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The Director of Central Intelligence
Washington, D.C. 20505

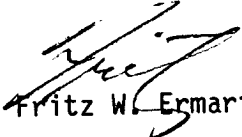
22 December 1988

National Intelligence Council

MEMORANDUM FOR: D/SOVA
FROM: Fritz W. Ermarth
Chairman
SUBJECT: Rowen Proposal

Here is the proposal from Harry Rowen that we have been talking about and which the DDCI wants us to review for an early response back to Harry. FYI: The "proposed level of effort of about three man-years" amounts as I understand it Harry wants to have a phone confab about this very soon; he conveys a sense of urgency. So we need to reach a judgment quickly.

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Fritz W. Ermarth

Attachment:
Letter from H. Rowen dtd 16 Dec 88

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HENRY S. ROWEN
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1005 HOOVER TOWER

Dec. 16, 1988

Dr. Fritz Ermarth
CIA Headquarters
Room 7E62
Washington, D.C. 20505

Dear Fritz:

Here is a description of the project I have in mind.

Sincerely,



Henry S. Rowen

Enclosure

H. Rowen
12/16/88
DRAFT

Possible Future Soviet Military Spending, Strategies and Forces

There has been a growing incongruence between the performance of the Soviet economy and its growing military spending. Poor Soviet economic performance is mostly attributable to its Stalinist economic system but heavy spending on defense and the overriding priority accorded military programs contribute to its malaise.

Faced with a similar situation a decade ago, the Chinese leadership cut military spending by about 20 percent and reduced its military manpower by about 1 million men. Then, as economic reforms took hold and the economy forged ahead it held military spending down. The economy greatly benefitted as the share of output going to defense fell from around 12 percent of GNP in 1978 to around 5 percent now.

The Soviet leadership now, like the Chinese then, has strong reasons for cutting back. Perestroika progresses slowly and it may have caused a fall in output. Worries about the reaction of the masses to higher prices is causing second thoughts about an early freeing of rigid and distorting prices. Joint ventures with the West can help in a few sectors but cannot lift the whole economy. Borrowing from the West is increasing but there are limits to this process; Poland and Hungary are vivid examples of the dangers of getting too much in debt.

This leaves, as one of few options, trimming military spending. The more or less public line of the Soviet military has been that only mutual reductions with the West are admissible. But mutual reductions, as Khrushchev once said, can take years to negotiate. Gorbachev has cut through this

internal controversy by announcing a set of unilateral measures. On the face of it, they won't yield significant savings but with parallel reductions in procurement, they could. In any case, these are unlikely to be the last such reductions whether future ones are unilateral or negotiated mutual reductions.

Nonetheless, there is no assurance of future cuts. But even if one regards the most probable future trajectory as one very much like the past, i.e. with further slow increases, there still is a significant chance of lower—perhaps much lower—military spending over the next decade. There is little attempt here to justify the likelihood of spending cuts. (Even substantial ones would give only a modest boost to such an inefficient economic system. But in the context of increased borrowing from the West and progress in perestroika, they could be significant.) Rather, the principal purpose of the proposed project is to stretch our imaginations about Soviet military futures, to provoke discussion about them, to elicit other possibilities than those enumerated below, and to put down some markers for analysts who will be evaluating incoming data.

These alternatives can be characterized in terms of 1) levels of military spending over time; 2) several alternative force structures, procurement rates, manning levels, etc. and associated strategic rationales will be formatted for each level of spending.

Although the focus of this project is on a possible reduction in Soviet military spending, it recognizes that this might not occur; or there might be a brief period of cuts followed by increases (as under Khrushchev followed by Brezhnev's increases); and that even if there are overall cuts some force categories are likely to be expanded.

It also recognizes that there is ample scope for improvements in the

efficiency of Soviet military spending and the elimination of low payoff activities which, if exploited, could sustain or even increase its military power while benefitting the economy. Such moves might include having a smaller military establishment (especially ground force) which is better equipped and trained. (Such a shift is now being publicly advocated in the Soviet Union by some military analysts.) It might also include such measures as cutting back on the deep underground program and reducing mobilization-base expenditures. The savings might be partly, or even wholly, applied to more advanced conventional weapons.

The final choice of cases to be examined will be based on discussion with experts in the Agency. The following ones are tentatively suggested:

1. Spending Levels:

- A Base Case of a sustained 2 percent annual growth over the next decade with no major changes in force structure or doctrine.
- Level Spending for several years followed by a Substantial Cut (10%) in the first half of the 1990s and beyond.
- A Major Cut (Chinese type--20%) over the next several years followed by a constant spending level.
- An Even Greater Cut?

2. Major Allocational Shifts and Strategic Rationales

The main parameters include possible changes in inputs (manpower, procurement, R&D, construction); force types (specialized nuclear, ground, naval, tactical air, airlift, C³I--including space) and regional deployments (among TVDs). Some possibilities are these:

- De-emphasis of Nuclear Forces. This would entail slowing the modernization rate of ICBMs and SLBMs, holding down R&D for

offense weapons and ABMs, perhaps slowing the modernization rate of SAMs and other air defenses. This shift would signal acceptance of the view that the nuclear buildup had extracted the principal gains to be gotten from the big nuclear buildup and that improved conventional forces were now relatively more important. This thrust might emerge in the context of a START agreement. It would amount to a major shift in Soviet military priorities.

- Trimming of the Blue-Water Navy. Cuts in the navy might be more in modernization than in forces, although in the deeper reduction cases both cuts would also occur. The rationale would be that while such a navy is nice to have it is too costly and less important than other branches.
- Scale-Back of Ground Forces. In different sub-cases, this would affect different combinations of modernization, readiness and force structure and perhaps Associated Tactical Air. Gorbachev's announced cuts fall mainly in this category. The rationale might be that the very large size of the ground force structure assumes that a future war would be on the scale and duration of the Great Patriotic War. Given advances in conventional weaponry, the existence of nuclear weapons, and a realistic geo-political assessment, such a war seems most unlikely. Better to cut back and transfer some of the resources to upgrading the quality of C³I, conventional munitions and better training of a smaller force.
- Substantial Reductions along the Chinese Border. (A subset of

the ground force reduction option.) This move might be associated with a Deng-Gorbachev meeting early in 1989. It might entail moving some units to low readiness category while eliminating others, mothballing some bases and cutting back proportionately on weapons procurement. The rationale would be that the danger of a war with China is low and the coercive value of these forces against China is now small.

- Cuts beyond those recently announced in Eastern Europe. This would have an even larger political effect in Western Europe.
- A general (but not universal) cut in R&D and procurement, spread widely across the services. The argument would be that these are needed to improve the basic economy and for consumer goods.
- A further cut in Military Manpower beyond the 500,000 announced by Gorbachev. Again, the motivation would be to boost non-military output.
- Under the heading of sectors that might experience Increased Spending are C³I (including space activities), modern conventional munitions, and advanced tactical aircraft. The rationale here is that the technical-military revolution in warfare centers on these sectors.

Carrying out this project requires constructing a series of roughly equal cost postures along several different spending profiles. This requires having available cost factors at the appropriate level of aggregation for each case. Doing this adequately will depend on cooperation with cost experts in SOVA and perhaps other parts of the Intelligence Community.

The products will consist of an interim report 4 months after funds are

available and a final report at the end of 9 months.

The proposed participants in this project are Henry S. Rowen of Stanford

University (project head) and

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