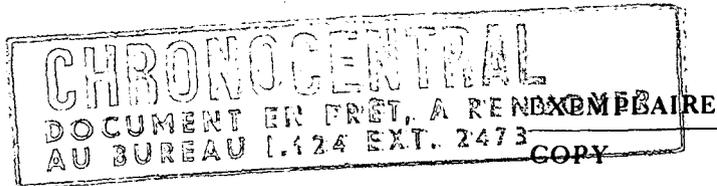


CONSEIL DE L'ATLANTIQUE NORD
NORTH ATLANTIC COUNCIL



N°

177

Corr -16-9-74
follow.

N A T O C O N F I D E N T I A L

ORIGINAL: ENGLISH
2nd September, 1974

WORKING PAPER
AC/127-WP/407

ECONOMIC COMMITTEE

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

Note by the Chairman

In response to the decision taken by Defence Ministers(1) at their meeting on 14th June that an early start should be made on the preparation of new Ministerial Guidance for NATO Force Planning for the period up to 1982, an up-dated economic appreciation is called for by 1st October(2).

2. In view of the shortage of time a preliminary draft of the appreciation is attached. Only one Delegation has responded to the request for information made to the Committee in mid-July(3). Consequently the attached draft has been based on material generally available to the Directorate (from OECD, EEC, IMF, press reports, etc.).

3. Under the procedure laid down for NATO Force Planning the Economic Directorate is responsible for the preparation of the draft report which has then to be reviewed by the Economic Committee. As time is very short the Committee should be prepared to give their views on this draft at the next meeting on 10th September.

(Signed) Y. LAULAN

NATO,
1110 Brussels.

-
- (1) DPC/D(74)15, 19th June, 1974
(2) DRC/N(74)17, 30th July, 1974
(3) ED/EC/74/57, 15th July, 1974

N A T O C O N F I D E N T I A L

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

CONTENTS

		<u>Paragraph Nos.</u>
	<u>INTRODUCTION</u>	1 - 3
	<u>SUMMARY APPRAISAL</u>	4 - 10
PART I	<u>ECONOMIC DEVELOPMENTS IN NATO COUNTRIES</u>	
	(a) Main economic trends over the 1972-1973 period	11
	(b) The medium-term economic outlook, 1975-1978	12 - 26
	- Inflation	14
	- The problem of external payments imbalances	15
	(i) The size of the problem	16
	(ii) Possible solutions through foreign trade policies	17
	(iii) The recycling of international liquidity	18
	(a) Borrowing through banks	19
	(b) Investments by oil producing countries	20
	- Structural changes necessitated by high energy prices	21
	(i) Medium-term measures	22
	(ii) Longer-term measures	23
	- Implications for the standard of living	24
	- The growth prospects up to 1978	25 - 26
	(c) The longer-term economic outlook, 1978-1982	27 - 30
	(d) Economic basis for Defence	31 - 37
	- General	31
	- Key economic factors influencing resource allocation to defence	32 - 35
	(i) Rising prices and costs	32 - 34
	(ii) Public expenditure trends	35
	- Possible trends in defence expenditures	36 - 37

AC/127-WP/407

-3-

Paragraph Nos.

PART II ECONOMIC DEVELOPMENTS IN WARSAW PACT COUNTRIES

(a) Current Trends (Performance in 1972/73 and prospects for 1974)	38 - 41
(b) The longer term outlook 1975-82	42 - 56
(i) International developments	43
- Resources	44
- Policies and Structure	45 - 49
(ii) External Influences	50 - 53
(iii) Growth in 1975-1982	54 - 56
(c) The defence burden in the Warsaw Pact countries	57 - 61
- Outlook	59 - 60
- Conclusions	61

STATISTICAL ANNEX

CONTENTS

<u>PART I</u>		<u>Page No.</u>
<u>TABLE</u>		
1(a)	The growth of the Gross National Product in NATO countries	1
1(b)	Price increases in NATO countries (GNP deflators)	2
2(a)	Population and labour force	3
2(b)	Personnel totals (military and civilian) in 1973 and as percentage of the total labour force	5
2(c)	Manpower of military age (18-34 years)	6
2(d)	Conscripted and volunteer forces of member countries (% distribution)	7
3(a)	NATO defence expenditure trends 1965 to 1973 in constant prices	8
3(b)	Financial implications of the 1975-1980 Force Goals	9
3(c)	NATO defence expenditure as % of government expenditure	10
<u>PART II</u>		
1(a)	Warsaw Pact countries: GNP	12
1(b)	Warsaw Pact countries: growth of GNP (%)	12
2(a)	Population of Warsaw Pact countries	13
2(b)	Growth in Warsaw Pact population (%)	13
2(c)	Economically active population	13
2(d)	Male population of military age	14
2(e)	Armed forces of Warsaw Pact countries (1973)	14
3(a)	Warsaw Pact countries: defence budgets	15
3(b)	Soviet defence spending	16

APPRECIATION OF THE ECONOMIC POSITION OF NATO
AND WARSAW PACT COUNTRIES FOR THE PERIOD
THROUGH 1980

INTRODUCTION

The first economic appreciation 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. For the Warsaw Pact countries as a whole the recent international economic developments 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, particularly for the NATO member countries, and only tentative forecasts could be made. The first part of the appreciation, which covers economic developments in NATO countries and the economic bases for defence in these countries, have 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. A relatively favourable economic outlook can be expected during the period under consideration if these tasks are implemented. If, on the other hand, one or more of them are not met this could irretrievably bring about a worldwide economic recession of a magnitude unprecedented in the post-war period.

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. On the whole it seems that external factors should only marginally affect the economic development of these countries up to 1982 and the evaluation given for Warsaw Pact countries in the 1972-73 appreciation is therefore still valid.

DECLASSIFIED/DECLASSIFIEE - PUBLIC DISCLOSED/MISE EN LECTURE PUBLIQUE

SUMMARY APPRAISAL

4. The year 1973 was a turning point for the economic development of member countries. Up to that year it seemed that the growth performance of the 1960s might be repeated in the 1970s and that the strength of the economies and the potential military capabilities of both NATO and Warsaw Pact countries could thus be increased substantially over the period under review. The strong inflationary development 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. This factor and increasingly difficult political and social problems have led to more fragile economic inter-relationships that could easily be reduced to disorder by an unforeseen train of events. In such circumstances the possibility of recession taking a grip and assuming worldwide proportions cannot be ruled out.

