trade balance may be in surplus for the first time in many years, despite commitments to buy Western equipment well in excess of 2 billion dollars both in 1972 and 1973.

38. The present outlook for the other Warsaw Pact countries is less favourable than in the recent past. Agricultural prospects are uncertain. Industrial growth in Poland, Romania and Hungary is ahead of plan, but the reverse is the case in East Germany and Bulgaria. There is a certain shortage of energy. Last year already the output of the hydro-electric stations was reduced by drought, and, possibly in anticipation of future difficulties in the purchases of oil from the Soviet Union, energy conservation measures were introduced. Trade with the West is still rising. For the present at least, these countries seem ready to accumulate deficits with the West, perhaps in an attempt to provide against uncertainty both as to future COMECON policy and as regards economic developments in the West.

(b) The longer term outlook 1975-1982

- Economic growth

39. It was estimated in the previous study(1) that economic growth in the Warsaw Pact countries as a whole might be about 4.5 percent per annum. Whereas in NATO countries, as the result of recent economic developments, prospects in the immediate future have become quite uncertain, the outlook for the Warsaw Pact as a whole remains much as it was. Within this group the Soviet Union represents about three-quarter of the total economic capacity. The effect of external factors will probably benefit the Soviet Union in the long run but be somewhat detrimental to the other countries in the area.

(1) AC/127-D/436, 12th April, 1973

WARSAW PACT COUNTRIES : ESTIMATED GROWTH IN
1971-1982

| | Average annual growth % of GNP | | |
|-----------------------|--------------------------------|-------------------|----------------------|
| | 1971-80 estimated | 1971-73 actual | 1974-82 estimated |
| USSR | 4.5 | 4.2 | 4.8 |
| Eastern Europe | 4.3 | 5.4 | 3.8 |
| Warsaw Pact countries | 4.5 | 4.5 | 4.5 |

40. The rates of growth suggested are based on past performance and on estimates of labour forces and productivity. Rapid growth in the past was due to large labour inputs and massive investment, especially in engineering. The effect of heavy investment is likely to continue in future, but at a diminishing rate. On the other hand development of computer technology and further progress in education should have a positive effect on economic growth in the USSR. In the Warsaw Pact area, and especially in the Soviet Union the influence of agriculture on overall growth is very considerable. Judging by Brezhnev's plan for agricultural development, the Soviet leaders appear to be ready to devote considerable resources to this sector.

External Influences

41. The limited impact of external events on the economies of the Warsaw Pact countries is due to the fact that their trade with the outside world is not very large and the fact that their structures are to a large extent screened from such influence. The degree of independence of the outside world, however, differs considerably from country to country. As can be seen from the table below, the Soviet Union is very little dependent on foreign trade, the total value of its exports plus imports being only about 6 percent of its GNP in 1972. The East European countries are much more dependent on trade, the bulk of which, however, is carried on among themselves.

WARSAW PACT COUNTRIES : FOREIGN TRADE IN RELATION TO GNP

| | Trade as percentage of GNP(1) | | | |
|----------|-------------------------------|----------------|--------------|------------------------|
| | All Trade | Within COMECON | With West(2) | Develop. countries (3) |
| Bulgaria | 36.0 | 28.1 | 5.0 | 2.2 |
| CSSR | 25.3 | 17.0 | 5.5 | 1.8 |
| GDR | 26.1 | 17.7 | 6.7 | 0.8 |
| Hungary | 35.4 | 23.0 | 9.3 | 2.0 |
| Poland | 18.2 | 10.8 | 5.9 | 1.0 |
| Romania | 16.6 | 7.7 | 6.2 | 1.4 |
| USSR | 5.7 | 3.4 | 1.3 | 0.7 |

- (1) ECE Geneva and COMECON Year Book 1973.
- (2) Industrialised Western Countries.
- (3) Excluding "other Socialist countries".

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42. Despite the modest volume of trade with the West its importance, even in the case of the USSR, should not be underestimated. Imports from the industrialised West are a vital source of modern technology, without which it would be difficult and costly to modernise and diversify the Warsaw Pact economies. From the economic point of view, imports from the West are undoubtedly the most significant element of the trade of these countries.

43. As a result of developments on world markets, the terms of trade of all raw material and fuel exporting countries have improved. The Soviet Union is likely to benefit greatly from this. Soviet buying power on world markets is increasing and it has the possibility of getting Western co-operation in the development of its Siberian resources on favourable terms. Within COMECON Soviet bargaining power has greatly improved. Under COMECON arrangements the Soviets will be able to claim higher prices for energy and materials (on which the East European countries are very dependent) from 1976, the result of which might be that these countries will have still less of their output to export to the West. Poland and Romania also have some materials to offer, but by and large the turn of events is as unfortunate for the countries of Eastern Europe as it is for those of Western Europe and Japan.

44. The impact of rising world market prices on the Warsaw Pact is not likely to be very great. These countries have their own form of inflation, which is reflected in the shortage of goods and the accumulation of savings, but excess purchasing power is not allowed to affect the officially fixed prices, still less to influence investment or production. Although East West trade is essentially carried on in Western currencies and at Western prices, changes in the latter have, with very few exceptions, no influence on domestic prices. Since prices of all goods based on Western markets have risen, even the balance of payments of the Eastern countries with the industrialised countries of the West is affected only in so far as the deficit, financed by credits, appears larger. As time passes, moreover, as a result of inflation, this indebtedness diminishes relative to the value of newly produced goods.

