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File Folder SOVIET THREAT-ANALYZING SOVIET DEFENSE
SPENDING: NSC PAPERS

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F02-0083/01

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2743

ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
179948	PAPERS	RE SOVIET DEFENSE SPENDING	11	1/9/1983	B1

The above documents were not referred for declassification review at time of processing

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NATIONAL SECURITY COUNCIL

WPC
HAS SEEN

February 23, 1983

TO: REAR ADMIRAL POINDEXTER
FROM: KEN deGRAFFENREID

J

John,

FYI. Somebody familiar with the CIA analysis, which we have not seen, appears to have been the source of this media account. The business about the last five-year plan, for example, is not referred to either in the short untitled paper the DCI provided us or the defense paper apparently derived from it. This is of course precisely the type of column we hoped to avoid.

VR
Ken

Attachment
Boston Globe article, 22 Feb 83

DECLASSIFIED / RELEASED
NR-139-2713-29
BY CU DATE 9/2/16

Soviet arms budget stirs debate in US

By Fred Kaplan
Special to The Globe

WASHINGTON - A battle is brewing inside the nation's intelligence agencies over recent analyses by CIA officials that the Soviet Union has been increasing its defense budget at a slower rate than charged by the Reagan Administration.

Secretary of Defense Caspar W. Weinberger has testified to Congress that the Soviets have been boosting defense spending by 5 percent each year for the past decade.

But according to sources both inside and close to the intelligence community, CIA analysts are now estimating that since 1979, the rate of Soviet defense growth has been substantially below 5 percent. Some analysts reportedly calculate that the Soviet defense budget might not now be growing at all.

The implications of this re-estimate, said one intelligence specialist, "are so political that it's dangerous to even talk about."

Weinberger has pointed to the rate of Soviet growth to justify major increases in the US defense budget. Amid political pressure from Congress to cut the \$274-billion budget that Weinberger has proposed for fiscal year 1984 (10 percent higher than last year's, not including inflation), news of a re-estimate of Soviet spending from inside the CIA could add to that pressure.

The new CIA estimate, which has not yet been officially accepted or publicly revealed, is being disputed by some within the agency and also by the intelligence divisions of the military services and the Defense Intelligence Agency, the Pentagon's own intelligence arm.

Historically, the DIA and the service intelligence groups have been more pessimistic than the CIA about the Soviet threat.

The CIA, on the other hand, has no direct client in the military establishment - though it, too, has come under political pressure from time to time to alter its estimates to suit official policy of whatever Administration happens to be in power.

Sources familiar with the current debate inside the intelligence community over the Soviet defense budget say that it mainly reflects the broader political debate currently raging over

NEW YORK TIMES
20 FEBRUARY 1983 (22) Pg. E4

Shultz Derails Two-Track Policy

Salvadoran guerrillas continued last week to demonstrate their ability to operate in the field, but Secretary of State George P. Shultz refused to yield political ground to them. He ruled out negotiations that would allow them to "shoot their way" into the Government.

Whatever the eventual necessity for talks as the only way out of the military stalemate - a solution pressed by Mexico and Venezuela - Mr. Shultz's unusually tough Congressional testimony seemed designed to reassure a rightist Salvadoran Government unprepared to come to political terms with the leftists. It had been alarmed by recent reports that some officials in the State Department favored a "two-track" policy - stepping up efforts to negotiate simultaneously with military action. "No dice," Mr. Shultz said in accusing the rebels of "creating hell" with the help of Soviet arms shipped through Cuba and Nicaragua.

Hundreds of rebels isolated the northeastern town of Suchitoto, 27 miles from San Salvador, seizing an eight-mile stretch of the highway leading to it. Suchitoto is close to two hydroelectric dams that supply power to half the country and Government forces, once again reacting to a rebel initiative, rushed to free it. At the same time, the guerrilla radio rejected an appeal from the acting Archbishop of San Salvador, Arturo Rivera y Damas, for a cease-fire during the visit next month of Pope John Paul II. In the Archbishop's view, the cease-fire could lead to negotiations but the broadcast called this an attempt to halt "the people's advance toward victory."

the size of the US defense budget.

Spokesmen for the CIA and the DIA declined comment on any claims about intelligence estimates or re-estimates.

According to one intelligence official, the re-estimate of the Soviet defense budget began when Yuri V. Andropov took over as Soviet leader after Leonid I. Brezhnev died.

After some re-examination, according to another intelligence analyst, it appeared that the production rates for many types of Soviet weaponry that the CIA had predicted a few years earlier simply had not come true.

Said this analyst, "They had overestimated the production - way overestimated it." And given these new production figures, the previous estimate of a 5 percent growth in the Soviet defense budget "cannot be supported," he said.

One intelligence analyst speculates that the reduction in growth for defense may have been a deliberate decision made by the Soviet Politburo. The Soviet Union's most recent five-year plan was set in 1979, just when many CIA analysts now believe the growth rate dropped.

"They've been facing the same sorts of trade-offs between domestic and military spending that we're facing," the analyst said. They may have made a decision to cut back on defense in their last five-year plan, he said.

One highly placed intelligence official cautioned that it is too early to say anything definitive about this re-estimate. "People who are making assertive statements about this don't know what they're talking about," he said.

He added that Weinberger's claim of 5 percent Soviet growth used to be a reasonable estimate - but not since the agency's revised look at Soviet defense production.

The issue of Soviet defense spending has always been engulfed in controversy. The Soviet Union issues data on its defense budget, but the numbers are universally dismissed in the West as phony. The Soviets say officially that they spent 17 billion rubles on defense in 1981 - about \$26 billion. They claim they have spent this much every year for the past decade. The United States has not spent so little on defense since before the Korean war.

So US intelligence agencies try to estimate the Soviet budget by calculating how much it would cost this country, in dollars, to buy all the weapons and pay all the soldiers that the Soviet military supports.

This leads to distortions, since US troops are paid far more than their Soviet counterparts, inflation rates differ between the two countries, certain types of technology are cheaper in one country than in the other and the pricing system in the Soviet Union does not reflect the actual market value of many manufactured goods.

Moreover, production rates of the Soviet military machine are difficult to determine and often must be extrapolated from intelligence on the size of factories, the nature of work being done there and predictions about the rate of growth in the Soviet economy generally.

Said one intelligence official who has worked the problem for years, "The subject has never been a satisfying one for anyone interested in a serious analysis, because the data are so soft and uncertain."

14

This NIE must compare the various estimates of Soviet defense expenditures which have been constructed by different methodologies with the CIA estimates. This comparison must include estimates and methodologies made by individuals outside the government, as well as those made by government organizations when such estimates have been published along with normal scholarly documentation. The comparisons must do the following:

- Provide a historical series for each of the various estimates for side-by-side comparison with CIA estimates.
- Provide complete data on magnitude, rates of growth and structure of all estimates.
- Provide a complete statement of each methodology used to make the estimates and cross-checks, if any, provided by the author (source) of each estimate.
- Display each individual estimate relative to the various data points that have been once available from emigres and Soviet officials.

Estimates and methodologies drawn from authors (sources) who are not US Government employees, or were not so employed when the estimates were made will be excerpted from published documents. These excerpts will be reviewed by the author(s) who will certify that their estimates and methods are accurately and completely represented.

It is also essential to determine the predictive track record of each estimate/methodology relative to the times that the various checkpoints from emigres and officials become available

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REF ID: A66084
NIE-139-27-43-4-7
BT CW NARA DATE 9/2/16

and whether the author(s) were cognizant of the existence of these checkpoints at the time their estimates were completed, taking into account the time consumed by editing and publication.

Contingency Answer for President's Press Conference

Soviet Military Spending Levelling Off, DoD-CIA Differences

Q. Mr. President: There are reports for the New York Times will report tomorrow that Soviet spending for military purposes has leveled off. What does this mean for your defense program? Do the Defense Department and the CIA disagree?

A. Over the last decade, Soviet military investment has been 80 percent greater than US outlays, and today it is still nearly that much higher than ours. If they are levelling off a bit, it would be from this much higher plateau.

There have been periods of slowing down in the past, when the Soviets shifted over to new weapons systems. Their military research is still expanding, so they may be starting up again with new models.

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ALLIN	C
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83 FEB 16 P 4: 35

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FROM Fred C. Ikle OFFICE/DESK USDP PHONE NBR 697-7200

SUBJECT Contingency Answer for President's Press Conference

CLASSIFICATION UNCLASSIFIED PAGES 1

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WII	Mort Allen		174. OEOB	456-2947

REMARKS:

17 16 FEB 1983 16 91 8861 833 91

NATIONAL SECURITY COUNCIL

February 17, 1983

19

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RCM HAS SEEN

TO: BUD MCFARLANE

FROM: KEN deGRAFFENREID

Fred Ikle

I understand that Fred Ikle has been briefed by DIA, who took exception to the CIA estimate on procurement. I am told that resulted in some rewriting of the draft testimony. I have attached some language which you may wish to consider offering Fred, depending on your reaction to what he has. Mine would replace everything following the asterisk on page 2.

I am prepared to brief you on the details of what is at issue here before any conference call with Fred and John McMahon.

DECLASSIFIED (RELEASE)

Authority NLR-39-27-4356

BY CS NARA DATE 9/2/16

Attachment

I've talked to Brandtner in Ikle's office. He says they are going to go with the testimony unchanged but they will continue to work the problem in the media. I like Ken's language and think we should push for that.

With specific regard to Soviet military procurement, one of the components of investment, there is some disagreement within the community regarding this estimate. The community agrees, however, that Soviet procurement exceeds US expenditures by at least 60 percent.

We will shortly be undertaking an NIE to explore the methodological and other differences within the community regarding estimates of Soviet defense spending. Nevertheless, there can be little question concerning the enormous Soviet investment in defense, particularly given the smaller size of their economy.

DECLASSIFIED (RELEASE)
AUTHORITY NLR-139-27-43-56
BY CAI NARA DATE 9/2/16

21

February 17, 1983

John P

At this morning's breakfast Fred Ikle gave me the attached statement which DoD and CIA propose for DOD to use in testimony tomorrow on the Hill with regard to Soviet military spending.