5. A clearcut distinction must be made between the difficult period up to 1978 and the period after 1978 when the situation should improve due to the increased flow of oil and gas in the NATO area and the gradual adjustment of member countries' economies to the new conditions. Even supposing that NATO governments can cope with the many difficult economic problems mentioned above, in the present far from clear situation the outlook points decisively to sluggish growth. Under the best conditions it will take time for corrective measures to take effect and therefore the most that can be hoped for over the period to 1978 is average growth rates of the order of 2-3% for most NATO European countries. On the other hand in North America where the position is basically stronger, the growth rate could be of the order of 4%. Up to 1982 the growth rate is unlikely to change much in North America while an improvement could be expected in Europe.

6. The events that have hit NATO countries are likely to have little effect or even a positive one on the Warsaw Pact countries. Economic growth could average some 5% per year over the period up to 1982. If implemented this would contribute towards reducing the current economic superiority of NATO countries as a whole and to improving the relative economic position of Warsaw Pact countries.

7. While therefore the defence capability of Warsaw Pact countries is likely to increase rapidly over the period under review the ability of most NATO countries to support their defence effort could at best increase only slowly.

AC/127-WP/407

-7-

8. The Soviet Union could increase considerably in real terms the amount of resources going to defence without increasing the relative burden on the economy, i.e. without increasing the share of GNP going to defence. On the assumptions made above the real increase of defence expenditure could rise to 5% yearly instead of 3% as in recent years. As a result the Soviet Union could easily outstrip the NATO effort without placing an intolerable burden on the economy. They could also choose to maintain the current share which corresponds to that of the NATO average, and at the same time divert considerable additional economic resources to the civilian sector. These options create a considerable flexibility for the Soviet leaders, who can easily adjust their policies to the prevailing political and economic situation, both internal and external.

9. As regards NATO as a whole some flexibility exists but to a lesser degree. The North American member countries retain, however, a set of options. They can if necessary increase their defence efforts at a considerably higher rate than currently anticipated. For NATO Europe the only option over the next few years seems to be to maintain or even increase the defence effort in a situation of stagnating economic growth. Otherwise European countries might be faced with a serious decline of their defence capability. However after 1978 the situation in European member countries should improve somewhat.

10. The economic problems facing member countries vary considerably. In countries with low or zero growth and serious payments problems, which fail to cope with the restructuring problems, conditions could be created that would undermine their economic and political stability. For the hardest hit countries implementation of the force proposals might therefore raise unacceptable economic and political problems. Other member countries which are sufficiently well placed might, however, in the years ahead do relatively more to compensate eventual shortfalls if they wish to avoid seriously to reduce the defence capability of the Alliance.

POSSIBLE TRENDS OF REAL ECONOMIC GROWTH AND REAL
DEFENCE EXPENDITURE 1978 to 1982(1)
(percent increases)

	1975 to 1978		1978 to 1982	
	Economic growth	Defence expenditure	Economic growth	Defence expenditure
North America	4	3	4.4	3
Europe	2-3	3.5-4	3-4	3.5-4
Soviet Union	5	3	5	3

(1) For NATO countries defence expenditure estimates are force goal figures

DECLASSIFIED/DECLASSIFIED - PUBLIC DISCLOSED/MISE EN LECTURE PUBLIQUE

PART I. ECONOMIC DEVELOPMENTS IN NATO COUNTRIES

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

11. In spite of the breakdown in the early 1970's 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 1971-1972 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 the economic growth was expected to be similar to that achieved in the 1960's, some 5 per cent 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.

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

12. The impact of the higher prices for oil, the effects of which have not yet been fully felt in price levels or the balance of payments, and the social and political difficulties experienced in curbing inflation have led to increasingly fragile economic inter-relationships that could easily be reduced to disorder by an unforeseen train of events.

13. In their efforts to avoid this, Western governments will be faced with the problem of having to deal, at the same time, with inflation, growing unemployment and balance of payments problems. Assuming, however, that:

- (i) inflation is brought under control,
- (ii) the recycling of the oil exporting countries incomes in the international monetary system is successfully arranged, and
- (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 implement any or all of the above conditions might generate a disastrous recessionary development with serious consequences not only to member countries individually but also to the Alliance as a whole.

- Inflation

14. 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 the first half of 1974, raw material prices other than energy have declined considerably. However for 1974 lower import prices are unlikely to have time to greatly influence consumer prices. Furthermore, the anti-inflationary measures now being increasingly applied by governments are not likely to have a decisive influence on prices this year. By 1975 the combined efforts of these factors should halt the acceleration and even begin to reduce the rate of increase of prices and costs. There is, nevertheless, a considerable risk that the time lag before results are seen may induce governments to squeeze their economies too long and too hard, causing a worldwide collapse in demand, higher unemployment and widespread 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 per cent increase realised in the 1960's.

- The problem of external payments imbalances

15. 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, and the development of surpluses in some member countries, mainly due to restrictive domestic economic policies, aggravates the situation.

(i) The size of the problem

16. 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. On present estimates 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. 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

17. 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 have pledged, for a period of one year, to

avoid new restrictions on international trade that could easily lead to chain reactions similar to those which produced such disastrous results in the thirties.

(iii) The recycling of international liquidity

18. An equilibrium on the current account of the balance of payments is not likely to be attained for member countries as a whole before the middle of the 1980's. During the years ahead the financing of the import needs will, therefore, be one of the major economic problems to solve.

(a) Borrowing through banks

19. It now seems likely that the major part of the oil consumers deficits in 1974 will be met, at least in the case of NATO countries, from bank-arranged borrowings through the Eurodollar market. 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 borrowing capacity of the Eurodollar market is very uncertain.

(b) Investments by oil producing countries

20. The solution for the international financing problems seems to be direct investment in deficit countries by oil exporting countries. The extent of such flows will, depend upon the attractiveness and security of investment markets in individual member countries. The bulk of the oil producers surplus funds seems, therefore, likely to be invested in the major financial centres with only a small part going to the small or developing countries, the economic situation of which 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

21. To reach a higher degree of self-sufficiency in energy is a longer-term task requiring considerable capital resources for implementation. Sufficient imports of capital might not be available for this purpose during the next five years and considerable additional domestic savings will, consequently, become necessary.

DECLASSIFIED/DECLASSIFIEE - PUBLIC DISCLOSED/MISE EN LECTURE PUBLIQUE

(i) Medium-term measures

22. Two main tasks face member countries up to 1978. The first, which can produce considerable results in the medium-term, is to assist and encourage energy saving efforts in industrial structures and consumption patterns. Adjustment of products and production methods in industry to the new price setting is another important field of potential saving.

