The original documents are located in Box 11, folder "Defense - Budget: FY 1977 (1)" of the John Marsh Files at the Gerald R. Ford Presidential Library.

FY 77 U.S. DEFENSE BUDGET PERSPECTIVES

DONALD RUMSFELD
SECRETARY OF DEFENSE

8 MARCH 1976

INTRODUCTION

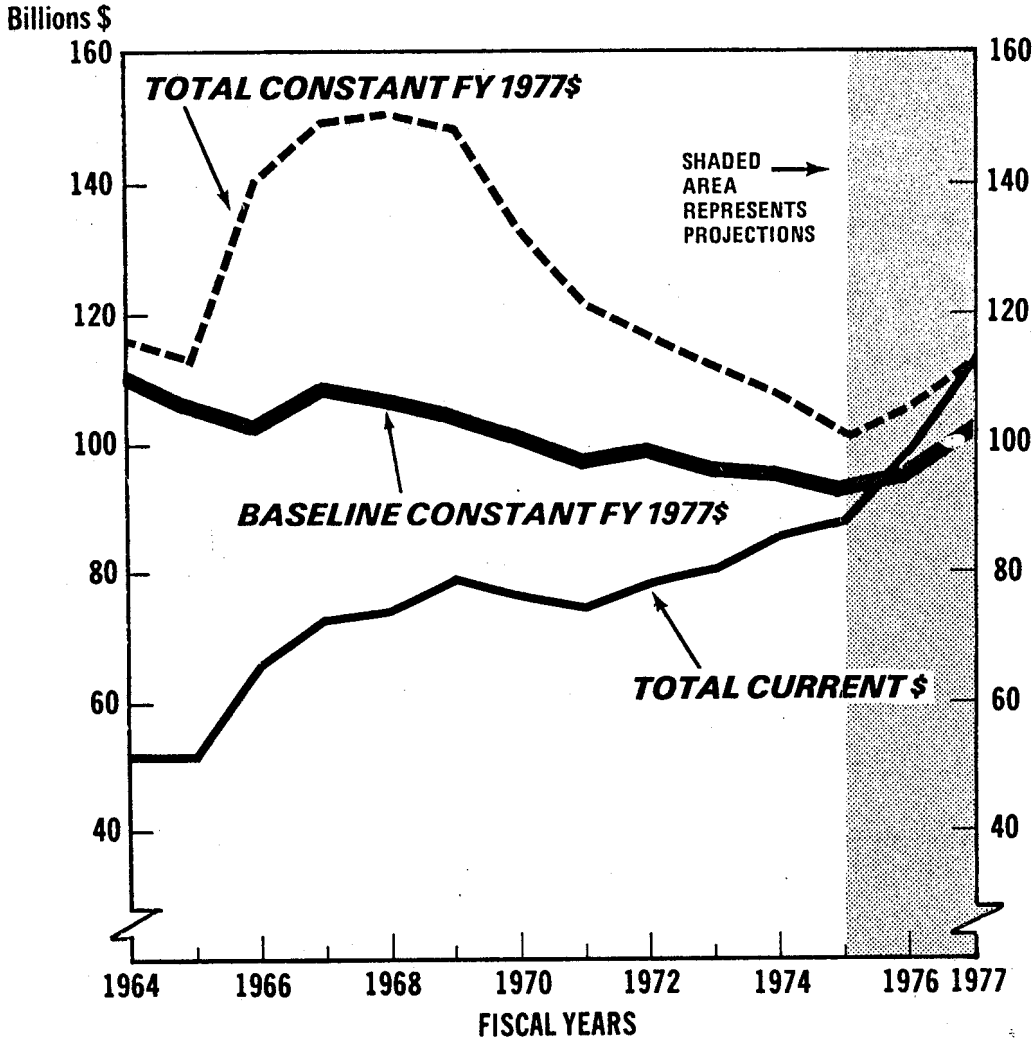
By May 15, 1976, the Congress will have made two of the most important decisions it will make this year ... the level of total federal spending, and the portion of that total which will be provided for our national security.

There is consensus that U.S. military capability and strength can today be described as "sufficient" ... that is, we have "rough equivalence" to the Soviet Union, which is what U.S. policy demands.

