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THE SECRETARY OF DEFENSE
WASHINGTON, D.C. 20301

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Authority: EO 13526
Chief, Records & Declass Div, WBS
Date: NOV 23 2015

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DOCUMENT DATE:
29-Sep-2015

MEMORANDUM FOR THE PRESIDENT

It has become evident that we have won the debate on SALT II in the Senate hearings and with the media (and probably the public). But we have not yet won the Senate vote. There will be difficult bargaining, in the process of achieving a two-thirds vote of approval in the Senate, over the issue of defense programs and budgets. Sam Nunn speaks for a group without whose votes we probably can't get Senate approval of SALT. He clearly believes that the present five-year defense program is inadequate, and that the financial plan won't fund even the present five-year program. He will demand a commitment, whose exact nature he can't yet specify, to an annual growth in the defense budget of at least three percent (perhaps more) after actual inflation. At the same time, others such as George McGovern could well be brought to vote against SALT II by such a commitment. And whether the Congress would actually be willing to put money where some of its members' mouths are is questionable. John Stennis wants to support SALT II and is for a stronger defense program, but is more influenced than Nunn by fiscal conservatism; his views may provide a good vehicle for compromise.

My present thought is that one way to meet the Nunn position may be to revise the fiscal guidance for the Five Year Defense Plan (1981-5) to assure a genuine after-inflation annual budget growth rate of three percent. The Congress has those figures, and it is on the basis of the claimed growth rate and assumed inflation rates contained in it, along with the past effects of underestimated inflation rates, that Nunn has taken his position. Another (and they are not mutually exclusive) way would be to submit a FY 1980 supplemental. This could cover the amount of Congressional cuts (which I anticipate could well be 1B\$ or more -- the House Defense Appropriations Subcommittee will recommend a 2B\$ cut) and/or the unprogrammed increases in fuel costs (which will amount to 0.9B\$ for FY 1980).

In this situation, I believe it would be useful for you to consider the findings of a DOD examination of the military balance, specifically the military investment balance. I

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described these findings at the June 4 NSC meeting which updated the Comprehensive Net Assessment made in PRM-10 and reflected in PD-18. I have had the principal conclusions of that DOD study boiled down to a few pages; they are attached.

My judgment is that those conclusions are essentially correct. In some ways they may be too pessimistic. In particular, I think that if we exert the efforts necessary to put some of our advanced technological concepts into operational hardware, we can make the trend of the balance somewhat less adverse -- but I also believe the Soviets are likely in the next five years to confront us with some technological surprises of their own. In any event, I believe the highly probable dangers of the prospective military balance fully justify an annual growth in the defense program, after inflation, of at least three percent annually through 1985. Moreover, I believe that the Congress as a whole would support that growth if such a program is put forward vigorously by the Administration. I recognize the major problem posed by House Republicans voting in the Budget Resolution process to increase defense, and then voting against the Resolution. But I do not believe that a defense budget set at the level of the median view of the Democratic Party will satisfy either the defense needs of the country or the demands of the electorate. Your leadership can, in my view, produce Congressional support for the necessary program. We should be reticent in responding with compromise to what Sam Nunn (and Kissinger) are saying about the defense program. That should be saved for the end game. But I believe that program and process can be elaborated during the next month or two, and that they will need to be reflected in some joint Presidential-Congressional statements and actions before Congress adjourns this year, if SALT II is to be ratified.

Harold Brown

Attachment

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THE MILITARY INVESTMENT BALANCE

We have recently assessed the US-USSR Military Investment Balance. Some military expenditures contribute only to current capability, others -- in varying degrees -- to future as well as present military capability, and ought to be considered as investments. The assessment concentrated on future-oriented activities such as RDT&E, procurement of long-lived weapon systems, and the construction of military facilities. It examined those current investment flows, and the accumulated stock of past investments, which contribute to future military capability. The assessment, thus, is an indicator of the future military balance.

The main message of this balance is that continuing current trends in and differences between US and Soviet military efforts for 5-10 years will place the US in a clearly inferior military position. Focusing on investment makes this clearer, providing a picture less favorable to the US than does comparing overall efforts.

The assessment is based on CIA-produced dollar estimates of Soviet military programs. Those show that:

- Soviet military efforts measured in dollars have exceeded ours by a steadily widening margin since 1969 and are now almost 45% greater.
- The Soviets have out-invested us for 10 years and, for the last few years, their investment effort has been about 75% larger than ours.
- Projecting current Soviet trends and US plans into the future shows only a slow reduction in the gap in the rate of investment, and even that reduction is uncertain.

The Soviet advantage is growing even more rapidly than is revealed by the respective rates of current investment flow, since:

- Soviet investment stock value is now about 25% more than ours.
- That differential is expected to increase to 40-60% by the mid 80's, depending on assumptions about the depreciation profile.
- The stream of Soviet investment dividends can be expected to exceed those of the US for many years.