(ii) Longer-term measures

23. The most important task, however, during the next four to five years is to plan and implement measures to increase domestic production of energy. As a consequence of the measures taken in the next few years 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).

- Implications for the standard of living

24. 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 pressing 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 not be repeated in the 1970's, and a period of zero or very slow standard of living improvements might be the best to be hoped for.

- The growth prospects up to 1978

25. 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 will necessitate increased domestic savings to finance vital restructuring and adjustment programmes. Such savings will tend to reduce further internal demand and thus economic growth.

26. In the present far from clear situation, the short-term outlook points decisively to sluggish growth. Under the best conditions it will take time for corrective measures to take effect and therefore the most that can be hoped for over the period to 1978 is average growth rates of the order of 2% to 3% yearly for most European countries. On the other hand, in North America, where the economic position is basically stronger, economic prospects of a growth rate of the order of 4% might be attainable.

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

27. 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.

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

29. Even if the situation on the whole is likely to improve on the given conditions, the development and the severity of the economic problems will vary not only between North America and Europe, but also between European member countries. The basic economic position of North America is much stronger than that of most European member countries, and the ability of their economies to cope with the current problems considerably better. The balance of payments problem for the North American member countries is not regarded as serious and 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 considerably higher than in Europe. The growth potential of the Canadian economy might not be much affected by the current energy crisis, and the 1972 OECD projection of economic growth of 5.2 per cent yearly between 1975 and 1980 might prove correct. The OECD projection of growth in the United States of 4.4 per cent yearly between 1975 and 1980 appears possible.

AC/127-WP/407

-14-

30. In Europe the earlier OECD projection of economic growth for the years 1975-1980 has been largely invalidated by the eruption of inflation and the 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 per cent on average between 1974 and 1978 and some 3 to 4 per cent during the last years of the period.

(d) Economic Basis for Defence

General

31. 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 are implemented. 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

32. The very much higher rates of inflation that are now in prospect compared with past experience have very serious implications for defence. Quite apart from the possible overall limitations on budgetary spending that anti-inflationary policies are likely to entail, inflation has a distorting effect on allocations within the defence budget unless provision is made for the necessary adjustments.

33. 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 alleviate the problems that arise. This system, if adopted by all member countries, would contribute to resolving the problem in this sector.

34. 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

35. 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 drastically curbed. Between 1968-1973 the budgets of member countries increased considerably faster than the simultaneous growth of GNP. 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 and recognition that the resources for defence have reached levels inadequate for national security needs increases the need for a close scrutiny of the priorities in expenditures that each country will need to adopt. 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

36. ~~Projections of defence spending provided for the NATO~~ force goals exercise covering the 1978-1980 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 (Part I, table 3(b)). As can be seen from the table, the increases in defence expenditure required to implement the agreed force goals 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 3.5-4% 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.

37. Taking into account the economic growth rates of 2-3% projected above for NATO European countries, the implications of the Force Goals are to increase the share of GNP taken by defence at least up to 1978. Up to that year it will make possible a continuation of the trend of the last few years of slowly rising

defence share of GNP which has been in contrast to the continual decline during the 1960s. For the period after 1978 this would imply maintenance of the defence share of GNP. The North American member countries are more favourably placed, their GNP growth rates are likely to outstrip substantially the projections of defence expenditure made during the force goal exercise. The economic situation in some member countries is likely to become difficult over the next few years with serious inflationary and balance of payments problems developing. 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 might raise difficult economic and political problems. Other countries which are sufficiently well placed must, however, be prepared in the years ahead to do relatively more to compensate eventual shortfalls, if one wishes to avoid seriously to reduce the defence capability of the Alliance.

PART II ECONOMIC DEVELOPMENTS IN THE WARSAW PACT COUNTRIES

(a) Current Trends (Performance in 1972/73 and prospects for 1974)

38. Over the years 1972/73 economic growth in the Warsaw Pact countries was a little less than in the NATO countries. Progress in the East European countries was steady, GNP rising 5-6% per year. In the Soviet Union on the other hand performance was uneven. Growth in 1972, owing largely to a bad harvest, was perhaps the lowest in twenty years. In 1973 the harvest was a record and GNP rose by more than 6%.

39. There was an unprecedented rise in East-West trade in 1973, the Soviet turnover in particular, rising by more than 40%. Trade was fostered by easier access to Western credits, the result of détente, but the USSR, and to a lesser extent Poland and Romania, benefitted by the rise in world prices of energy and raw materials. There was a big jump in the convertible currency earnings of the USSR in 1973 - \$600 million more in respect of gold, \$300 more from oil. The Arab countries, moreover, were able to pay in cash for arms delivered by the USSR.

40. Prospects for the year 1974 vary somewhat. In the Soviet Union industrial output is rising but the outlook for agriculture remains uncertain. External factors, on the other hand, are highly favourable for the USSR. Owing to the rise in commodity prices, the Soviet trade balance with the convertible currency area will be in surplus for the first time in many years despite commitments to buy Western equipment well in excess of \$2 milliard a year in 1972 and 1973.

41. The other Warsaw Pact countries are less favourably placed. Their industrial output could be affected by the shortage of energy. Drought last year reduced the output of hydro electric stations, and possibly in anticipation of future difficulties in the purchase of oil from the USSR, general energy conservation measures were introduced. These countries are heavily dependent on foreign trade and are more exposed to the impact of Western inflation than the Soviet Union. If they have problems in financing imports from the outside world they may become still more dependent on the USSR than in the past.

(b) The longer term outlook 1975-82

42. Compared with the West, where recent developments have made the economic situation for the NATO countries very uncertain, the economic situation and trend in the Warsaw Pact countries remains much the same as described in last year's appreciation.

Nevertheless, despite the fact that the economies of these countries are to some extent cut off from the rest of the world, there is bound to be some impact of outside events on their development.

(i) Internal Developments

43. The leaders of these countries have long been faced with the problem of maintaining growth while gradually changing the character of the economy. The Stalin system had entailed a constant expansion of resources with priority for investment and defence at the expense of the consumer-related activities. As human and material resources became less abundant and less easy to mobilise, new policies became necessary. The various attempts at economic reform, the drive to improve technology, the preoccupation with living standards, the new attitude to agriculture and foreign trade, the idea that consumption might prove a factor of growth are all aspects of this trend.

