



General Assembly

Distr.
GENERAL

A/39/399
15 August 1984

ORIGINAL: ENGLISH

Thirty-ninth session
Item 61 (b) of the provisional agenda*

REDUCTION OF MILITARY BUDGETS

Progress report on the construction of price indices and purchasing-power parities for military expenditures

Report of the Secretary-General

1. The General Assembly, in its resolution 37/95 B of 13 December 1982, requested the Secretary-General, with the assistance of a group of qualified experts and with the voluntary co-operation of States, to undertake the task of constructing price indices and purchasing-power parities for military expenditures of participating States. The General Assembly further requested the Secretary-General to submit a final report to the Assembly at its fortieth session.
2. The Group of Experts on the Reduction of Military Budgets, appointed by the Secretary-General pursuant to that resolution, submitted its first progress report (A/38/354 and Corr.1) on its work during 1983.
3. In 1984 the Group met in two sessions from 6 to 17 February and from 9 to 20 July 1984.
4. By a letter dated 20 July, the Chairman of the Group submitted its second progress report which is annexed to the present document.

* A/39/150.

ANNEX

Progress report on the construction of price indices and
purchasing-power parities for military expenditures

(Prepared by the Group of Experts on the Reduction of Military Budgets)

CONTENTS

| | <u>Page</u> |
|-----------------------------|-------------|
| Letter of transmittal | 3 |
| I. Introduction | 5 |
| II. Work of the Group | 7 |

LETTER OF TRANSMITTAL

20 July 1984

Sir,

I have the honour to submit herewith the second progress report on the work of the Group of Experts on the Reduction of Military Budgets, which was appointed by you in pursuance of resolution 37/95 B, adopted on 13 December 1982 by the General Assembly at its thirty-seventh session.

The experts appointed were the following:

Col. Vito Caporaso
Chief of the Logistics-Administrative Office of the Army Staff
Ministry of Defence
Administration Command Corps-Army Staff
Rome, Italy

Mr. Hans Christian Cars
Deputy Director
Ministry of Defence
Planning and Budget Secretariat
Stockholm, Sweden

Mr. José A. Encinas del Pando
Professor (on research leave)
University of Lima
Lima, Peru

Mr. Daniel Gallik
Senior Economist
United States Control and Disarmament Agency
Washington, D.C., United States of America

Col. Victor O. Odeka
Commandant
Nigerian Army School of Finance and Administration
Lagos, Nigeria

Mr. Benjamin Parwoto
Director General Matériel and Facilities
Department of Defence and Security
Jakarta, Indonesia

Col. Arcadie Sasu
Colonel-Engineer
Ministry of National Defence
Bucharest, Romania

/...

At the first and second sessions of the Group in 1983 the expert appointed to serve from Romania was Mr. S. Mateescu who was replaced on 6 June 1984 by Col. Arcadie Sasu, the current Romanian expert.

The Group began its work early 1983 and submitted a first progress report (A/38/354) during that year. In 1984 the Group met in two sessions from 6 to 17 February and from 9 to 20 July. During these two sessions the Group planned the procedures and methods of constructing military price indices and purchasing-power parities; requested and received information to be used for that purpose; and began the actual computation of data as a first step to achieve its mandate.

The Group will hold two more sessions in February/March and June 1985 when it will complete drafting the final report to be submitted to the General Assembly at its fortieth session.

The Group was assisted in its work by Mr. Jacques Fontanel of France who served as a consultant. Mr. Fehmi Alem of the Department for Disarmament Affairs served as a Secretary of the Group. Valuable assistance was also received from Mr. Alan Heston of the United Nations Statistical Office.

I have been requested by the Group, as its Chairman, to submit this progress report to you on its behalf.

Accept, Sir, the assurances of my highest consideration.

Signed) Hans Christian CARS
Chairman of the Group of
Experts on the Reduction
of Military Budgets

His Excellency
Javier Pérez de Cuéllar
Secretary-General of the United Nations
New York

I. INTRODUCTION

1. The Group of Experts on the Reduction of Military Budgets, appointed in 1983 by the Secretary-General pursuant to General Assembly resolution 37/95 B to assist him in the task of constructing price indices and purchasing-power parities for the military expenditures of voluntarily participating States, continued its work during 1984. Under the terms of the resolution, the task of the Group includes the following:

- (a) To assess the feasibility of the exercise;
- (b) To design the project and methodology to be employed;
- (c) To determine the types of data required, such as product descriptions, prices and statistical weights;
- (d) To construct military price indices and purchasing-power parities.

Under the same resolution, the Secretary-General was requested to submit progress reports to the General Assembly at its thirty-eighth and thirty-ninth sessions and a final report to the Assembly at its fortieth session.

2. During the first year, in 1983, the Group held two sessions and submitted a progress report (A/38/354 and Corr.1) to the General Assembly at its thirty-eighth session. In 1984 the Group met for two sessions from 6 to 17 February and from 9 to 20 July at United Nations Headquarters in New York. The Group, which is composed of experts from Indonesia, Italy, Nigeria, Peru, Romania, Sweden and the United States of America continued to meet under the Chairmanship of Mr. Hans Christian Cars (Sweden). It received assistance from Mr. Jacques Fontanel, Deputy Director of the Centre d'Etude de Défense et de Sécurité internationale (CEDSI) at the University of Grenoble (France) who continued to serve as a Consultant. Mr. Fehmi Alem of the Department for Disarmament Affairs continued to serve as Secretary of the Group. The co-operation established with the United Nations Statistical Office continued to be of considerable value to the work of the Group which benefited to a great extent from the counsel and advice of Mr. Alan Heston, Chief of the International Price Statistics Section.

