I. General characteristics of the draft federal budget submitted for 2002.


The basic figures from the draft budget as submitted are as follows:
- Gross domestic product (GDP) – 10,600 billion rubles;
- Revenues – 1,998,387.7 million rubles;
- Expenditures – 1,871,871.1 million rubles;
- Surplus – 126,516.6 million rubles.

The figures for the federal budget for 2001 increased as follows, as compared to the figures for 2000:
- in regard to GDP – by a factor of 1.367;
- in regard to revenues – by a factor of 1.67;
- in regard to expenditures – by a factor of 1.523.

The breakdown by categories of basic expenditures for the federal budget has changed as follows (see Table 1):
<table>
<thead>
<tr>
<th>Description of section of the federal budget</th>
<th>Ratio of 2002 expenditures to 2001 expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total federal budget expenditures</td>
<td>1.523</td>
</tr>
<tr>
<td>Government administration</td>
<td>1.359</td>
</tr>
<tr>
<td>Judicial system</td>
<td>1.593</td>
</tr>
<tr>
<td>International activities</td>
<td>2.103</td>
</tr>
<tr>
<td>National defense</td>
<td>1.273</td>
</tr>
<tr>
<td>Law enforcement operations</td>
<td>1.233</td>
</tr>
<tr>
<td>Basic research and support for scientific and technical progress</td>
<td>1.301</td>
</tr>
<tr>
<td>Industry, power and construction</td>
<td>1.075</td>
</tr>
<tr>
<td>Environmental protection</td>
<td>2.013</td>
</tr>
<tr>
<td>Agriculture</td>
<td>0.946</td>
</tr>
<tr>
<td>Transportation and the highway system</td>
<td>2.425</td>
</tr>
<tr>
<td>Prevention of and recovery from emergencies and natural disasters</td>
<td>1.326</td>
</tr>
<tr>
<td>Education</td>
<td>1.543</td>
</tr>
<tr>
<td>Culture, art and cinematography</td>
<td>1.564</td>
</tr>
<tr>
<td>Mass information media</td>
<td>1.587</td>
</tr>
<tr>
<td>Public health and physical education</td>
<td>1.382</td>
</tr>
<tr>
<td>Social programs</td>
<td>3.563</td>
</tr>
<tr>
<td>Servicing of government debt</td>
<td>1.031</td>
</tr>
<tr>
<td>Replenishment of government resources and reserves</td>
<td>1.215</td>
</tr>
<tr>
<td>Financial assistance for government budgets at other levels</td>
<td>1.423</td>
</tr>
<tr>
<td>Salvaging and elimination of weapons, including the fulfillment of international agreements</td>
<td>1.694</td>
</tr>
<tr>
<td>Mobilization preparation of the economy</td>
<td>1.000</td>
</tr>
<tr>
<td>Space exploration and utilization</td>
<td>1.706</td>
</tr>
<tr>
<td>Military reform</td>
<td>3.905</td>
</tr>
</tbody>
</table>
Hence once can conclude that military expenditures and expenditures for law enforcement operations are growing more slowly than the expenditure side of the federal budget in general and expenditures for social programs in particular.

II. Expenditures under the heading “National Defense.”

In the bill “On the Federal Budget for 2002” submitted by the Government of the RF, expenditures in the amount of 281,969.7 million rubles are specified under the heading entitled “National Defense”; this sum is 2.66% of GDP and 15.06% of the total expenditures provided for in the federal budget. It is worth pointing out that in the federal budget approved for 2001, the expenditures for national defense are 2.66% of GDP and 17.29% of the total federal budget expenditures. The total expenditures in the federal budget are to increase by a factor of 1.523 as compared to 2001, while the expenditures for national defense are to increase by a factor of 1.273. This is one of the lowest growth factors for any category of expenditures in the federal budget. One can conclude, therefore, that these expenditures are not a high priority of the Government of the RF.

The instructions of the President of the Russian Federation to the effect that expenditures for the “National Defense” sector are to be at least 3.5% of GDP have not been fulfilled up to now.

