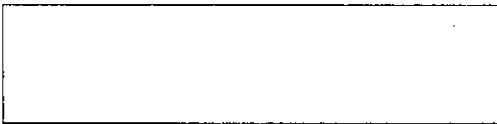


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AGENDA FOR BRIEFING OF PRESIDENT-ELECT REAGAN
(Thursday, 11 December 1980)

<u>TAB</u>	<u>TOPIC</u>	<u>BRIEFERS</u>
A	Poland	Bruce Clarke
<i>insert</i> B	Soviet Economy	Doug Diamond
<i>insert</i> C	+ Implications for Military Programs (Strategic Balance)	DCI
<i>insert</i> D C	Sino-Soviet Relations	John Holdridge

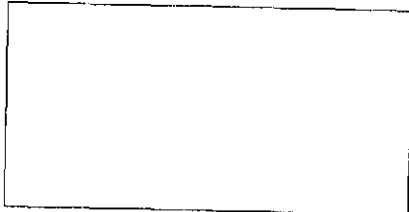
Approved for Release by CIA
Date Jan 2011



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MEMORANDUM FOR: *The Record*

This Briefing was given in two parts. Doug Diamond gave a presentation on the Soviet Economy; the DCI gave the second half of the briefing on Soviet Defense Spending and the Strategic Balance.



Date *30 Dec 1980*

Doug Diamond
DCI Revised
10 Dec 80

Soviet Economy and Defense Spending

I. World's second largest economy; some great crude strengths

Natural resources

Labor force half again as large as ours

Unchallenged leadership dedicated to continuous growth in economic and military power

These strengths have resulted in Soviet GNP increasing from 1/3 to 60% of ours over last 25 years

Graphic
Sov-US GNP

Allocation of GNP reflects leadership's priorities--per capita consumption only 1/3 that of US, but defense spending 40% higher

II. Now, however, Soviets facing changed environment: industrial growth has slowed to lowest level since WW II; growth in GNP has averaged only 1% in each of last 2 years

Oil production leveling off. We now expect decline to begin in next 1-3 years, continue through decade

Graphic
Oil Prod

Soviets have maintained production so far by all-out drilling in Western Siberia, but are rapidly depleting easily accessible reserves. Production in large fields already falling; exports to West expected to decline

Graphic
Meat Consumption

Grim picture in agriculture: output down 10% in past 2 years. Back-to-back harvest failures in 1979-80 and US embargo may reduce per capita meat consumption in coming year to level of early 1970s

Also face increasing labor problems:

Graphic
Labor Pop.

Additions to labor force in coming decade will be 1/4 that of 1970s, and will consist largely of less skilled, less mobile Muslims

Labor productivity also slowing due to

Rising raw material costs

Greater distances

Difficulties assimilating technology

Declining morale

Result

Soviet growth slowing sharply

Continued burden defense (4-5%) rising

~~Graphic~~

Graphic
Sov Def Spending
and GNP

III. Economic Relations with EE and West

No indication of intent to change despite domestic problems

Soviets trying reduce cost Eastern Europe by reducing their trade subsidies

Moscow needs access to Western technology, equipment and grain

USSR-Western Europe gas deal

Want to renew the US-USSR long-term grain agreement

Next few years, unable acquire more than two-thirds grain import needs from non-US sources

Prefer sophisticated US technology and equipment

By Afghanistan, Soviets willing to sacrifice any US trade

Remain sanguine can elicit agreements from Western Europe even in the face of US opposition

IV. Moscow unwilling undertake major reallocation of resources

Current leadership marking time; alternatives too risky

Even new leadership hard pressed to make changes

We not think strategy of "marking time" tenable in long run; economic problems are too severe

Could impose more austerity to support military spending

Consumption suffer greatly

To garner public support, likely evoke an image of heightened danger from West or China

V. These trends will make it increasingly difficult for Soviets to maintain rate of increase in defense spending (4-5% in recent years). But recently published 1981-85 plan continues to give military top priority