Purposes of the exercise

3. In the Group's opinion, the main objective of the present exercise, which is a continuation of the work in this field that has proceeded step by step since 1973, is to provide some tools and practical experience that might facilitate future negotiations on international agreements to reduce military expenditures. Such agreements would contribute to the curbing of the arms race and would, at the same time, increase the possibilities of reallocating resources now being used for military purposes to economic and social development, particularly for the benefit of the developing countries.

4. Thus, practical experience should be gained from the present exercise in which the Group is exploring the possibilities as well as the difficulties involved in

constructing, on the basis of empirical data provided by participating States, the kinds of tools that would be helpful in resolving problems of comparing and verifying military expenditures in connection with agreements on their reduction. The lack of broad participation by States from different regions and with different accounting and budgeting systems introduces a significant limitation on the extent of this experience. Nevertheless, the experience from this exercise should be useful to future negotiators in their attempts to solve such problems. Before the Group completes this exercise, it may be able to suggest possible ways such problems might be tackled in the context of negotiations.

Rationale of the exercise

5. The availability of reasonably accurate and, at the same time, mutually acceptable means and methods of comparing the military expenditures of the negotiating parties, both among themselves and between different time periods, would, undoubtedly, improve the prospects of an agreement and facilitate its verification. The making available of such means of comparison would be an expression of political will which would also be much needed for the reaching of agreements to reduce military expenditures. As general price indices and prevailing market exchange rates or administratively established exchange rates have serious shortcomings as instruments for intertemporal and international comparisons of military expenditures, there is a reason to develop other and more adequate instruments, such as price indices and purchasing-power parities that would be of direct relevance to the military sector in each country.

Need for data

6. Any exercise of this kind can only be envisaged on the assumption that a reasonable amount of relevant price and expenditure data is made available by those who want to participate. The Group believes that, in a pilot project such as this one, the volume and nature of the information that is actually used for the index and parity calculations must emerge through an iterative process between the Group and the participating countries with due consideration of several aspects concerning both the desirability and the availability of different types of data.

7. The Group was fully aware that some of the information which was requested, sometimes with the use of rather detailed questionnaires, would not be submitted and that this may be the case for different reasons. However, the Group preferred not to prejudge the type of information that might or might not be submitted and the reasons that might prevent the data from being made available. On the contrary, the Group has felt it to be its duty to request all that information which would enable it to fulfil its task as well as possible, thereby leaving to the respondents to decide themselves to what extent they might provide the requested data. In the Group's opinion, this approach will help to clarify several questions with regard to the general availability of data under present circumstances and to provide the Group with some basis for its assessment of the feasibility of its exercise. The Group recognizes that, under circumstances in which conditions are more appropriate and prospects for successful negotiations are more promising, data might be more readily available.

8. The Group considers that its present collection of data on military goods and

services is undertaken for the sole purpose of carrying out the task according to its mandate, which is restricted in time and involves only a limited number of voluntarily participating countries. Furthermore, it is the opinion of the Group that the collection of prices and characteristics of military goods and services should not be introduced on a regular basis in addition to the already existing system for standardized reporting on military expenditures.

II. WORK OF THE GROUP

9. In the fall of 1983, the Group was able to establish a direct and continuous working relationship with the contacts that were designated by the States which had agreed to participate in the exercise at the invitation of the Secretary-General under resolution 37/95 B. Each of the contacts received at that time a letter from the Group containing information about the aim and scope of the exercise and the nature of the data that the Group would need from the States for the purpose of carrying out its task according to its mandate.
 10. This first communication was later followed by specific requests for data on both operating costs and procurement and construction. Owing to the very specific task assigned to the Group, these requests had to be quite detailed not only with regard to the military expenditures themselves, but to characteristics and prices of a number of specified military goods and services as well.
 11. The collection of data is being carried out in an iterative process aiming at a close co-operation with the contacts of participating States with a view to discussing the requests and improving the basis for comparison with respect to the availability and suitability of different kinds of data.
 12. In order to facilitate and to strengthen this co-operation, a programme of travels to visit the contacts of participating countries was carried out in 1984 on the Group's behalf by its Chairman and Consultant. This made it possible to discuss in detail with the contacts all the questions that they had with regard to the Group's exercise and to their respective country's participation in it. It also enabled the representatives of the Group to explain to the participating countries both the need for and the nature of the data that the Group requested for the carrying out of its task.
 13. In 1984, the Group received, at its request, a large amount of data on military expenditures and prices from 7 of the 10 countries which had volunteered to participate in the exercise. These seven countries are Australia, Austria, Finland, Norway, Sweden, the United Kingdom of Great Britain and Northern Ireland and the United States of America. The Group is at present analysing and evaluating the data. These may still be improved and complemented with a view to obtaining the best possible comparability as a basis for the construction of military price indices and purchasing-power parities and for the Group's assessment of the feasibility of such an undertaking.
- For that purpose, upon its preliminary assessment of the submitted information the Group decided to share this information with the countries and to request, on that basis, each of them to supply such supplementary information as would be appropriate to compare with that received from the other contacts.

15. As soon as the Group has finally examined and evaluated the information that has already been received together with that which may still be submitted, the Group will proceed to the actual computations of the military price indices and purchasing-power parities. These computations will be carried out with the assistance of the United Nations Statistical Office, where preparations have been made, in consultation with the Group, to ensure that accurate results can be readily obtained as soon as the final set of data is provided.

16. In 1985, the Group will evaluate the results of the above-mentioned computations in relation to other available means of comparison and draft its final report which will be submitted to the Secretary-General.
