



28 FEB 1976

19 February 1976

DIRECTOR OF NET ASSESSMENT

MEMORANDUM FOR THE SECRETARY OF DEFENSE

SUBJECT: Evaluation of the 2nd Report of the CIA Military-Economic
Advisory Panel (MEAP)

The PROCTOR inter-agency group designed to improve estimates

The subject report (Tab **B**) was sent to you by the Deputy Director for Intelligence, and forwarded to me for evaluation. My comments are found at Tab **A**. Below are highlights of my comments and recommendations.

Summary Comments on the MEAP Report

- The MEAP cannot be relied upon to produce major improvement in the CIA analyses of Soviet defense expenditures, either the dollar or ruble estimates. For example it failed to surface or respond to existing criticisms of the CIA ruble estimates.
- Certain MEAP recommendations would divert limited CIA analytic resources from the important near term objective: improving the current CIA methods of estimating Soviet defense expenditures. In particular, Agency resources should not be diverted into:
 - input-output or econometric modeling of the Soviet economy.
 - surveys of past misuses of Agency analyses.
- Additional CIA resources should be devoted to the analysis of a broad range of Soviet military-economic issues as the report recommends.

Recommendations

- A group completely independent of the CIA should be established to examine and appraise the intelligence community's analyses of the Soviet economy, the burden of Soviet defense programs, and the size of the Soviet military effort in relation to that of the US. This is a variant of Arthur Laffer's proposal.
- The group should report its appraisal to the newly established intelligence management board chaired by the DCI and recommend to the board alternative methodologies for implementation at academic or contractor institutions independent of the CIA.

SECRETARY'S COPY



Don't mess with Tab B. Recommend you "Agree" with Andy, and that you sign the letter to DCI

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- DoD should support, financially and otherwise, the development of new approaches to estimating the size of this Soviet military effort independent of the CIA.

I will prepare for SecDef or DepSecDef signature a letter to the DCI. This letter would:

- emphasize the importance of current OSD-CIA projects to improve military-economic analyses of the Soviet Union, and urge the augmentation of these efforts in specific ways.
- propose the establishment of the independent group referenced above.

Andy
A. W. MARSHALL

Agree *DK* FEB 23 1976
Disagree _____

SecDef signature *DK* FEB 23 1976
DepSecDef signature _____





OFFICE OF THE SECRETARY OF DEFENSE
WASHINGTON, D.C. 20301

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DIRECTOR OF NET ASSESSMENT

MEMORANDUM FOR THE SECRETARY OF DEFENSE

SUBJECT: Evaluation of the 2nd Report of the CIA Military-Economic Advisory Panel

The CIA Military-Economic Advisory Panel (MEAP) is a group of external consultants set up about 3 years ago by the CIA to review and report to the Agency upon the CIA work which costs the Soviet military forces and programs. Although the Report is described as providing "some independent judgments" on the CIA analyses, the MEAP has exerted less vigor in their critical appraisal of the Agency efforts than I think necessary for significant improvement. During the period of MEAP review the Agency estimates of Soviet defense expenditures have been revealed as major underestimations. No criticisms to this effect are found in the MEAP reports. I do not feel much confidence that significant improvements in the Agency analyses will be induced by a group which has missed, or at best not emphasized, errors as large in magnitude as will soon be officially revealed, and as have been argued by a few for some years.

The present Report contains some recommendations with which I agree, and others which I believe would be essentially diversions from more productive efforts to improve our knowledge of Soviet military and economic issues. I will comment on the most significant MEAP recommendations below.

Recommendations regarding estimates of Soviet military R&D
in ruble and dollar terms.

The MEAP notes that these estimates are particularly weak, and recommends (p.6) that a "coordinated agency-wide intensification of research on the overall (military and civilian) organization and operation of Soviet science and technology" be undertaken to improve our knowledge in this area. I agree. This is a particularly important and uncertain area in our knowledge of Soviet activity, and it warrants much more attention. I do not agree, however, with the recommendation (p.5) that the CIA cease publishing ruble or dollar valuations of Soviet military R&D pending sharply improved estimates. The Agency--in contrast to the MEAP--evidently believes the existing estimates, though clearly acknowledged as particularly uncertain, are adequate to indicate the general trend in Soviet military R&D, and for comparison to the US counterpart. These



estimates are our only comprehensive indicator of comparative trends in the US and Soviet R&D investment in future military capability. Their existence, and the attention and criticism which they draw, are important stimuli for improvement which would be lost should the Agency cease to publish estimates in this area.

Recommendation to catalogue the efforts made to explain the theoretic issues and limitations and [to summarize] the record of the use and misuse of dollar estimates (p.7).

To follow this recommendation would waste CIA resources. Existing CIA dollar and ruble publications are explicit on the proper interpretation and use of the estimates. No matter how extensive the explanations, some will continue to misuse the estimates, inadvertently or otherwise.

Recommendation that CIA/OSR and DIA examine other approaches [than the present "direct costing" method of estimating Soviet defense spending], in particular the residual approach that may result from the use of such new methodologies as input-output and econometric modelling." (p.7.)

Alternative estimating methodologies should most certainly be developed and applied to both the burden and sizing issues. They are needed as checks upon the Agency estimates, as indicators of the range of uncertainty in the existing estimates, and as competitive stimuli to induce the Agency to continually improve its methodology. But these alternative approaches should be major high quality efforts in themselves, and initially carried out by organizations completely independent of the CIA. The Agency at present is severely constrained in the amount of skilled personnel available to improve its present methodology, and clearly has insufficient resources to adequately undertake a significantly different alternative approach. I agree with the MEAP (p.10) that the trend within the Agency of decreasing the resources devoted to the study of the Soviet economy should be reversed. Indeed, the quantity and quality of CIA analysts in the important area of Soviet military-economic affairs should be increased. But these additional resources would be most usefully applied to improving the present estimating process.

In particular I do not believe that Agency resources should be diverted into the input-output and econometric modelling areas referenced by the MEAP. I do not have confidence in the near-term utility of these efforts. To date these efforts, sponsored by ARPA, have not satisfactorily addressed the issues of most importance to DoD; that is, those focused upon the defense sector of the Soviet economy. Over the longer run the



ARPA projects are valuable in providing a stimulus and focal point for serious study of the Soviet economy and, hopefully, of Soviet military-economic issues. And these efforts would be enhanced by increased access to CIA data. But their near-term potential does not warrant diversion to them of scarce Agency resources.

As an alternative recommendation in these areas I suggest:

- some variant of the independent group suggested by Professor Laffer be established to examine the intelligence community's efforts to analyze the Soviet economy, the burden on it of Soviet defense programs, and the size of the Soviet military effort in relation to that of the US.
- the group be directed to report its appraisal of these analyses to the President's newly proposed intelligence oversight board, and to recommend to the board alternative methodologies which could be implemented at academic or contractor institutions independent of the CIA.
- the DoD stands ready to support, financially and otherwise, the alternative estimation analyses.



A. W. MARSHALL