We see no cut-back in major programs; R&D at all-time high. No major reallocation of resources toward consumers

Major shift in priorities would require 3 conditions, none of which now exists in Soviet view

Threat of domestic instability

Stable Eastern Europe

Less tense international environment

We therefore expect defense to remain top priority, even if Soviets have to impose further austerity at home, rely less on economic relations with the West, and sacrifice investment in other key areas (agriculture, energy, transportation)

Such a decision in favor of defense may appear very real to Soviet leadership today. This is because of state of the balance of strategic nuclear forces between our countries may appear to them to require it.

Surely they are pleased with general perception they've achieved at least strategic parity with us, but combination of our ALCM, Trident & MX programs plus sense you will give greater attention to our strategic forces is cause for concern on their part.

Doug's last judgment that Sov will accord defense #1 priority even when confronted with a decline in their economy is one we'll have to watch carefully, especially as Soviet leadership changes in next few years.

We believe the leadership will feel need not only to sustain their present level of military spending, but ^{pressure} to increase it.

On side of conventional military forces, even though have strong position, they have to face up to shortcomings in their combat performance in Afghan - and how reliable will the Polish forces be in the W.P.

MAP 6

The whole Northern Sector is virtually assigned to Poles.

Even in field of strategic nuclear forces, we believe Soviets will feel under pressure to make a greater effort in '80s.

This despite fact they've clearly established themselves in lead today.

CHART 7

Our view of future trends in strategic force capabilities shown on this chart.

Clearly significant point is precipitate drop in Soviet--red-- capabilities from '85 - '89.

This due impact MX plus ALCM and Trident.

Let me explain--these curves are one set of many that describe strategic equation.

All curves generally agree that there's a Soviet bulge in 1st half of decade and drop-off in last.

Happens this one shows what conditions would be like if Sov struck us first in attempt knock out our strategic forces.

After such a blow we would have blue line - measured in potential for leveling urban areas.

Equivalent total size Sov urban area

Contrast - Sov after strike - have remaining - 1st half
Sov 2x ours - but little less than our urban area - by '90 only 1/4th urban area.

Soviets bound react

Many options in development all cost \$; probably \$ economists
not planning to spend

Describe one we think most likely

Fractionation - putting more warheads on existing missiles
SS-18 - 10-14-30

CHART 8

*off same -
Calculation*

It within SALT limits Soviets go to max can mitigate decline

2,600 added shelters would counter - total 7,200

CHART 9 Without SALT - total 14,000 RYs - drive off chart

10,760 shelters would counter

Neither a likely course of action

Indicative:

Soviets have incentive to enter competition even though rough on their
econ position

US can respond

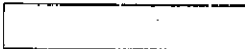
No way telling how either of us would actually compete

14,000 unlikely #
(10,700 also)

In between 4,600 have now and 14,000 Sov have choose

- (1) How much let their curve dip toward ours
- (2) How much try negotiate a SALT agreement that would slow race down.
- (3) How much to stretch their economy

You will face similar decisions on our side.