I went over with Fred the continuing problem. He is of the mind that it will always be there because it will be impossible to get all agencies to adopt the same methodology. He took the point that whatever we conclude ought to be a community conclusion but he did not see how something which is "already leaking" could be held up for us to reach a community conclusion.

I think I should start with a conference call with McMahon and Ikle to set the facts straight. Most importantly in that context is that there is a difference as to how much the Sovs are spending

Please let Ken D look at this statement and then let's you and I and Ken get together before the call (or any other formula you suggest for resolving this today).

Bud

DECLASSIFIED (RELEASED)
NLR-139-27-13-5-6
CN NARA DATE 9/2/16

New Estimates on Soviet Military Procurement

Let me bring you up to date on our recent estimates of the Soviet military effort.

The estimated dollar cost of Soviet programs in 1981 was \$222 billion, or 45 percent more than the comparable US outlays of \$154 billion. In other words, the USSR committed substantially more resources (measured in terms of dollar costs) over the period than did the United States. This was true for total defense activities, and for almost every component of that total as well. Our increased defense spending helps to narrow the gap; yet, the Soviet Union continues to outspend us by substantial margins in most armament categories.

In 1981, estimated dollar costs of Soviet intercontinental attack forces exceeded US outlays by about 50 percent -- even at a time when the US was investing in Trident, air launched cruise missiles, and B-52 enhancement programs. For ICBMs, estimated Soviet dollar costs were 10 times as large as comparable US outlays. For the Soviet SLBM programs, the estimated dollar cost through the last decade was about 65 percent greater than corresponding US outlays; in 1981, this cost was 40 percent greater, again, a narrowing of the gap resulting from the increase in US spending (mainly on Trident) rather than any decline in Soviet effort. For Soviet conventional forces, the estimated dollar costs in the last decade

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AUTHORITY: NR-139-27-43-56
BY: CN NARA DATE: 9/2/16

were 65 percent more than corresponding US outlays, and in 1981 they were still 40 percent greater.

For Soviet military investment (for procurement, military construction, and RDT&E) estimated dollar costs were 80 percent greater than US outlays in the last decade. * But during the last four or five years, there was little or no growth in Soviet military ~~the~~ procurement, one component of investment. However, we must keep in mind that this levelling off occurred at a plateau of spending some 60 percent above US expenditures on procurement.

It is not entirely clear why this slowdown in procurement seems to have occurred. There have been such periods of relatively little growth in procurement before, as part of the weapons modernization and acquisition cycle. It is possible that a Soviet policy of upgrading the performance of weaponry has contributed to this prolonged relatively low growth period of procurement as Soviet planners attempt to alter the character of future forces. A somewhat similar period was noted in the late 1950s when resources were redirected from conventional to strategic weapons. Delays are to be expected, as new manufacturing technologies are being assimilated to produce more sophisticated systems. Soviet research and development expenditures have risen rapidly, a trend which is consistent with accelerated modernization, and which suggests growth in procurement, may resume. Indeed the US intelligence community expects that it will resume. There is also mounting evidence that bottlenecks in the Soviet economy are interfering here and there

with military production.

We cannot measure precisely to what extent the shortcomings of the Soviet economy will constrain a further growth in Soviet arms production, but to the extent that such constraints operate, this is, of course, all to the good. The President's effort with our allies, to stop subsidizing the Soviet economy, is designed precisely to encourage an eventual levelling off in the Soviet buildup.

MEMORANDUM

NATIONAL SECURITY COUNCIL

February 3, 1984

MEMORANDUM FOR THE RECORD

FROM: DIANE DORNAN
SUBJECT: Soviet Defense Spending

Spoke by telephone to Ikle on this issue. His attitude was that it's old hat and differences between DIA and CIA have been reconciled. Seemed nonconcerned that CIA may again reduce their estimate.

- I noted that DIA now apparently has right methodology but is plugging wrong basic numbers into it so final result squares with CIA.
- Also that Cap has been encountering difficulties on Hill and elsewhere.

I stressed that my belief was that McFarlane agreed with Casey and Weinberger that they would intensively study methodological and other problems, perhaps looking at academic treatment of issue as well as CIA's and DIA's. He said this was not Weinberger's perception. Apparently Casey and Weinberger thought all they had to do was "sing with one tune," so sole efforts have been PR - prepare joint fact sheet and press backgrounder. I reiterated that my reading was that McFarlane expected a serious study of methodology, and that he had tentatively agreed to suspend PFIAB review if this could be worked out. Ikle though PFIAB was still tasked to study, and that this was better place for such a study it is under the President's control. I told Ikle I would recheck McFarlane's wishes and get back to him. What now?

My observations:

- Ikle is nonconcerned re basic factual and political problem, and we'll get no support from him, so can't rely on him to keep DIA reliable. Weinberger who has taken the flack, might be more amenable, but will that help?
- On rereading Bud's memo, could they be right that he'll settle for mere PR?
- On balance, if we can get him to go ahead with PFIAB that would be best. Looks bleak. Unleash Demesch?

DECLASSIFIED / (R/006E1)
NLR 139-27-4365
UN WARA DATE 9/2/16

MSG FROM: NSJMP --CPUA
To: Ken deGraffenreid

TO: Ken deGraffenreid

+01/24/84 10:32:55

-- SECRET --

NOTE FROM: JOHN POINDEXTER
Subject: Forwarding Note 01/21/84 12:16 PFIAB Work On Soviet Defense Spending FYI.

*** F O R W A R D E D N O T E ***

To: NSJMP --CPUA

-- SECRET --

NOTE FROM: ROBERT MCFARLANE
SUBJECT: PFIAB Work On Soviet Defense Spending

*DD
I'll call
Ike tomorrow
or Thursday*

I talked with Casey and Weinberger at some length about the eternal struggle within the community over the proper methodology and purpose of analyses of Soviet Defense Spending. I made clear that my central purpose was to avoid the periodic disagreements over the trends. At the end I suggested that they (Bob Gates and Fred Ikle) get together and try to come to a meeting of the minds over methodology and product. Bob had suggested with Casey's support that what we ought to be focussing on is not so much what they spend but what they get for it in terms of force structure. I agree and they are to try to fold that in to their talks. Please call Fred Ikle and note this for him (against the chance that Cap did not follow up with him). If they can work it out that's fine with me. I said that if they could I would turn off the PFIAB effort to look at the same issue. But I need to know that something is going to happen. If you are satisfied that something is, then please advise the PFIAB to stand down and we will find something else for them to do.

*what do
you think
we should
do?*

cc: NSRMK --CPUA

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Authority MLR-BA-2743-6-5

BY CMS NARA DATE 9/2/16

WASHINGTON POST 2 February 1984 Pg. 2

At Least One Senator Realizes That Weinberger Is Insatiable

Sen. Carl Levin (D-Mich.) gave a summary of the riddle of the Pentagon budget, which had just been explained to him and other members of the Senate Armed Services Committee by Defense Secretary Caspar W. Weinberger.

"Last week America was standing tall," Levin said. "This week she's back on her knees."

The problem of reconciling President Reagan's State of the Union message, in which he hailed the restoration of America's military might, with a Department of Defense request for a \$48 billion increase in budget authority, 13 percent after inflation, animated the hearings, where the secretary unveiled a series of charts showing that we are dangerously unprepared to meet the Soviet threat.

Reagan said January 25, before the whole world, "The United States is safer, stronger and more secure in 1984 than before."

Apparently they did not get the word at the Pentagon. Weinberger won't be comfortable with a dime less than \$305 billion.

Weinberger said that it will take another decade to "level out" the spending necessary after what he calls "a decade of neglect."

The most assurance he could give even after the Reagan outlays is that, "We are inferior in some respects; we are superior in others." The superiorities, Levin complained, didn't make it to Weinberger's charts.

And what about reports that while we are cutting our domestic budget by 33 percent to catch up, the Soviets are spending 1 percent less—which is 2 percent of their treasury—on defense?

When challenged by Levin about the decrease, Weinberger said briskly that the CIA report on Soviet spending was "irrel-

evant" because the Soviets get a bigger bang for their buck.

All the unwelcome figures showed, he said, was the differences in our systems: we pay 43 percent of our defense budget to military personnel, while they dole out 11 percent to theirs.

Weinberger has become the leading Kremlinologist of the Reagan administration.

He makes categorical statements about the Soviets' intentions and state of mind that intimidate Republican senators. He is, in fact, as compelling an expert on the Soviets as Reagan is on the homeless. In both cases, there seems to be more feeling than information.

Mary McGroary

MORE

Weinberger stated flatly, for instance, that the Soviets now take seriously our nuclear deterrent capability. Why is this the case when in the last year of the weak-kneed Carter administration we had more warheads in our arsenals than we do today?

"Deterrence," he said oracularly, "is what is in the minds of your opponents."

Nobody asked, "How do you know this?"

If the CIA is bringing in irrelevant dope, where is Weinberger going for his certitudes? Does he have a mole in the retinue of Yuri V. Andropov—it would have to be a doctor or nurse—who knows that the Soviet leader often murmurs, "Say, this crowd isn't kidding."

Of course, the difficulty is that American voters are saying the same thing. Reagan in his State of the Union speech tried to counter this sentiment by suggesting that the heaviest military spending in history

had made it possible "to move with confidence to seize the opportunities for peace."

But while Weinberger is the consummate team player, he is less effective as a campaign worker. While he gave an occasional nod to the weapons-reduction goal that Reagan professes to be his dearest wish, he couldn't really find any hope in that direction.

A pair of New England Republican senators who are up for reelection in an area where more arms control beats more defense spending tried to steer him into the dovish mode without success.

Would it not be possible, asked Sen. Gordon J. Humphrey (R-N.H.) in a rather plaintive tone, for the United States to pledge "no increase" in the number of weapons?

Weinberger does not like to hear anything that smacks of freeze. It is hard when you are building new systems to keep equal with the ever advancing Russian threat.

"The freeze does not allow any modernization," he said dismissively.

Sen. William S. Cohen (R-Maine) talked wistfully about the possibility of at least negotiating peace in outer space. Wouldn't it be better to talk about a treaty in Star Wars before it is begun? he asked.

