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[redacted]

ECONOMIC INTELLIGENCE COMMITTEE

Control No. 487738
EIC-M-73
24 July 1958

Minutes of Meeting Held in
Room 1121 and 1217 Temporary "M" Bldg.
26th and Constitution Ave., N.W.

23 and 24 July 1958

PRESENT:

[redacted], Acting Chairman 25X1A9a
Mr. Harry H. Bell, Department of State
Mr. Bennett V. S. Davis, Department of the Navy
** Mr. John W. Easton, Joint Staff (of JCS)
Mr. Kingsley W. Hamilton, Department of the Air Force
Mr. J. Duncan Holmes, Department of the Army
25X1A * [redacted] CIA
25X1A [redacted], EIC/S
Executive Secretary

CONTRIBUTIONS TO ANNUAL REPORT ON THE STATUS OF THE FOREIGN INTELLIGENCE PROGRAM (See IAC-D-55/13, 7 July 1958)

1. Discussion: The special meeting was called in order to discuss and prepare a coordinated draft of the EIC contribution to the IAC Annual Report on the Status of the Foreign Intelligence Program.

2. Action: An agreed draft was completed at the second session of the meeting and was forwarded to the IAC on 25 July. The text of the contribution is in EIC-D-310/2.

25X1A9a

[redacted]

Executive Secretary

* Present during part of 23 July session only.
** Present during 24 July session only.

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Control No. 487925
EIC-D-310/2

EIC Contribution
to
The IAC Annual Report on the Status of the Foreign Intelligence Program

Economic Intelligence

Intelligence on economic developments within the Sino-Soviet Bloc continued to improve during the year, largely because of the greater volume of economic data published by the various Bloc countries. However, increasing experimentation with economic policies and institutions, especially in the Soviet Union and Poland, has introduced a new element of uncertainty in our intelligence forecasting. Research has been undertaken to clarify the motivation of this experimentation and is directed toward estimating the effects on economic growth of such institutional changes in the USSR as the administrative reorganization of industry and construction, the abolition of the machine tractor stations, and the adoption of a new agricultural procurement policy. Research on institutional changes within the Polish economy is also under way.

As a result of the increased availability of information and of improved methods of analysis, economic intelligence has continued to contribute to assessments of the magnitude of the Bloc's military effort and over-all ability to wage war. Comparison of the estimated economic costs of alternative possible Soviet programs in the field of guided missiles has, we believe, reduced the margins of error involved in the projections of these programs. Economic intelligence has continued to contribute significantly to improved estimates of the production of heavy bombers in the USSR and to assessing the size of the accelerated Bloc program of industrial and military research and development. Economic research was a major factor in the substantial downward revision in U.S. estimates of nuclear power capacity in the USSR for 1960.

Despite some improvement during the year, serious deficiencies in factual information on first priority national economic intelligence objectives still remain. The major gaps are:

(1) Information on activities within certain sectors of the Sino-Soviet Bloc economies which might provide indications of preparations for hostilities, including developments in the civil defense and stockpiling programs; and

(2) Information on economic factors relating to Soviet production and production capabilities in fields directly related to nuclear weapons and delivery systems, and to air defense.

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Information is also lacking to meet other related economic intelligence objectives, such as the size and composition of Soviet military expenditures and economic costs of Bloc military programs, including costs which will aid in estimating the relative emphasis assigned to the development of aircraft and guided missiles delivery systems in Soviet military production programs. In addition, major gaps remain in knowledge of Bloc production of electronic equipment (used for industrial and military purposes), and of certain aspects of intra-Bloc trade, East-West trade and Bloc economic penetration activities. A concerted effort to remedy these deficiencies is being made through a more closely coordinated collection guidance program, with particular emphasis on economic factors related to Soviet production and deployment of guided missiles. However, the limited success of collection efforts has necessitated continued use of indirect methods of analysis and estimation.

In implementation of revised NSC economic defense policy, extensive economic intelligence support was provided for the first comprehensive review of the multilateral trade controls since 1954. Attention was also given to an appraisal of the increasing propensity of Bloc countries to trade with industrialized nations of the West.

A joint State-CIA project was established to provide an integrated appraisal of the political and economic effects of the major industrial reorganization that occurred in the USSR in 1957. A project undertaken earlier by CIA to supply the Air Force with production data in support of targeting studies was considerably expanded during the year to include a number of additional industrial categories.

With respect to economic intelligence on Free World areas, a number of studies were prepared on the economic vulnerability of certain Free World countries to Soviet Bloc economic and political penetration. In addition, several special studies were produced relating to the supply and utilization of the tanker fleets and to the operation of the Suez Canal by Egyptian authorities. These studies contain information pertinent to the present Middle Eastern crisis. Other economic intelligence studies covering Free World areas and indirectly related to problems of East-West tensions include: the effect on Free World markets of increased Soviet sales of aluminum and tin; possible repercussions of the U.S. recession on other Free World countries; an analysis of prospects for a resurgence of Western Europe's "dollar gap"; various developments in the field of regional economic integration, e.g., the European Common Market; the impact on primary producing countries of declines in selected commodity prices; and the sensitivity of Asian and African countries to fluctuations in agricultural commodity trade.

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Interagency coordination of economic research through the Economic Intelligence Committee (EIC) of the IAC has continued to increase. In its continuing effort to reduce unnecessary duplication and to identify areas and subjects inadequately covered by economic research, the EIC published its annual surveys of economic intelligence research on the Sino-Soviet Bloc and on non-Bloc areas; and by the end of the fiscal year had nearly completed its special survey of professional personnel engaged in economic intelligence and related research on foreign economies. The Director of Central Intelligence Directive 15/1, covering production and coordination of foreign economic intelligence, was revised by the EIC and was reissued as DCID 3/1. The statement of priority national economic intelligence objectives was also revised. Coordinated research was undertaken on the petroleum situation in the Middle East, the importance of which was dramatized earlier by the Suez crisis. The EIC has continued, in the timely issuance of two separate series of reports, to devote special attention to the economic activities of the Sino-Soviet Bloc in underdeveloped areas. The so-called "White Paper" recently published by the State Department on the subject was, in large part, a product of this continuing interagency study. A report prepared by the CIA for the NSC on the Soviet civil defense program was also coordinated through the EIC.

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