45. Should a serious recession occur in the West, there might well be a fall-off in the demand for Eastern products, while the need to restructure Western economies might also reduce the volume of capital for export to the East. In conditions of recession some East-West production schemes might seem less attractive to the West. No doubt some of these are due largely to political considerations, but in other cases Western firms have been interested in the possibilities of utilising Eastern labour at a time when full employment prevailed at home. In the event of domestic unemployment, such schemes would lose much of their interest.

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- Underlying problems

46. There are certain weaknesses in the Eastern economic system which are potential sources of trouble, even though it does not appear likely that this will hamper growth in the period under review. The Warsaw Pact countries have long been faced with the task of changing the character of the economy while maintaining a high rate of growth. The Stalin system was designed to mobilise resources and to give priority to investment, heavy industry and defence, at the expense of all consumer-related activities. As human and material resources became less plentiful and less easy to manage, a departure from the old priority pattern became necessary, and the leaders showed a new concern for living standards, that is, agriculture, housing, consumer goods, and for productivity, that is, improved technology, economic criteria, foreign trade, and motivation.

47. A relative shortage of labour is developing in some countries of the area. The natural increase, which persists, is no longer reinforced, as in the past, by greater use of labour from households and the countryside. This means that in future growth will be very dependent on rising productivity. Material resources are short in Eastern Europe but plentiful in the Soviet Union. Even there, however, resources easily accessible to the developed regions have been fairly fully exploited, while the vast reserves beyond the Urals will be expensive to exploit.

48. Greater attention to consumer satisfaction is necessary not only to ward off dissatisfaction, which could be politically dangerous, but also to provide motivation for increased productivity. This implies a certain reduction in the share of national income going to investment and an increase in the share of consumer-orientated investment, at the expense of the capital sector and defence. Diminishing the defence priority is a slow business, particularly in the Soviet Union. Not only is the defence establishment strong enough to claim its full share of resources, but the defence sector is so organised that it would be difficult to redeploy resources without a major overhaul.

49. Soviet defence related industry is efficient as well as privileged. It has at its disposal the best human and material factors, it has the motivation to study and apply the latest technology and it is carefully watched by the customer, the Ministry of Defence. In contrast, the lower priority sectors are inefficient. They are slow to absorb new technical developments, there is little or no influence by the end user on enterprises, which simply have to carry out the plans of the central bureaucracy. Agriculture is a good example of this. The Soviet leaders are keenly aware of the need to improve the nation's diet and are prepared to allocate large sums to agriculture ; nevertheless, it remains inefficient.

50. The old economic structure of the Warsaw Pact countries, with its extreme centralisation of decision is no longer very appropriate, since the task is not now to achieve overriding priorities, irrespective of cost, but to satisfy a whole range of needs and to stimulate incentive at all levels. In practice economic reform, in so far as it involves decentralisation, is difficult to achieve. Interest in the movement is greatest where the economic problem looms large and the scope for independent national decision is greatest in the economic sphere, that is, in certain countries of Eastern Europe. In the Soviet Union itself interest in economic reform is limited. The leaders are ready to accept measures to improve the flow of economic information or to re-introduce certain economic criteria provided the principle of central planning and party control over policy and cadres is not called into question. In fact, so long as economic growth continues at a steady pace and no serious unforeseen problems arise, it is unlikely that any major structural change will be undertaken in the USSR or countenanced elsewhere. Incidentally, the prevalence of inflation and other economic disorders in the West can be used by the Party leaders as evidence of the superiority of their system and as an argument against those who want to introduce Western concepts.

(c) The Defence Burden in the Warsaw Pact Countries

51. Within the Warsaw Pact Alliance, the Soviet Union weighs, defence-wise, considerably more than the United States within NATO. It is difficult and misleading to compare defence costs in the USSR and the US on the basis of financial data. In the US, defence prices more or less reflect the market value of the defence effort. In the Soviet Union however prices are officially fixed and reflect very imperfectly the relative scarcity of resources. Certainly, defence prices cannot adequately reflect the overriding priority given to the defence sector. Soviet figures are more revealing as regards the trend. On the basis of the official defence and science votes in the state budget it can be calculated that over the last five years outlay on defence in rubles has been rising at an average 3 percent a year.

52. The other Warsaw Pact countries appear, over the last few years, to have increased their defence effort rather more than the Soviet Union. However, the burden of defence in these countries is certainly less than in the Soviet Union, in terms of GNP perhaps one half.

53. In recent years there has been a concentration on military research and development with a view to developing qualitatively superior weapons and systems rather than on

production, a trend which is confirmed in the rapid rise in the science budget. Now, however, the new weapons are going into production, which implies a sharper rise in total defence costs over a limited period.

54. Given the enormous size of the Soviet defence effort, and the fact that rough parity with the US has been achieved, a rise of 3 per cent annually over the longer-term is probably enough to satisfy the defence establishment. With GNP rising at almost 5 per cent a year, this defence effort cannot be said to be hindering the expansion of the consumer sector, which means that the Soviets enjoy a wide range of options in this domain.