No, it would not, Weinberger said. He said that he could "not sit down at the table"—the Soviets have been vigorously pursuing the idea of a nuclear shield since 1967.

Antisatellite weapons? Cohen asked politely. Perhaps, since they are so hard to verify, it might be wise to freeze them now.

The answer was no. "If we came out with any kind of a freeze on A-SAT weapons, we would be very far behind," Weinberger said.

Some things never change, Levin said to Weinberger.

"You always want more."

TROOPS...Continued

another Big Pine joint exercise with the Central American nation is planned for later this year.

He said there is "considerable advantage" to leaving heavy military equipment and communications equipment in the country rather than hauling it out between the exercises. The same would apply to manning medical facilities, the defense secretary said.

Other defense officials said Hon-

duras has not as yet formally requested the cadre, or the follow-on exercise, and therefore there was no final Pentagon decision.

The Big Pine II exercise, designed to help Honduras ward off the military threat posed by the Sandinistas in neighboring Nicaragua, began last August and reached its peak of about 5,000 U. S. troops in November.

The defense secretary denied assertions by Sen. Edward M. "Ted" Kennedy, D-Mass., that the Reagan

administration was trying to move to a permanent military presence in Central America through the "back door."

Mr. Weinberger said the money for the military exercises is "on the table... there is no back door."

A still unpublished congressional study reportedly criticizes the Pentagon for allegedly building installations in Honduras, suggesting a semi-permanent American presence.

Sov. Def Spending

28

WASHINGTON POST 2 February 1984 Pg. 2

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NEW YORK TIMES
2 February 1984 Pg. 3

GENERAL RESTORED IN WEST GERMANY

By JAMES M. MARKHAM

Special to The New York Times

BONN, Feb. 1 — Chancellor Helmut Kohl announced today that Defense Minister Manfred Wörner and a four-star general whom he dismissed had reached a gentlemanly reconciliation that permitted the Cabinet official to remain in office and restored the general to active duty.

Seeking to dampen the scandal, Mr. Kohl conceded that Mr. Wörner and his aides had made mistakes in investigating and dismissing Gen. Günter Kiesling from his post as a deputy commander of NATO on the ground that he was homosexual and therefore a security risk. The general denied that he was homosexual.

The Chancellor said that Mr. Wörner, who apologized to the general for having incorrectly judged him a security risk, would keep his job.

"I know what it's like to have your back against the wall," Mr. Kohl said at a crowded news conference. "In my life, I've been there myself. In situations like that, you make mistakes."

The general said that poor health would keep him from returning to his NATO post and that he hoped to retire next month.

Opposition Criticizes Decision

The leader of the opposition Social Democratic Party, Hans-Jochen Vogel, called the Chancellor's decision "injurious and politically irresponsible," saying the "Wörner affair" had become "the Chancellor's affair."

Mr. Vogel predicted that the Chancellor's attempted resolution of the Kiesling case would "increase the disquiet in the army and among the public and over time damage the prestige of the Federal Republic abroad."

Mr. Vogel said Mr. Kohl's refusal to dismiss either Mr. Wörner or Economics Minister Otto Lambsdorff, who faces corruption charges, raised doubts about his qualifications to govern the country. The Social Democrat asserted that the Chancellor's main concern was to avoid a Cabinet shuffle that would permit Franz Josef Strauss, the conservative Premier of Bavaria, to become a member.

At his news conference, Mr. Kohl said that Mr. Wörner offered his resignation on Monday but that he had not accepted it. The Chancellor read a letter from the Defense Minister to General Kiesling that acknowledged that "erroneous evidence" — intelligence reports that the officer had patronized homosexual haunts in Cologne — had led to his forcible retirement from his Brussels NATO post. Mr. Wörner wrote that he had asked President Karl Carstens to restore the 58-year-old officer to active service.

WASHINGTON TIMES 2 February 1984 Pg. 9

Specific proposals sought from Soviets

From combined dispatches

The U.S. delegation to the European disarmament conference yesterday described NATO proposals to the meeting as "innovative" and called on the Soviet Union to respond with concrete suggestions of its own.

The delegation said the European security conference to reduce the chances of war could succeed only by avoiding disputes, and implied the Soviet Union was to blame for lack of progress.

The West regards the Soviet proposals as outside the conference mandate agreed upon last fall during the Madrid Conference on security and cooperation in Europe.

Western delegates have said the mandate does not include discussions of nuclear arms control, which the United States and NATO believe should be confined to the stalled Geneva talks on reducing strategic and medium-range atomic weapons.

Western delegates also do not believe the declaratory agreements advocated by Moscow could be verified.

American officials said they were disappointed that the head of the Soviet delegation, Ambassador Oleg Grinevsky, had not provided more details of the Soviet Union's position in his speech to the 35-nation conference Tuesday.

"It is incumbent on those making general proposals to explain them," a senior U.S. official said. "It would help if concrete Soviet proposals were laid on the table."

Mr. Grinevsky's speech called for a non-aggression pact, an agreement on no-first-use of nuclear weapons and a ban on chemical weapons in Europe.

Referring to measures on exchanging military information and advance notification of military exercises which the NATO countries presented last week, U.S. delegate James Goodby said, "The United States and its allies have put forward some proposals which are innovative ... and which we believe to be negotiable."

"We are here for negotiation, we don't want it to become a debating society," Mr. Goodby told reporters.

"I have at no time put in question your honor," continued the letter. "I hope that you will soon put these difficult weeks behind you."

The General's Response

In a letter of response, General Kiesling thanked Mr. Wörner for requesting his reinstatement, which he said "had clearly restored my honor." The general said he believed Mr. Wörner's original decision to retire him had been exclusively dictated by "the security interests of the Federal Republic of Germany."

The general wrote, however, that his ordeal and poor health prevented him from returning to his NATO post and asked that he be retired on March 31, 1984 — which had been his plan before the dispute broke into the newspapers last month. Mr. Wörner and General Kiesling, who was in full uniform, met this afternoon at the Defense Ministry. Photographers were excluded from the encounter.

"I only want to say that I am happy the constitutional state has triumphed," General Kiesling said before the meeting, "and I am sorry for the damage that the army has suffered."

Chancellor Kohl made it clear that he had encouraged the reconciliation and the general's rehabilitation to keep Mr. Wörner in the Cabinet. He has been widely considered one of its stronger members. The Chancellor praised his

Defense Minister as "an extraordinarily knowledgeable and extraordinarily committed man."

Consequences for Others

The Chancellor skirted questions about the consequences for other Defense Ministry officials, but there was a widespread expectation that Brig. Gen. Helmut Behrendt, the counterintelligence chief, and Joachim Hiehle, a state secretary who pressed for General Kiesling's dismissal, would be replaced.

A major calculation in retaining Mr. Wörner was evidently avoiding of Cabinet changes, which were demanded by Mr. Strauss, the Christian Democratic leader of Bavaria. But, according to various accounts, Mr. Wörner also had weighty defenders in the Cabinet, including Finance Minister Gerhard Stoltenberg and Labor Minister Norbert Blüm.

With a parliamentary subcommittee investigating the Kiesling case, the Social Democrats still have an opportunity to keep it alive and try to turn it against the Chancellor. Horst Ehmke, a prominent Social Democratic legislator, predicted today that Mr. Kohl would not remain in office for his full four-year term.

"Abroad we are being ridiculed as an operetta nation, a banana republic," Mr. Ehmke said, "and I have to say that as a citizen of this republic, I am ashamed."

NSC/S PROFILE

UNCLASSIFIED

ID 8401211

RECEIVED 10 FEB 84 19

TO MCFARLANE

FROM DORNAN

DOCDATE 10 FEB 84

*Sov. def. spending
TR (DAD)
and Press articles*

Dornan

KEYWORDS: USSR

SUBJECT Q+A ON SOVIET DEFENSE SPENDING

ACTION: FOR INFORMATION

DUE:

STATUS IX FILES

FOR ACTION

FOR CONCURRENCE

FOR INFO

MCFARLANE

COMMENTS

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DISPATCH

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MEMORANDUM

NATIONAL SECURITY COUNCIL

February 10, 1984

INFORMATION

MEMORANDUM FOR ROBERT C. McFARLANE

FROM: DIANE DORNAN DD

SUBJECT: Soviet Defense Spending - PR

Fred Ikle sent me Qs & As (Tab I) for the press backgrounder held on the Soviet defense spending issue. They are well done and may be useful to you. At Tab II is a press article (citing Vessey and Weinberger as sources) which gives more detail on the theme that, whatever our estimate of their expenditures, the Soviets increasingly are challenging and surpassing us in most areas of procurement and R&D.

Attachments

Tab I Qs & As
Tab II Christian Science Monitor
Article, dtd Feb 6, 1984

cc: Ron Lehman
Don Fortier

CIA and DIA Estimates of Soviet Defense Build-up

Main Points.

- o Over the last ten years, the Soviets built far more armaments than the US. This is clearly reflected in the Soviet production of major weapons. For example, the Soviets produced about four to five times the number of ICBMs and three times the number of submarines, twice the number of tactical combat aircraft, and four times the number of tanks that the US acquired over the same period.
- o Resources devoted to Soviet defense have grown continuously for the last two decades. This has resulted in a substantial modernization of all the Soviet forces.
- o During the ten year period from 1973 to 1982, the dollar cost of Soviet procurement of arms and other military assets exceeded that of the United States by some 240 billion dollars, as measured in 1985 dollars. Even if we could soon close the gap between the annual US and Soviet investment in arms, the effect of such a massive disparity would be with us for some time.
- o We have not yet closed this gap in procurement, however, much less made up for the last decade during which the Soviets out-produced us in nearly every weapons category, bringing about a serious imbalance in armaments. Since the mid-1970s, growth in Soviet military procurement has been slower than before. While the growth in the early 1970s was about four percent, since the mid-seventies, Soviet procurement has remained relatively level.

