

The Director of Central Intelligence

Washington, D.C. 20505

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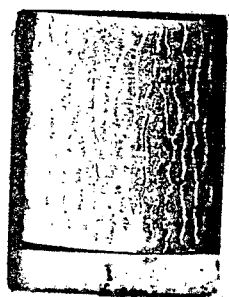
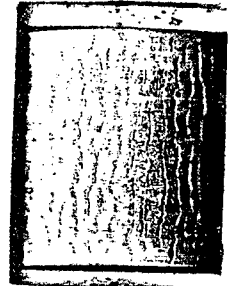
Dear Bill,

I believe that we can strengthen our arms control posture by cautiously injecting an economic component into our approach. Earmarked "A" is a suggestion that might be suitable for use in a speech. Earmarked "B" are a couple of pages which provide some backup taken from the longer paper entitled "Vulnerabilities of the Soviet Economy and Possible Policy Initiatives for the US" which I sent over a couple of weeks ago.

Yours,

Bill
William J. Casey

The Honorable William P. Clark
Assistant to the President for
National Security Affairs
The White House
Washington, D.C. 20505



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1. One obstacle to arms control that is often overlooked is the Soviet industrial structure itself, which is vastly different from our own.

2. We have a military sector. They are a military sector. The entire Soviet system--with its five-year plans, its resource-allocation process, its command economy--is designed and operated to provide just enough butter to enable the production of more and more guns.

3. Some experts argue that the Russians couldn't shift resources away from the military sector even if they wanted to--for instance, to revive their faltering economy--because this kind of resource shift is beyond the capacity of the rigid, weapons-production structure they've built. Other experts say a resource shift can be accomplished without fundamental structural change, but only over a period of years.

4. Let us at least consider the possibilities. Certainly we should not subsidize this system. We should see that our technology and know-how is not available to make it more efficient or more threatening. Perhaps we can go further, to explore in concert with our allies what economic and arms-control inducements in the West can offer in return for a Soviet program to shift resources away from the military sector and toward peaceful, productive uses.

1. One obstacle to arms control that is often overlooked is the Soviet industrial system itself, which is vastly different from our own.

2. We have a military sector. They are a military sector. The entire Soviet system--with its five-year plans, its resource-allocation process, its command economy--is designed and operated to provide just enough butter to enable the production of more and more guns.

3. We now recognize that a key element in Moscow's ability to keep this system alive through the 1970s was help from the West, in the form of credits to buy equipment, technology, and food. In addition, the Russians helped themselves by acquiring Western technology through espionage, and by earning hard currency through exports of oil, arms, and gold. US inertial guidance technology and US precision-grinding machinery have directly produced the accuracy and MIRVing of Soviet missiles--improvements that in turn have mandated budget-busting appropriations for MX and Trident.

4. But now--even with so much help from the West--the Soviet industrial system is faltering. The economy is spiraling down toward an extended period during which annual growth rates will be in the 1 percent to 1.5 percent range at best. The food situation, which is appalling under normal Soviet circumstances, is worse now than it has been in years. The entire Soviet empire is careening toward economic disaster.

5. Kremlin leaders have an obvious solution to their problem--they can spend less on arms and more on the kinds of technologies, products, and investments that will stimulate growth and raise standards of living. Of course, if they "stand down" so can we.

6. But "standing down" may not be as easy for the Soviet Union as it looks. Some experts believe that the Russians couldn't shift resources away from the military sector even if they wanted to, because this kind of resource shift is beyond the capacity of the rigid, weapons-production industrial system they've built. Other experts say a resource shift can be accomplished, but only over a period of years.

7. Let us at least consider the possibilities of bringing about such a resource shift. Certainly, we in the West should not be subsidizing the Soviet arms-production system. Rather, we should work to insure that our technology and our know-how are not available to prop up the Soviet system--which only makes it more efficient and thus more threatening. This is the very least we should do.

8. Perhaps we can also go further. In concert with our allies, we can and should explore what package of economic and arms-control inducements we in the West can offer in return for a genuine, long-term, verifiable Soviet program to shift resources away from the military sector and toward peaceful, productive uses.