55. As regards the East European countries, although they might have been under some pressure to increase their defence effort in the past, it is rather unlikely that they will continue to push up spending at the same rate as hitherto. An average annual rise of 1-2 per cent seems more probable.

STATISTICAL ANNEX

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NATO
TABLE 1

THE GROWTH OF THE
GROSS NATIONAL PRODUCT IN NATO COUNTRIES

| Country | Growth Rates(*) | | 1973 000 million US \$ |
|----------------------|-----------------|---------|------------------------------|
| | 1965-70 | 1970-73 | |
| Belgium | 4.9 | 4.8 | 41 |
| Denmark | 4.4 | 4.3 | 23 |
| F.R. of Germany | 4.7 | 3.6 | 305 |
| Iceland | 1.0 | 7.1 | 1 |
| Italy | 6.0 | 3.5 | 126 |
| Luxembourg | 3.6 | 4.6 | 2 |
| Netherlands | 5.7 | 4.3 | 53 |
| Norway | 4.4 | 4.6 | 16 |
| Portugal | 6.0 | 7.1 | 9 |
| Turkey | 6.6 | 6.9 | 19 |
| United Kingdom | 2.1 | 3.5 | 152 |
| EUROPE (DPC members) | 4.5 | 3.9 | 747 |
| Canada | 4.8 | 6.2 | 102 |
| United States | 3.5 | 5.0 | 1,185 |
| Total DPC | 3.4 | 4.6 | 2,034 |
| France | 5.8 | 5.7 | 223 |
| Greece | 6.3 | 8.9 | 14 |
| NATO EUROPE | 4.8 | 4.3 | 984 |
| <u>TOTAL NATO</u> | 4.1 | 4.7 | 2,271 |

(*) % yearly average.

Source : OECD.

WARSAW PACT
TABLE 1

THE GROWTH OF THE
GROSS NATIONAL PRODUCT IN
WARSAW PACT COUNTRIES

| | Growth Rates | | 1973 000 million US \$ (*) |
|---------------------|--------------|---------|----------------------------------|
| | 1965-70 | 1970-73 | |
| Total East European | 4.6 | 5.4 | 227 |
| USSR | 5.5 | 4.2 | 624 |
| Total Warsaw Pact | 5.3 | 4.5 | 851 |

NOTE: See paragraphs 39 and 40 of this report for further details and sources.

(*) 1973 constant prices, purchasing power parity

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NATO
TABLE 2

(a) POPULATION OF NATO COUNTRIES

(Millions)

| Country | 1960 | 1970 | 1975 | 1980 |
|-----------------------------|--------------|--------------|--------------|--------------|
| Belgium | 9.2 | 9.6 | 9.8 | 9.8 |
| Denmark | 4.6 | 4.9 | 5.1 | 5.2 |
| F. R. of Germany | 55.4 | 60.7 | 62.3 | 63.4 |
| Iceland | 0.2 | 0.2 | 0.2 | 0.2 |
| Italy | 50.2 | 53.7 | 55.6 | 57.3 |
| Luxembourg | 0.3 | 0.3 | 0.4 | 0.4 |
| Netherlands | 11.5 | 13.0 | 13.8 | 14.5 |
| Norway | 3.6 | 3.9 | 4.0 | 4.2 |
| Portugal | 8.9 | 8.7 | 8.4 | 8.3 |
| Turkey | 27.5 | 35.3 | 39.9 | 45.3 |
| United Kingdom | 52.6 | 55.5 | 56.7 | 58.1 |
| EUROPE (DPC members) | 224.0 | 245.8 | 256.2 | 266.7 |
| Canada | 17.9 | 21.3 | 22.6 | 24.0 |
| United States | 180.7 | 204.9 | 215.1 | 227.5 |
| Total DPC | 422.6 | 472.0 | 493.9 | 518.2 |
| France | 45.7 | 50.8 | 52.8 | 55.0 |
| Greece | 8.3 | 8.8 | 9.1 | 9.4 |
| NATO EUROPE | 278.0 | 305.4 | 317.9 | 331.1 |
| <u>TOTAL NATO</u> | 476.6 | 531.6 | 555.8 | 582.6 |

Source : OECD.

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WARSAW PACT
TABLE 2

(a) POPULATION OF WARSAW PACT COUNTRIES

(millions)

| | 1960 | 1970 | 1975 | 1980 |
|---------------------|-------|-------|-------|-------|
| Bulgaria | 7.9 | 8.5 | 8.8 | 9.1 |
| Czechoslovakia | 13.7 | 14.3 | 14.8 | 15.1 |
| GDR | 17.1 | 17.1 | 17.1 | 17.2 |
| Hungary | 10.0 | 10.3 | 10.5 | 10.6 |
| Poland | 29.6 | 32.6 | 33.7 | 35.2 |
| Rumania | 18.4 | 20.4 | 21.2 | 21.8 |
| Total East European | 96.5 | 103.1 | 106.1 | 109.0 |
| USSR | 214.3 | 242.8 | 254.2 | 266.8 |
| Total Warsaw Pact | 310.8 | 345.7 | 360.3 | 375.6 |