DECLASSIFIED / RELEASED

NLR 139-7-43-71

CU NARA DATE 9/2/16

o Yet, it is important to note that Soviet procurement is on a substantially higher level than US procurement. In particular, the Soviets are still adding more to their intercontinental attack forces than the United States. The Intelligence Community estimates that since 1975 Soviet procurement of intercontinental nuclear attack forces was almost double the comparable US outlays. In the same period, Soviet procurement of conventional arms exceeded ours by 50-70 %.

o Moreover, both DIA and CIA are concerned that the growth in procurement may accelerate again in a few years, as the large number of new weapons programs now in R&D begin to move into full production. We estimate that the dollar cost of Soviet military R&D effort exceeds ours by a factor of two and is growing rapidly. We notice three developments that suggest the Soviet military programs--far from levelling off--could increase more rapidly again in the years ahead:

- one, the expansion of Soviet military R&D
- two, the expansion of Soviet weapons production facilities
- three, several sophisticated, expensive Soviet weapons under development now appear to be nearing deployment

o DIA and CIA hold virtually the same estimate of Soviet order-of-battle, especially in the major weapons systems. Because of different production cost assumptions, CIA and DIA estimates of Soviet production of individual weapons systems can differ. In

some cases, such as ICBM production, DIA estimates exceed those of the CIA, while in other cases, such as tactical aircraft, the reverse is true. These differences tend to offset each other in assessments of overall defense costs, but of course can be significant in assessing cost trends in particular weapons categories.

Background (on if asked basis).

- o Both CIA and DIA estimate Soviet defense costs. Soviet defense costs in ruble terms are used to assess the burden of defense on the Soviet economy. The dollar estimates are used to compare the costs of Soviet defense activities with comparable US figures. The cost estimates are most useful in identifying general trends and assessing priorities in Soviet efforts, rather than in precisely measuring Soviet outlays in particular years. In addition, detailed estimates of production for particular weapons systems are developed to support the costing work.
 - CIA estimates Soviet defense costs in both ruble and dollar terms, and develops a detailed set of production estimates for Soviet weapons systems.
 - DIA estimates Soviet defense expenditures in ruble terms, but uses a totally different methodology than the CIA. DIA also estimates production and dollar costs for major weapons systems, but does not produce a total dollar estimate for comparison with US figures.
- o While there are some differences in the details of their estimates, both agencies share the same general impressions of developments over time.
 - Over the past decade the dollar cost of Soviet defense activities exceeded comparable US spending by a large margin for every resource category except operations and maintenance and every mission area. Soviet total dollar costs exceeded comparable US outlays by 45 percent over the 1973-82 period.
- o With regard to estimates of the Soviet defense effort in ruble terms, the two agencies use very different approaches. The CIA method uses a detailed description of Soviet military

activities to develop an estimate of Soviet defense expenditures in constant prices. DIA works from Soviet budgetary, financial and economic data to develop an estimate in current prices. Because of these pricing and methodological differences, individual estimates of spending levels and growth rates are not directly comparable. Nonetheless, both CIA and DIA estimates show more rapid growth of expenditures for overall defense and for military procurement activities during the 1960s and early 1970s than in the period since then.

Pentagon sees new challenges from Soviet military

By John D. ...

Staff writer of The Christian Science Monitor

Washington

Pentagon planners, peering into the future, have their eyes on a number of developments in the Soviet Union that could pose serious new challenges.

- Soviet fighter pilots, long hampered by rigid tactics, are getting better. Their training now emphasizes more initiative and independence as a means of challenging American air superiority in Europe.

- Soviet industry, making large investments, is beginning to close the technological gap with the United States. Among the worrisome areas of Soviet gains are nuclear submarines and precision guided munitions.

- Soviet military units are developing a major potential to fight chemical warfare. The USSR currently has 14 factories capable of producing chemical weapons, while the United States has none.

These are only a few of the long-term concerns of US military planners — concerns that could become the major defense stories of tomorrow.

The record \$305 billion US military budget proposed Feb. 1 by President Reagan addresses the foremost problems on the defense horizon. It continues to rebuild America's strategic arsenal. It strengthens the nation's conventional military might by producing more tanks, aircraft, and ships.

The higher spending of the Reagan years has gradually restored confidence among US military planners. The outlook for deterring war, says Gen. John W. Vessey Jr., chairman of the Joint Chiefs of Staff, is better today than it was a few years ago.

"The health of our armed forces is good," the general says. Their condition, he adds, is "the best that I have seen in almost 45 years in uniform."

The problem, as he explains it, is that the Soviets are not slowing down. As a result, the goal of deterring war remains a difficult one.

old figures

"We are not going to have a very comfortable margin of safety at any time in the foreseeable future," he concludes. Even if the US spends every dime that Mr. Reagan requests for defense, this would provide only a "more comfortable margin" of safety, but not a "considerable margin" by the end of this decade.

Challenges from the Soviets are coming on almost every front. Even though the Soviet economy is only 55 percent as productive as the US, Moscow makes up for that by devoting a larger chunk of the budget to military output. US intelligence sources estimate that between 14 and 17 percent of Soviet gross domestic product goes to military purposes. In contrast, the US devotes about 6.5 percent of its economic output to military use. Reagan would eventually like to boost that to about 7.5 percent.

The Soviet military has another advantage. While the US spends 43 percent of its military budget for personnel costs (salaries, housing, health care, retirement), the Soviets spend only about 11 percent, says Defense Secretary Caspar W. Weinberger. This leaves the Soviets a lot more money to buy tanks, planes, ships, and ammunition.

This is one reason that even with a record Reagan defense budget for 1985, the Soviets are expected to outproduce the US in military hardware. The US would build 720 tanks, the Soviets 2,300. The US would build 350 tactical combat aircraft, the Soviets 840. The US would build five major warships, the Soviets nine. The Soviets would also lead in armored vehicles (4,550 to 1,546), artillery (2,600 to 167), and submarines (10 to 5).

That kind of numerical advantage means the US and its allies need a technological edge to make up the difference. And that is one potential problem that the Pentagon sees ahead.

The latest military posture statement by the Joint Chiefs of Staff pinpoints a number of areas where massive Soviet investment in military technology and hardware is beginning to pay off.

The Soviets already have the edge in chemical warfare, antisatellite weapons, surface-to-air missiles, and ballistic missile defense. (They are improving their ballistic missile defense system around Moscow; the US shut down its only ballistic missile defense system years ago.) Further, the Joint Chiefs say the Soviets are closing the gap in a number of areas, including submarine-launched ballistic missiles, amphibious warfare, antisubmarine warfare, fighter aircraft, large ships, precision guided munitions, nuclear subs, and communications systems.

The Soviets are also seen gaining in a number of areas of important technology: electro-optical sensors, guidance and navigation systems, microelectronics and integrated-circuit manufacturing, radar, lightweight structural materials, and submarine detection. The Soviets have already caught up with the US in strategic missiles, antitank guided munitions, artillery, attack helicopters, infantry combat vehicles, naval mine warfare, and tanks. Their technology is about equal in aerodynamics, fluid dynamics, explosives, lasers, nuclear warheads, ocean science, and mobile power sources.

Every branch of the US military is feeling the pressure.

PENTAGON... Pg. 4-F

COMPETITION...Cont.

Mr. Weinberger and other senior officials of the department have repeatedly insisted that departmental auditors have discovered the excessive prices and that they are correcting the shortcomings. But opponents of higher military spending have still used the disclosures as ammunition.

Many members of Congress, too, have urged the Defense Department to award more competitive contracts — except when that takes business away from contractors in their own electoral districts. In this case, the Connecticut delegation, party affiliations aside, has been at odds with the delegation from Ohio, where the General Electric engines will be made.

Industry lobbyists here said that lobbying for the contract had been intense, even if out of sight, with General Electric perhaps having an edge

because it has about 250 plants in as many Congressional districts around the country. Pratt & Whitney may also have suffered somewhat because its engine for the F-15 and F-16 had problems with maintenance and performance during its early years.

Strategically, having two engine production lines open would permit the nation's engine industry to surge into higher production with less disruption if an emergency arose. Having two lines running would also be insurance against strikes or other stoppages.

Spokesmen for the Air Force said that the problems involved in coping with two separate sets of spare parts for the General Electric and Pratt & Whitney engines would be minimal because the G.E. engine is the same as that for B-1 bombers and the Pratt & Whitney is an improved version of the engines currently being fitted into F-15 and F-16 fighters.

NEW YORK NEWS

6 FEB 1984 Pg. 3

Poll: Pull Marines from Leb

By LOUIS HARRIS

Public support for keeping U.S. Marines in Lebanon has eroded, and 66% of Americans want to pull out the Marines.

The same percentage gave President Reagan a negative rating on his handling of the situation in Lebanon, according to a Harris Survey conducted by telephone among a cross-section of 1,251 adults nationwide between Jan. 12-15.

When asked to assess the President on his insistence that the Marines stay in Lebanon, 65% gave him negative marks. In addition, 70% rejected the claim that "because the Marines are already in Lebanon, we must keep them there now as a matter of national honor."

Instead, 55% believed that "it has been shameful and wrong that U.S. Marines have had to defend themselves in the almost defenseless area of the Beirut Airport and cannot shoot unless they are fired upon."

IN ADDITION, 71% believed that "the loss of American lives in Lebanon has not been worth it, considering what has been gained," and 55% rejected the idea of the U.S. "sticking it out, with the Marines remaining in the same area, trying to keep the peace around the Beirut Airport."

The option of increasing the number of American fighting men in Lebanon is strongly rejected, and 80% opposed "joining with the Israelis in a war against Syria to drive the Syrians out of Lebanon."

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PENTAGON...Continued

The challenge at sea. The US Navy's job will be getting tougher and tougher if current trends continue. The threat comes from a number of areas, including greater Soviet airpower, better Soviet submarines, and new and bigger Soviet aircraft carriers.

An American admiral who was recently asked which Soviet system he worried about most, had a quick reply: the Backfire bomber. With a 3,000-mile combat radius (even more with air-to-air refueling), the Backfire can swoop over a large portion of the world's oceans to threaten US fleets with long-range antiship missiles. Some 200 Backfires are currently in service, with 30 more being added every year. A new, larger bomber, the Blackjack, will be added by the Soviets in 1987.

