

EXECUTIVE SECRETARIAT
ROUTING SLIP

TO:		ACTION	INFO	DATE	INITIAL
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3	EXDIR		X		
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13	D/EEO				
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15	D/OLL				
16	C/PAO				
17	SA/IA				
18	AO/DCI				
19	C/IPD/OIS				
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		SUSPENSE <u>28 December</u> Date			

Remarks

Please prepare acknowledgment for
DCI's signature.

Executive Secretary

16 December 1983

Date

December 13, 1983

Mr. William Casey
Director
Central Intelligence Agency
Washington, D.C. 20505

Dear Bill,

This will be the first MEAP report to you since we delivered the major review of the CIA efforts at estimating Soviet military resources. All of the current MEAP members participated in that review and are very interested in the follow-up, and so our fall meeting (November 4 and 5) concentrated on points related to that review.

The SOVA staff briefed us on their reactions to our review and, more importantly, on what steps they are taking to implement the recommendations. By and large we are pleased with the response of SOVA, and have no analytical issue concerning their response to bring to your attention.

There is, however, a new area of review that we identified last spring and which we discussed extensively at our fall meeting. In answer to your question, this area will be a major topic on our agenda in 1984. The review that we performed for you assumed that the force quantities were correct, and consistent with that assumption we concentrated on the way that CIA priced the quantities, both in dollars and in rubles. At our last meeting we performed an initial review of the processes by which the quantities are estimated.

The traditional way in which force estimates are made is essentially as follows:

1. A series of working groups are organized, for Navy forces, strategic forces, etc.
2. These working groups are further broken into more specialized groups, such as surface ships, ICBMs.
3. The specialized groups make force estimates, based on evidence, trends, doctrine, and whatever seems relevant.
4. These individual best guess estimates are aggregated, and in aggregate they form the basis for the estimate of Soviet forces.

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The problem with this bottom-up process of forecasting quantities, is that it does not lend itself to top-down considerations, such as over-all Soviet economic or budget constraints. Furthermore, the process implicitly assumes that each of the programs will make its plan, that none will slip unexpectedly, and that no competition for scarce resources will lead to unexpected delays in those programs that lose out in the bureaucratic infighting. In fact, we do know that some programs will slip, hit snags, or be relegated to lower priorities in future struggles for scarce resources, although we do not know which programs they will be.

This phenomenon leads to the contradiction that we observe each year. Looking back, we see that individual programs or services sometimes enjoy a sharp increase in investment, but Soviet defense spending trends as a whole change very slowly. Our forecasts, however, invariably show an across-the-board increase starting in the coming year, an increase that in practice is never so sharply realized.

The current force forecasts, when priced, imply that each and every part of the Soviet procurement program is about to increase, simultaneously, at as fast or faster a rate than we have ever observed. This phenomenon, if it occurred, would be distinctly non-Soviet, and appears to us to be more a result of the force-estimating methodology than a real conclusion.

SOVA is acutely aware of this problem, and has made laudable first efforts to look at the over-all force estimates from a top-down, historical economic point of view. We commend this effort and hope that it will continue to be supported. However, in order to be useful, the community will have to be willing to change the form of its estimates.

It is plausible that the SOVA military-economic analysts may end up with a conclusion of the form, "whereas we believe that each of the individual force estimates represents a most likely estimate for that component, we also believe that the overall procurement will fall x% short of the program obtained by summing the individual components. However, we cannot now specify where this shortfall is likely to occur, since it will depend on technical progress and strategic decisions that have probably not yet occurred". In short, you may have to consider over-all estimates that are somewhat different from the sum of the lower level component estimates, without now being able to pinpoint where these differences are most likely to occur.

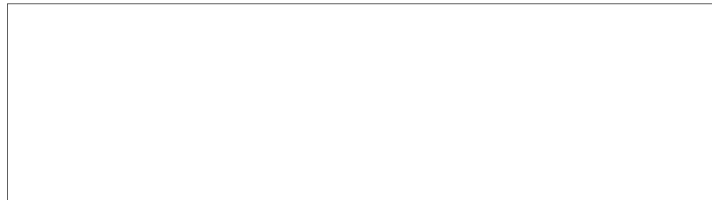
Related to the question of quantities are the well publicized differences between CIA and DIA estimates. We have started to look into this, beginning with an initial DIA briefing at our November meeting.

There are some serious questions on which we will focus for the next year or so. We will report the results to you when we have something more definite to say.

There is one more topic that I do wish to draw to your attention. As you will recall, we were very critical of the R&D estimates and strongly recommended that they be specifically excluded from over-all Soviet military economic projections until improved results were available. This conclusion is especially important in estimating Soviet defense spending growth since without the assumed rapid growth in R&D there is no growth in Soviet military spending in the last few years. We are generally satisfied with the steps planned or underway to improve the R&D estimates, but continue to believe strongly that the incorporation of the current, poor R&D estimates into the over-all Soviet defense estimates must be changed.

In this report I have tried to concentrate on the two salient issues, rather than provide a more comprehensive and perhaps balanced report of MEAP activities. I have done so because the Panel feels that these two points require your attention. These are somewhat novel points which probably require more discussion than is feasible in a short letter, and so on behalf of the Panel I am requesting a meeting with you to discuss them.

Sincerely,



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Central Intelligence Agency
Office of the Deputy Director for Intelligence2 DEC
1983

Bill -

I thought it would be
cautious (+ politic) to

Send

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memos saying what
we are doing in response
to their panel reports. I
have signed one to

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I suggest you sign the
one to A copy of
mine is attached along
with more detail from SOVA
for you.

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DCI
EXEC
REG

B-232

Central Intelligence Agency



Washington, D. C. 20505

5 DEC 1983

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Dear [REDACTED]

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Bob Gates recently passed along to me a glowing report on the results of the Military Economics Review Panel that you chaired. I understand from Bob that SOVA's reactions to the Panel's report were recently discussed with you and that SOVA is already actively implementing a number of the Panel's recommendations. In particular, SOVA intends to devote most of the additional analyst positions made available in the current fiscal year to expansion of military economic and defense industrial research, much along the lines recommended in the Panel's report. Realistically, though, even these new resources will not allow us to act now on all the recommendations you and your colleagues made, although I can assure you that we will review each recommendation thoroughly.

Bob also mentioned that he has given the report wide distribution. Copies were sent to all members of the National Foreign Intelligence Board as well as the chairpersons of the President's Foreign Intelligence Advisory Board, the Senate Select Committee on Intelligence and the House Permanent Select Committee on Intelligence. This distribution in turn has led to a number of requests for briefings on our defense spending work which will certainly help improve its understanding among some of our major consumers.

I want to add my appreciation to that of Bob's for the thorough and objective job done by the Panel. No area of our analytical work is more controversial or more important than our estimates of Soviet defense spending. Your Panel has provided an important basis of professional support for the technical integrity and usefulness of that work. I also know from my own reading of the Panel's report that you have provided a number of recommendations for improvements in our military-economic analysis that should strengthen that work in the future.

Sincerely,

/s/ William J. CaseyWilliam J. Casey
Director of Central Intelligence

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