- Resources

44. The problem of resources is less acute in the USSR than in other countries but in the longer term is equally applicable. Despite the slowdown in the growth of population in the Warsaw Pact area the labour force in most countries is still expanding. There is, nevertheless, a labour shortage which is due to the fact that the various means of bringing in labour from households and the countryside are practically exhausted. Everything now depends on natural growth which is insufficient to maintain economic expansion unless productivity rises considerably. Material resources, which are short in Eastern Europe, are plentiful in the Soviet Union. However, even there, the most easily accessible resources, located, like the bulk of the population and the industrial centres, in the European part of the country, are fairly fully exploited, while the massive resources beyond the Urals are costly to exploit.

- Policies and Structure

45. The radical alteration of policies which might seem appropriate to the new situation is not too easy to achieve. The leaders understand that increased emphasis on consumer satisfaction is necessary not only to ward off dissatisfaction which could be politically dangerous, but also to provide the motivation for increased productivity. A cut-back in investment as a whole and stress on consumer orientated investment would seem to be necessary. One problem is that investment in the USSR is not as productive as it should be or rather investment outside the defence sector has not been very productive. The defence sector is relatively very efficient. It has at its disposal the best human and material factors and production is carefully watched by the customer, the

Ministry of Defence, which gets extremely good value for its money. Western observers consider that the defence sector is almost distinct from the rest of the economy so that it is very difficult simply to switch resources without a fundamental reshuffle.

46. Agriculture is a good illustration of this problem. The crucial nature of agriculture's rôle is well realised by the Soviet leaders. They are very keen to improve the nation's diet and have invested considerable sums in the sector. Agriculture however remains inefficient, a legacy of the past when an inappropriate structure was imposed and peasant motivation destroyed.

47. The slowness of the non-defence sectors to absorb technical developments is another consequence of the traditional system. The defence establishment has all the motivation and facilities to study and apply the latest technology and is very successful in doing so. In the other sectors there is little or no end user influence on the enterprises which are concerned to carry out plans imposed by the centre.

48. The centralisation of decision making which is characteristic of the Warsaw Pact economies is efficient in mobilising resources or redirecting them radically in the light of clearly defined priorities. It is much less effective in advanced economies where resources are already committed and the problem is to effect marginal changes as the situation develops. This is no doubt why developed countries like Czechoslovakia and East Germany have suffered more from the system than relatively undeveloped countries like Bulgaria and Romania.

49. What changes are the Party leaders likely to accept? In the East European countries the problems are such that the leaders might be ready to approve far reaching economic reform. In the Soviet Union the position is different. Measures to improve the flow of economic information and apply economic criteria are welcome only so long as there is no threat to control by the Party and the planning bureaucracy or to the defence priority. If economic growth continues according to plan there is not likely to be sufficient pressure for major change.

(ii) External Influences

50. The import of Western equipment incorporating advanced technology is recognised as a good means of raising the efficiency of the non-defence sector. This implies, however, a need, sooner or later to sell competitively on Western

markets a corresponding amount of home-produced products, which given the structure and economic policies of the Warsaw Pact countries limits the scope of this business. As far as the Soviet Union is concerned, the recent rise in the price of materials has greatly increased its earnings from the sale of materials and energy and therefore its capacity to import. Moreover, the rise in price of products in which Siberia is so rich would make more profitable the development of that area.

51. This turn in events is not likely, however, to favour the East European countries. Only Poland and Romania have raw materials which they can profitably sell at the present moment. The other countries of the area are short of raw materials and energy and are likely to become still more tied to the USSR.

52. The impact of Western inflation on the Eastern economies may be quite small. Though East-West trade is basically carried on in Western currencies at Western prices, these have little or no influence on domestic prices. True, the East has its own form of inflation, but the excess purchasing power is not allowed to affect prices except those prevailing on the kolkhoz or black markets or influence production or investment. Moreover, the prevalence of inflation and other disorders in the West will be used by the Party leaders as evidence of the superiority of their system and as an argument against those who urge radical change in the Eastern system.

53. A slowdown in the West however could affect the East in a number of ways. There might be a fall off in the Western demand for Eastern products, and the need to restructure Western economies might reduce the volume of capital available to finance Eastern purchases of equipment. Moreover, some joint production schemes were perhaps based on the attraction to Western firms of low cost manufacturing in the East when full employment prevailed at home. A period of unemployment in the West might rob the joint production schemes of some of their attractiveness to Western businessmen.

(iii) Growth in 1975-1982

54. Contrary to what might be necessary in the case of NATO countries, there seems to be no particular reason to alter basically the earlier estimates of growth of the Warsaw Pact countries. Up to now there are no indications that the Party leaders, for internal reasons or under the influence of external factors, will come out with unexpected targets for the 1976-80 period.

55. Present trends seem to favour the Soviet Union, and to some extent Poland and Romania and these advantages might on balance outweigh the disadvantages affecting the other Warsaw Pact

countries. By the end of the period development projects in Siberia may have provided adequate raw material resources for the whole area which would imply increased dependence on the Soviet Union. It might be easy enough to ensure a further increase in intra-COMECON trade but it is very doubtful if this would make up for the reduced import of technology for the benefit of non-defence sectors which is very important if these economies are to become more balanced.

56. Relative to the present estimate it now seems logical to envisage a slight rise in growth for the Soviet Union and the Warsaw Pact area as a whole and a slight fall in that of the East European countries.

WARSAW PACT COUNTRIES: ESTIMATED GNP 1971-82

(1973 prices; milliard US dollars; purchasing power parity)

	1971 level	1972-73 annual average growth	1973 level	1974-82 annual average growth	
				original estimate	revised estimate
USSR	570	4.6%	624	4.6%	probably 5%
Eastern Europe	204	5.5%	227	3.8%	slightly less
Warsaw Pact countries	774	4.9%	851	4.5%	say 4.5-5%

SOURCE: for data 1971-73 "Planetary Product in 1973" (US Department of State, 1974)

(c) The defence burden in the Warsaw Pact countries

57. Within the Warsaw Pact Alliance the Soviet Union weighs, defence-wise, considerably more than the United States within NATO. It is difficult, however, to make statistical comparisons. In the Soviet Union prices are officially fixed and reflect very imperfectly the relative scarcity of resources. Certainly defence prices do not adequately reflect the overriding priority given to the defence sector where the best management, research and scientific personnel are employed and the best equipment and materials concentrated. Financial comparisons with NATO countries can therefore be misleading. On the basis of official

DECLASSIFIED/DECLASSIFIEE - PUBLIC DISCLOSED/MISE EN LECTURE PUBLIQUE

AC/127-WP/407

-23-

Soviet defence and science budgets, it can be calculated that outlay on defence in rubles since 1969 has risen on the average about 3% per year. Because of the priority for defence and the peculiar price system this increase has made possible a considerable military build up which, in a comparable NATO country, where prices normally reflect market forces, would have necessitated a much larger annual increase in outlay.