The analysis also examined several possible, but not very convincing, arguments as to why these investment trends need not be cause for concern.

- Adding allies' defense efforts to both sides changes the comparison, but much less in the investment area than when

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total defense efforts are compared. In either case we think there is more unproductive duplication among NATO than among Warsaw Pact programs, which are centrally directed.

-- US technological leads are being eroded by massive, broad-based continuing Soviet R&D programs, increasingly in high-risk, high-cost, potentially high-payoff areas. However, as I have indicated earlier, we ourselves have two or three efforts underway that I consider of major potential effect.

-- The fundamentally stronger underlying US economy is offset somewhat by Soviet design and manufacturing processes which facilitate military surge production. Further, the relevance of industrial mobilization is questionable in many cases.

Trying to assess the balance from the Soviet perspective suggests they probably measure their efforts against those of the US, the NATO Allies, and at least Japan and China. Therefore they may:

-- Believe they face total defense efforts greater than their own.

-- And see reasons to sustain or even increase the rate of growth in their defense efforts in the recent reversal of the downward trend in the US defense efforts, the NATO commitment to real defense growth and the US-PRC rapprochement.

The assessment also notes our uncertainty about how Soviet defense efforts will be constrained by demographic, energy and economic problems. This is a possible future bright spot for the US and is a critical area for further study.

However, Soviet gains in the military balance are likely to be even greater in the future because:

-- Soviet investment flows have continued to grow while ours, in general, are lower than in the 50's and 60's.

-- The fruits of the Soviet differential in military investments have yet to be realized due to the long lead times between large investments in R&D and visible, deployed weapons.

Finally, the assessment addresses the consequences if current trends persist. The following three scenarios outline some possibilities:

-- Continuation of current US and Soviet military trends into the mid-eighties, followed by slackening in the Soviet military buildup because of economic, demographic and other problems.

-- Continuation of current trends throughout the 80's to a situation of clear US military inferiority with respect to the Soviets. This is unlikely to be a stable situation, however.

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-- A major confrontation a few years hence triggered by the Soviets aggressively pushing their advantage somewhere. Depending on the nature and severity of the crisis and the political reaction in the US to the crisis or to consequent US losses, a major increase in US defense expenditures and a more competitive US-Soviet relationship may result. (In the past four decades, 40-200% increases have occurred three times -- each following a crisis involving combat.)

The assessment concludes that the consequences of any of these scenarios are enormous. They will likely impact directly on our ability to defend our interests and our allies. Also, since the US has been the core around which western alliances have formed, allied perceptions of US inferiority are likely to lead to severe stresses -- at the very least -- in these alliances. They could break, others could be formed, and there could be hedging and increased compliance with Soviet desires on the part of former allies. The US has had such a central role in organizing the western world that repercussions would likely be felt throughout the world.

*U.S. officials
wringing
of
hands
doesn't
help.*

I found this assessment, focused on expenditures and investment, to be particularly useful. The adverse overall trends indicated are generally confirmed by the changes we see in more detailed assessments of various military balances:

- We see deterioration in the strategic nuclear balance by all the common indicators, static and dynamic which will very probably continue until we deploy the ALCM and, later, the MX.
- NATO's ASW forces have probably improved relative to the Soviet submarine force, and the Central Region ground force balance has been roughly static, but the balance has deteriorated in theater nuclear forces, tactical air forces, and forces on the flanks (particularly the Southern Flank).
- (The perceived balances in the Persian Gulf and Korea have also deteriorated, but these have resulted from revolution in one case and new intelligence in the other rather than from differences in US and Soviet military investments.)

In the context of policy, all this implies that we have not and will not maintain an overall balance of military power between the United States and its allies on the one hand and the Soviet Union and its allies on the other at least as favorable as that existing in early 1977, the central requirement laid down in PD-18.

We have yet to achieve a 3% annual real growth in defense spending. The FY75-79 average is less than 0.3%. No year reached even 2%. If we continue that trend because of insufficient provision for inflation, competing demands for national resources, or any other cause, the military balance will become perilous over the next five years.

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On the other hand if we and our NATO allies achieve a 3% real growth rate, the military balance likely will roughly stabilize after a few years. Even then it would still not meet the PD-18 criteria.

-- We would have essential equivalence in strategic nuclear forces, but the general purpose forces situation would be far less satisfactory, in (small) part because of the diversion of resources to the higher priority strategic force investments.

-- The conventional force balance would give us only a questionable ability to stop a Warsaw Pact attack and practically no confidence in our ability to restore prewar boundaries.

-- Our ability to cope with some plausible crises involving local and Soviet forces in the Middle East, Persian Gulf or Korea would still be severely limited, depending both on generous warning times and on freedom from crises elsewhere, particularly in Europe.

To redress the balance and meet the criteria of PD-18 by 1990 will require an average annual real growth in the US defense program well in excess of the 3% we have discussed; it would also require increased allied efforts.

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