However, the trends of the past 5-10 years are adverse with respect to the military balances. No one chart or statistic can provide the complete picture -- but a sweeping look at resources, procurement and R&D efforts, equipment construction rates, force level changes, and shifts in relative capability can make clear what has taken place. A collection of such graphics is presented here, with appropriate explanations and caveats.

The facts drive one to the clear conclusion that the U.S. must act now to arrest these adverse trends, by providing real increases for national security, unless the U.S. is willing to alter our policy of maintaining "rough equivalence." It is my conviction that the American people are not willing to accept a policy of inferiority.

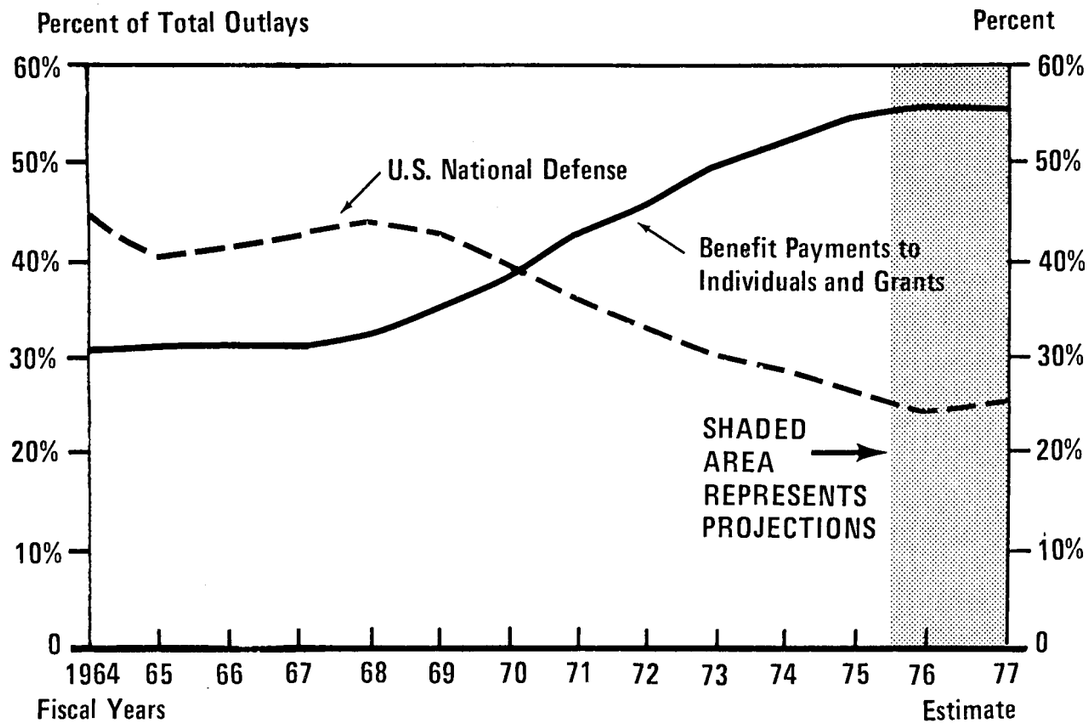
U.S. DEFENSE BUDGET TRENDS (TOA)



U.S. Defense Budget Trends

The U.S. Defense budget has decreased in real terms by more than one-third from the 1968 wartime peak. Today, in real terms (corrected for inflation), it is 14% below the levels of the prewar, early 1960's.