Other impact of MX

CHART
10

Vulnerability of Soviet ICBMs

Chart

Drives Soviets to SLBM
CM
Mobile ICBM
ABM

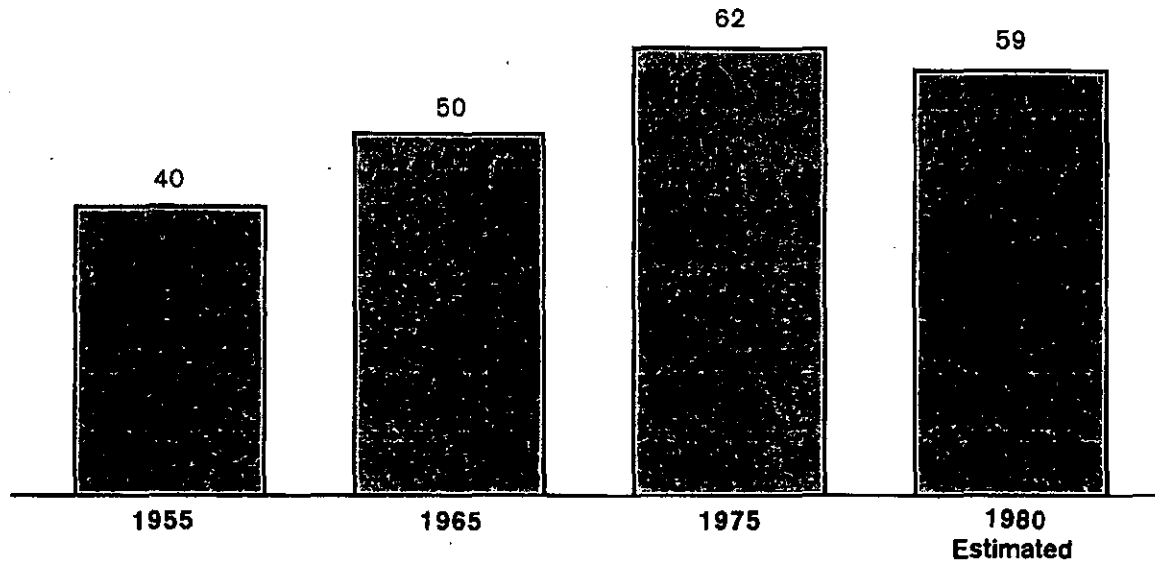
Again costly

Also CMs and Mobiles complicate verification



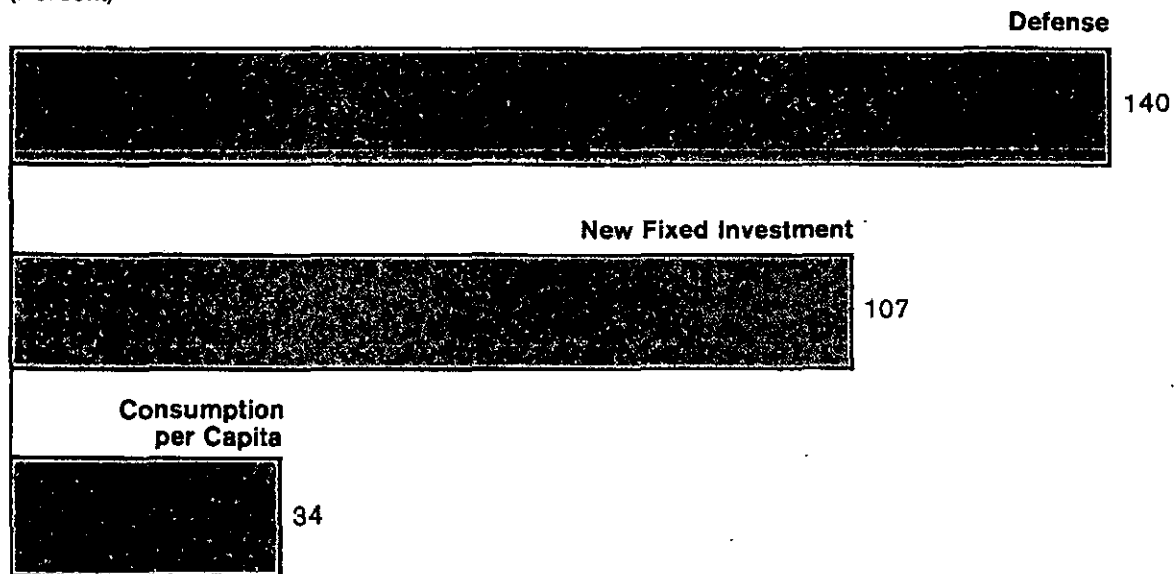
Soviet GNP as a Share of US

(Percent)