If these instruction were to be carried out, and the expenditures for national defense were to be 371 billion rubles, it would be possible to increase the expenditures in the following areas:

- an increase in pay for military personnel to bring it up to the level of federal government employees;
- an increase in pay for the rank and file and NCOs serving in the military under contract, in order to make military service more attractive, as a step in the transition to the staffing of the Armed Forces of the RF on a contract basis;
- a gradual transition to the comprehensive staffing of the Armed Forces on a contract basis;
- a gradual reduction (in 2002-2004) in the strength of the Armed forces from 1200 thousand in 2001 to 800 thousand in 2004;
- providing of food for military personnel to ensure that they are fully supplied with rations;
payment for and storage of special fuels and lubricants to ensure the full combat readiness of military forces;

purchases of weapons and military hardware, repair of weapons and military hardware, and capital construction, to provide for a gradual adjustment in the ratio between expenditures for the maintenance of the armed forces and investment expenditures from 70:30 to 55:45. The proposed increase in the budget for 2002 will make it possible to provide for a ratio of 65:35.

Table 2 shows the dynamics of the change in expenditures under the “National Defense” heading as a percentage of GDP and of total federal budget expenditures during the period 1994-2001, according to data from approved federal budgets and estimates for 2002.

<table>
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</tr>
</thead>
<tbody>
<tr>
<td>% of GDP</td>
<td>5.60</td>
<td>3.76</td>
<td>3.59</td>
<td>3.82</td>
<td>2.97</td>
<td>2.34</td>
<td>2.63</td>
<td>2.66</td>
<td>2.66</td>
</tr>
<tr>
<td>% of total federal budget expenditures</td>
<td>20.89</td>
<td>20.85</td>
<td>18.92</td>
<td>19.76</td>
<td>17.32</td>
<td>16.29</td>
<td>16.45</td>
<td>17.29</td>
<td>15.06</td>
</tr>
</tbody>
</table>

At the same time, it should be mentioned that in the developed countries (the USA, Great Britain, France), the proportion of expenditures for national defense is 3.5-4.5 % of GDP, while in countries such as Turkey, South Korea, China and some others, the proportion is 8-10 %.

In addition, it would be advisable to transfer the following expenditures from the “National Defense” heading to other categories of expenditures:

the expenditures for preparation for and participation in the process of ensuring collective security and in peacemaking activities should be transferred to the “International Activities” section;

the expenditures for support of the activities of various industries for national defense should be transferred to the “Industry, Power and Construction” section.

Theses changes will bring the budget into compliance with the federal law “On Budget Classification for the Russian Federation.”

The biggest problem with the proposed bill is the classifying of all the special-purpose articles, not only for the “National Defense” heading, but even for the heading “Salvaging and Elimination of Weapons, Including the Fulfillment of International Agreements.” The result is
that the latter category of expenditures will be reported to the international organizations that monitor compliance with international obligations but, at the same time, will be closed to the Russian public.

It would be advisable to expand the list of special-purpose articles and types of expenditures under the heading “National Defense,” and to make them as open as possible.

Therefore, a group of deputies have developed a bill for a federal law “On Revisions and Supplements to the Federal Law ‘On Budget Classification for the Russian Federation’” (in regard to the expansion of the list of departmental expenditures of the Russian Federation Ministry of Defense).

Under the current Federal Law “On Budget Classification for the Russian Federation,” the departmental expenditures of the Ministry of Defense are broken down into 128 items: headings, subheadings, special-purpose articles and types of expenditures. In this process, all the data are presented for the Russian Federation Ministry of Defense as a whole – without any classification of the data according to Services [Army, Navy, Air Force] or independent arms of the service.

At the same time, in the discussion of the draft federal budget in the Federal Assembly of the RF, the deputies of the State Duma and the members of the Federation Council have no clear conception of how the specific Services and independent arms of service are to be funded and what the priorities in the development of the Armed Forces in the next fiscal year will be. Moreover, in the area of the adoption of the federal budget, the allocation of funds among the Services and the independent arms of service is the exclusive prerogative of the Ministry of Defense of the Russian Federation, without oversight of any kind on the part of any legislative body (including the RF Account Chamber) or the public. One must keep in mind that the point here is the amounts which are to be paid out to the specific Services and independent arms of service, which are greater in some cases than the expenditures for some of the separate headings of the federal budget.