Source: AC/127-D/436, 12th April, 1973

NATO
TABLE 3

(a) POPULATION GROWTH RATE

(% average yearly change)

| | 1960-70 | 1970-75 | 1975-80 |
|-------------------|---------|---------|---------|
| <u>EUROPE</u> | | | |
| - DPC members | 0.93 | 0.82 | 0.80 |
| - NATO | 0.95 | 0.81 | 0.80 |
| Canada | 1.76 | 1.17 | 1.22 |
| United States | 1.26 | 0.48 | 1.13 |
| <u>TOTAL NATO</u> | 1.10 | 0.89 | 0.94 |

(b) TOTAL LABOUR FORCE

(millions)

| | As % of total population 1970 | 1970 | 1975 | 1980 |
|-------------------|-------------------------------------|-------|-------|-------|
| <u>EUROPE</u> | | | | |
| - DPC members | 41.7 % | 106.2 | 106.9 | 110.1 |
| - NATO | 41.8 % | 127.6 | 129.1 | 133.3 |
| Canada | 39.7 % | 8.5 | 9.8 | 11.5 |
| United States | 41.9 % | 85.9 | 93.2 | 101.2 |
| <u>TOTAL NATO</u> | 41.8 % | 222.0 | 232.1 | 245.9 |

Source : OECD.

WARSAW PACT
TABLE 3

(a) POPULATION GROWTH RATE

(% average yearly change)

| | 1960-70 | 1970-75 | 1975-80 |
|--|---------|---------|---------|
| <u>EAST EUROPEAN</u> <u>members</u> | 0.7 | 0.6 | 0.7 |
| <u>USSR</u> | 1.25 | 1.0 | 1.0 |
| <u>TOTAL WARSAW PACT</u> | 1.1 | 0.9 | 0.9 |

(b) TOTAL LABOUR FORCE

(millions)

| | As % of total population 1970 | 1970 | 1975 | 1980 |
|--------------------------|-------------------------------------|-------|-------|-------|
| <u>EAST EUROPEAN</u> | 52.2 | 53.9 | 56.5 | 57.7 |
| <u>USSR</u> | 50.2 | 121.9 | 131.5 | 141.3 |
| <u>TOTAL WARSAW PACT</u> | 50.8 | 175.8 | 188.0 | 199.0 |

Source: Based largely on Joint Economic Committee of US Congress'
"Soviet Economic Prospects in the 1970s"(June 1973)

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NATO
TABLE 4

MALE POPULATION OF MILITARY AGE (18 to 34 years)

(Millions)

| Country | 1970 | 1973 | 1975 | 1980 |
|----------------------|-------|-------|-------|-------|
| Belgium | 1.10 | 1.14 | 1.17 | 1.27 |
| Denmark | .63 | .65 | .66 | .67 |
| Fed. Rep. of Germany | 7.44 | 7.22 | 7.29 | 7.22 |
| Italy | 6.80 | 6.84 | 6.83 | 7.01 |
| Luxembourg | .04 | .04 | .04 | .05 |
| Netherlands | 1.71 | 1.81 | 1.86 | 1.98 |
| Norway | .45 | .48 | .50 | .53 |
| Portugal | .82 | .81 | .80 | .78 |
| Turkey | 4.53 | 5.10 | 5.52 | 6.67 |
| United Kingdom | 6.53 | 6.65 | 6.76 | 7.17 |
| EUROPE (DPC members) | 30.05 | 30.74 | 31.43 | 33.35 |
| Canada | 2.68 | 2.92 | 3.10 | 3.53 |
| United States | 24.19 | 27.40 | 29.13 | 32.66 |
| Total DPC | 56.92 | 61.06 | 63.66 | 69.54 |
| France | 6.09 | 6.36 | 6.55 | 7.11 |
| Greece | .90 | .93 | .93 | .96 |
| NATO EUROPE | 37.04 | 38.03 | 38.65 | 41.48 |
| TOTAL NATO | 63.91 | 68.35 | 71.14 | 77.66 |

Source: OECD

(Note: Iceland has no armed forces and is not included in the above)

WARSAW PACT
TABLE 4

MALE POPULATION OF MILITARY AGE
(18 to 34 years)

(million)

| | 1970 | 1973 | 1975 | 1980 |
|-----------------------|------|------|------|------|
| East European members | 12.9 | 13.6 | 14.0 | 15.0 |
| USSR | 30.5 | 31.4 | 31.6 | 37.8 |
| Total Warsaw Pact | 43.4 | 45.0 | 45.6 | 52.8 |

Sources: Based on information provided in "Soviet Economic Prospects for the Seventies" (June 1973) a paper prepared for the US Congress and "Demographic Trends in Warsaw Pact Countries" (C-M(72)1)

