

THE COSTS OF THE SOVIET EMPIRE

The USSR maintains a vast empire outside its borders. The Soviet empire stretches from neighboring satellites like Poland and Afghanistan to overseas client states and allies, such as Cuba and Angola. Substantial costs are incurred in holding this empire together, in making overtures to countries the Soviet Union would like to bind more closely to itself, and in destabilizing unfriendly governments.

The costs of the Soviet empire have only recently been estimated in a comprehensive manner. These estimates allow a fuller accounting of the extent to which Soviet resources are devoted to national-security purposes. They also allow a determination of the burden placed by the Soviet empire on the domestic economy and an assessment of the value ascribed by the Soviet leadership to the empire.

BASIC FINDINGS

The average annual costs of the Soviet empire from 1971 to 1980 are shown in the accompanying table. To illustrate changes in the pattern of spending, the figures for the first and last years of the period are included.

COSTS OF THE SOVIET EMPIRE
(Billions of dollars and rubles)

	Avg.		1971		1980	
	\$	R	\$	R	\$	R
Trade subsidies	9.4	10.6	1.9	1.8	23.0	28.4
Trade credits	2.6	1.4	2.9	1.1	6.6	4.0
Economic-aid deliveries	1.3	0.5	1.9	0.7	0.9	0.6
Military-aid deliveries (net of hard-currency sales)	5.5	5.8	3.3	3.0	5.0	6.2
Military operations in Afghanistan	0.1	0.1	0	0	0.9	0.6
Covert operations and related activities	6.0	2.2	7.6	1.9	4.6	2.5
TOTAL	24.9	20.7	17.7	8.6	41.2	42.2

Averages are for the years 1971 through 1980.

\$ = 1981 dollars; R = 1980 rubles

All table entries have been rounded.

Trade subsidies and military aid represent hard currency forgone. Other costs are incurred in rubles. To convert ruble costs to dollars, official exchange rates were used. To convert hard currency forgone to rubles, a different approach had to be taken, because the official exchange rate underestimates the ruble prices at which goods bought with hard currency are sold in Soviet markets. Those prices were taken into account in calculating an effective exchange rate.

Trade subsidies, military-aid deliveries, and covert operations accounted for the bulk of empire costs during the 1970s. However, the pattern of spending has changed significantly over time, with the emphasis shifting from covert and military operations to trade subsidies and credits.

INTERPRETATION

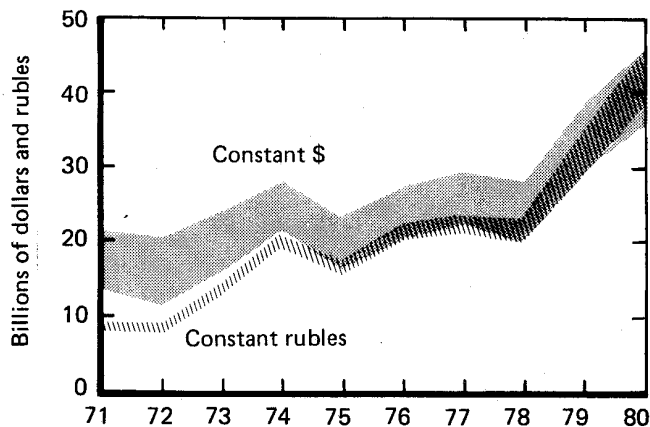
To estimate the significance of the annual average of \$25 billion—or 21 billion rubles—that the Soviet Union spent during the 1970s on its empire, four approaches can be taken. First, the costs of empire make up a small but significant fraction of Soviet gross national product and loom even larger when compared with Soviet military spending and hard-currency earnings. **The ruble costs of empire averaged 3.5 percent of Soviet GNP during the 1970s.** On the average, empire costs in rubles were over a quarter as large as the total Soviet military budget, and the hard currency forgone due to empire costs was over half as large as all Soviet hard-currency earnings. Indeed, in 1980, hard currency forgone because of the empire was five times what the Soviets spent on grain imports.