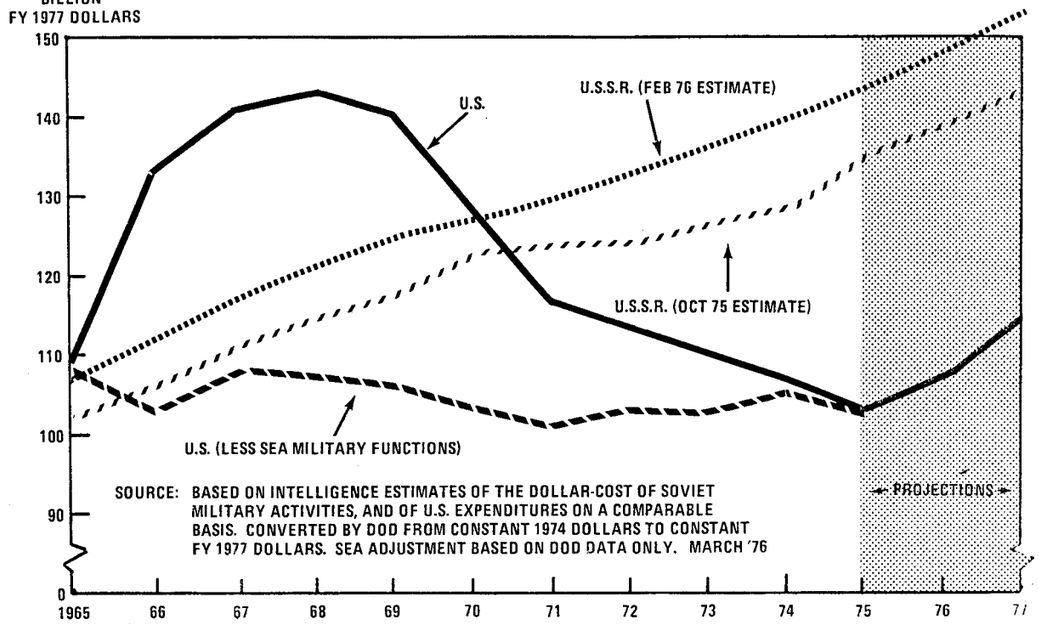
Trends are shown here in terms of Total Obligational Authority (TOA). The broken line shows total TOA (in constant FY 77 dollars); the thick line labeled "baseline" shows the trend of resources devoted to military capability (SEAsia war costs, retired pay, and foreign military sales have been excluded); and the lower curve shows the progression of Defense budgets as they appeared in current dollars.



Shares of the U.S. Budget

U.S. defense spending today is about 25% of the total Federal Budget -- the lowest share since FY 1940, shortly before Pearl Harbor -- having dropped from 43% in prewar 1964.

As shown, benefit payments to individuals and grants have increased from a 30% share of the Federal Budget to more than 55% during the same period.



Soviet Program Defense Trends

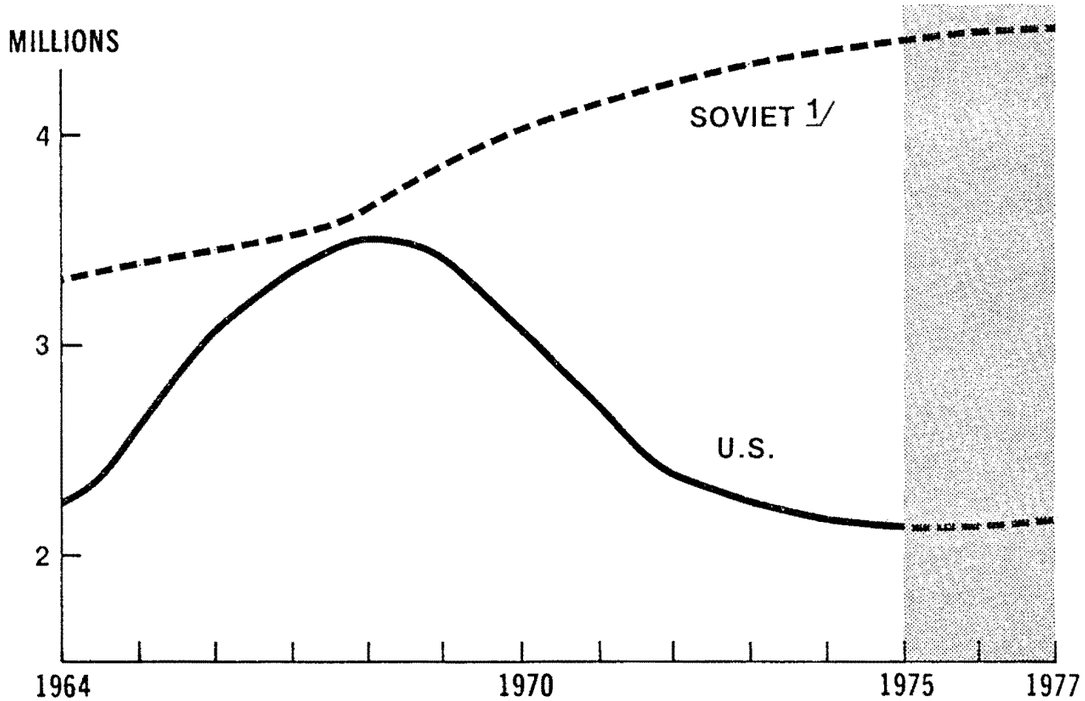
While these reductions have been going on in the U.S., the Soviet Union has been moving steadily in the other direction.