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NATO
TABLE 5

PERSONNEL STRENGTH (MILITARY & CIVILIAN) OF THE
NATO ARMED FORCES

1973

(Thousands)

| | Total as % of labour force | Military | Civilian | Total |
|----------------------|-------------------------------------|----------|----------|-------|
| Belgium | 2.9 | 103 | 8 | 116 |
| Denmark | 1.9 | 38 | 8 | 46 |
| F.R. of Germany | 2.4 | 461 | 175 | 636 |
| Italy | 3.3 | 548 | 73 | 621 |
| Luxembourg | 0.8 | 1 | - | 1 |
| Netherlands | 3.0 | 114 | 29 | 143 |
| Norway | 3.0 | 39 | 10 | 49 |
| Portugal | 8.1 | 276 | 5 | 280 |
| Turkey | 4.0 | 563 | 37 | 601 |
| United Kingdom | 2.8 | 370 | 324 | 694 |
| EUROPE (DPC members) | 3.2 | 2,518 | 669 | 3187 |
| Canada | 1.3 | 82 | 39 | 121 |
| United States | 3.6 | 2,277 | 1,010 | 3,287 |
| Total DPC | 3.3 | 4,877 | 1,718 | 6,595 |
| France | 3.2 | 581 | 131 | 711 |
| Greece | 6.3 | 186 | 26 | 212 |
| NATO Europe | 3.2 | 3,285 | 826 | 4,110 |
| TOTAL NATO | 3.3 | 5,644 | 1,875 | 7,518 |

WARSAW PACT
TABLE 5

PERSONNEL STRENGTH
(MILITARY) OF THE WARSAW
PACT COUNTRIES

The relevant information from NATO sources is classified NATO SECRET, and is to be found in NATO document MC/161.

NATO
TABLE 6

PERCENT OF ARMED FORCES CONSCRIPTED (*)

| Country | 1965 | 1970 | 1973 | 1978 |
|-----------------|------|------|------|------|
| Belgium | 43.8 | 42.2 | 45.0 | 21.4 |
| Canada | 0.0 | 0.0 | 0.0 | 0.0 |
| Denmark | 57.6 | 59.6 | 50.8 | 36.2 |
| F.R. of Germany | 49.5 | 47.9 | 47.4 | 46.7 |
| Greece | 83.6 | 68.1 | 66.3 | 64.5 |
| Italy | 76.6 | 75.4 | 73.2 | 72.3 |
| Luxembourg | 55.6 | 0.0 | 0.0 | 0.0 |
| Netherlands | 58.0 | 48.2 | 49.6 | .. |
| Norway | 56.2 | 62.6 | 65.2 | 65.3 |
| Portugal | 83.2 | 86.1 | 88.0 | 88.1 |
| Turkey | 85.3 | 88.3 | 85.4 | 85.9 |
| United Kingdom | 0.0 | 0.0 | 0.0 | 0.0 |
| United States | 11.3 | 17.6 | 9.8 | .. |

.. = Not available.

(*) The % regulars = 100 less the % conscripted
(e.g. for Belgium in 1965 : 56.2 %).

Source : Country replies to Defence Planning Questionnaire

WARSAW PACT
TABLE 6

CONSCRIPT SERVICE IN
WARSAW PACT COUNTRIES

The Warsaw Pact countries rely entirely on conscript service for recruitment to their forces. Length of service is longer than in most NATO countries; two to three years in the USSR and from sixteen months to three years in the East European member countries.

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NATO
TABLE 7

DEFENCE EXPENDITURES (NATO DEFINITION)
OF MEMBER COUNTRIES

national currencies*

| | 1970 | 1971 | 1972 | 1973 | 1974 |
|---|---------|---------|---------|---------|---------|
| Belgium (million francs) | 37,502 | 39,670 | 44,140 | 49,075 | |
| Denmark (million Danish Kroner) | 2,757 | 3,195 | 3,386 | 3,711 | |
| F.R. Germany (million DM) | 22,573 | 25,450 | 28,720 | 31,597 | |
| Italy (billion lire) | 1,562 | 1,852 | 2,162 | 2,385 | |
| Luxembourg (million Luxembourg francs) | 416 | 442 | 517 | 575 | |
| Netherlands (million guilders) | 3,968 | 4,466 | 4,974 | 5,651 | |
| Norway (million Norwegian Kroner) | 2,774 | 3,022 | 3,239 | 3,621 | |
| Portugal (million Escudos) | 12,538 | 14,699 | 16,046 | 15,528 | |
| Turkey (million Liras) | 6,237 | 8,487 | 9,961 | 12,483 | |
| United Kingdom (million £ Sterling) | 2,444 | 2,800 | 3,272 | 3,502 | |
| EUROPE (DPC members) (million US \$) | 20,983 | 23,991 | 27,277 | 29,980 | 34,686 |
| Canada (million Canadian \$) | 2,061 | 2,132 | 2,238 | 2,391 | |
| United States (million US \$) | 77,854 | 74,862 | 77,638 | 78,462 | |
| Total DPC (million US \$) | 100,952 | 101,042 | 107,214 | 110,922 | 121,862 |
| France (million francs) | 33,200 | 35,000 | 36,800 | 41,460 | |
| Greece (million Drachmae) | 14,208 | 15,480 | 17,211 | 19,478 | |
| NATO EUROPE (million US \$) | 28,209 | 31,627 | 35,336 | 39,075 | 44,617 |
| TOTAL NATO (million US \$) | 108,174 | 108,677 | 115,273 | 120,018 | 131,793 |

* The totals have been obtained by conversion of national currency estimates at current prices of each year into US dollars at 1974 exchange rates.