One of the Navy's key jobs is to knock out the Soviets' 360 submarines as quickly as possible in time of war. But newer Soviet subs (five different types are currently under construction) are much quieter, and therefore harder to detect.

Adding to these challenges is the Soviet Navy's new emphasis on aircraft carriers. This year, the fourth Kiev-class Soviet carrier joins their fleet with its vertical-takeoff aircraft. But within a few years, the Soviets are expected to float their first big-deck, American-style carrier — which for the first time will give the Soviets the capability of launching offensive air operations far from their shores.

The challenge on land. Added to the well-known Soviet advantages in Europe (more tanks, more planes) is the threat of chemical warfare.

The Soviets devote 85,000 men to preparation for chemical warfare (the US, 7,000). Their ships, vehicles, and key facilities are equipped with chemical warfare protection, while few American ones are. They are capable of delivering chemical weapons with tactical rockets, missiles, multiple-rocket launchers, cluster bombs, and other devices. The US has far less capability.

Why are the Soviets pushing these programs? US officials aren't sure, but they are gradually stepping up their chemical warfare training.

The challenge in the air. Control of the air over Europe will depend on pilot skill, advanced technology aircraft and munitions, and adequate numbers.

At present, the Western forces have everything in their advantage but numbers. There the Soviets lead. But the Pentagon has a worried eye on the new MIG-29 and Su-27, new supersonic, all-weather, night-capable fighters. These aircraft, says Mr. Weinberger, will "significantly reduce our current tactical air advantage."

In each of these cases, the Pentagon is aware of the challenge and is looking for ways to counter it. But the Soviets, as General Vessey says, are keeping up the pressure.

January 27, 1984 (6 Feb)

Defense Daily

Page 143

BILL WOULD BAR SECRET TELEPHONE RECORDINGS BY GOVERNMENT. Legislation that would prohibit Federal officials from recording their telephone conversations without the consent of the other party has been introduced by Rep. Jack Brooks (D-Tex.), chairman of the House Government Operations Committee. Law enforcement and counter-intelligence activities would be excluded. The bill carries a \$5,000 fine for violation.

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/ NATIONAL SECURITY COUNCIL

June 11, 1984

1. Ken deGraffenreid _____
2. File - Soviet Defense Spending

~~SECRET~~

*Charles Dornan -
Very helpful reception.
Fred I. said he
thought he
could sort it
off.*

MEMORANDUM

~~SECRET~~

NATIONAL SECURITY COUNCIL

June 8, 1984

MEMORANDUM FOR DONALD FORTIER

DECLASSIFIED

FROM: DIANE DORNAN *DD*

Authority NLP-13A-27-43-8-3

SUBJECT: Soviet Defense Spending

BY ON NARA DATE 9/2/16

Ken indicated you had the action on the Soviet defense spending issue and asked that I give you some material. Background papers which I gave to other staff members are attached. Dr. Ikle had been unaware of the DIA study but agreed that it could present problems and that a public relations effort was needed; he thanked me for informing him and said he would take action.

We believe we should approach the issue not in a defensive manner inviting attacks, but rather as part of a campaign to achieve longer-term objectives. We should use the occasion to put the value and implications of the estimates in perspective, preparatory to taking some decisive actions to finally force revisions in or scuttling of the entire, intellectually shabby process. In this respect, a PFIAB committee chaired by Alan Greenspan will be coming out with a report on the issue in about a month which I am told will confirm our own view that the estimating procedure probably considerably has understated Soviet defense spending and is based in any case on unsupportable hypotheses.

We should not, therefore, endorse the report findings of increased spending or its rationale for the alleged upsurge, both of which may or may not be accurate. These should be referred to as agency or report findings and commentary, not as Administration views. Nor should we cite or endorse agency figures on the defense budget as a percentage of Soviet GNP, since these are grossly understated -- suffice it to note that the economic sacrifices are enormous and inconceivable in Western terms. In the process of subtly disassociating ourselves from such reports and undercutting their legitimacy preparatory to housecleaning, we can nonetheless cite the relevant facts and the agency explanations which pre-emptively dismiss potential misinterpretations.

I have a very thick folder on this issue, including material on the January/February report which retroactively lowered estimates, which in turn has been retroactively increased during the 1970s. Please ask us if you need help.

The attached February backgrounder had some good themes which could be picked up again, although we are now explaining a rise rather than a decrease and although the backgrounder mistakenly embraces the estimates as truth, Ken and I believe the following points should be made:

~~SECRET~~

Declassify on: OADR

~~SECRET~~

Buck B
→

for

30

1. This new estimate does nothing to change our previous view that the Soviets have engaged in an unabated buildup of military weaponry which is unjustified by any potential threat to them, a buildup which they relentlessly pursue despite enormous cost to their staggering economy and deprived populace.

- The trend is clear, regardless of fluctuations in figures due to our own estimating problems or the Soviet weapons development cycle.

-- Intelligence agencies (not "the Administration") previously anticipated a possible surge in Soviet military spending as many advanced weapons which have long (how long?) been undergoing research and development reached the procurement stage.

2. What is important to us is the tangible threat arising from the capabilities of the expanding Soviet military machine, not esoteric calculations of what those weapons may have cost.

- That threat has been well documented in public and classified testimony and in publications such as Soviet Military Power. Revisions to such projections normally have been upward rather than downward.

- As indicated by past revisions in our estimates of Soviet defense spending and by often-ignored cautionary statements by the intelligence agencies, calculations of actual ruble or dollar costs to the Soviets depend on critical assumptions. These assumptions are highly arguable because of factors such as:

-- extreme Soviet secretiveness on budget and military matters, including expanding camouflage, concealment and deception practices.

-- limitations in our information from intelligence sources.

-- differences in Soviet and US weapons improvement philosophies and procedures and in qualitative factors.

-- uncalculable distortions and costs arising from a totally centralized, non-market economy, intermingling of military and civilian economies and lack of knowledge regarding the true value of a ruble or its comparability with the US dollar.

Attachments

MEMORANDUM

NATIONAL SECURITY COUNCIL

~~SECRET~~

June 7, 1984

MEMORANDUM FOR RON LEHMAN
WALT RAYMOND
KARNA SMALL

FROM: DIANE DORNAN *DD*

SUBJECT: Soviet Defense Spending

I was informed today that the attached report on increased FY83 Soviet defense spending, or a version of it, was released for open publication yesterday. Normally these reports are examined closely by the Hill and the press, and Congressional hearings often ensue. There is a danger that the findings in this report could be headlined incorrectly as evidence that poor US-Soviet relations under this Administration have fueled an arms race. Therefore, I believe the report should be accompanied by a coordinated public relations effort which places the issue in context and indirectly indicates why this interpretation would be incorrect.

I have attached another set of papers involving DOD-CIA public relations efforts in February 1984 concerning previous intelligence reports on Soviet defense spending. On that occasion background briefings using this material were conducted when the report was released. I spoke with Dr. Ikle today to alert him to the issue and the potential problems and to urge a coordinated public relations approach. He agreed this was necessary and said he would address the problem.

Attachments

- Tab I DIA Appraisal, USSR: Accelerated Military Cost Growth in 1983
- Tab II Questions and Answers - Soviet Defense Build-up

DECLASSIFIED

Authority NLR-159-07-439-2

BY CX NARA DATE 9/1/16

~~SECRET~~

Declassify on: OADR

DIAAPPR 55-84
16 MAY 1984



Defense Intelligence Agency
Appraisal

DECLASSIFIED

Authority NUC 17-27-43 9-2

BY CA NARA DATE 9/1/16

USSR: Accelerated Military Cost Growth in 1983 (U)

Summary

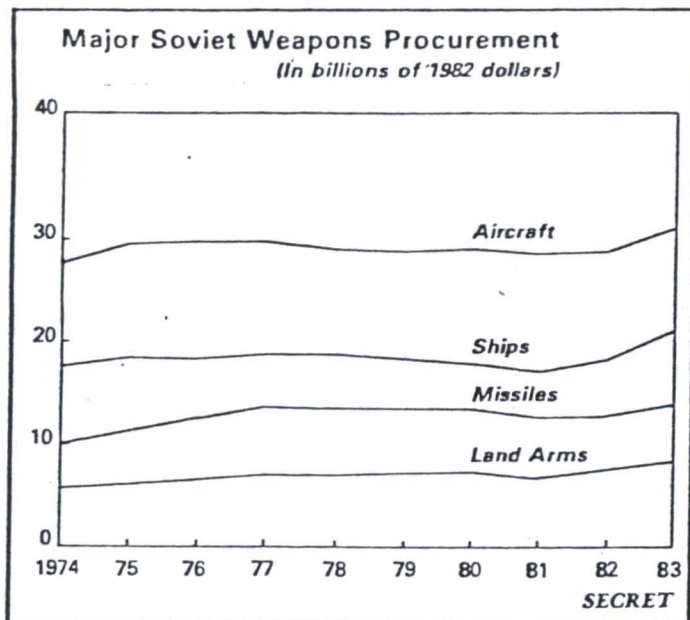
(S) *Soviet military program costs for 1983, when measured in US dollars, may have increased faster than at any time since 1976. The increased rate of growth last year follows an upturn that began in 1982, after several years of high but somewhat stable military procurement costs. This assessment of accelerated growth is based on a current but still preliminary study of dollar procurement costs of about 170 major Soviet weapons systems. The apparent increase in procurement for 1983, calculated to be between 5 and 10 percent, was primarily the result of the introduction of many new and more costly weapons systems. This increase may reflect the initial phase of an expected modernization of Soviet military equipment. If so, annual procurement costs are likely to continue to rise as the production rates of the new and more complex weaponry expand during the next few years.*

Discussion

(S) Total Soviet military costs, measured in constant US dollars, were estimated to have grown about 2 percent a year between 1976 and 1982. The actual dollar cost for 1982 was \$236 billion; this figure reflects what it would cost to design, produce, and operate the Soviet weapons in the US, using US prices and wages. These costs do not measure Soviet military capabilities or their military industrial effort. Furthermore, the cost of significant military activities such as civil defense, internal security troops, civil space programs, and military pensions are not included.

