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22 December 1981

MEMORANDUM FOR: Director of Central Intelligence
Deputy Director of Central Intelligence

THROUGH: Director, National Foreign Assessment Center

FROM: Director of Soviet Analysis

SUBJECT: Dollar Cost Analysis of Soviet Defense Activities

1. During our recent meeting, you indicated that you would like to discuss the DoD's use of our dollar cost analysis of Soviet defense activities at your weekly breakfast with Secretary Weinberger. This memorandum summarizes the basis for our dollar estimates and provides some talking points which we believe are appropriate.

2. The dollar cost method of estimating Soviet defense activities was developed in response to DoD and Congressional requests to compare like categories of Soviet and US defense activities. The approach uses prevailing US prices and wages to estimate what it would cost in the US to produce and man a military force of the same size and with the same weapons inventory as that of the USSR and to operate that force as the Soviets do.

3. The resulting dollar estimates are the only means available to the Intelligence Community to make the kinds of aggregate and sub-aggregate military-economic comparisons of US and Soviet defense activities listed in Figure 1. The dollar estimates are useful in portraying the magnitude and trends in total Soviet defense activities and can do so over a forty year period. Our building block approach also allows us to make US/USSR comparisons at many levels of aggregation using DoD force and financial accounting rules--by major mission, by resource category, and by US service definitions. It is in fact detailed comparisons of this type that are of most interest to DoD.

Figure 1

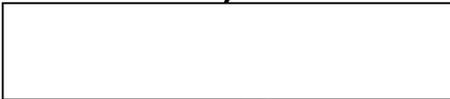
Uses of Dollar and Ruble Estimates of Soviet Defense Activities

<u>Type of Analysis</u>	<u>Can be done using:</u>	
	<u>Present Dollar Building Block Method (Dollars & Rubles)</u>	<u>Alternate Ruble Method (Rubles Only)</u>
Total Defense Comparisons	Yes	No
Mission Comparisons (Strategic Forces, General Purpose Forces, Support Forces)	Yes	No
Program Comparisons (e.g., F-16 vs. Flogger)	Yes	No
Resource Comparisons (RDT&E, Investment, Operating)	Yes	No
Service Comparisons (USAF, Army, Navy, Defense Agencies)	Yes	No
Soviet Defense Costs	Yes	Yes
Soviet Burden of Defense	Yes	Yes

4. There are, however, issues that cannot be analyzed with dollar costs alone. To measure the burden of defense on the Soviet economy, we must use rubles--not dollars. Only rubles measure actual resource costs within the Soviet Union. With our present dollar building block method, about half of the value of the ruble estimate is derived from our dollar estimates. In the absence of reliable Soviet statistics, weapons procurement and many O&M costs first must be estimated in dollars and then converted to rubles using a complex series of ruble-dollar ratios. There is sufficient Soviet data available to estimate the costs of personnel, construction, RDT&E, and part of operations and maintenance directly in rubles.

5. Some 20 SOVA analysts and about one million dollars of annual contract funds are directly or indirectly required to produce our dollar and ruble estimates of Soviet defense activities in a building block form. To discontinue US/Soviet comparisons based on the dollar estimates but to continue to estimate ruble costs through the building block method would save about 4-5 analyst-years of effort and about 200-300 thousand dollars of contract funds. If we were to shift to only a very aggregate ruble method to estimate Soviet defense costs, the dollar analysis needed to support the construction of building block ruble estimates also could be discontinued. This would mean that another 3-4 analyst-years and perhaps 100 thousand dollars of contract funds could be saved. However, this method would produce a low confidence estimate and we would no longer be able to analyze the costs of Soviet defense activities in detail as we now do.

6. The comparison between US and Soviet defense expenditures is one of our most frequently requested products by DoD and the Congress. It is controversial, the answers are occasionally misused, and it may inspire as much public confusion as insight. But, the dollar cost estimates are still the most commonly used way of aggregating the disparate parts of the Soviet military in a manner that allows comparisons with the defense activities of the US and other countries. They have proven consistent and useful as a measure of the trends in Soviet defense activity over time. They are also the only means available to assess Soviet military programs on a mission or resource basis.


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