The proposed bill provides for expansion of the list of departmental expenditures of the RF Ministry of Defense – not only for the ministry as a whole, but also for the Services and independent arms of service: the Strategic Missile Forces (RVSN), the Land Forces, the Air Force, the Navy, the Airborne Forces and the Space Forces. This proposal will expand the list of departmental expenditures to 850 items, which will facilitate a more professional approach both to the process of approval of the federal budget and to higher-quality oversight of the implementation of the budget, on the part of both the Federal Assembly of the RF and the public.
In this process, the authors of the bill have not changed the structure or descriptions of the headings, subheadings, special-purpose articles or types of expenditures as compared to the current Federal Law “On Budget Classification for the Russian Federation.”

A difficult situation currently has taken shape in regard to pay for military personnel.

The bill “On the Federal Budget for 2002” submitted by the Government of the Russian Federation provides for an increase of less than 10% in the expenditures for pay for military service personnel.

An increase in service pay rates for military personnel to the level of federal government employees – i.e., by a factor of 2.3-2.7 (depending on the job) – has been formally planned, beginning July 1, 2001. However, the Government proposes the simultaneous elimination of all privileges for military personnel (public utilities, passage on public transportation), the pension supplement to their pay, and compensation for the payment of income tax.

The pay rates for military personnel were last increased (by 20%) in December 2000, along with the compensation for the income tax (as of January 1, 2001). At the present time, the level of pay for military personnel, including the base pay for military service status, the pay rate for military rank, and percentage increases for length of service, is extremely low. For example, some of the pay rates for military service status are as follows: first deputy minister of defense – 1906 rubles; division commander – 1130-1172 rubles; regiment commander – 953-997 rubles; platoon leader – 622-665 rubles; infantryman – 511-524 rubles. The total pay (including one-time bonuses, prizes and pecuniary aid) is as follows (not including compensation for the payment of income tax): division commander (major general) – 6263 rubles; regiment commander (colonel) – 5189 rubles; platoon leader (lieutenant) – 2369 rubles; squad leader (sergeant) – 1918 rubles.

As of July 1, 2002, after the increase in service pay rates, the total pay levels will be as follows: division commander – 8872 rubles (an increase by a factor of 1.42); regiment commander – 6893 rubles (an increase by a factor of 1.33); company commander – 4650 rubles (an increase by a factor of 1.57); platoon leader – 3899 rubles (an increase by a factor of 1.65). Hence the increases will amount to factors of 1.4-1.5 (an increase in pay rates according to military rank by a factor of 1.5, on the average, is planned for January 1, 2004. At that point, the increase in pay as compared to current levels will be as follows: division commander – by a factor of 1.5; regiment commander – a factor of 1.42; company commander – a factor of 1.68; squad leader – a factor of 1.5).
Since the increase in service pay rates is planned for the second half of 2002, even on the Government’s terms it will be necessary to increase the expenditures by 20-25%, and not by 10%.

In light of the elimination of compensation payments for income tax, the elimination of privileges, and the real rate of inflation for 2000-2001, the material circumstances of military personnel will hardly improve (the increase will be only 7-8%).

One can conclude that the pay increase planned by the Government of the RF will not result in any real improvement in the standard of living for military personnel and thus in the social attractiveness of military service.

Therefore, some members of the Defense Committee of the State Duma propose doubling the expenditures for pay for military personnel in 2002 as compared to the current level, which amounts to an increase by a factor of 1.65 (by 30 billion rubles) over the increase proposed by the Government. An increase of this magnitude can solve the following problems: improvement of the level of professionalism of military personnel by stopping the mass departure of young officers from the Armed Forces, and a gradual transition (2202-2004) from the staffing of the Armed Forces by conscription to a contract method for the recruitment of personnel, in light of the fact that the level of pay for military personnel by 2004, including contract personnel of the rank and file and the NCO staff, will increase by a factor of 2.5-3 as compared to the current level.