Soviet GNP Components as a Share of US (1979)

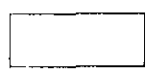
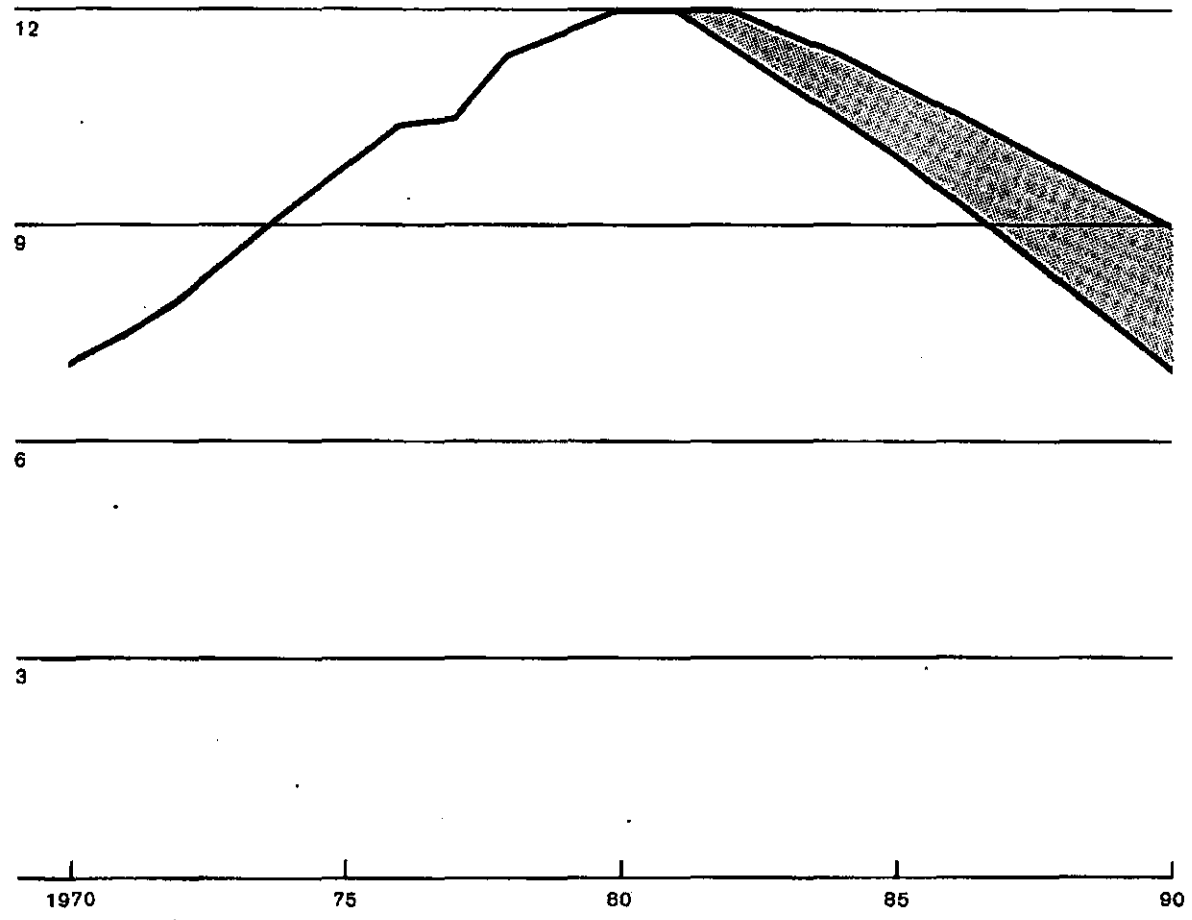
(Percent)



