

MEMORANDUM

## NATIONAL SECURITY COUNCIL

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December 13, 1974

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MEMORANDUM FOR: SECRETARY KISSINGER

FROM: JAN M. LODAL <sup>WAL</sup>

SUBJECT: FY 76 Defense Budget Review

You are scheduled to join Secretary Schlesinger and OMB Director Ash in their meeting with the President Saturday morning, December 14, to determine the FY 76 defense budget level. The meeting will encompass all aspects of the defense budget except military assistance, which is being addressed in a separate forum.

This memo describes the alternative budget levels to be discussed, outlines the detailed budget issues which underlie the basic alternatives, and summarizes other issues which you may wish to bring up or which Ash may put on the table.

FY 76 Defense Budget Alternatives

The fundamental decision to be made at the meeting is the level of the FY 76 defense budget in terms of budget authority and outlays. I have attached at Tab A an OMB fact sheet which describes the overall budget situation in detail. In brief, the alternatives are as follows:

-- DOD's request: \$106 billion in budget authority and \$95 billion in outlays. The budget authority request is \$18 billion, or 20%, above that approved by Congress for FY 75. This would be the first time Defense's budget authority exceeds \$100 billion. The 20% increase would be the largest increase since the Vietnam war. With respect to outlays, OMB says they would cover the full cost of inflation plus \$2 billion in real program growth. DOD disagrees, saying the outlays would just cover inflation and permit no real growth.

-- Limited real program growth: \$104 billion in budget authority and \$94 billion in outlays. The budget authority would be 17% above

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that for FY 75. OMB believes the outlays would cover the full costs of inflation plus \$1 billion in real program growth, although Defense believes this level would result in a reduction in capabilities. Ash probably will be willing to go along with a budget this large, although he certainly would not object to a smaller budget.

-- Constant program level: \$102 billion in budget authority and \$93 billion in outlays. Budget authority would be 15% above that for FY 75. OMB says the outlays would cover the costs of inflation and permit continuation of the current real program. DOD disagrees, again saying this would result in reduced capabilities.

-- Fiscal constraint level: \$100 billion in budget authority and \$92 billion in outlays. Budget authority would be 13% higher than for FY 75. Both DOD and OMB agree this would force a reduction in defense capabilities, and neither DOD nor OMB recommend this alternative.

There is a real possibility that a budget authority figure of \$100 billion may become a "magic number" and the focus of a Congressional effort to "hold the line" below this figure. (This would still reflect an increase of about \$12B over last year's budget.) Defense feels that its "hard requirements" exceed this threshold and justify a \$106B request. This request may make Congress more reticent to enforce a \$100B ceiling, since it would require a Congressional cut of over \$6B (last year it was less than \$5B). If Congress does make such a cut, however, it would result in a rather radical restructuring of the Defense budget along Congressionally directed lines.

The \$106B figure includes initial funds for several major procurement items which will swell the defense procurement program to \$32B in FY 77 from \$17M in FY 75. The current defense program as reflected in the \$106B figure virtually insures steep increases in Defense budget requests for the next few years. Great resistance can be expected in Congress. The increases may be justified, but I have seen little to suggest that Defense has thought through the problem. (For example, while its shipbuilding program is expanding rapidly, Defense has been unable to do the sorting out of Navy roles and missions required by NSSM 177. We are still waiting for a response.)

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Detailed Issues Underlying the Alternatives

There are a number of detailed areas where OMB believes reductions can be made to achieve a lower budget level than that recommended by DOD. Ash and his people believe the President will want to go over the specifics. Therefore I have summarized these items below. For each item, I give a tab reference which includes an OMB fact sheet on that particular issue. Also, where we have a recommendation, I have included it.

Pay and Benefits

An overview of the pay and benefits category is at Tab B. In general, I believe we should make reductions in this area. The military pay and benefit system is a nightmare and the whole structure should be reformed. The OMB initiatives in this area would be a good start. The specific issues are as follows:

-- Commissaries (Tab C). Workers in the commissaries are currently paid out of appropriated funds. This item would end this practice and pass the costs (\$190M) directly to the commissary patrons. I recommend approval.

-- Reenlistment leave payments (Tab D). Under current practice enlisted personnel can sell back unused leave to the government each time they reenlist. This item would seek legislation to put enlisted personnel on the same basis as officers and limit their right to sell back leave time to a career total of 60 days. Savings of \$36M. I recommend approval.

-- Junior enlisted travel entitlements (Tab E). Retain the current policy of providing travel and transportation allowances for dependents only to enlisted careerists, rather than extending the privilege to all other junior enlisted personnel. Savings of \$60M. I recommend approval.

-- Reenlistment bonuses (Tab F). Pay reenlistment bonuses in annual installments rather than the current practice of lump sum. Savings of \$120M. I recommend approval.

-- Government pay raise (Tab G). Plan for a maximum increase of 6% in federal pay, and appoint a Presidential commission to review pay practices. I do not recommend the ceiling on the pay increase, but I believe the study commission is a sound idea.

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Manpower Levels

Personnel costs have risen dramatically in recent years; therefore, the manpower level is of prime importance in budget determinations. An overview of manpower level issues is at Tab H. The specific issues are as follows:

-- Pacific manpower (Tab I). Reduce support manpower in the Pacific, and accelerate withdrawals from Thailand. I recommend approval of the support reductions (savings of \$80M), but disapproval of the accelerated Thailand withdrawals.