The intelligence community has worked at the complex task of estimating the magnitude of Soviet effort; two of the most recent estimates are shown on the chart above. There remains some disagreement among analysts as to the absolute value of military efforts in their controlled economy. However, the February 1976 estimate shows that the constant 1977 dollar value of the resources allocated to Soviet national defense appears to have grown from 107 billion in 1965 to 144 billion in 1975, an average annual increase of at least 3%.

The chart compares an estimate of Soviet program costs with comparable costs of U.S. defense programs.

The evidence we have of the weight of effort and the momentum in Soviet military programs is fully consistent with these estimates.

U.S./U.S.S.R. MILITARY MANPOWER



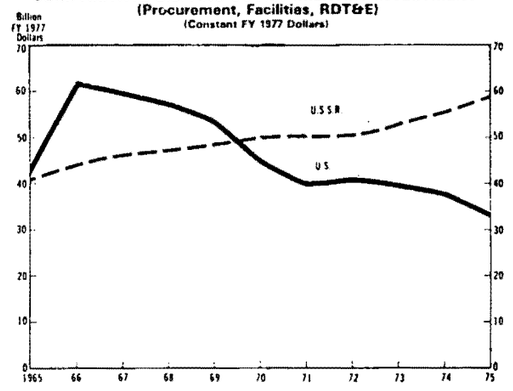
1 EXCLUDES MILITARY SECURITY FORCES.

Comparative Military Manpower - U.S./USSR

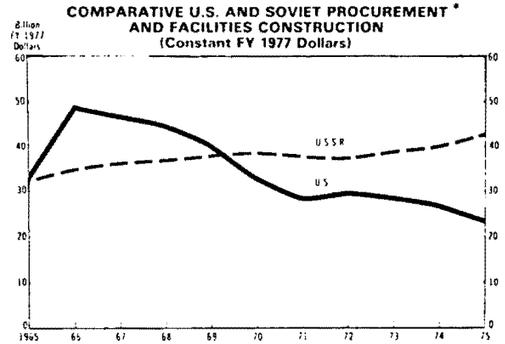
The Soviets have increased the number of men under arms (not including some 400,000 military security force members) from 3.4 to 4.4 million since 1964.

During the same period, U.S. uniformed military strength increased from a prewar 1964 level of 2.7 million to a peak of 3.5 million during the war in Southeast Asia, then declined to 2.1 million today. There are fewer Americans in uniform today than at any time since the fall of 1950.

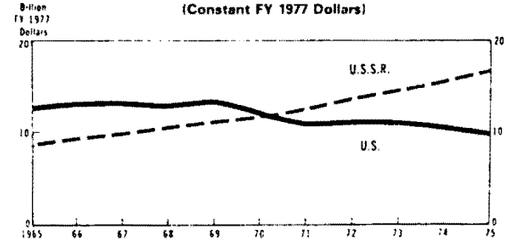
COMPARATIVE U.S. AND SOVIET MILITARY INVESTMENT*
(Procurement, Facilities, RDT&E)
(Constant FY 1977 Dollars)



COMPARATIVE U.S. AND SOVIET PROCUREMENT* AND FACILITIES CONSTRUCTION
(Constant FY 1977 Dollars)



COMPARATIVE U.S. AND SOVIET MILITARY RDT&E*
(Constant FY 1977 Dollars)