58. 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 USSR, in terms of GNP perhaps one-half.

- Outlook

59. There is reason to believe that in the near future the Soviet defence effort may increase at a faster pace than over the last five years. Between 1969 and 1974 the official defence vote remained just under 18 milliard rubles, whereas the total allocation to science rose from 10 milliard in 1969 to 16.4 milliard in 1974, of which about one-half to two-thirds is believed to go on military Research and Development. This tends to confirm that in recent years the emphasis has been on developing qualitatively superior weapons and systems. It is known that a number of new strategic weapons and missiles have been developed and are going into production on a large scale, which would not preclude further efforts in the R & D field, but would imply a rise in hardware costs.

60. The Soviet authorities could probably maintain or slightly increase the pace of their defence effort without impinging too obviously on consumption though there would be fewer resources for other forms of investment. Moreover should serious recession or social unrest hit the West, the leaders might find it easier to resist pressure from the consumers.

- Conclusions

61. The Soviet Union has several options as regards defence spending. With GNP growing at say 5% a year and consumption at 4% it would be possible to maintain a rise in defence spending of 3% or more per year, as in the past. If the Soviet leaders believe that they have achieved parity with the United States they can fairly easily adjust their spending to requirements. On the other hand it seems unlikely that the East European countries will continue to push up their defence spending at the same rate as over the last few years. A rise of 1-2% a year might be expected.

PART I
TABLE 1(a) THE GROWTH OF THE GROSS NATIONAL PRODUCT
 IN NATO COUNTRIES

COUNTRY	% average yearly changes		
	1960/70	1965/70	1970/73
	(1)	(2)	(3)
(0)			
Belgium	5.0	4.87	4.77
Denmark	4.8	4.42	4.31
Federal Republic of Germany	4.9	4.72	3.63
Greece	7.8	6.30	8.90
Italy	5.6	6.02	3.53
Luxembourg	3.5	3.63	4.55
Netherlands	5.3	5.70	4.27
Norway	4.9	4.38	4.56
Portugal	6.2	6.01	7.09
Turkey	5.7	6.56	6.91
United Kingdom	2.7	2.11	3.48
DPC Europe	4.6	4.50	3.93
Canada	5.2	4.77	6.17
USA	4.1	3.47	4.97
Total DPC countries	4.4	3.42	4.63
France	5.8	5.84	5.74
NATO Europe(1)	4.9	4.78	4.34
TOTAL NATO(1)	4.5	4.10	4.74

(1) Including Iceland

PART I
TABLE 1(b) PRICE INCREASES IN NATO COUNTRIES
(GNP deflators)

COUNTRY	% average yearly changes		
	1960/70	1955/70	1970/73
(0)	(1)	(2)	(3)
Belgium	3.4	3.78	6.29
Denmark	5.7	6.21	8.47
Federal Republic of Germany	3.5	3.38	6.62
Greece	2.7	2.56	8.56
Italy	4.4	3.39	7.70
Luxembourg	4.0	5.37	6.40
Netherlands	5.1	5.07	8.63
Norway	4.4	5.21	6.07
Portugal	3.0	4.08	7.57
Turkey	5.9	6.61	16.75
United Kingdom	4.2	4.95	8.41
DPC Europe	4.0	4.02	7.55
Canada	3.0	4.07	4.92
USA	2.7	3.96	4.39
Total DPC countries	3.2	3.97	5.59
France	4.3	4.47	6.04
NATO Europe(1)	4.1	4.13	7.21
TOTAL NATO(1)	3.2	4.01	5.64

(1) Including Iceland

PART I
TABLE 2(a) POPULATION AND LABOUR FORCE

unit: 000

COUNTRY		1960	1970	1975 (E)	1980 (E)	% average yearly change		
						1960/ 70	1970/ 75	1975/ 80
(0)		(1)	(2)	(3)	(4)	(5)	(6)	(7)
Belgium	A	9153	9638	9755	9811	0.52	0.24	0.12
	B	3675	3918	3992	4118	0.64	0.37	0.63
	B % of A	40.15	40.65	40.92	41.97			
Denmark	A	4581	4929	5062	5160	0.73	0.53	0.38
	B	2094	2380	2483	2546	1.29	0.85	0.50
	B % of A	45.71	48.29	49.05	49.34			
Federal Republic of Germany	A	55433	60651	62323	63353	0.90	0.55	0.33
	B	26518	26817	26886	27330	0.11	0.38	0.33
	B % of A	47.84	44.22	43.14	43.14			
Greece	A	8327	8793	9099	9351	0.55	0.69	0.55
	B	3601	3416	3396	3496	-0.52	-0.73	0.55
	B % of A	43.24	38.85	40.82	37.32			
Italy	A	50198	53661	55565	57257	0.67	0.70	0.61
	B	21210	19503	20932	19851	-0.83	-0.25	0.61
	B % of A	42.25	36.35	34.67	34.67			
Luxembourg	A	314	340	353	363	0.80	0.75	0.56
	B	134	144	156	162	0.73	1.61	0.76
	B % of A	42.68	42.35	44.19	44.63			
Netherlands	A	11486	13032	13763	14510	1.27	1.10	1.06
	B	4232	4752	4860	4989	1.17	0.45	0.53
	B % of A	36.84	36.46	35.31	34.38			
Norway	A	3585	3877	4040	4225	0.79	0.82	0.90
	B	1457	1557	1621	1686	0.67	0.81	0.79
	B % of A	40.64	40.16	40.12	39.91			
Portugal	A	8865	8723	8488	8319	-0.16	-0.55	-0.40
	B	3424	3494	3436	3368	0.20	-0.34	-0.40
	B % of A	38.62	40.06	40.48	40.48			
Turkey	A	27509	35321	39897	45285	2.53	2.47	2.56
	B	12993	14534	15550	16608	1.13	1.30	1.32
	B % of A	47.23	41.15	38.98	36.67			

