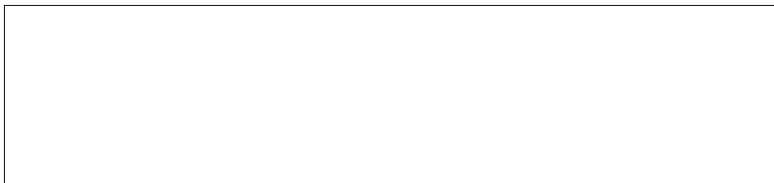


Central Intelligence Agency



Washington, D. C. 20505

10 JAN 1984



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Dear



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Thank you for your letter. I appreciate the time and effort devoted by the Panel members to these very complex analyses and have relied on MEAP recommendations in evaluating our own work program. The continuing dialogue between our analytical components and outside experts is an important one and, as this summer's methodological review has proven, can have a major and immediate impact.

Your report of the latest MEAP session highlighted two substantive issues: the forecasting of Soviet military forces and the estimate of Soviet military R&D costs. In times past, both of these issues have caused controversy in the defense community. I would welcome a chance to discuss them with you and the members of the Panel and to hear any proposals you have for improving them. I am asking Rae Huffstutler to arrange a time that is mutually convenient.

Sincerely,

/s/ William J. Casey

William J. Casey  
Director of Central Intelligence



B-232

SUBJECT: Letter to

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(27 Dec 83)

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DDI- 9093/83/1

28 December 1983

MEMORANDUM FOR: Deputy Director for Intelligence

FROM: Director of Soviet Analysis

[Redacted]

SUBJECT: [Redacted] Recent Activities of the  
Military-Economic Advisory Panel

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1. The attached letter, for the Director's signature, is our proposed acknowledgment of Ivan Selin's recent letter to him on MEAP activities.

2. [Redacted] request for a meeting of the Panel with the Director is probably worth following through on, although some members of the Panel appear to be overly concerned about the visibility of their work. The particular concerns Ivan proposes to raise in such a meeting--analytical problems with forces projections and limitations of our military R&D cost estimates--are not new ones for us, although we can use any good ideas on them the Panel might be able to offer. The meeting would also offer the Director a chance to help shape some of the future work of the Panel if he is so inclined.

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[Redacted]

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Attachments:  
As Stated

DEI- 9093-83/1

29 1979

MEMORANDUM FOR: Director of Central Intelligence

FROM : Deputy Director for Intelligence

SUBJECT :  Recent Activities of the  
 Military-Economic Advisory Panel

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1. In a letter dated 13 December,  passed along to you a brief status report on MEAP activities and raised two issues of concern to the Panel.  requested that you hold a meeting with the Panel to discuss their ideas for future work. SOVA has prepared a response

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2. The MEAP members are apparently concerned that they have had too little personal contact with you recently to be an effective advisory group. A meeting with the Panel would allow them to air their concerns on some issues of substance as well as organization directly with you; it would also give you a chance to set any parameters for the work of the Panel over the next year or so that you think would be useful. Certainly, the work of the Panel has been and continues to be useful, as you well know, but its visibility has been lower than some members think it deserves.

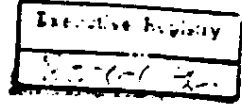
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Robert M. Gates

Attachment:  
 As Stated

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DDI-9093/83



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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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