III. **Expenditures under the heading “Salvaging and Elimination of Weapons, Including the Fulfillment of International Agreements.”**

In the proposed bill, only the general expenses for the heading and the expenses for the following subheadings are open: “Salvaging and Elimination of Weapons, Including the Fulfillment of International Agreements” and “Salvaging and Elimination of Weapons, Excluding International Agreements.” All the special-purpose articles and type of expenses are submitted by the Government of the RF in closed form. Therefore, it would be advisable to remove the stamp of secrecy from the special-purpose articles and the type of expenses under the heading “Salvaging and Elimination of Weapons, Including the Fulfillment of International Agreements.”

The expenditures under this heading are to be increased by 1.7 billion rubles, with the additional funds to be directed to the subheading “Salvaging and Elimination of Weapons, Excluding International Agreements,” in the area of expenditures for the salvaging of nuclear
power plants, the decommissioning of objects which are nuclear and radiation hazards, and the capital construction of storage facilities for radioactive wastes. This will make it possible to remove written-off nuclear submarines from the listed strength of the Navy more rapidly.

IV. Expenditures under the heading “Military Reform”

Expenditures under the heading “Military Reform” are to be increased by 3.7 billion rubles, with the additional funds to be applied to providing full separation allowances for all personnel to be discharged from military service, and to professional retraining of the citizens in this category.

In the draft federal budget as submitted, an increase in expenditures for military reform by a factor of almost 4 (from 4.2 billion rubles to 16.5 billion rubles) is proposed. This figure would seem to indicate that the Government of the RF is devoting quite serious attention to the problem of military reform.

The analysis that was performed has shown, however, that while the draft budget meets practical requirements in regard to the amounts of expenditures for the construction of homes for discharged military personnel, the expenditures for pay are clearly inadequate. Calculations indicate that the proposed appropriations will pay for the construction of about 30 thousand apartments for the military personnel to be discharged. However, separation allowances can be provided for only about 10 thousand people at the time they are discharged. And at least 50 thousand officers and warrant officers are apparently to be discharged, at which time they are to be paid this allowance. Therefore, the group of deputies proposes increasing the expenditures for pay from 2 billion rubles to 5.2 billion rubles.

V. Expenditures under the heading “Law Enforcement Operations and the Ensuring of State Security” (in the area of expenditures for border service agencies).

The proposed expenditures for border service agencies of the RF, specified as 15.7 billion rubles, will not make it possible to provide for even the start of the process of management of the border of the RF with Kazakhstan or to renovate the systems of weapons and military hardware of the Border Forces to any significant extent. Therefore, a group of deputies of the State Duma have proposed increasing the expenditures for border service agencies by 10.3 billion rubles, which would make it possible to accomplish these tasks.

On September 28, 2001, the State Duma in plenary session considered the federal bill “On the Federal Budget for 2002” in a first reading and passed it with 262 “yea” votes.
VI. Results of the review of the draft federal budget in the first reading.

As a result of the review, the federal budget revenues were increased by 127.3 billion rubles and amounted to 2125.7 billion rubles. The following items were responsible for most of the increase on the revenue side:

- value added tax – 61 billion rubles;
- tax on profits – 16 billion rubles;
- excise taxes – 10 billion rubles;
- export duties – 6 billion rubles;
- payments for the use of natural resources – 4 billion rubles;
- other taxes – 2 billion rubles;
- non-tax revenues – 4 billion rubles;
- consolidated social tax – 24 billion rubles.

The expenditure side of the budget was increased by 75.5 billion rubles and amounted to 1947.4 billion rubles. GDP was 10,950 billion rubles (an increase of 350 billion rubles).

An increase in defense expenditures of 0.6 billion rubles (0.8% of the additional amount) is planned. This increase, of course, is far too little, since it will not make it possible to solve any of the indicated problems that now confront the Armed Forces of the RF.

It should be mentioned that in discussing the draft federal budget for 2002 in the first reading, Finance Minister Aleksey Kudrin assured the deputies that the Government of the RF is ready to open the expenditure side under the headings “National Defense” and “Salvaging and Elimination of Weapons, Including the Fulfillment of International Agreements” to an even greater extent than was done in the process of approval of the federal budget for 2001.