Source: Country replies to Defence Planning Questionnaire

WARSAW PACT
TABLE 7

WARSAW PACT MILITARY BUDGETS(*)

| | 1969 | 1970 | 1971 | 1972 | 1973 | 1974 |
|---|-------|-------|-------|-------|-------|-------|
| Bulgaria (billion leva) | 0.30 | 0.32 | 0.36 | 0.40 | 0.42 | 0.48 |
| Czechoslovakia (billion crown) | 14.2 | 15.0 | 15.9 | 16.7 | 16.7 | 18.8 |
| GDR (billion marks) | 6.3 | 6.7 | 7.2 | 7.6 | 8.3 | 8.9 |
| Hungary (billion forints) | 8.30 | 8.90 | 9.44 | 9.72 | 9.85 | 10.61 |
| Poland (billion zlotys) | 33.30 | 35.40 | 37.65 | 39.86 | 41.06 | 45.21 |
| Romania (billion lei) | 6.4 | 7.05 | 7.50 | 7.80 | 7.92 | 8.60 |
| USSR Official Defence Vote (billion roubles) | 17.7 | 17.9 | 17.9 | 17.9 | 17.9 | 17.7 |
| Total Estimated Expenditure | 24.3 | 25.7 | 26.5 | 27.5 | 28.2 | 28.6 |

(*) Official defence figures understate the real outlay. This is especially so in the USSR, where expenditure on the military aspects of R & D is very high - a share of two-thirds has been assumed in table III(b). Even if the total defence spending in national currencies were known this would not necessarily give a realistic picture of the true cost since prices are officially fixed over long periods so that a given budget allocation could accommodate programmes rising in real cost

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NATO
TABLE 8

DEFENCE EXPENDITURES (NATO DEFINITION)
OF MEMBER COUNTRIES AS % OF CENTRAL GOVERNMENT
BUDGET EXPENDITURES

| | 1965 | 1970 | 1973 |
|-----------------|------|------|------|
| Belgium | 12.7 | 10.9 | 9.8 |
| Canada* | 21.6 | 12.7 | 10.9 |
| Denmark* | 14.3 | 8.6 | 7.4 |
| France | 24.0 | 20.0 | 20.6 |
| F.R. Germany | 30.1 | 25.9 | 26.5 |
| Greece | 18.9 | 21.9 | 18.9 |
| Italy | 14.3 | 10.9 | 12.3 |
| Luxembourg | 5.4 | 3.1 | 3.5 |
| Netherlands | 16.1 | 13.3 | 11.9 |
| Norway | 18.9 | 15.3 | 13.4 |
| Portugal | 37.0 | 39.5 | 35.6 |
| Turkey* | 26.5 | 19.9 | 21.1 |
| United Kingdom* | 25.2 | 19.4 | 20.3 |
| United States* | 42.3 | 36.7 | 29.6 |

* For these countries fiscal years do not coincide with the calendar year and consequently under 1960, figures refer to f.y. 1960/61, etc.

General Note: For each country taken separately, the above table may give a rough idea of the trend of the share devoted to defence in the budget of the central government. On the other hand, any comparison between the countries would be misleading. There are very marked differences between countries both as regards the role of the central budget according to the administrative system (federal states or centralised states), and as regards the number of activities financed by the budget as against those left to private enterprise.

Source: National budget statements, Defence Planning Reviews

WARSAW PACT
TABLE 8

DEFENCE EXPENDITURES OF WARSAW PACT IN
RELATION TO CENTRAL GOVERNMENT EXPENDITURES

The role of the central government and the control exercised over expenditures in Warsaw Pact countries have no parallel in the Western systems of government. Consequently, the allocation of resources made to defence as against other requirements cannot be satisfactorily illustrated by a simple series of figures.

NATO
TABLE 9

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FINANCIAL IMPLICATIONS OF THE 1975-1980 FORCE GOALS

In real terms (constant, 1972 prices)

Millions of National
currency units (a)

| | Defence Expenditures 1975-1880 as indicated by national plans and International Staff estimates | | Cost of the Force Goals 1975-1980 | | Financial Requirements | |
|----------------|---|--|--------------------------------------|-----------------------------------|---------------------------------|--|
| | Total (6 years 1975-1980) | Average yearly increase/decrease (on 1973) | Total (6 years 1975-1980) | Col. (3) as a % of Col. (1) | Total Col. (1) + Col. (3) | Average yearly increase/decrease (on 1973) |
| Belgium | 330,286 | +4.0 | 26,000 | 7.9 | 356,286 | + 5.7 |
| Denmark | 22,821 | +2.0 | 2,800 | 12.3 | 25,621 | + 4.7 |
| Germany | 195,275 | (+2.0) | 9,375 | 4.8 | 204,375 | + 3.0 |
| Greece | 124,434 | +2.8 | 74,500(b) | 59.9(b) | 198,934(b) | +13.5(b) |
| Italy | 14,421 | (+2.5) | 3,200 | 22.2 | 17,621 | + 7.5 |
| Luxembourg | 3,772 | (+2.9) | 39 | 1.0 | 3,811 | + 3.1 |
| Netherlands | 35,125 | (+3.0) | 3,013 | 8.6 | 38,145 | + 4.9 |
| Norway | 22,274 | +2.0 | 2,500 | 11.2 | 24,774 | + 4.4 |
| Portugal | 83,198 | -1.0 | 6,750 | 8.1 | 89,948 | - 0.4 |
| Turkey | 92,500 | +6.0 | 46,000(b) | 49.7(b) | 138,500(b) | +15.3(b) |
| United Kingdom | 21,457 | (+1.6) | 750 | 3.5 | 22,187 | + 2.4 |
| Canada | 15,043 | +1.5 | 850 | 5.7 | 15,893 | +2.8 |
| United States | 513,165 | (+2.5) | 1,800 | 0.4 | 514,965 | +2.6 |