Betko

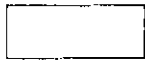
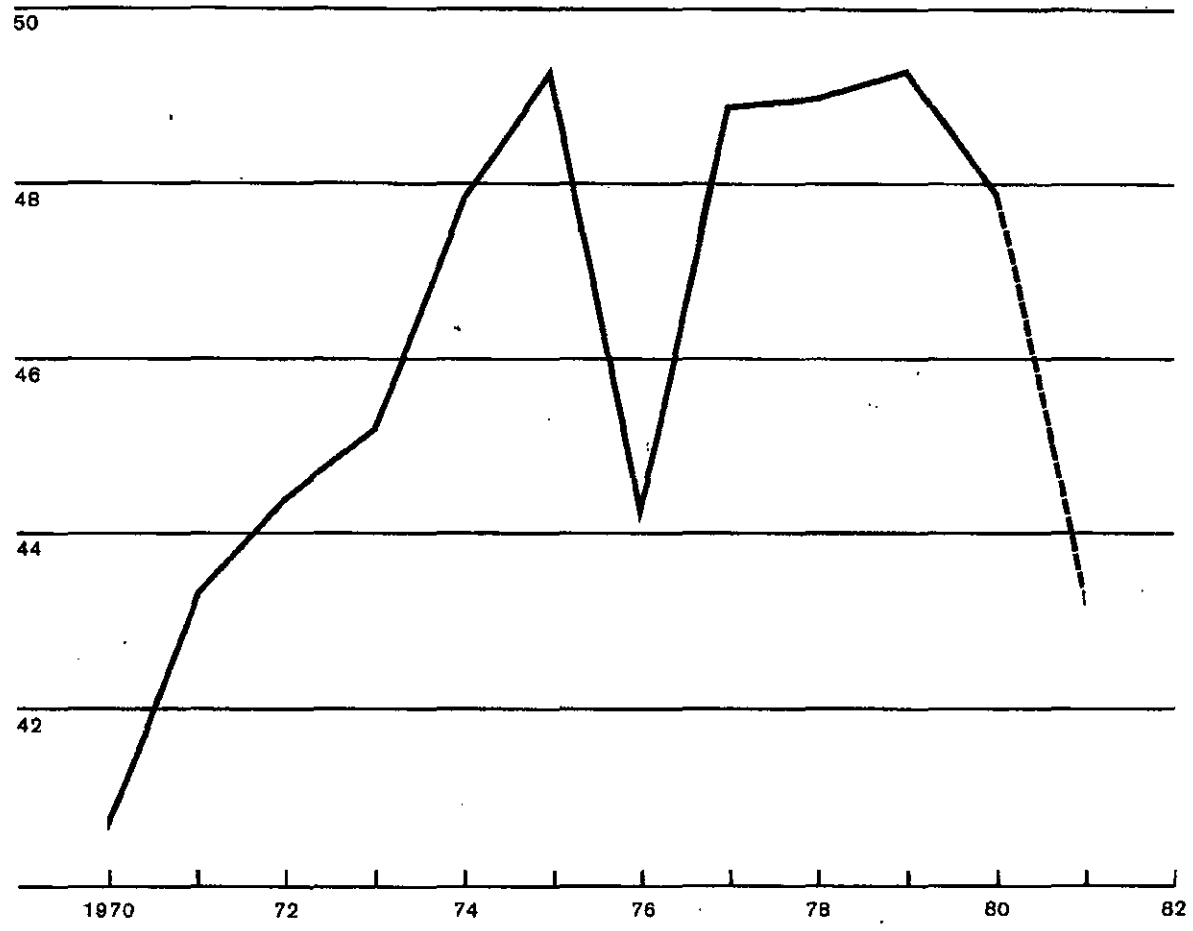
USSR: Oil Production

