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**DEFENSE INTELLIGENCE AGENCY**  
 WASHINGTON, D.C. 20301

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**29 JAN 1975**

**TO:** Deputy Director for Intelligence  
 Central Intelligence Agency  
 Washington, D. C. 20505

**SUBJECT:** Comments on CIA Paper, "The Measurement and Meaning of  
 Defense Burden in the Soviet Setting" (U)

**Reference:** DIA Memorandum for the Secretary of Defense, 7 January 1975,  
 subject: Soviet Defense Burden (U).

1. (C) I commented recently, in the reference cited above, on some aspects of the "burden" paper. While I believe that paper is a very useful effort to address a difficult area, I believe that the importance of this subject justifies some additional comments.
2. (C) Although economists are responsible for creating the concept of burden, as you know they are almost universal in denying its usefulness in international economic comparisons. The inherent problem with comparing "burden" rates is the difference in price relationships within each country even when the two countries are producing the same quantities of identical items. You are well aware that distortions occur in both market and controlled economies, and price structures may differ because of: (a) varying productivity or input costs, (b) arbitrary setting of prices for resources or products, and (c) differences in markets. As the burden paper indicates, the use of factor prices eliminates only "some of the distortions in Soviet pricing."
3. (C) In the Soviet Union and COMECON economies, these distortions are particularly great, and a few major concerns resulting from them are noted below:
  - a. The measure of burden used in the "burden" paper is, principally, percentage of GNP allocated to the defense sector. The burden paper offers several possible percentages of national aggregates absorbed by the defense sector, but concludes overall that the defense effort for 1972 is probably about 6% of GNP (p. 5) and "less than 8%" (p. 1). Table 1 (p. 5) also shows that, for 1972, the defense shares of U. S. and U.S.S.R. national aggregates was about six percent for each country. There is a possibility, perhaps probability, that non-economists will

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reason from such comparisons that the Soviet defense effort is substantially smaller than our own, because it absorbs a roughly equal percentage of an economy about one-half the size of ours (as measured in rubles converted to dollars). For that reason, I believe that analyses based on "percentage of GNP" methods convey an inaccurate impression to persons unsophisticated in such analyses.

b. If the data were available, certain adjustments could be made to the rubles to make them more comparable with Western economies. One could add the subsidies provided the defense sector, and the advantages or priorities provided the defense sector in the form of high quality resources or products, and also include the opportunity costs such as the differential wages not paid the military vis a vis the civilians. Even if these adjustments could be made with some accuracy, their inclusion in an analysis undertaken largely from the economic viewpoint may obscure, rather than illuminate, a major consideration. I refer to the fact that, in the Soviet Union, the term "political economy" applies with particular force. The economy is an instrument of state policy, and that policy has consistently been to give the war-supporting industries and defense sector the highest priority. While this memorandum is not the instrument to review the abundant evidence supporting this point, I believe that it is very relevant to a consideration of "burden" to observe that, from the political viewpoint, the relevant question is whether Soviet aims in the arena of comparative national power are being achieved at a cost which the Soviet leadership considers acceptable and sustainable. The historical consistency of Soviet economic policy, the gradual but visible improvements in the Soviet consumer sector, and the lack of effective counter pressures all suggest that defense spending is viewed, against Soviet progress in improving Soviet military power and stature relative to the U. S., as a tolerable burden. The Soviet leadership would, of course, welcome conditions which permitted its aims to be achieved at lower cost.

c. The burden rate measures, in effect, only the economic loss as a portion of the goods produced during a given period, and fails to consider what might have been produced. It could be argued that the U. S. burden rate is overstated at 6 per cent, insofar as this measure fails to consider our tremendous potential to produce, and the under-employment of labor and productive capacity. In contrast, the Soviet defense sector has absorbed critical capital goods which could have accelerated the Soviet economic growth rate. For this reason, one criterion of defense burden which should be examined is the proportion of key products or technologies, rather than industries, devoted to defense. In the area of microelectronics, for example, the Soviets have

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SECRET

not achieved production technologies for mass production and the small amount produced is therefore devoted primarily to defense. As a result, the Soviets provide a very small quantity of calculators and computers to the civil sector and consequently impede its productivity and growth. Viewed in this light, the real cost of defense to the Soviets has been its sacrifice of even higher economic growth rates.

4. (S) All of these difficulties should cause us to reconsider the use of burden and comparative measurements in percentage of GNP. It may be possible to devise more meaningful and communicable comparisons than those used in the burden paper, and also to treat some very significant U.S. - U.S.S.R. economic comparisons. For example, the following statements are, in my opinion, much more meaningful for the general public and as a basis for U. S. defense policy decisions:

a. The Soviet military budget, measured in terms of the equivalent dollar purchasing power, has been higher than that of the U. S. for every year since 1971.

b. The proportion of the Soviet military budget devoted to "military investments" -- that is, to the acquisition of new military hardware and to research and development -- has been approximately double that of the United States for every year since 1971.

c. Recently Soviet military expenditures have been growing at a rate approaching the six percent growth rate of the Soviet economy.

d. Continuation of a higher rate of expenditure and a higher rate of increase in expenditure, while not a perfect reflection of the rate of change in relative military power, indicate a continuing shift toward the Soviet Union in the U.S. - U.S.S.R. military balance.

e. At the conclusion of its present major effort to replace and modernize its land based and submarine based ballistic missile force, the Soviet Union will have the option of reducing military expenditures or accelerating the already impressive rate of modernization and improvement of its general purpose forces. With the strategic force relationship fixed by the SAL treaties, the election of the latter option would accelerate the shift in the military balance toward the Soviet Union.

f. Every leadership elite in the Soviet Union since the October Revolution has regarded the relative economic power of the Soviet Union, measured in terms of war supporting industry, as a principal factor supporting the achievement of Soviet aims.