(a) For Italy: Thousand million lire

(b) Including cost of those force goals that will require external aid for implementation

Source: Report to DPC on Force Goal 1975-1980 (DPC/D(74)5 of 19th April, 1974)

WORLD COMMODITY PRICE TRENDS

| | <u>% change over the year</u> <u>Nov. 1973 - Nov.1974</u> |
|----------------------|--|
| All commodities | + 21.1 |
| (a) Food | + 53.1 |
| (b) Industrial total | - 21.8 |
| of which | |
| - Fibres | - 27.9 |
| - Metal | - 18.7 |

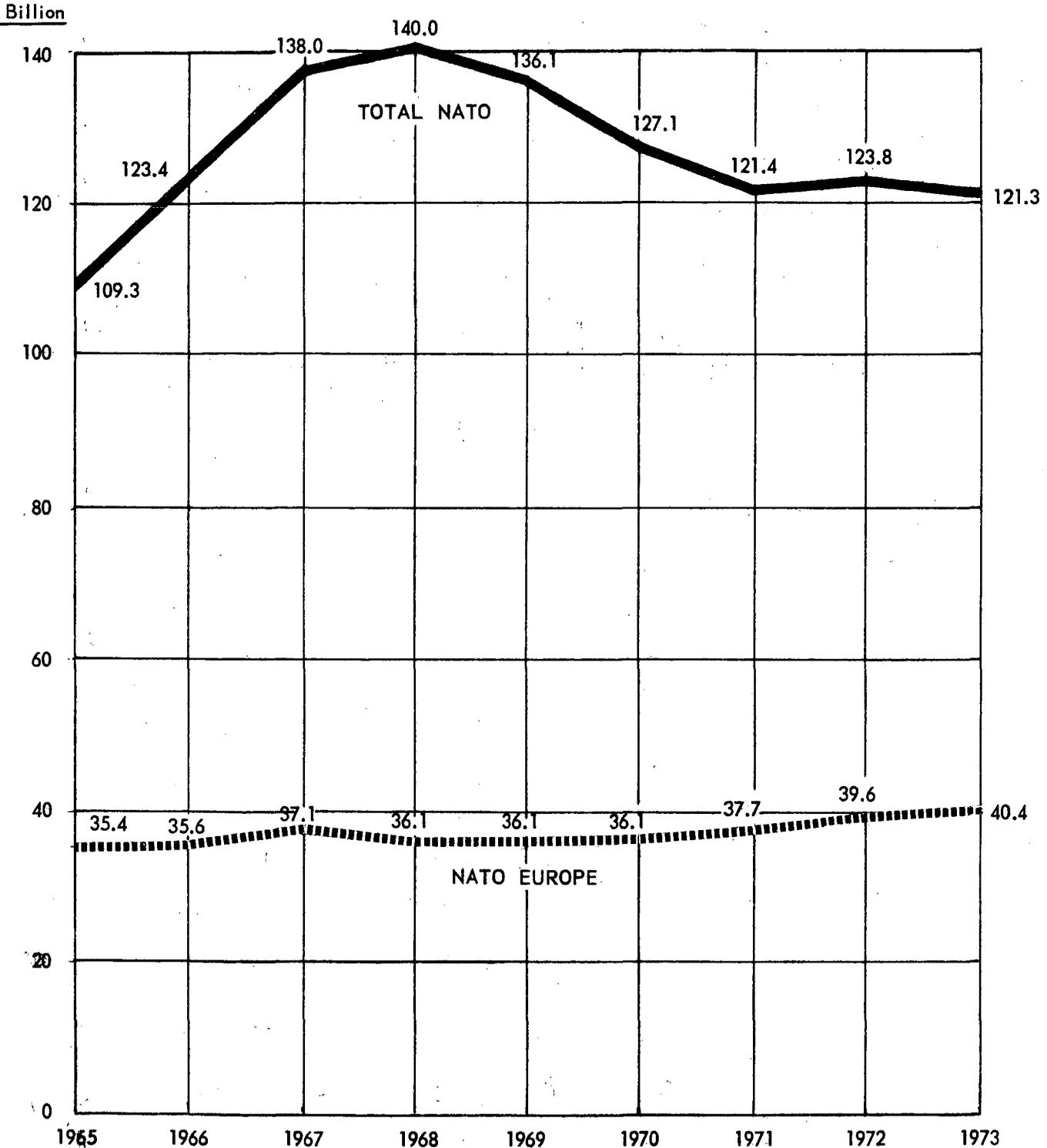
Source : Economist, London

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CHART I

EVOLUTION DES DEPENSES DE DEFENSE (EN TERMES REELS)
DES PAYS MEMBRES DE L'OTAN (TAUX DE CHANGE 1973)