Million b/d



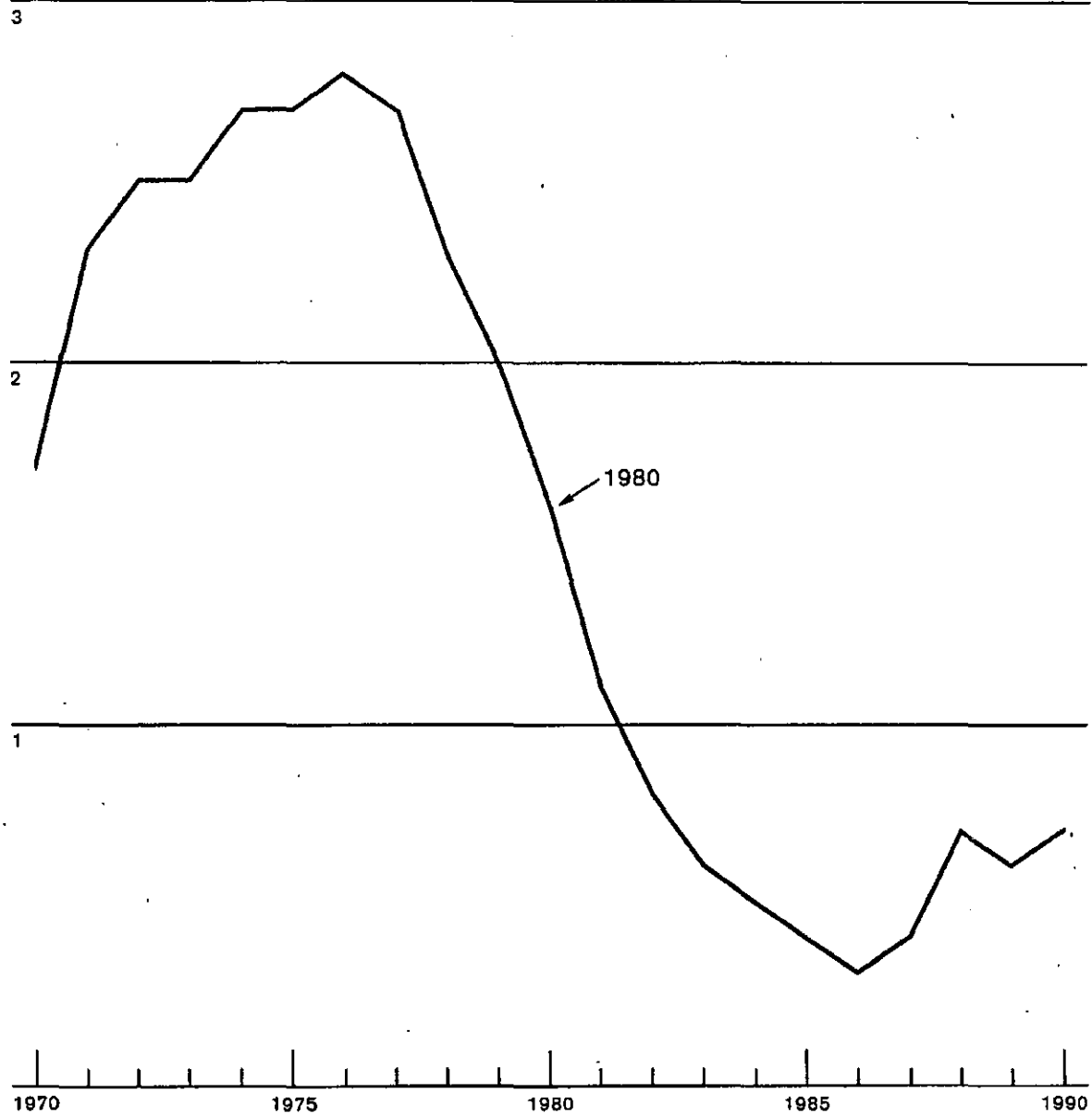
USSR: Per Capita Meat Consumption, 1970-80