*BASED ON INTELLIGENCE ESTIMATES IN 1974 DOLLARS CONVERTED TO FY 1977 DOLLARS BY DOD

U.S./USSR Comparative Investment
in
Procurement, Facilities, RDT&E

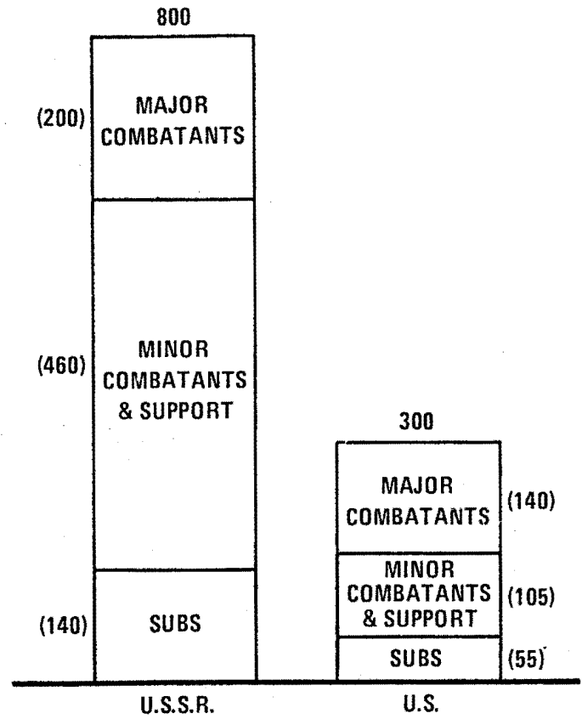
Over the past 10-12 years, Soviet investment, in real terms, in development and procurement of new systems and facilities for production has clearly exceeded that of the U.S.

The top chart displays aggregated data; the chart in the lower left-hand corner separates procurement and construction trends from RDT&E. Military research and development is shown in the lower right-hand corner.

The Soviets have developed an industrial base which has quantitatively outproduced the U.S. in most categories of military hardware. The weight of the Soviet effort and the momentum developed are of serious concern.

U.S.S.R./U.S.
NAVAL SHIP CONSTRUCTION

1965-1975



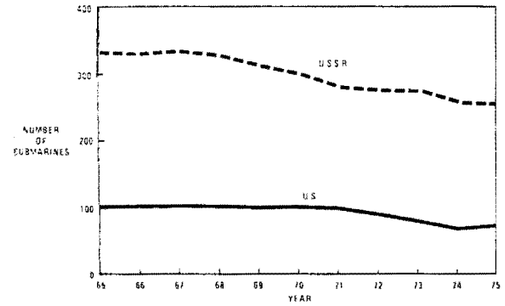
Comparative Naval Ship Construction - U.S./USSR

Since 1962, when the Soviets began expanding their maritime power in earnest, they have built more than four times as many ships for their Navy as has the U.S.

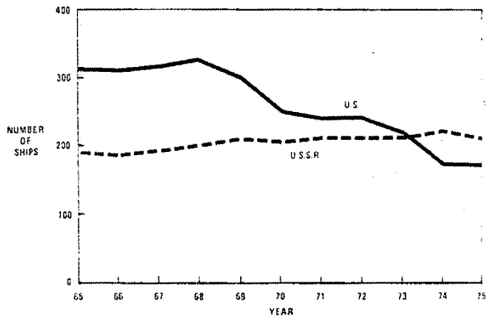
The two columns on this chart compare quantitatively USSR and U.S. shipbuilding programs -- major combatants, minor combatants (1,000 tons or less) and underway replenishment ships, and submarines -- for the 1965-1975 period.

CHANGES IN NAVAL FORCE LEVELS -- U.S./U.S.S.R.
(1965 - 1975)

