

REMARKS OF WILLIAM J. CASEY
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AT THE
ANNUAL CONFERENCE OF THE
FINANCIAL ANALYSTS FEDERATION
THE SHOREHAM AMERICANA HOTEL
WASHINGTON, D. C.
TUESDAY, 12 MAY 1981

APPROVED FOR RELEASE □ DATE:
03-Dec-2008

Fellow Analysts and Scholars,

I don't think it's a good idea for a Director of Central Intelligence to do a lot of spouting off, but I accepted your invitation to speak today because I see a lot of commonality in the work we do and I believe and hope there are a lot of ways in which you can help us and contribute to the national interest.

I've thought about what you'd be interested in hearing from me. Let me tell you first a little about our national intelligence capabilities and then something of how we see today's world and a few of the problems we still have.

I was there at the creation of a real intelligence service in our country. First with the Office of Strategic Services in World War II. Then with early planning of CIA -- the first American peacetime intelligence service. Now, a third of a century later, I've spent three months looking over the American intelligence community that has evolved from that embryo, talking about how it measures up to today's needs and how it might be improved.

Over the years my predecessors changed intelligence and made it far more than a simple spy service. They developed a great center of scholarship and research, with as many Doctors and Masters in every kind of art and science as any university campus.

I find that my predecessors have produced a triumph of technology, stretching from the depths of the oceans to the limits of outer space. Using photography, electronics, acoustics and other technological marvels, we learn things totally hidden on the other side of the world. In the SALT debate, for example, Americans openly discussed the details of the Soviet missiles. These are held most secret in the Soviet Union, but are revealed by our intelligence systems.

All this has produced a staggering array of information, a veritable Niagara of facts. But facts can confuse. The strong picture is not worth a thousand words. No photo, no electronic impulse can substitute for direct, ~~on-the-scene~~ knowledge of the key actors in a given country or region. Technical collection is of little help in the most important and difficult problem of all -- political intentions. This is where clandestine human intelligence can make a difference.

A good deal of the criticism of our intelligence has been leveled at the analytical function. Collection is facts. Just as houses are made of stones, so is collection made of facts. But a pile of stones is not a house -- and a collection of facts is not likely to be intelligence. The analysis of this torrent of facts and the estimate of the situation is the pay-off.

Much of the criticism is based on unrealistic expectations of what an intelligence service can do. We do not have a crystal ball. The CIA does not have powers of prophecy. It has no crystal ball that

can peer into the future with 20-20 sight. We are dealing with "probable" developments.

If we can't expect infallible prophecy from the nation's investment in intelligence, what can we expect? We can expect foresight. We can expect a careful definition of possibilities. We can expect professional analysis which probes and weighs probabilities and assesses their implications. We can expect analyses that assist the policymakers in devising ways to prepare for and cope with the full range of probabilities. The President does not need a single best view, a guru, or a prophet. The nation needs the best analysis and the full range of views it can get.

The process of analysis and arriving at estimates needs to be made as open and competitive as possible. We need to resist the bureaucratic urge for consensus.

We don't need analysts spending their time finding a middle ground or weasel words to conceal disagreement. Their time needs to go into evaluating information -- searching for the meaning and the implications of events and trends -- and expressing both their conclusions and their disagreements clearly. The search to unify the intelligence community around a single homogenized estimate serves policymakers badly. It buries valid differences, forcing the intelligence product to the lowest or blandest common denominator. The search for consensus also cultivates the myth of infallibility. It implicitly promises a reliability that cannot be delivered. Too frequently, it deprives the intelligence product of relevance and the policymaker of the range of possibilities for which prudence requires that he prepare.

The time has come to recognize that policymakers can easily sort through a wide range of opinions. But, they cannot consider views and opinions they do not receive. The time has come to recognize that CIA, military intelligence, and every other element of the intelligence community should not only be allowed to compete and surface differences, but be encouraged to do so.

The time has also come to recognize that the intelligence community has no monopoly on truth, on insight, and on initiative in foreseeing what will be relevant to policy. For that reason, we are in the process of reconstituting a President's Foreign Intelligence Advisory Board. It will be made up of strong and experienced individuals with a wide range of relevant backgrounds.