PART I
TABLE 2(a) continued

(0)		(1)	(2)	(3)	(4)	(5)	(6)	(7)
United Kingdom	A	52559	55522	56709	58134	0.55	0.42	0.50
	B	25101	25675	25224	25984	0.23	-0.36	0.59
B % of A		47.76	46.24	44.48	44.70			
DPC Europe	A	232010	254487	265054	275768	0.93	0.82	0.80
	B	104439	106192	106868	110132	0.17	0.12	0.61
B % of A		45.01	41.73	40.32	39.94			
Canada	A	17909	21324	22602	24026	1.76	1.17	1.22
	B	6530	8466	9830	11452	2.63	3.03	3.10
B % of A		36.46	39.70	43.49	47.67			
USA	A	180671	204874	215107	227492	1.26	0.48	1.13
	B	72142	85903	93209	101183	1.76	1.64	1.66
B % of A		39.93	41.93	43.33	44.48			
TOTAL DPC	A	430590	480690	502763	527286	1.10	0.90	0.96
	B	183111	200561	109907	222767	0.91	0.92	1.19
B % of A		42.53	41.72	41.75	42.25			
France	A	45684	50768	52832	54993	1.06	0.80	0.80
	B	19792	21310	22100	23077	0.74	0.73	0.87
B % of A		43.32	41.98	41.83	41.96			
NATO Europe	A	277870	305460	318104	330994	0.95	0.81	0.80
	B	124299	127582	129054	133302	0.26	0.23	0.65
B % of A		44.73	41.77	40.57	40.27			
TOTAL NATO	A	476450	531663	555813	582512	1.10	0.89	0.94
	B	202971	221951	232093	245937	0.90	0.90	1.12
B % of A		42.60	41.75	41.76	42.22			

SOURCE: OECD
A Population
B Labour force

PART I
TABLE 2 (b) PERSONNEL TOTALS (MILITARY AND CIVILIAN) IN 1973
AND AS PERCENTAGE OF THE TOTAL LABOUR FORCE

COUNTRY	Military (thou- sands)	Civilian (thou- sands)	TOTAL (thou- sands)	Total as % of labour force
Belgium	107.7	8.4	116.1	2.9
Denmark	38.2	8.2	46.4	1.9
Federal Republic of Germany	461.0	175.0	636.0	2.4
Greece	186.4	25.6	212.0	6.3
Italy	547.9	72.7	620.6	3.3
Luxembourg	1.1	0.2	1.3	0.8
Netherlands	114.2	29.3	143.5	3.0
Norway	39.4	10.3	49.7	3.0
Portugal	275.7	5.2	280.9	8.1
Turkey	563.4	37.2	600.6	4.0
United Kingdom	369.6	324.2	693.8	2.8
DPC Europe	2704.6	696.3	3400.9	3.2
Canada	82.5	38.6	121.1	1.3
U.S.A.	2277.0	1010.1	3287.1	3.6
Total DPC countries	5064.1	1745.0	6809.1	3.3
France	580.6	130.6	711.2	3.2
NATO Europe	3285.2	826.9	4112.1	3.2
TOTAL NATO	5644.7	1875.6	7520.3	3.3

DECLASSIFIED/DECLASSIFIEE - PUBLIC DISCLOSED/MISE EN LECTURE PUBLIQUE

PART I
TABLE 2 (c) MANPOWER OF MILITARY AGE (18 to 34 YEARS)
(thousands)

COUNTRY	1970	1973	1975	1980
Belgium	1104	1141	1167	1268
Denmark	627	652	664	668
Federal Republic of Germany	7437	7219	7024	7286
Greece	900	927	931	957
Italy	6797	6844	6827	7013
Luxembourg	41	42	44	45
Netherlands	1709	1805	1859	1978
Norway	452	484	504	533
Portugal	820	805	798	782
Turkey	4533	5099	5524	6666
United Kingdom	6532	6654	6761	7169
DPC Europe	30952	31672	32103	34365
Canada	2682	2924	3104	3525
U.S.A.	24191	27403	29128	32655
Total DPC countries	57825	61999	64335	70545
France	6085	6360	6550	7113
NATO Europe	37037	38032	38653	41478
TOTAL NATO	63910	68359	70885	77658

DECLASSIFIED/DECLASSIFIEE - PUBLIC DISCLOSED/MISE EN LECTURE PUBLIQUE

PART I
TABLE 2(d)

CONSCRIPTED AND VOLUNTEER FORCES
OF MEMBER COUNTRIES
(% distribution)

	1965		1970		1973		1978	
	Regulars	Consc.	Regulars	Consc.	Regulars	Consc.	Regulars	Consc.
BELGIUM	56.2	43.8	57.8	42.2	55.0	45.0	78.6	21.4
CANADA	100.0	-	100.0	-	100.0	-	100.0	-
DENMARK	42.4	57.6	40.4	59.6	49.2	50.8	63.8	36.2
FEDERAL REPUBLIC OF GERMANY	50.5	49.5	52.1	47.9	52.7	47.4	53.3	46.7
GREECE	16.4	83.6	31.9	68.1	33.7	66.3	35.5	64.5
ITALY	23.3	76.6	24.6	75.4	26.8	73.2	27.7	72.3
LUXEMBOURG	44.4	55.6	100.0	-	100.0	-	100.0	-
NETHERLANDS	42.0	58.0	51.8 ^a	48.2 ^a	50.4	49.6	-	-
NORWAY	43.8	56.2	37.4 ^a	62.6 ^a	34.8	65.2	34.7	65.3
PORTUGAL	16.8	83.2	13.9	86.1	12.0	88.0	11.9	88.1
TURKEY	14.7	85.3	11.7	88.3	14.6	85.4	14.1	85.9
UNITED KINGDOM	100.0	-	100.0	-	100.0	-	100.0	-
UNITED STATES	88.7	11.3	82.4	17.6	90.2b	9.8b	-	-

Note: a: 1969
b: 1972

Source: DPQ(73)

N A T O C O N F I D E N T I A L

ANNEX to
AC/127-WP/407PART I
TABLE 3(a)