TRENDS (IN REAL TERMS) OF NATO COUNTRIES DEFENCE EXPENDITURES
(1973 EXCHANGE RATES)



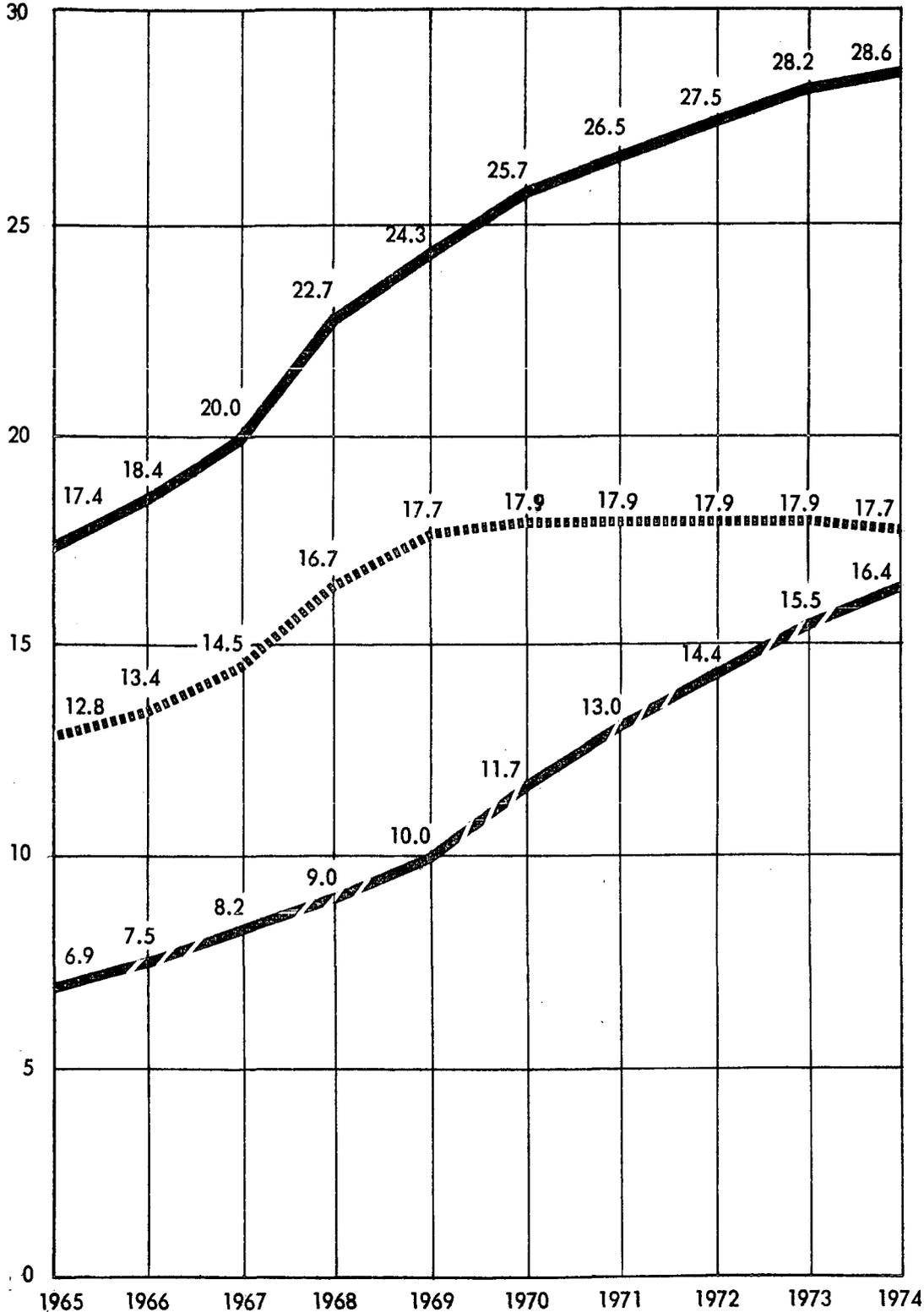
NOTE : Le déflateur utilisé est celui du PNB - The deflator used is the GNP deflator

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CHART II

DEPENSES DE DEFENSE DE L'UNION SOVIETIQUE
SOVIET DEFENCE SPENDING

Milliard roubles



Estimation des dépenses de défense totale de l'URSS (Dépenses de défense budgétaires + 2/3 du budget "Science")
Total estimated Soviet defence spending (Defence Budget + 2/3 of Science Budget)

Budget pour la défense de l'URSS
Soviet Budget for Defence

Dépenses totales consacrées à la Science (Budget de la Science et autres ressources y compris les investissements destinés à la science)
Total spending on Science (Science Budget and other resources devoted to science including investments)

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