To get all the intelligence we need, we've got to go beyond the formal intelligence organizations. We've got to tap all the scholarly resources of the nation and the perspectives and insights you develop from your activities around the world. We're geared to do that in open and direct contact with the campuses, the think tanks and the business organizations around the country.

We will need to do even more of this in the future to cope with the intelligence requirements of our increasingly complex and dangerous world as it generates new threats. In the OSS, we were doing pretty well if we knew where the enemy was and how he was redeploying his forces. For the first twenty years of a peacetime intelligence, most of the effort went to understanding the production and capabilities of

weapons. It is only in the last decade that it has dawned upon us that we have been threatened and damaged more by coups and subversion and economic aggression than by military force. We will still devote a large slice of our effort to military estimates and rely very heavily on them in formulating our defense budget and force structures. But they will have to be supplemented by increased efforts to assess economic vulnerabilities and technological breakthroughs. We've also got to identify social and political instabilities -- and how they can or are being exploited by propaganda, by subversions, and by terrorism. To meet these challenges fully, we will not hesitate to call upon the expertise in the private sector for assistance.

So much for the kind of intelligence capabilities we have and need to develop. Let me now give you some of the specifics of the problems we need to tackle in the economic arena.

Our first priority is still the Soviet Union, its military capability and economic strength. It has been the number one adversary for 35 years. It is the only country in the world with major weapons systems directly targeted at the United States which could destroy the U.S. in half an hour. For that reason alone, it remains the number one target.

However -- given the complexity of today's world, there are many other problems of concern to intelligence. For example: nationalism -- resource dependency -- terrorism -- overloads of debt -- other economic imbalances -- technological breakthroughs.

Let me touch upon some of the matters we need to understand in the area which you plow.

In the last ten years the dollar's depreciation vis-a-vis the currencies of the fourteen other industrialized countries amounted to 17 percent, vis-a-vis Deutsche Mark a full 50 percent and vis-a-vis Japan's Yen by 37 percent. This drastic devaluation failed to make American products more competitive in world markets and our trade deficit increased alarmingly. Indeed, the decline in the dollar boomeranged to generate an inflation which burdened our competitiveness. OPEC justified raising petroleum prices substantially, largely to recoup their losses of "real" income from being paid in devalued dollars for their export of oil.

What is most disturbing is that vis-a-vis West Germany and Japan the competitiveness of our technology-intensive industries keeps on deteriorating despite the depreciating dollar.

One of the most important industries in the group of our technology-intensive industries is aerospace. Since at least World War II this industry unquestionably has been technologically the most sophisticated, most competitive vis-a-vis all other countries, and the greatest contributor to the U.S. balance of payments. In 1979, its export surplus amounted to about \$10 billion. Industry specialists estimate that in the mid-60's our aerospace industry commanded as much as 90 percent of the free world's market for large transport jets. Since then,

however, foreign competitors have chipped away this share and it is now about 80 percent. Moreover, we -- meaning the industry and the Government -- are doing many a thing that greatly accelerates this process. Military and civil-shared production programs reach ever higher levels that continue to increase the foreign content of U.S. aerospace shipments.

In terms of technological sophistication, our semi-conductor industry is unexcelled. Moreover, unlike most other industries, the basic technology on which this industry was built was almost entirely U.S.-made. (Of the 14 pivotal innovations, 13 were developed in the United States and one in West Germany.) This industry's products have been critical to the development of computers, telecommunications, most sophisticated military equipment and innumerable other products. In the future it is also expected to become the key to progress in automotive technology, industrial process control (including robotics), office automation and the like. Practically since its beginning, however, the industry has been subject to intense foreign competition, mostly from Japan. By now, although the Japanese semiconductor industry has captured only 5 to 6 percent of the total U.S. market, in the technologically newest product areas -- 16K and 64K RAM -- their penetration is 40 to 50 percent of U.S. market, a much larger share than they have captured of our automobile market. In some semiconductor lines the Japanese manufacturers are clearly striving to become world leaders -- and to accomplish this leadership largely on the basis of technology they obtain from U.S. companies.

Probably the third most technologically sophisticated industry is the metalcutting machine tool industry. For over a century it has provided technological improvements not only to the huge domestic metalworking industry, but also worldwide. By now it, too, seems to be in trouble -- the United States has become a net importer of metalcutting machine tools (about \$500 million worth in 1979 and \$600 million in 1980). We are also host to subsidiaries of German and Japanese companies.