(S) Growth in the total dollar cost estimates during the 1976-82 time period was impeded by the procurement cost of military equipment for the Soviet forces, which was high but somewhat stable until a slight upturn began in 1982. A preliminary dollar estimate of major Soviet weapons procurement for 1983, however, shows a marked increase over 1982.

(S) This preliminary estimate, which shows an increase of 5 to 10 percent in procurement for 1983 over 1982, is based on the direct costing of more than 170 of the largest and most militarily significant Soviet weapon systems for which confidence in the production numbers is generally high. Included in this preliminary estimate, which accounts for about one-half of the total estimated Soviet procurement costs, are expenditures for aircraft, land arms, naval ships, and missiles. This estimate does not, as yet, include such items as nuclear warheads, transport aircraft, auxiliary and minor surface ships, ground radars, military space systems, and organizational equipment. When these items are included in order to conform to the standard definition of dollar procurement costs, total procurement will still reflect an esti-



mated increase somewhere between 5 and 10 percent for 1983.

(S) Contributing to the pronounced upturn in 1983 are significant increases for 19 major weapons. For many of these, 1983 was the initial year of production. For example, production began on the lead ship of a new aircraft carrier class and a new cruise missile submarine

Weapons With Significant Cost Increases in 1983 (U)

Increases of More Than \$250 Million

MiG-31/FOXHOUND interceptor
MiG-29/FULCRUM air superiority fighter
Su-25/FROGFOOT ground attack aircraft
MIKE SSN submarine
SIERRA SSN submarine
IMPROVED SS-18 ICBM
IMPROVED SS-19 ICBM

Increases Between \$100 and \$250 Million

BEAR H bomber
Su-27/FLANKER air superiority fighter
Mi-8/HIP helicopter (assault version)
SA-10 SAM missile
UDALOY DDG surface combatant
KILO SS attack submarine
CVN (projected) aircraft carrier
SSGN (projected) cruise missile submarine
M1981/1 medium tank
BMP-2 infantry combat vehicle

Increases Between \$50 and \$100 Million

SS-X-24 ICBM
SS-X-25 ICBM

(S)

class, which are projected to enter the force near the end of the decade. For others, such as the SS-X-24, production had begun shortly before 1983 and the output rates are building up toward eventual full production. The introduction of new, complex, and expensive weapon systems can increase total procurement costs even if actual production quantities of a weapons class decline.

(S) For a large number of weapons, costs held steady in 1983 compared to 1982. For the relatively few major weapons that are estimated to have declined in terms of production, the drop in aggregate procurement costs was fairly modest. A few FLOGGER aircraft models, the SS-18 ICBM, the VICTOR III SSGN attack submarine, and the T-72 medium tank were the only major weapons to show a drop in procurement costs of more than \$100 million each in 1983. The acquisition of new and follow-on sys-

Weapons With Significant Cost Decreases in 1983 (U)

More Than \$100 Million Decrease

T-72 medium tank
SS-18 ICBM
MiG-23/27 FLOGGER fighter/fighter-bomber
VICTOR III attack submarine

Between \$50 and \$100 Million Decrease

SS-19 ICBM
MiG-25/FOXBAT interceptor aircraft
Su-17/FITTER fighter-bomber
Yak-36/FORGER VSTOL aircraft
SLAVA CG surface combatant
TANGO SS attack submarine

(S)

tems, however, more than compensated for the decline in the procurement of these older systems. The new and follow-on systems all represent significant improvements and tend to be more costly than their predecessors.

Outlook

(S) Future procurement costs are also likely to rise. The 1983 growth in military procurement reflects decisions to produce several new systems for which production is likely to expand in the next few years. The Soviet RDT&E program

continues to grow and is likely to result in the introduction of even more new and expensive weaponry. Moreover, military production facilities are being expanded and modernized. While the dollar estimates of Soviet military procurement are subject to some errors and uncertainties, the overall pattern of Soviet ac-

tivities suggests that the USSR is prepared to field several costly new weapons during the rest of the 1980s. This will continue to push Soviet procurement costs upward.

*Prepared by:
Mr. R. Mitchell, DB-4E*



DECLASSIFIED (RE/OKP)

Authority

NR-137-27-03-9-2

BY CN

NARA DATE

9/1/16

CIA and DIA Estimates of Soviet Defense Build-up

Main Points.

- o Over the last ten years, the Soviets built far more armaments than the US. This is clearly reflected in the Soviet production of major weapons. For example, the Soviets produced about four to five times the number of ICBMs and three times the number of submarines, twice the number of tactical combat aircraft, and four times the number of tanks that the US acquired over the same period.
- o Resources devoted to Soviet defense have grown continuously for the last two decades. This has resulted in a substantial modernization of all the Soviet forces.
- o During the ten year period from 1973 to 1982, the dollar cost of Soviet procurement of arms and other military assets exceeded that of the United States by some 240 billion dollars, as measured in 1985 dollars. Even if we could soon close the gap between the annual US and Soviet investment in arms, the effect of such a massive disparity would be with us for some time.
- o We have not yet closed this gap in procurement, however, much less made up for the last decade during which the Soviets out-produced us in nearly every weapons category, bringing about a serious imbalance in armaments. Since the mid-1970s, growth in Soviet military procurement has been slower than before. While the growth in the early 1970s was about four percent, since the mid-seventies, Soviet procurement has remained relatively level.

- o Yet, it is important to note that Soviet procurement is on a substantially higher level than US procurement. In particular, the Soviets are still adding more to their intercontinental attack forces than the United States. The Intelligence Community estimates that since 1975 Soviet procurement of intercontinental nuclear attack forces was almost double the comparable US outlays. In the same period, Soviet procurement of conventional arms exceeded ours by 50-70 %.
- o Moreover, both DIA and CIA are concerned that the growth in procurement may accelerate again in a few years, as the large number of new weapons programs now in R&D begin to move into full production. We estimate that the dollar cost of Soviet military R&D effort exceeds ours by a factor of two and is growing rapidly. We notice three developments that suggest the Soviet military programs--far from levelling off--could increase more rapidly again in the years ahead:
 - one, the expansion of Soviet military R&D
 - two, the expansion of Soviet weapons production facilities
 - three, several sophisticated, expensive Soviet weapons under development now appear to be nearing deployment
- o DIA and CIA hold virtually the same estimate of Soviet order-of-battle, especially in the major weapons systems. Because of different production cost assumptions, CIA and DIA estimates of Soviet production of individual weapons systems can differ. In

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some cases, such as ICBM production, DIA estimates exceed those of the CIA, while in other cases, such as tactical aircraft, the reverse is true. These differences tend to offset each other in assessments of overall defense costs, but of course can be significant in assessing cost trends in particular weapons categories.

Background (on if asked basis).

- o Both CIA and DIA estimate Soviet defense costs. Soviet defense costs in ruble terms are used to assess the burden of defense on the Soviet economy. The dollar estimates are used to compare the costs of Soviet defense activities with comparable US figures. The cost estimates are most useful in identifying general trends and assessing priorities in Soviet efforts, rather than in precisely measuring Soviet outlays in particular years. In addition, detailed estimates of production for particular weapons systems are developed to support the costing work.
 - CIA estimates Soviet defense costs in both ruble and dollar terms, and develops a detailed set of production estimates for Soviet weapons systems.
 - DIA estimates Soviet defense expenditures in ruble terms, but uses a totally different methodology than the CIA. DIA also estimates production and dollar costs for major weapons systems, but does not produce a total dollar estimate for comparison with US figures.
- o While there are some differences in the details of their estimates, both agencies share the same general impressions of developments over time.
 - Over the past decade the dollar cost of Soviet defense activities exceeded comparable US spending by a large margin for every resource category except operations and maintenance and every mission area. Soviet total dollar costs exceeded comparable US outlays by 45 percent over the 1973-82 period.
- o With regard to estimates of the Soviet defense effort in ruble terms, the two agencies use very different approaches. The CIA method uses a detailed description of Soviet military

activities to develop an estimate of Soviet defense expenditures in constant prices. DIA works from Soviet budgetary, financial and economic data to develop an estimate in current prices. Because of these pricing and methodological differences, individual estimates of spending levels and growth rates are not directly comparable. Nonetheless, both CIA and DIA estimates show more rapid growth of expenditures for overall defense and for military procurement activities during the 1960s and early 1970s than in the period since then.

File - ✓

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Sov. Def Spending

- NSC.

- (U) 1. CIA does not have expenditure estimates in Soviet rubles. CIA's "rubles" exist one place in the world and one place only, in CIA's model for which their own acronym is SCAM.
- (U) 2. CIA has admitted before a Congressional Committee that their "rubles" are not Soviet rubles.
- (U) 3. DIA's ruble ruble estimates are Soviet rubles. Hence this report is comparing apples & oranges in the worst way when it compares the two.
- (U) 4. As of 1980 there was about a 15% difference in Soviet military outlays in current & constant rubles, i.e. 100 billion \pm 8-9 billion vs 115 billion \pm 10 billion.
- (U) 5. Totally CIA has been compounding the misleading nature of its "rubles" by adding a factor cost adjustment & then treating them as if they were Soviet established price ~~cost~~ "rubles". This may be why you found the difference between CIA & DIA estimates to be insignificant.
- (U) 6. All CIA "rubles" are in "constant 1970" prices, unless they have changed their price base without my knowledge. DIA has turned out only current, Soviet ruble estimates. So this is another apples & oranges dimension when you compare the two.
- (U) 7. Take ~~out~~ the factor cost adjustment out of the CIA SCAM "~~cost~~ rubles" and reduce their "constant" prices by another 10-15% for the difference between current & constant & you will have a big difference between the two estimates.

8. (SECRET) We have 5 independent checkpoints from Soviet sources, ~~that~~ 1967, 1969, 1970, 1972 and 1980, that a) prove my methodology & answers to be correct & the CIA's to be wrong. So your implication that there is no valid method

an answer to the question of how much the Soviets are spending, at a minimum, is 180° it adds with the facts.