NATO DEFENCE EXPENDITURE TRENDS 1965 TO 1973 IN CONSTANT PRICES

1973 Exchange rates: million US dollars

	1965 (1)	1966 (2)	1967 (3)	1968 (4)	1969 (5)	1970 (6)	1971 (7)	1972 (8)	1973 (9)
DPC Europe	27007.0	27020.9	28063.3	27040.9	27261.5	27285.0	28641.0	30850.1	31182.7
% change over previous year	+0.1	+0.1	+3.9	-3.6	+0.8	+0.1	+5.7	+7.0	+1.1
Canada	2338.6	2384.9	2554.7	2427.4	2291.6	2378.9	2386.0	2398.0	2403.4
% change over previous year	-11.3	+2.0	+7.1	-5.0	-5.6	+3.8	+0.4	+0.4	+0.2
United States	71624.0	85469.0	98393.0	101524.0	97712.0	88581.0	81389.0	81810.0	78473.0
% change over previous year	-0.7	+19.3	+15.1	+3.2	-3.8	-9.3	-8.1	+0.5	-4.1
TOTAL DPC	100969.6	114874.8	129011.0	130992.3	127265.1	118245.9	112618.0	115058.1	120059.1
% change over previous year	-0.8	+13.8	+12.3	+1.5	-2.9	-7.1	-4.8	+2.2	+4.3
France	8403.2	8623.0	9068.7	9069.8	8924.1	8861.7	8859.4	8815.5	9281.4
% change over previous year	+1.7	+2.6	+5.2	-	-1.6	-0.7	-	-0.5	+5.3
NATO Europe	35410.2	35643.9	37132.0	36110.7	36185.6	36147.7	37700.4	39665.6	40464.1
% change over previous year	+0.5	+0.7	+4.2	-2.8	+0.2	-0.1	+4.3	+5.2	+2.0
TOTAL NATO	109372.8	123497.8	138079.7	140062.1	136189.2	127107.6	121477.4	123873.6	121340.5
% change over previous year	-0.6	+12.9	+11.8	+1.4	-2.8	-6.7	-4.4	+	-2.0

N A T O C O N F I D E N T I A L

N A T O C O N F I D E N T I A L

ANNEX to
AC/127-WP/407

PART I
TABLE 3 (b) FINANCIAL IMPLICATIONS OF THE 1975-1980 FORCE GOALS

In real terms (constant, 1972 prices) Millions of national
currency units(a)

	Defence Expenditures 1975-1980 : as indicated by national plans and International Staff estimates(b)		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)
(0)	(1)	(2)	(3)	(4)	(5)	(6)
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(c)	59.9(c)	198,934	+13.5(c)
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	33,198	-1.0	6,750	8.1	89,948	- 0.4
Turkey	92,500	+6.0	46,000(c)	49.7(c)	138,500(c)	+15.3(c)
United Kingdom	21,437	(+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) for details, see Annexes to country reports

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

Source : Report to DPC on Force Goal 1975-80 (DPC/D(74)5 fo 29th April 1974)

N A T O C O N F I D E N T I A L

PART I
TABLE 3(c)

-10-

ANNEX to
AC/127-WP/407

NATO DEFENCE EXPENDITURES AS % OF
GOVERNMENT EXPENDITURES

	1960	1965	1967	1969	1971	1973
BELGIUM	28.09	24.15	22.88	21.30	19.73	18.12
DENMARK	22.15	18.74	16.00	14.43	11.60	9.43
FRANCE	49.28	40.99	40.92	35.23	31.47	30.18
F. R. GERMANY	29.46	28.44	26.38	22.68	19.48	18.80
GREECE	41.32	29.45	32.57	36.94	36.30	35.19
ITALY	27.07	23.42	23.19	20.47	20.61	20.77
LUXEMBOURG	10.43	13.01	9.73	8.05	7.24	7.57
NETHERLANDS	30.74	25.85	24.32	22.65	20.46	20.17
NORWAY	26.46	26.50	23.30	22.86	21.23	19.35
PORTUGAL	39.08	50.61	54.19	50.81	53.16	43.51
TURKEY	48.68	40.41	36.89	34.88	33.87	36.51
UNITED KINGDOM	39.69	35.33	32.10	29.25	27.70	27.04
NATO EUROPE	35.46	31.19	29.55	26.25	23.68	22.80
DPC EUROPE	32.17	28.98	27.07	24.12	21.97	21.25

PART I
TABLE 3(c) continued)

-11-

ANNEX to
AC/127-WP/407

NATO DEFENCE EXPENDITURES AS % OF
GOVERNMENT EXPENDITURES

	1965	1967	1969	1971	1973
CANADA	19.92	17.66	13.37	11.56	10.44
UNITED STATES	44.89	48.99	45.14	36.93	32.76
TOTAL NATO	38.68	40.84	37.02	30.53	27.57
DPC COUNTRIES	38.51	40.84	37.15	30.46	27.37

PART II
TABLE I

(a) WARSAW PACT COUNTRIES: GROSS NATIONAL PRODUCT
(billiards of 1973 \$)

	<u>1965</u>	<u>1970</u>	<u>1971</u>	<u>1973</u>
USSR	420	551	570	624
East European countries	<u>155</u>	<u>194</u>	<u>204</u>	<u>227</u>
Warsaw Pact countries	<u>575</u>	<u>745</u>	<u>774</u>	<u>851</u>

(b) WARSAW PACT COUNTRIES: GROWTH OF GNP (%)

	<u>1965/70</u>	<u>1971/73</u>	<u>1974/82</u> <u>estimate</u>
USSR	5.5%	4.6%	4.5/5%
East European countries	4.6%	5.5%	3.5/4%

SOURCE: based on Planetary Growth 1973 (US Department of State 1974)

PART II
TABLE 2

(a) POPULATION OF WARSAW PACT COUNTRIES
(millions: mid-year)

	<u>1960</u>	<u>1965</u>	<u>1970</u>	<u>1975</u>	<u>1980</u>	<u>1985</u>
USSR	214.3	230.9	242.8	255.0	268.5	283.0
East European countries	96.7	99.7	103.2	106.4	110.1	113.4
All Warsaw Pact countries	311.0	330.6	346.0	361.4	378.6	396.4

(b) GROWTH IN WARSAW PACT POPULATION (%)

	<u>1960/65</u>	<u>1965/70</u>	<u>1970/75</u>	<u>1975/80</u>	<u>1980/85</u>
USSR	7.8	5.2	5.0	5.3	5.4
East European countries	3.1	3.5	3.1	3.5	3.0
All Warsaw Pact countries	6.3	4.7	4.4	4.8	4.7

(c) ECONOMICALLY ACTIVE POPULATION(1)
(millions)