Finally, there is a huge problem facing our huge and old automobile industry. In its almost century-long existence this industry managed not only to implant the automobile-orientation in our entire economy, but also did the same on many other countries. The current challenge it faces from the 22-year-old Japanese industry is deadly serious -- the Japanese have not only conquered about one-fourth of the U.S. automobile market, but also have cost advantage of at least 20 percent over U.S. producers and they have a product-mix that is at least six years ahead of U.S. industry's. The economic and financial dynamics work also in favor of Japanese industry, for example, relative productivity growth, relative wage rates, and relative price changes.

All this has very serious consequences not only for our prosperity, for our ability to pay our way in the world, for the value of our currency, for our ability to mobilize the capital we need. It has serious implications in undermining the industrial base which underlies our national security. Our leadership in electronics is critical to the technological edge we have in the weaponry and the transport which

is basic to military strength. As the auto industry becomes globalized our need to keep the sea lanes open will become more critical.

How do we address this slippage? Well, the first thing we need to do in both our governmental policies and our managerial strategy and tactics is to recognize that we face worldwide competition in a global market.

We need to ask ourselves tough questions about where our economy and where our companies are headed.

I believe in many respects we are asking ourselves the same kind of questions you are asking yourselves. You will be looking for investment implications. We'll be looking for national security implications. For example, what will the increasing globalization of the automobile industry do to the industrial base on which we must depend for national defense?

How will the attrition of our computer and semi-conductor industry, under the impact of the drive the Japanese have mounted to capture this market, undermine our defense capability? How will it impact our ability to make our way in the world through the manufacture of machinery and equipment which will be increasingly controlled and guided by micro-processors?

If the French, Germans and Japanese, and less developed countries like Korea and Brazil, convert more rapidly than the United States from

fossil fuels to nuclear energy, how rapidly will lower power costs in those countries be converted into important competitive advantages in manufacturing costs? How will the instabilities in southern Africa on the one hand and seabed mining on the other affect the structure of our world mineral markets and impact our manufacturing industries?

Looking at the world more broadly, what do we see as we look around the world? We see a Soviet Union rapidly building its military strength as ours has been permitted to decline.

-- The U.S. falling behind in economic competitiveness as the Japanese and Germans give, invest and innovate more, and Koreans, Singapore, Taiwanese, Brazilians, Mexicans increasing their share of the world market as ours diminishes.

-- Political and economic instability in the Middle East, Africa and Latin America where we get the fuel and minerals to keep our economy going.

-- The Soviet Union with its Cuban, East German, Libyan, Syrian proxies demonstrating remarkable ability to exploit these instabilities by well orchestrated subversion and paramilitary operations conducted with guerrilla fighters they train, equip and direct.

--- Large numbers of tanks and guns stockpiled in Syria, Libya and Yemen on the fringe of the Arab peninsula and transported to Nicaragua and Cuba, Angola and Ethiopia, and used in Chad and Lebanon, El Salvador and Guatemala.

I'm not here to frighten you but to say that the world is full of economic, political and military dangers which need to be taken seriously and watched closely.

And that the outlook is not all black.

Russia -- fallen into hornet's nest in Afghanistan where after eighteen months freedom fighters confine Soviet troops to half dozen cities and to their barracks at night.

Concern that developments in Poland could unravel Communist system and that suppression would entail heavy economic and political costs and bloodshed and prolonged resistance from militant Poles.

Economy gasping under it's inherent inefficiencies and burden of enormous military expenditures and many billions each year to Cuba and Vietnam, cut-rate oil to East European satellites, huge worldwide propaganda and trouble making machines, sprinkling guns in Africa, Middle East and Central America.

Here in the U.S. Congress has taken first action to revitalize and make our economy competitive again and to restore our military strength and that will restore confidence around the world among our allies and adversaries as well as in our reliability. I believe the new tone has brought new vigor to our friends and new caution in those inclined to adventure in far off places.

I believe that the critics who merely count the budgetary savings and the revenue losses and try to match them up are missing the critical psychological element, the element of confidence which President Reagan has brought to our people and which will galvanize them into action, into greater investment and into increased production. And that's what will lick inflation and restore our economic vitality.