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SECRET

g. Given this tradition, and the fact that its economy and war supporting industry now permit it to exceed current U. S. spending, in terms of the purchasing power of its military budget, at an acceptable "burden" level, the Soviet leadership can be expected to maintain or increase defense spending unless there are strong incentives or pressures which, in the aggregate, make a reduction advantageous.

h. The economic "burden" of defense spending is not, at this time, visibly influencing the Soviet leadership toward reduced military spending. (Agreed limitations on strategic armaments appear to have been influenced principally by U. S. strategic strength, corresponding fear of nuclear war, and the view that other options were preferable. The fear of nuclear war led Khrushchev, after Soviet studies of the effects of nuclear war, to revise the long standing Soviet doctrine that war between the Soviet Union and the capitalist powers is inevitable. In Khrushchev's formulation, the power of the Soviet Union made the doctrine obsolete, such wars are "no longer fatalistically inevitable," "we have no need of war," can avoid nuclear war, and can "win" by overtaking the United States in industrial output and by supporting "wars of national liberation" and other activities to weaken the Western powers and change the power relationship in favor of the Soviet bloc.)

i. Some aspects of present Soviet attitudes are influenced, to some degree, by the fact that Khrushchev's aim "to equal and surpass" the United States in economic power by 1970 has clearly not been achieved, in spite of impressive economic progress. The serious Soviet economic deficiencies lie in agricultural productivity, the variability of annual production of basic cereals, and relative inferiority in high level technology. It is belaboring the obvious to observe that Soviet leaders have perceived detente as, among other things, an opportunity to obtain Western and, particularly, American help in ameliorating these problems. What the Soviet attitude toward detente might be if these problems were substantially solved is, at the very least, a legitimate area for thought and study with respect to future U. S. national security.

5. (S) To sum up an already lengthy memorandum, the role of the Soviet economy in the whole spectrum of Soviet strategy appears to be better defined, more coherent, more political, and more influential than economic considerations in our own country. While I do not hold that each of the underlined statements above is precisely true and correct as stated, I believe that each of them is substantially or "operationally" true and that, in the aggregate, they present a substantially correct picture. That picture is a very different one from that which I believe

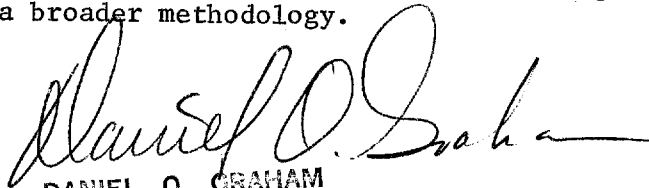
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the public would get from the "burden" paper, and for that reason I believe that its publication is not in the best interest of the United States.

6. (S) Since DIA's capability for economic studies is limited by our small number of personnel, I do not at this time have a well considered alternative analysis to offer. However, I believe that some or perhaps all of the points raised above should be weighed for incorporation in any paper intended to publicize our Government's views on Soviet military spending and the role of the Soviet economy in Soviet strategic considerations. I understand that CIA has decided to defer publication of the burden paper, and we may now have an opportunity to broaden the analysis to include some of the above points.

7. (C) The analysis of the cumulative U. S. - Soviet investment and inventory levels in relation to the growth in capabilities in the various military missions is now receiving growing attention by the intelligence community at the request of Dr. Marshall, Director of Net Assessment. DIA has participated in initial seminars with the Military Economic Review Panel and representatives of Dr. Marshall's office, as well as CIA, on the matter of inventory valuations as they relate to the measurement of capability. DIA expects to be involved extensively in this project, as the objectives and the definitional or procedural matters are clarified. I believe that at least some of the points underlined in paragraph 4. above should be addressed in this analysis or in a separate, early undertaking. I do not believe, on the other hand, that the method of comparing percentages of GNP and economic burden, without considering Soviet political and power aims, is meaningful. I recommend we move toward a broader methodology.



DANIEL O. GRAHAM  
Lieutenant General, USA  
Director ✓

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*Received these on 7 Feb  
passed them to Neil Fitch on 11 Feb*

MEMORANDUM FOR: D/OER, AD/OSR, D/OPR

Ed Proctor finds this a thoughtful, well-reasoned paper. It broadens the scope of our dialogue on the "burden" question. He would like your advice on:

- 1 - What our initial response to General Graham should be.
- 2 - What we should do with our paper.

May we have your views on the first of these questions on Friday?



5 Feb 75  
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