(u) 9. The current difference between my estimates in Soviet-rubles and the CIA's estimate in SCAM rubles is

- a) a factor of two in total outlays
- b) more than a factor of three in procurement
- c) on the order of at least 2 percentage points in share of GNP
- d) a steady rise in the CNP burden over 25 years & particularly rapid growth in the last few years vs essentially a static burden in the CIA

(u) 10. On p. 4 you say estimates of Soviet military outlays are "essentially irrelevant" to "U.S. national security". I will try to restrain the ~~expletives~~.

(u) a. In the late 1960s I was able to demonstrate that the crossover point in military outlays would occur in 1970 \pm 2 years. I then pointed out that if the Soviets continued on their trend line & we continued on ours, a very large disparity in military power in favor of the Soviets would develop in the 1970s. You say, in effect, that excellent prediction was irrelevant. If so, what prayer tell me was the national defense policy of the last two years of the Carter administration, and all about, and what is your years of Reagan administration defense policy all about? Why do Americans have to endure double digit interest rates? Did the Soviets buy the power to wage war in Afghanistan with impunity for nothing? Did

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the 5200 SS-18/19 warheads that constitute the "window of vulnerability", which this administration still is a long way from closing, cost the Soviets nothing, or is what it cost westward?

(u) b. My method provides reliable predictions of the growth in Soviet military outlays, and of total Soviet procurement outlays, ~~built~~ provided for in each Soviet Five Year Plan, and usually for each annual plan. No other information in the U.S. intelligence community provides such long & reliable predictions of Soviet plans for their military build-up. And you say that is irrelevant to U.S. national security.

(u) c. Soviet data shows that they have financed much of their military build up since 1970 from the profits they make from foreign trade. Similarly, the Soviets have largely offset the impact of devoting more & more of their domestic capacity to military hardware, now at least 60% of their total machinery & equipment production, by importing something like 7 or 8 times the 1970 import level. That is irrelevant to what I read in this morning's Post on U.S. plans to ~~see~~ ~~lead~~ ~~loss~~ broaden Soviet access to U.S. machinery & technology?

11. ~~7~~ Your "non-economic indicators" in p 7 we been around for years & tell us nothing except - Soviet Union is not a likely model for the "good 'e". Any emigre ~~can~~ will tell you the same & add

lots of ~~not~~ pretty gritty detail. ~~It is~~ Your proposal ~~to fund~~ is one more example of truth being stranger than fiction. Maybe I am not widely read enough to appreciate the imagination of all the great fiction writers out there but I can't think of one who would have written this script.

12. Finally something I can agree to abolish the CIA effort. Pardon, but I have been saying this for years. And I suggested very recently let abolishing the DIA effort would be no great loss ~~recently~~ either.

13. But where are you going to get the "outside" experts who are going to do the job right? For more than two decades a very high proportion of U.S. academics accepted the published Soviet "defense" budget. The few academics who did not accept that number also failed to come up with an alternative method. The pages of IE publications are replete with academics pulling all over themselves to agree with the current CIA nonsense, and none of them questioned the CIA nonsense prior to 1975. Only one academic has publicly & forcefully criticized the CIA's ~~as estimated~~, to the best of my knowledge.

14. There is only one method that has been confirmed by all the independent data from Soviet sources ~~it disproved~~ both all the academics & CIA. ~~is also~~ ^{is also} the only method that gives some reliable insight into future Soviet plans. Sorry about that! But why does your paper give no ~~any~~ right consideration to the one method that has been proven

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~~SECRET~~

MEMORANDUM

NATIONAL SECURITY COUNCIL

~~SECRET~~

June 7, 1984

MEMORANDUM FOR RON LEHMAN
WALT RAYMOND
KARNA SMALL

FROM: DIANE DORNAN *DD*
SUBJECT: Soviet Defense Spending

I was informed today that the attached report on increased FY83 Soviet defense spending, or a version of it, was released for open publication yesterday. Normally these reports are examined closely by the Hill and the press, and Congressional hearings often ensue. There is a danger that the findings in this report could be headlined incorrectly as evidence that poor US-Soviet relations under this Administration have fueled an arms race. Therefore, I believe the report should be accompanied by a coordinated public relations effort which places the issue in context and indirectly indicates why this interpretation would be incorrect.

I have attached another set of papers involving DOD-CIA public relations efforts in February 1984 concerning previous intelligence reports on Soviet defense spending. On that occasion background briefings using this material were conducted when the report was released. I spoke with Dr. Ikle today to alert him to the issue and the potential problems and to urge a coordinated public relations approach. He agreed this was necessary and said he would address the problem.

Attachments

Tab I DIA Appraisal, USSR: Accelerated Military Cost Growth in 1983
Tab II Questions and Answers - Soviet Defense Build-up

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Declassify on: OADR

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Authority *NUZ-39-27-43-11-9*
BY *CN* NARA DATE *9/2/16*

~~SECRET~~

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DIAAPPR 55-84
16 MAY 1984



Defense Intelligence Agency
Appraisal

DECLASSIFIED

Activity DV-19-27
43-119

BY CN NARA DATE 9/2/16

USSR: Accelerated Military Cost Growth in 1983 (U)

Summary

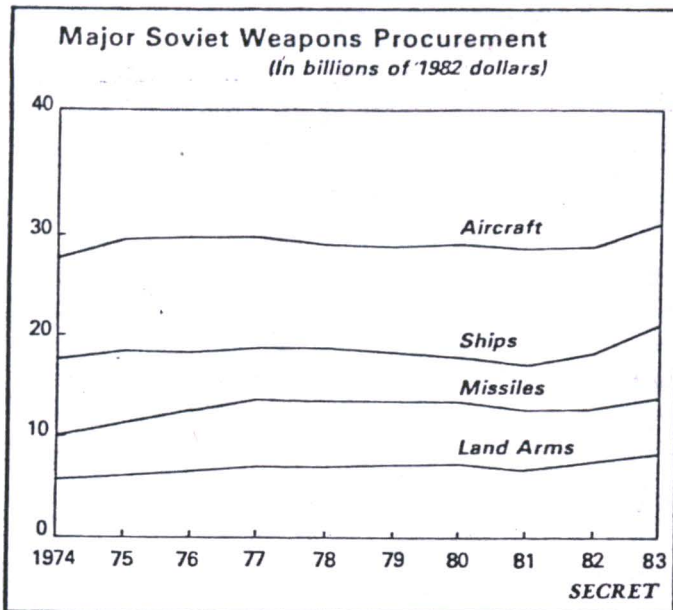
(S) *Soviet military program costs for 1983, when measured in US dollars, may have increased faster than at any time since 1976. The increased rate of growth last year follows an upturn that began in 1982, after several years of high but somewhat stable military procurement costs. This assessment of accelerated growth is based on a current but still preliminary study of dollar procurement costs of about 170 major Soviet weapons systems. The apparent increase in procurement for 1983, calculated to be between 5 and 10 percent, was primarily the result of the introduction of many new and more costly weapons systems. This increase may reflect the initial phase of an expected modernization of Soviet military equipment. If so, annual procurement costs are likely to continue to rise as the production rates of the new and more complex weaponry expand during the next few years.*

Discussion

(S) Total Soviet military costs, measured in constant US dollars, were estimated to have grown about 2 percent a year between 1976 and 1982. The actual dollar cost for 1982 was \$236 billion; this figure reflects what it would cost to design, produce, and operate the Soviet weapons in the US, using US prices and wages. These costs do not measure Soviet military capabilities or their military industrial effort. Furthermore, the cost of significant military activities such as civil defense, internal security troops, civil space programs, and military pensions are not included.

(S) Growth in the total dollar cost estimates during the 1976-82 time period was impeded by the procurement cost of military equipment for the Soviet forces, which was high but somewhat stable until a slight upturn began in 1982. A preliminary dollar estimate of major Soviet weapons procurement for 1983, however, shows a marked increase over 1982.

(S) This preliminary estimate, which shows an increase of 5 to 10 percent in procurement for 1983 over 1982, is based on the direct costing of more than 170 of the largest and most militarily significant Soviet weapon systems for which confidence in the production numbers is generally high. Included in this preliminary estimate, which accounts for about one-half of the total estimated Soviet procurement costs, are expenditures for aircraft, land arms, naval ships, and missiles. This estimate does not, as yet, include such items as nuclear warheads, transport aircraft, auxiliary and minor surface ships, ground radars, military space systems, and organizational equipment. When these items are included in order to conform to the standard definition of dollar procurement costs, total procurement will still reflect an esti-



ated increase somewhere between 5 and 10 percent for 1983.

(S) Contributing to the pronounced upturn in 1983 are significant increases for 19 major weapons. For many of these, 1983 was the initial year of production. For example, production began on the lead ship of a new aircraft carrier class and a new cruise missile submarine

Weapons With Significant Cost Increases in 1983 (U)

Increases of More Than \$250 Million

MiG-31/FOXHOUD intercepter
 MiG-29/FULCRUM air superiority fighter
 Su-25/FROGFOOT ground attack aircraft
 MIKE SSN submarine
 SIERRA SSN submarine
 IMPROVED SS-18 ICBM
 IMPROVED SS-19 ICBM

Increases Between \$100 and \$250 Million

BEAR H bomber
 Su-27/FLANKER air superiority fighter
 Mi-8/HIP helicopter (assault version)
 SA-10 SAM missile
 UDALOY DDG surface combatant
 KILO SS attack submarine
 CVN (projected) aircraft carrier
 SSGN (projected) cruise missile submarine
 M1981/1 medium tank
 BMP-2 infantry combat vehicle

Increases Between \$50 and \$100 Million

SS-X-24 ICBM
 SS-X-25 ICBM

(S)

class, which are projected to enter the force near the end of the decade. For others, such as the SS-X-24, production had begun shortly before 1983 and the output rates are building up toward eventual full production. The introduction of new, complex, and expensive weapon systems can increase total procurement costs even if actual production quantities of a weapons class decline.