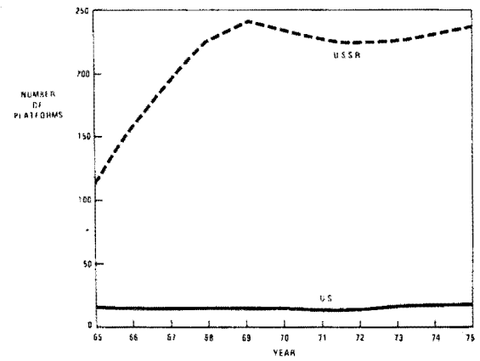
ATTACK SUBMARINES



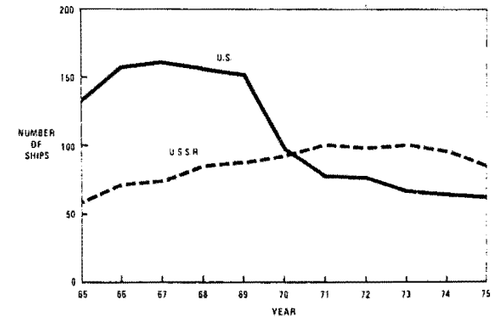
MAJOR SURFACE COMBATANTS



STANDOFF WEAPON DELIVERY PLATFORMS



AMPHIBIOUS SHIPS



Changes in Naval Force Levels - U.S./USSR

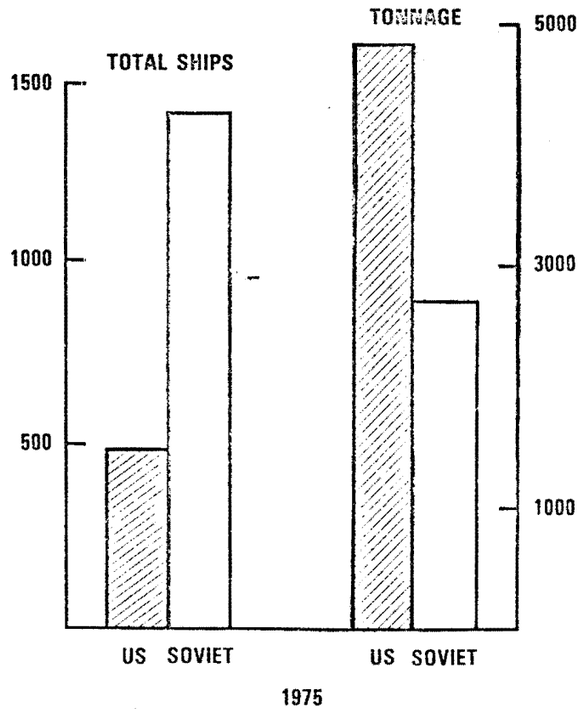
The Soviet Force has become smaller with the retirement of large numbers of diesel submarines. However, the Soviets retain a 2.5-to-1 advantage in attack submarines.

The Soviets have 20% greater numbers of major surface combatants -- aircraft carriers, cruisers, destroyers, and frigates -- although the U.S. has an unquestioned lead in sea-based aviation.

There is a marked asymmetry in the way the two Navies have dispersed offensive, standoff weapons capability ... the U.S. standoff, offensive strength lies almost entirely in 13 aircraft carriers, where the Soviets have some 240 ships with standoff weapons capability.

The Soviets have built a force of amphibious lift ships which numerically exceeds ours, however, U.S. assault capability and flexibility vastly exceeds theirs.

