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1. The three projected military programs are very similar in size and trend of expenditures. Each rises to a peak of expenditures in 1966, 1967, or 1968, and levels off after that. The demands for machinery, for research and development, and for manpower are likewise very similar. These components, like total cost, show a rising trend till 1966-1968 and a decline or slower growth (R&D) thereafter. The economic impact of the three would be similar. Hence the analysis below discusses only the impact of force level II. The impact of the other force levels would be no worse than that of force level II.

2. The economic impact of future defense expenditures can be judged by a comparison with the impact of past expenditures. The two periods which are most useful are (1) 1955 - 1958, when defense expenditures grew only slightly; and (2) 1958 - 1962, when total expenditures grew very rapidly. In the first period resources allocated to civilian uses, especially investment, grew much more rapidly than defense. As a result, industrial and GNP growth was rapid and reasonably untroubled. In the second period resources allocated to defense grew more rapidly than, and at the expense of, resources for civilian use. By the end of the second period the growth of GNP, industry, agriculture, investment and consumption had slowed significantly.

3. The table below shows the significant economic variables in the periods 1955-58 and 1958-62, along with the force II projections.

USSR Average Annual Growth Rates in Percent

	58/ 55	60/ 58	62/ 60 **	Force II* 66/ 62	70 66
GDP	8.0	4.8	4.8	3-5	5-6
Total Industry	8.5	8.6	7.6	7-8	8-10
Civilian Machinery	14.3	10.0	7.5		
N. F. Investment	14.6	10.6	4.3		
Inv. Equipment	16.3	7.6	10.4		
Defense	- 3.2	6.0	8.4	7.5	.7
Defense Machinery	.3	12.3	14.2	9.0	.3
Defense Manpower (Number of men)	-13.1	- .3	- 2.0	2.1	.3

* JAG projections.

** 62 numbers are preliminary.

4. The rates of growth projected for defense (Force Level II) to 1966 appear to be of the same order of magnitude as the rates of the last four years. Machinery and equipment grow at a somewhat smaller rate than in the 58-62 period. Manpower grows moderately in contrast to the previous decline. Overall defense grows at the same rate as the average of the last four years. These comparisons suggest that the Force II programs would be manageable with approximately the same economic strain as in recent years. This is to say GNP may grow at 4 or 5 percent and industry at about 8 percent, but that very little of this growth would go to consumption. The growth of GNP would consist primarily of growth in defense and in investment to support the growth in defense. The prospects for resumption of growth in housing construction, of significantly improving yields and productivity in agriculture, or of modernizing the production and product mix of consumers goods would be very slim.

5. The economic effect discussed above would be temporary. After 1966 Force Level II (as well as I and III) projects a fairly stable level of defense expenditures. Hence defense purchases would be a declining share of GNP and of machinery production. After 1966 a resumption of more rapid civilian and consumption growth would be possible. Force level II is the most strenuous of the three programs, because of the rapid build up scheduled in the next four years (1962-1966). Consequently, the other force levels are manageable with less strain on the civilian economy.

6. Two qualifications need to be stated: First, we are not sure to what extent the slowdown in 1961 and 1962 results from cumulative factors (cumulative skimping in investment projects, quality of products, etc.)

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and hence the extent to which a continuation of rapid defense build up (as in Force # II) is sustained without further cuts in civilian allocations. Second, we suspect, but cannot quantify, that the voracious appetite of defense and space for R and D resources, i.e., specialized highly skilled manpower and special high quality materials is a major contributor to the poor performance in civilian production. The continued growth of defense/space R&D may impose a greater economic cost on the civilian economy than paragraph 4 above suggests.