(S) For a large number of weapons, costs held steady in 1983 compared to 1982. For the relatively few major weapons that are estimated to have declined in terms of production, the drop in aggregate procurement costs was fairly modest. A few FLOGGER aircraft models, the SS-18 ICBM, the VICTOR III SSGN attack submarine, and the T-72 medium tank were the only major weapons to show a drop in procurement costs of more than \$100 million each in 1983. The acquisition of new and follow-on sys-

Weapons With Significant Cost Decreases in 1983 (U)

More Than \$100 Million Decrease

T-72 medium tank
 SS-18 ICBM
 MiG-23/27 FLOGGER fighter/fighter-bomber
 VICTOR III attack submarine

Between \$50 and \$100 Million Decrease

SS-19 ICBM
 MiG-25/FOXBAT interceptor aircraft
 Su-17/FITTER fighter-bomber
 Yak-36/FORGER VSTOL aircraft
 SLAVA CG surface combatant
 TANGO SS attack submarine

(S)

tems, however, more than compensated for the decline in the procurement of these older systems. The new and follow-on systems all represent significant improvements and tend to be more costly than their predecessors.

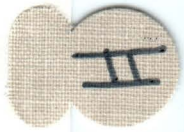
Outlook

(S) Future procurement costs are also likely to rise. The 1983 growth in military procurement reflects decisions to produce several new systems for which production is likely to expand in the next few years. The Soviet RDT&E program

continues to grow and is likely to result in the introduction of even more new and expensive weaponry. Moreover, military production facilities are being expanded and modernized. While the dollar estimates of Soviet military procurement are subject to some errors and uncertainties, the overall pattern of Soviet ac-

tivities suggests that the USSR is prepared to field several costly new weapons during the rest of the 1980s. This will continue to push Soviet procurement costs upward.

Prepared by:
Mr. R. Mitchell, DB-4E



CIA and DIA Estimates of Soviet Defense Build-up

Main Points.

- o Over the last ten years, the Soviets built far more armaments than the US. This is clearly reflected in the Soviet production of major weapons. For example, the Soviets produced about four to five times the number of ICBMs and three times the number of submarines, twice the number of tactical combat aircraft, and four times the number of tanks that the US acquired over the same period.
- o Resources devoted to Soviet defense have grown continuously for the last two decades. This has resulted in a substantial modernization of all the Soviet forces.
- o During the ten year period from 1973 to 1982, the dollar cost of Soviet procurement of arms and other military assets exceeded that of the United States by some 240 billion dollars, as measured in 1985 dollars. Even if we could soon close the gap between the annual US and Soviet investment in arms, the effect of such a massive disparity would be with us for some time.
- o We have not yet closed this gap in procurement, however, much less made up for the last decade during which the Soviets out-produced us in nearly every weapons category, bringing about a serious imbalance in armaments. Since the mid-1970s, growth in Soviet military procurement has been slower than before. While the growth in the early 1970s was about four percent, since the mid-seventies, Soviet procurement has remained relatively level.

DECLASSIFIED (24/01/82)
Authority NLR-13A-27-43-1-9
BY GN NARA DATE 9/2/16

- o Yet, it is important to note that Soviet procurement is on a substantially higher level than US procurement. In particular, the Soviets are still adding more to their intercontinental attack forces than the United States. The Intelligence Community estimates that since 1975 Soviet procurement of intercontinental nuclear attack forces was almost double the comparable US outlays. In the same period, Soviet procurement of conventional arms exceeded ours by 50-70 %.
- o Moreover, both DIA and CIA are concerned that the growth in procurement may accelerate again in a few years, as the large number of new weapons programs now in R&D begin to move into full production. We estimate that the dollar cost of Soviet military R&D effort exceeds ours by a factor of two and is growing rapidly. We notice three developments that suggest the Soviet military programs--far from levelling off--could increase more rapidly again in the years ahead:
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 - three, several sophisticated, expensive Soviet weapons under development now appear to be nearing deployment
- o DIA and CIA hold virtually the same estimate of Soviet order-of-battle, especially in the major weapons systems. Because of different production cost assumptions, CIA and DIA estimates of Soviet production of individual weapons systems can differ. In

some cases, such as ICBM production, DIA estimates exceed those of the CIA, while in other cases, such as tactical aircraft, the reverse is true. These differences tend to offset each other in assessments of overall defense costs, but of course can be significant in assessing cost trends in particular weapons categories.

Background (on if asked basis).

- o Both CIA and DIA estimate Soviet defense costs. Soviet defense costs in ruble terms are used to assess the burden of defense on the Soviet economy. The dollar estimates are used to compare the costs of Soviet defense activities with comparable US figures. The cost estimates are most useful in identifying general trends and assessing priorities in Soviet efforts, rather than in precisely measuring Soviet outlays in particular years. In addition, detailed estimates of production for particular weapons systems are developed to support the costing work.
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activities to develop an estimate of Soviet defense expenditures in constant prices. DIA works from Soviet budgetary, financial and economic data to develop an estimate in current prices. Because of these pricing and methodological differences, individual estimates of spending levels and growth rates are not directly comparable. Nonetheless, both CIA and DIA estimates show more rapid growth of expenditures for overall defense and for military procurement activities during the 1960s and early 1970s than in the period since then.

MEMORANDUM

NATIONAL SECURITY COUNCIL

file Del. Sov. Spending NSC

D
What do you think?
K

66

July 17, 1984

TO: KEN DEGRAFFENREID
FR: WALT RAYMOND, JR. *WR*
SUBJ: Soviet Economy -- Igor Birman

[Signature]

Igor Birman is a Soviet economist who has produced a number of papers on the subject since coming to the West. He is known to CIA. He has forwarded to me a brief memorandum which challenges certain CIA conclusions. I pass it to you for whatever further use you might wish to make of it.

Attachment

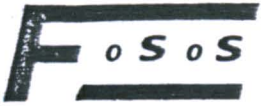
Birman letter

*Agan sent this to PFIA/B
7-19-84; previously
had recommended they
interview him but
they did not. Also, his
wife is an expert. Both
recommended by WT Lee.*

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Authority *NSC-139 27-13-11-9*

BY *CA* NARA DATE *9/2/06*



THE FOUNDATION FOR SOVIET STUDIES
a non-profit organization

2417 Homestead Drive
Silver Spring, MD 20902
(301) 593-5286

Igor BIRMAN, President

9 July 1984

Memo

1. With some minor variations, practically all the American specialists on the Soviet economy hold basically the same views. With all due respect, I challenge them in at least the following instances:

a. The Soviet economy produces not as much as 60% of the American national product, but much less.

b. The military share of Soviet national product is not 12-14%, but much higher.

c. The Soviet standard of living is not something like a third of American, but rather a fifth.

d. The current state of Soviet economic affairs is very dramatic. If the economic system is not radically changed (reformed), the economy will not "muddle through" the 1980s, but will reach zero, and then negative, growth. In contrast to cyclical Western economies, this will not be followed, in a few years, by a return to positive growth. It is precisely economic difficulties, and the need to justify them, which force the Kremlin to be so hostile to us.

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WARA DATE

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e. The Soviet economy is in a severe financial crisis. Particularly, the budget deficit is huge, and still growing; the population's enormous monetary savings must somehow be liquidated, which is one of the rulers' most pressing headaches; the crisis intensifies all economic imbalances.

f. The real role of foreign trade in the Soviet economy is tremendously underestimated. The Soviets plug a huge hole in their budget with "earnings from foreign trade" - currently about 20% of all revenues; those earnings in 1982 constituted 11% of National Income reported. Incorrect treatment of foreign trade leads to evident mistakes in Western calculations of growth rates and military expenditures in rubles.

g. Measurements of the Soviet economy's productivity can, and must, be radically improved. For example, the productivity measurements unfortunately employ CIA figures for output growth, which allegedly are deflated, together with nondeflated figures for capital growth.

h. I strongly disagree with statements that reduction of military expenditures will hardly affect overall Soviet economic performance.

i. The basic model used for computation of Soviet GNP and its growth rate is not quite satisfactory.

2. My understanding of these matters has been developed on the basis of my Soviet economic education, twenty-five years of work within the Soviet economy, and 10 years of studies after emigration.

My conclusions are not just "opinions", but follow from, and are supported by, my research.

3. My main publications directly related to the above-listed topics include:

Secret Incomes of the Soviet State Budget, Martinus Nijhoff Publishers, The Hague-Boston, 1981.

Ekonomika Nedostach (The Economy of Shortages), Chalidze Publications, New York, 1983.

"From the Achieved Level", *Soviet Studies*, Vol.XXX, No.2, April 1978.

"Financial Crisis in the USSR", *Soviet Studies*, Vol.XXXII, No.1, January 1980.

"The Way to Slow Down the Arms Race", *The Washington Post*, Oct. 27, 1980. (A longer version is published in *CIA Estimates of Soviet Defense Spending*, Hearings before the Subcommittee on Oversight of the Permanent Select Committee on Intelligence, House of Representatives, Sept. 3, 1980, pp.92-95.)

"The Economic Situation in the USSR", *Russia*, No.2, 1981.

"Will Andropov Purge the Passbooks?" *The Wall Street Journal*, March 21, 1983.

"Comparison of Soviet and American Consumption", *Russia*, No.7-8, 1983. (A summary of my report submitted last year to the Director of Net Assessment, DOD.)

"Soviet Bluster Stems from Economic Decay", *The Wall Street Journal*, December 23, 1983.

"On Tatiana Zaslavskaya's Paper", *Russia*, No.9, 1984.

"Professor Holzman, the CIA, Soviet Military Expenditures, and American Security", *Russia*, No.10, 1984. (forthcoming)

4. My views are so different from commonly held ones, relate to such fundamentally important issues, and lead to such important political conclusions that they should not be ignored. So far, I have heard nothing which demonstrates that my analysis and conclusions are wrong. (In the only case known to me - Mark M. Hopkins and Michael Kennedy, *Comparisons and Implications of Alternative Views of the Soviet Economy*, Rand, March 1984 - my dissenting stance was presented not quite correctly.)

I agree to participate in any discussion about these controversies, and insist that such discussions should be held. Otherwise, I will be forced to think that my opponents cannot present arguments in support of their conclusions vis-a-vis mine.

5. I have a high opinion of many Western experts, and I think that a lot has been done under extremely difficult circumstances.

But I believe that the actual CIA monopoly of serious research on the Soviet economy should not last longer. I hope that the suggested discussions will once again demonstrate the necessity of having views alternative to the CIA's on the Soviet economy.