NUMBER AND TONNAGE OF MAJOR U.S. AND USSR SHIPS



Comparative Numbers and Tonnage of U.S./USSR Naval Ships

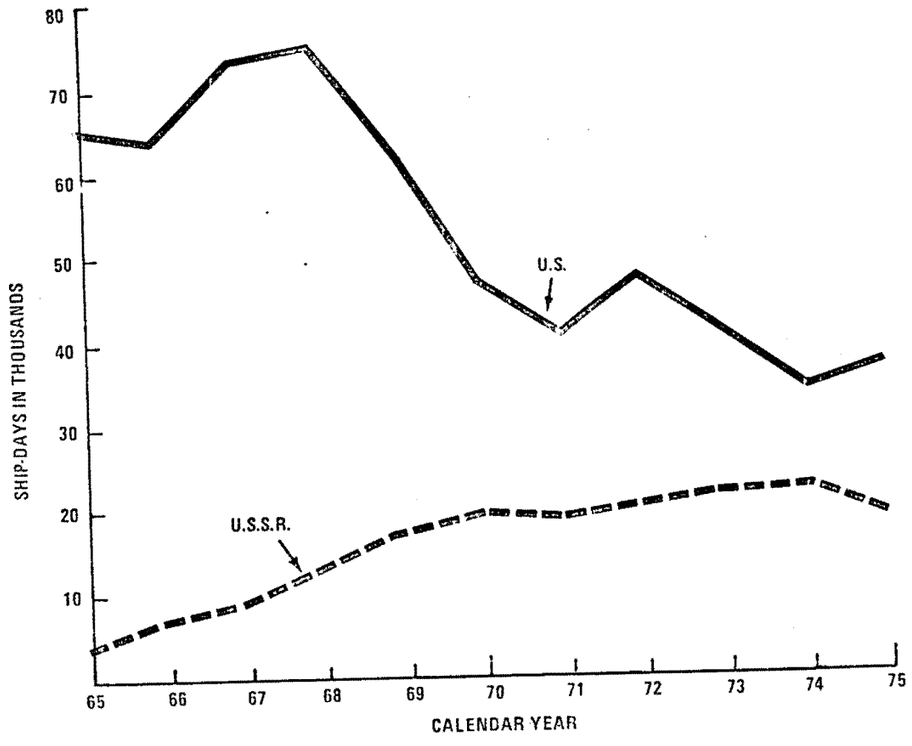
A 1975 comparison of the numbers of ships and total tonnage of the two navies shows two asymmetries. First, the Soviets have more ships (many of which are smaller than 1,000 tons), consistent with the traditional view that their Navy is the seaward extension of the Red Army, largely coastal in orientation.

Second, the U.S. leads in displacement because we have built ships for routine operation on distant deployment. (About 60% of the U.S. advantage in tonnage relates to our 13 aircraft carriers.)

The mix of ships in the Soviet Navy is changing steadily as they build bigger, more capable ships and add helicopter and VSTOL aircraft carriers.

When the contributions of principal allies on both sides are included, the numbers tend to equate.

U.S./U.S.S.R. COMBATANT SHIP-DAYS ON DISTANT DEPLOYMENT

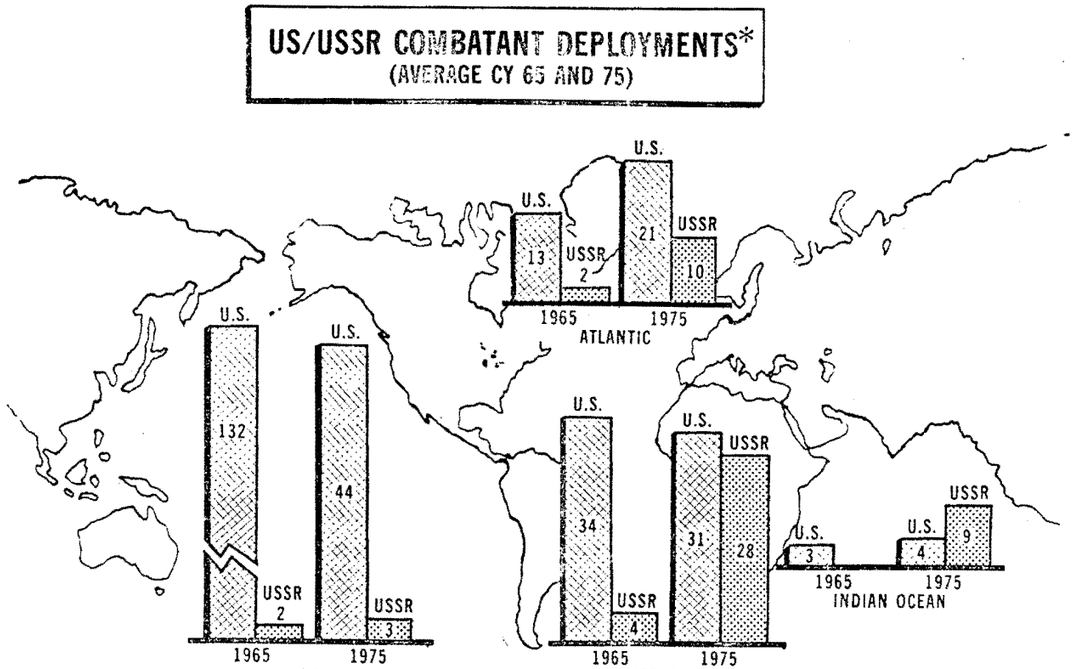


INCLUDES AIRCRAFT CARRIERS, MAJOR SURFACE COMBATANTS, GENERAL PURPOSE SUBMARINES, MINOR SURFACE COMBATANTS, AMPHIBIOUS SHIPS, AND MINE WARFARE SHIPS.

