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12/27/74

THE WHITE HOUSE

WASHINGTON

December 21, 1974

MEMORANDUM FOR: THE PRESIDENT

FROM: ROY L. ASH *for Jim Gilmer*

SUBJECT: FY 1976 DEFENSE BUDGET

As a result of your tentative decisions on December 14th, the Defense budget was reduced from \$95 billion to \$93.9 billion. During this past week Secretary Schlesinger approved additions of \$1.1 billion above the tentatively approved level. OMB concurs in \$.3 billion of these reclaims and now recommends a total Defense budget level of \$94.2 billion for FY 1976. The remaining \$.8 billion consists of the following issues:

(\$ Millions)

	<u>Outlays</u>
Bulk Petroleum Inventory Buildup	250 <i>NO</i>
Consumable Supplies Reorder Leadtime	142 <i>NO</i>
Civilian Manpower Level	15 <i>ajls</i>
Pacific Manpower	67 <i>ajls</i>
DIA Building	9 <i>ajls</i>
Operating Costs	300 <i>NO</i>
AWACS	53 <i>ajls</i>
F-111	<u>8</u> <i>NO</i>
Total reductions	844

Issues

I. Bulk Petroleum Inventory Buildup. Defense has proposed a two-step plan to increase petroleum inventories: (1) \$270 million to fill all existing Defense storage tanks to capacity, and (2) \$250 million to purchase an additional 15 million barrels of fuel which would require

leased commercial storage. The first step of filling all existing tanks seems a prudent course of action. The proposal to expand beyond existing capacity to meet a prolonged crisis is a judgmental course of action, lacking any analytic framework defining possible requirements or considering alternate sources in the event of an extended crisis. Annual leasing costs of \$45 million are required for this additional 15 million barrel inventory.

DECISION

Approve \$250 million additional inventory buildup (DOD)

Disapprove \$250 million additional inventory buildup (OMB)

MR7

II. Consumable Supplies Reorder Leadtime. As contractor backlogs decrease and delivery periods are accelerated, the amount of leadtime required for each order of consumable supplies is reduced. A 5 percent reduction in the average 9 month leadtime would result in savings of \$142 million, with no loss in protective inventory levels. The Defense Department does not dispute the fact that production leadtimes are likely to be reduced. However, they prefer to reflect these after the fact rather than to anticipate any potential savings. You agreed, on December 14th, that this adjustment should be made.

DECISION

No change in current policy (DOD)

Reaffirm your tentative decision to reduce leadtime by 5 percent (OMB)

MR7

III. Civilian Manpower Level. From a level of 995 thousand in 1975, the Defense request would be reduced to 985 thousand in 1976. You agreed on December 14th that a civilian manpower productivity cut should be made. The Secretary of Defense and I agreed subsequently to a level of 983 thousand reflecting anticipated productivity improvements. The higher Defense level reflects specific budget decisions with no assumed further productivity improvement.

DECISION

Approve civilian strength of 985,000 (DOD)

Approve civilian strength of 983,000 (OMB)

MR7

I am convinced by Sec. 5's + your agreement for 983,000 + now the request.

IV. Pacific Manpower. You agreed at the December 14th meeting that manpower reductions should be taken at our Pacific bases. NSC, OSD and OMB staffs all agree that sizeable reductions in support manpower can be achieved without adversely affecting visible presence or force readiness. The unresolved issue involves the extent of these adjustments in 1976. OMB recommends reductions of 6,000 military and 7,000 civilians, mostly foreign nationals, throughout the Pacific area. Defense staff concurs with the bulk of these but disagrees with the phasedown at Air Force installations on Japan, Okinawa and the Philippines. Force levels proposed for Thailand by Secretary Kissinger are not affected by this decision.

DECISION

Reduce 4,000 military and 5,000 civilians
by June 1976 (DOD)

WR7.