Kilograms



USSR: Growth of Working Age Population

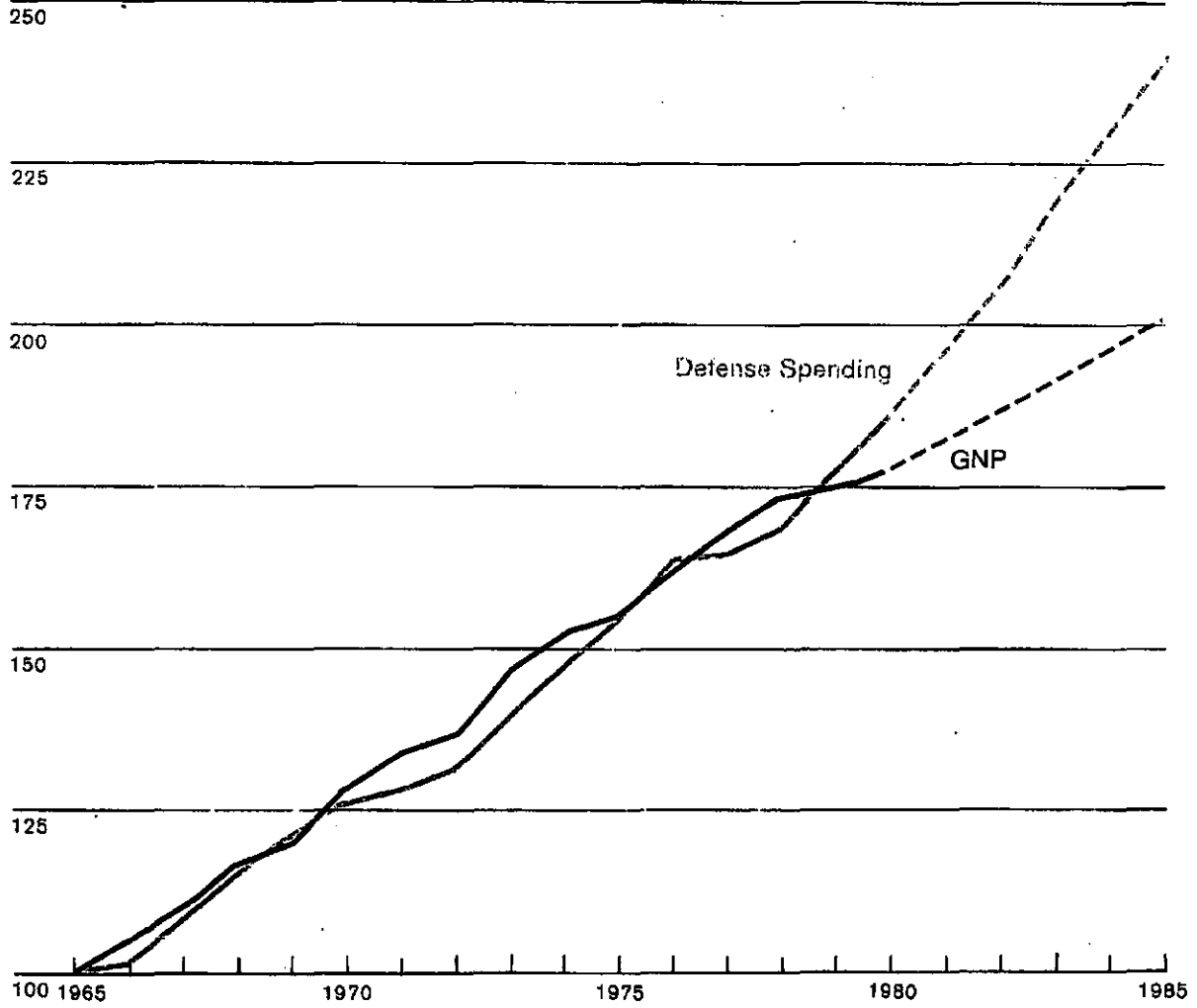
(Annual increment in million persons)



US - sanctions
1980/81

Growth in Soviet Defense Spending and GNP

Index: 1965=100



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