Empire costs at those levels create a considerable “drag” on the civilian and military sectors of the Soviet economy. Generally speaking, with aggregate consumption growing at 2 to 3 percent annually, each increase of 1 percent in the ratio of empire costs to GNP would cut the growth rate of military production back by 0.6 to 1.0 percent annually. Conversely, if the rate of growth of military production were set between 4 and 5 percent, each increase of 1 percent in the ratio of empire costs to GNP would reduce the growth rate of civil consumption by 0.3 percent.

A second way to assess the significance of the costs of empire is to examine the way they have changed over the years (see the graph below). The dollar costs of empire increased through the 1970s at a compound annual rate of 8.7 percent, while the compound annual rate of increase of empire costs in rubles was even higher—16.3 percent. Meanwhile, ruble costs of empire as a fraction of GNP quadrupled over the course of the decade, the ratio of ruble empire costs to military spending more than tripled, and the ratio of hard currency forgone due to the empire vs. total hard-currency earnings doubled.

Third, costs of the Soviet empire are large relative to analogous U.S. costs, such as economic and military aid and loans made by the Export-Import Bank. The sum of these costs averaged about 0.37 percent of the U.S. GNP from 1971 to 1980, or about one-eighth of the fraction of Soviet GNP devoted to similar costs.

Finally, whether Soviet leaders view the costs of empire as large or small involves an evaluation of the benefits they believe to be associated with the maintenance and expansion of the empire. These benefits include tangible elements, such as facilities overseas that increase the effectiveness of Soviet military forces, as well as intangible elements such as Russian national pride and justification for the sacrifices imposed on its populace by the



Growth in costs of Soviet empire, 1971-1980

Soviet system. It is a reasonable conjecture that the costs of the Soviet empire, at the levels they have reached in the past decade, are likely to appear to the Soviet leadership as quite acceptable compared with the substantial benefits they ascribe to the empire.

LIMITATIONS

Caution should be exercised in using the quantitative results of this analysis in policymaking or further research, for the following reasons. First, some items that may merit inclusion within the costs of empire were omitted. With the exception of current operations in Afghanistan, Soviet military costs were excluded from the costs of empire to avoid arbitrary distinctions between military activities taken to assure the integrity of the empire and those taken to defend the homeland.

Second, considerable uncertainty is associated with estimates of Soviet trade subsidies and a great deal of uncertainty attends the estimates of the costs of covert operations. For the sake of simplicity, the results in this brief are given in terms of single numbers, although each number merely represents the midpoint of a range of potentially correct values. These ranges are depicted in the graph.

Third, the method of estimating the hard-currency part of the costs of empire entails some arguable assumptions. However, notwithstanding these assumptions and the other reservations stated above, any errors in the results are not likely to be large enough to alter the gist of the conclusions.

POLICY IMPLICATIONS

The far-flung and expanding Soviet empire is a threat to democracies in many parts of the world. This threat could be reduced by making it as costly as possible for the Soviets to maintain or increase their empire. Policies that might do so include restriction or denial of credit requested by the Soviet Union and countries within the empire, and promoting collaboration among Third World countries in developing military forces to counter the proxy forces funded by the Soviet Union.

Rand's research into the costs of the Soviet empire was sponsored by the Director of Net Assessment in the Office of the Secretary of Defense. It is part of Rand's continuing research program in International Economic Policy, the principal focus of which is on the interface between international economics and national-security issues. For more information on the research summarized in this brief, see R-3073/1-NA, *The Costs of the Soviet Empire*, Charles Wolf, Jr., K. C. Yeh, Edmund Brunner, Jr., Aaron Gurwitz, and Marilee Lawrence, The Rand Corporation, September 1983, or contact Dr. Wolf at The Rand Corporation, 1700 Main Street, P.O. Box 2138, Santa Monica, CA 90406-2138, (213) 393-0411.