	<u>1960</u>	<u>1970</u>	<u>1975</u>	<u>1980</u>
USSR	111.1	121.9	131.5	141.3
East European countries	49.0	53.9	56.5	57.7
All Warsaw Pact countries	160.1	175.8	188.0	199.0

(1) Including the armed forces

PART II
TABLE 2 (continued)

(d) MALE POPULATION OF MILITARY AGE (18-34)
(millions)

	<u>1970</u>	<u>1973</u>	<u>1975</u>	<u>1978</u>	<u>1980</u>
USSR	30.5	31.4	31.6	33.8	37.8
East European countries	12.9	13.6	14.0	14.8	15.0
Warsaw Pact countries	<u>43.4</u>	<u>45.0</u>	<u>45.6</u>	<u>48.6</u>	<u>52.8</u>

(e) ARMED FORCES OF WARSAW PACT COUNTRIES (1973)
(millions)

USSR	3.4
East European countries	1.03

SOURCES: Joint Economic Committee of US Congress:
 (a) - (d) Soviet Economic Prospects for the Seventies (June 1973)
 Demographic Trends in Warsaw Pact Countries (C-M(72)1)
 (e) Based on IISS estimates for 1973. The figures for 1974 should be higher, particularly for the USSR

DECLASSIFIED/DECLASSIFIEE - PUBLIC DISCLOSED/MISE EN LECTURE PUBLIQUE

PART II
TABLE 3

WARSAW PACT COUNTRIES: DEFENCE BUDGETS(1)

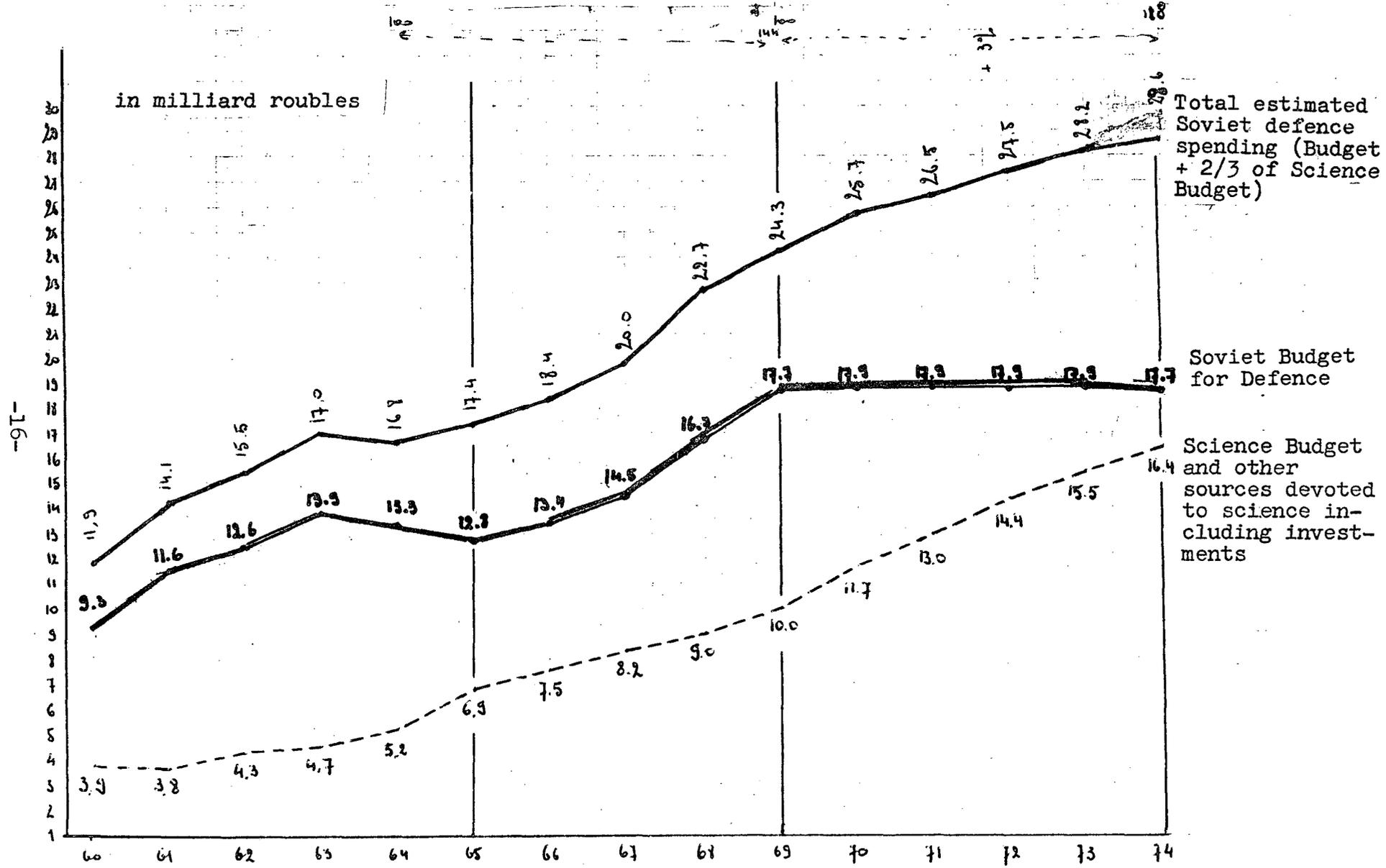
(a) <u>Soviet Union</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1969</u> <u>= 100</u>
Official Defence Vote (milliard roubles)	17.7	17.9	17.9	17.9	17.9	17.7	
<u>East European Countries</u>							
Bulgaria milliard leva	0.30	0.32	0.36	0.40	0.42	0.48	160
Czechoslovakia milliard crown	14.2	15.0	15.9	16.7	16.7	18.8	132
GDR milliard marks	6.3	6.7	7.2	7.6	8.3	8.9	141
Hungary milliard forints	8.30	8.90	9.44	9.72	9.85	10.61	128
Poland milliard zlotys	33.30	35.40	37.65	39.86	41.06	45.21	136
Romania milliard lei	6.4	7.05	7.50	7.80	7.92	8.60	134

(1) 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

DECLASSIFIED/DECLASSIFIEE - PUBLIC DISCLOSED/MISE EN LECTURE PUBLIQUE

PART II
TABLE 3(b)

SOVIET DEFENCE SPENDING



Total estimated Soviet defence spending (Budget + 2/3 of Science Budget)

Soviet Budget for Defence

Science Budget and other sources devoted to science including investments

-16-

-16-