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3 August 1990

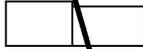
MEMORANDUM FOR: Director of Soviet Analysis

FROM: SUBJECT: CIA's Dollar Cost Work: Where Do We Go
From Here?

1. Since the early 1960s, CIA has presented its estimates of the cost of Soviet defense activities in dollars. Although such estimates in no way measure the resource drain on the economy--and have a long history of misuse by consumers--we have done this work because both DoD and Congress have demanded it. With the exception of last year when such information was not requested, OASD/PA&E has used dollar cost comparisons in the Secretary of Defense's posture statement to Congress. Similarly, since the mid-1970s, we have routinely provided this information to the Joint Economic Committee as part of the annual hearings. Estimates also are routinely passed to ACDA for use in their annual publication on world-wide defense expenditures and to a variety of military commands. At present, we have requests pending from the JEC, ACDA, and OSD--the latter requestor needs a decision today on the availability of dollar cost comparison estimates for inclusion in this year's Soviet Military Power.

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2. We have long recognized the political pitfalls in publishing dollar cost estimates. Probably more than any other estimate in the DI, these are subject to misuse and misinterpretation. Despite our best efforts to explain to our customers what "dollars" should and should not be used for, they have often been used incorrectly as a surrogate to measure the USSR's military capabilities and the burden of defense, as well as an indicator of political/military intentions. They have also provided a tremendous amount of ammunition for our critics who have frequently attacked parts of this work--such as the cost of an individual system--and tried to use it to discredit our entire defense economic effort. While we have generally weathered such criticism well, the issue arises whether we should not stop publishing these estimates, given that the Secretary of Defense's posture statement did not include them last year and the near certainty that the data will again be misused.

Pluses and Minuses of Not Publishing

3. On the plus side, it again seems unlikely that DoD will request this data for the posture statement. With the dollar cost of Soviet defense activities falling below the United States', DoD will probably shy away from this type of comparison. At the same time, publishing our comparisons is sure to generate another broadside from our critics. While we feel we have generally done a good job of pricing Soviet equipment in dollars --the area on which most critics have focused their attention--

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parts of our estimate are weak. This is particularly true of our dollar cost work on Soviet R&D. Although we have always acknowledged our weakness in this area--as the current round of attacks on our economic work shows--critics tend to gloss over this fact. Finally--and perhaps most importantly--as we move from a bipolar to multipolar world, presenting US-Soviet dollar cost comparisons will be less useful. If current geo-political trends in Europe continue, the US and Soviet defense establishments will be structured less and less for head-on confrontations, and direct comparisons will be less meaningful than in the past.

4. That said, there are still reasons why we may want to continue publishing these estimates--although in a scaled-back manner and for only a few more years. First, no matter how we couch it, we will be roundly criticized for politicization if we decide not to publish these estimates--after doing so for more than 20 years--the first time that the cost of Soviet defense activities falls below the level of US spending. Second, we already agreed this year, at least orally, to provide this information to the JEC. It has been over four months since this request was first made in a letter to the Director (a second request was received last month). While we can say that we have decided not to provide this information--or provide it only on a classified basis--either of these actions is sure to generate a negative reaction from Senator Bingaman, Committee Chairman. Finally, dollar comparison data undoubtedly will be provided to

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Congress and the Executive Committee--whether by us or others--as long as there is high-level interest in this topic. If we let others take the lead, however, we will inevitably be asked to comment on their submissions and be placed in a reactive mode.

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How Should We Proceed

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5. Although there is no ideal solution, I recommend we continue to make our dollar comparisons available, but put our consumers on notice that we intend to discontinue such estimates within the next one or two years as the relevancy of dollar cost comparisons declines. We could begin now to minimize their use in formal presentations. We would probably still have to publish a NID--but greatly revised and shorter than the earlier draft you saw--presenting only our estimates for total defense activities. Having gone forward with the NID, we would then be able to service part of the JEC request. Unlike last year, however, we would provide only graphs (no tables) and restrict our submission to the dollar costs of total US and Soviet defense activity. We would not provide estimates broken out by force, mission, or resource category. Of course, we also would not publish a separate US-Soviet comparisons paper. []

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