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MEMORANDUM FOR DR. MAX MILIKAN

SUBJECT: Informal Comments on Draft Outline of the Report on Foreign Economic Intelligence Requirements

1. These informal comments, which represent only my views, have not been cleared with the USAF. They are not as full as I should like to make them. However, due to the press of time, it seemed advisable to submit them now with the possibility that we could discuss the matter in more detail later on, or if you prefer, I could discuss it with [REDACTED]

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2. The first point which I made at the last meeting is that the type of intelligence reports upon which broad U.S. policy guidance can be given from a viewpoint of economic intelligence, are identical with the intelligence requirements upon which the operating agencies base their detailed plans and programs. That is to say, the broad policies and the more detailed operational plans, to be soundly conceived, both should rest on as broad an intelligence base as possible. This base, which represents the detailed pick and shovel work of research analysts in many agencies, must be relied upon to produce the backbone of national intelligence estimates. The national intelligence estimates can be no better than the factual data which support them, nor can the operational plans, say of the Army, be any better than the same factual base permits, to the extent that both rest upon economic intelligence.

3. With respect to the second point, "very limited intelligence facilities versus enormous requirements for intelligence production", I think this is somewhat misleading. In the first place, there has been an intensive effort to collect and evaluate economic data on the U.S.S.R. and Satellites for the past three years. The result is that the basic intelligence of the U.S. military establishment with respect to the U.S.S.R. and its Satellites is far better than was the respective case just prior to the war with Japan and Germany. While it may be an exaggeration to say that the intelligence potential of the Soviet Union is limited only by the money and effort we are willing to put into the collection of the needed information and into its sound evaluation; nevertheless, I am sure that most experienced intelligence authorities would agree that it is possible to increase our knowledge of the U.S.S.R. Bloc by a very appreciable percentage, if the decision is made by such an agency as the National Security Council that the national interest required this to be done.

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My own experience indicates that an attempt to lay on detailed priorities with respect to the production of intelligence in the various I.A.C. agencies will not be too fruitful. Requirements are just too diverse and too numerous to permit more than general overall guidance. An informal exchange of intelligence production programs, for example, should result in a somewhat more economical use of the available research manpower. Even more important, however, than the division of the "pie" is the devising of ways to increase our knowledge of the Soviet Bloc, particularly with respect to 1950-1951 information. Two things which obviously suggest themselves are: (1) the stepping up of the Defector Program, and (2) a substantial increase in [redacted] activities.

4. Part II, A, (1) of your paper states that "first priorities should be given to economic analyses designed to throw light on the problem of strengthening the relative position of the non-Soviet world in the struggle against the Soviet Bloc." This point is further elaborated by the statement that studies should be designed to reveal what the key limitations are on what presumably the potential enemy countries or complexes of countries can do. The point of focusing on key limitations is beyond me; it would appear that, at first glance, the studies should be directed at the general economic capabilities of these countries rather than pointed specifically to key limitations. Certainly the validity of these key limitations cannot be judged except against a background of relatively full knowledge of the total Soviet Bloc, for the apparent limitations of one specific country may not exist in any meaningful way if a broader geographic base becomes the area of inquiry.

5. The same section of your paper indicates that there is a paucity of both information and meaningful analyses on the economic situation in the Soviet Bloc relative to that in non-Soviet areas. I question whether this is a fact or not. Certainly many analyses of basic Soviet industries have been made, whereas even in the European countries which the U.S.S.R. can overrun very quickly in the initial stages of World War III, relatively few meaningful economic studies have come to the writer's attention. There are a number of generalization studies, but in terms of specific industries studies covering each plant, say in the aluminum industry of Western Europe, detailed studies do not appear to have been made by ECA or any other U.S. organization. It is possible that these studies exist in some European offices of ECA or in organizations of the United Nations, but if so, we have been unable to obtain them.

6. I think this is particularly important, and is highlighted by what you will remember of our discussion on Yugoslavia, for it appears to me that the intelligence collection problem divides down into two parts: (1) the areas behind the Iron Curtain, and (2) the areas this side of the Iron Curtain. It has been my experience that since the State Department has assumed the major function of the collection of economic information on countries this side of the Iron Curtain, the servicing of other agencies has been quite unsatisfactory.

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Certainly this information is available, and can be collected with relatively little effort. It is important not only in connection with an analysis of the country concerned, but also because of the Soviet potential for overrunning these areas.

7. My comment on Part II, A, (2), which delineates the specific kinds of studies which should be made dealing with economic capabilities of the U.S.S.R. and its Satellites, is that what is needed is not a series of economic analyses pointing to answering some specific questions, but a number of broad studies on specific industries and on other areas of the economy which will provide the economic intelligence base from which more specialized types of inquiries can be answered. Thus, the study of the aluminum industry in the U.S.S.R. and Satellites, once completed, can be drawn upon and furnish answers with respect to the general capabilities of the Soviet Bloc to produce aircraft and other types of munitions, and also can shed light on Soviet intentions, to the extent that there is an interplay between intentions and capabilities. My major criticism of many Washington studies made during the past four years on the Soviet area is that they have been too narrow; a fraction of additional effort would have produced a basic document which could have been drawn upon to answer a multitude of inquiries. I am aware that the so-called NIS series was designed to supply this requirement but the NIS series appears to have been poorly conceived, both with respect to its basic method of analysis, and with respect to the time scale of its production.

8. My only comment on Part III is a word of caution with respect to attempting to devise answers from sophisticated analytical techniques which require the availability of a large volume of precise data, and where a relatively small estimating error, when cumulated, can give very misleading answers. This was the sad experience with certain national income studies made of Germany in the last war, presumably by people with considerable competence; it is the case today with the [redacted] trying to develop index numbers on industrial production in the Soviet Union. The utilization of these techniques, in my opinion, must await the development of a far larger storehouse of factual data than we now have, or are likely to get for some time.

9. Once again I must apologize for making these comments as brief as they are, and hope to have the opportunity to expand on them at some future time. Necessarily they deal with points of difference of opinion about a fundamentally good study.

Edward L. Allen

EDWARD L. ALLEN
Deputy for Research
Target Research Branch

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