Reduce 6,000 military and 7,000 civilians
by June 1976 (OMB)

V. DIA Building. OMB and Defense have jointly reviewed the alternatives for consolidation of DIA's intelligence activities. DOD favors construction of a new building at a cost of \$86 million at its Bolling tract to be available in 1980. Congress has indicated intent to support this construction, and this new facility would be designed to provide for maximum efficiency and security. OMB favors consolidation in one of a number of alternative DOD-controlled facilities which could be modified for DIA use. Modification costs and the provision of other facilities for the DOD activities now located in these buildings would approximate the cost of the new DIA building, though the budgetary impact would be deferred until FY 1977 and FY 1978. DIA could be consolidated one-to-two years earlier under this alternative. In addition, the political problems of constructing a new and highly visible intelligence building located on the controversial Bolling tract are an issue.

DECISION

Approve new construction (DOD)

WR7.

Approve consolidation in existing facilities (OMB)

VI. Operating Costs. Final appeals from the military departments have prompted Secretary Schlesinger to restore about \$600 million in outlays to their budget request which you reviewed and tentatively approved. This is double the normal amount of funds restored through the reclama process to the services in recent years. These funds are for such things as support services, training and maintenance. OMB supports restoration of \$300 million to provide the services sufficient flexibility to meet priority needs.

DECISION

Approve restoration of \$600 million (DOD)

Approve restoration of \$300 million (OMB)

NR 7

VII. AWACS. This is an Air Force version of the Boeing 707 to be used for airborne warning and control in Europe. Because Defense has recognized that the current version of AWACS is not suitably designed for NATO deployment, AWACS procurement was deleted by Defense during the 1976 budget review. However, Defense now requests \$491 million in TOA to buy 6 AWACS aircraft in 1976 to continue the production line started in 1975. Improvements will be incorporated at a later date. OMB recommends against continued AWACS production in 1976 since retrofit programs are likely to be more costly than interrupting the production line. In addition, proceeding with AWACS production before improvement programs are completed has already been challenged by Congress and is certain to meet continued congressional opposition.

DECISION

Approve 6 AWACS aircraft in 1976 (DOD)

No AWACS production in 1976 (OMB)

NR 9

VIII. F-111. The Defense request provides \$77.1 million in TOA and \$8 million in outlays to procure spare parts and ground support equipment for the F-111 aircraft included in the 1975 program. You have proposed rescission of the funds for these aircraft in FY 1975. Any additional funding for these aircraft in 1976 would be inconsistent with your 1975 action, and should be disapproved.

DECISION

Approve additional F-111 funding (DOD)

Disapprove additional F-111 funding (OMB)

NR 9

IX. B-1. Secretary Schlesinger has recently received political advice strongly suggesting that Congress will reject a request for B-1 production leadtime money in FY 1976. Based on this advice he has now decided to delete all production money for FY 1976, while continuing the R&D and flight test portions of the program. You may wish to provide additional guidance on this issue.

*I tend to favor
long leadtime for B-1.
MM*

The final level of the Defense budget will be determined by your decision on each of the above issues.

THE WHITE HOUSE
WASHINGTON

December 27, 1974

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR: ROY L. ASH
FROM: JERRY H. JONES 
SUBJECT: FY 1976 Defense Budget

Your memorandum to the President of December 21 on the above subject has been reviewed and the following was approved:

- I. Bulk Petroleum Inventory Buildup.
Disapprove \$250 million additional inventory buildup (OMB)
- II. Consumable Supplies Reorder Leadtime.
Reaffirm your tentative decision to reduce leadtime by 5 percent (OMB)
- III. Civilian Manpower Level.
Approve civilian strength of 985,000 (DOD)
The following notation was made on this:
-- I am confused by Sec. S's and your agreement for 983,000 and now the request.
- IV. Pacific Manpower.
Reduce 4,000 military and 5,000 civilians by June 1976 (DOD)
- V. DIA Building.
Approve new construction (DOD)
- VI. Operating Costs.
Approve restoration of \$300 million (OMB)
- VII. AWACS.
Approve 6 AWACS aircraft in 1976 (DOD)

VIII. F-111.

Disapprove additional F-111 funding (OMB)

IX. B-1.

The following notation was made on this:

-- I tend to favor long leadtime for B-1.

Please follow-up with the appropriate action.

Thank you.

cc: Don Rumsfeld