-- Civilian employment (Tab J). Reduce defense civilian employment by up to 3% in recognition of anticipated productivity improvements. Savings of up to \$190M are expected. I recommend approval.

-- Officer graduate education (Tab K). Reduce the number of military officers receiving full-time free graduate education by 15% for savings of \$12M. The savings here are so small that this action may not be justified.

-- Military personnel (Tab L). Reduce military end strength by 20,000 transient spaces for savings of \$60M. I recommend disapproval because of its adverse impact on defense capabilities, particularly readiness.

Force Modernization

Over the past few years, the funding level for R&D and procurement of new defense equipment has been relatively constant at about \$26 billion in budget authority. However, for FY 76 DOD is requesting a \$10 billion increase to a level of about \$36 billion. An overview of the force modernization situation is at Tab M. The specific issues are as follows:

-- Shipbuilding (Tab N). There are three possible actions. (1) Schlesinger plans to fall off the principle of full funding, which requires that ship procurement be initiated only when funds are available to cover the total estimated cost of a program. This will permit him to go ahead with the FY 75 shipbuilding program despite the fact that it is underfunded by \$900M in FY 75. This will cause great problems with Congress; Defense should adhere to the full funding concept. (2) The level of shipbuilding can be reduced,

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reflecting the realities of shipyard capacity problems. Recommend approval. (3) OMB favors the use of non-nuclear power rather than nuclear power for the new Nuclear Strike Cruiser (CSGN). I recommend approval.

-- Procurement level (Tab O). Reduce the level of procurement in such areas as aircraft modifications, tactical aircraft, tactical missiles, and the Trident missiles. Although a moderate cutback in the procurement level is acceptable, I recommend that you not approve slowing down Trident missile procurement. Early backfit of the long range Trident missiles into Poseidon submarines is a critically important hedge against the possible loss of overseas base rights and improvements in Soviet ASW capability.

-- R&D level (Tab P). Reduce the level of R&D. I recommend disapproval. A strong R&D program is particularly important in a SALT environment.

-- B-1 bomber (Tab Q). Defer providing long-lead funds which permit production of the B-1 starting in FY 77. I recommend disapproval because of SALT implications.

#### Administrative Actions

There are a number of administrative actions which could be taken to reduce spending. These are identified at Tab R. I recommend you go along with those actions which do not impact force readiness (e. g., travel and real property maintenance), but that you object to those which have a direct impact on defense capabilities (e. g., stock levels).

#### Force Structure

Over the past several years we have had a relatively stable force structure. However, a few changes are planned, and it is these changes which constitute possible issues for consideration. An overview is at Tab S. The specific items are as follows:

-- Army 16 division force (Tab T). Retain the Army's original plan for achieving a 16 division force in FY 78, rather than in FY 76 at an added cost of \$70M as now proposed. I recommend that the FY 78 goal be retained.

-- Navy carrier force (Tab U). Advance from FY 77 to FY 76 the Navy plan for reducing its aircraft carrier force from 13 to 12. Saving \$50M. I recommend that this accelerated reduction not be approved.

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-- Reserve forces (Tab V). Reduce the Selected Reserve force by 60,000, saving \$70M. I believe some reduction in marginal headquarters and support areas would not affect defense readiness.

Navy Petroleum Reserve

A detailed description of the Navy petroleum reserve issue is at Tab W. In brief, the question is how to "top-off" DOD tanks to guard against the efforts of an oil embargo: to purchase the oil with appropriated funds, or to increase Elk Hills production. Direct purchase increases spending by \$270 M, but is less likely to cause problems with the Congress which has repeatedly denied requests to increase Elk Hills output in the past.

Intelligence Programs

OMB may recommend cuts in certain intelligence programs. Dick Ober is working this matter for you in separate channels.

Other Issues

Although they are not on the agenda for the meeting Saturday, there are two other issues which could be discussed. One of these concerns the air launched cruise missile, which you may want to bring up; the other concerns the Selective Service System, which Ash may bring up.

Air Launched Cruise Missile

DOD and OMB have agreed to drop the Air Force's air launched cruise missile program, although they will retain the Navy's submarine launched cruise missile which will be adaptable to an air launched mode. This raises the question of whether the air launched missile, if developed as a Navy variant, will be given the emphasis it deserves. We will be tying what could be a real need for bomber penetration -- the air launched cruise missile -- to what is basically a bargaining chip -- the submarine launched cruise missile. Therefore, if we give up the bargaining chip, we could also be giving up a critical defense capability.

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Selective Service System

Although the Selective Service System budget is separate from Defense's budget, Ash may ask to address the FY 76 level for the Selective Service System at the meeting Saturday. I have attached an OMB fact sheet and some other related correspondence at Tab X.

If the Selective Service issue comes up, I recommend you state that you favor experimenting with new procedures which could eventually reduce Selective Service System costs, but that no changes should be made in the basic structure of the Selective Service System until these procedures have been developed, tested and proved. We know the current structure works; to change it before a substitute mechanism is proved would constitute an unwarranted risk to our mobilization capability.