U.S./USSR Combatant Ship-Days on Distant Deployment

As interesting as the growth of the Soviet Navy is the worldwide deployment of their ships on a routine basis, beginning in the early 1960's.

Recently, the Soviets have maintained a steady-state naval presence at a level about two-thirds that of the U.S.



* INCLUDES AIRCRAFT CARRIERS, GENERAL PURPOSE SUBMARINES, MAJOR SURFACE COMBATANTS, MINOR SURFACE COMBATANTS, AMPHIBIOUS SHIPS, AND MINE WARFARE SHIPS.

FEBRUARY 1976

Geographical Distribution of U.S./USSR Combatant Deployments

The Soviet Union has adopted a naval deployment pattern quite dissimilar to that of the U.S.

This chart shows 1965 comparisons to the left and 1975 comparisons to the right, by major ocean area. The naval contributions of the nations allied with the U.S. and the USSR are not included in these comparisons.

ESTIMATED U.S./USSR RELATIVE PRODUCTION RATES

(1971 - 1975)

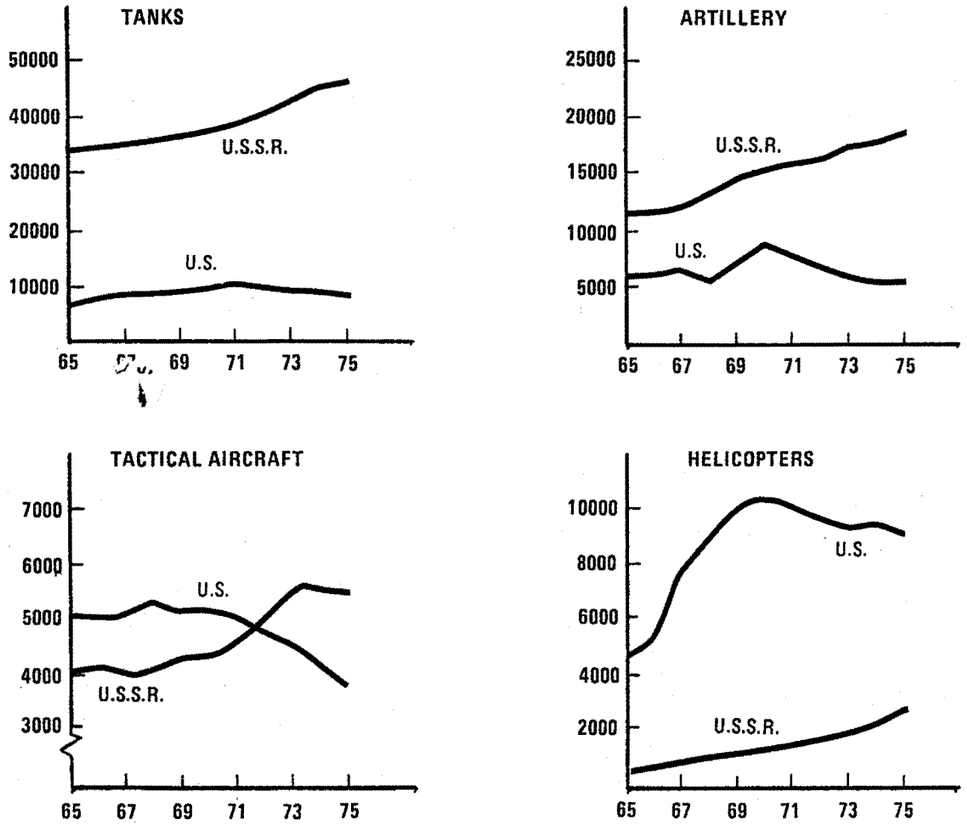
	USSR 1971-75 AVG	U.S. 1971-75 AVG	USSR/U.S. RATIO 1971-75
	3,030	413	7.3:1
	4,000	1,577	2.5:1
	1,350	271	5:1
	928	609	1.5:1

U.S./USSR Relative Production Rates For Ground and Tacair Force Equipment

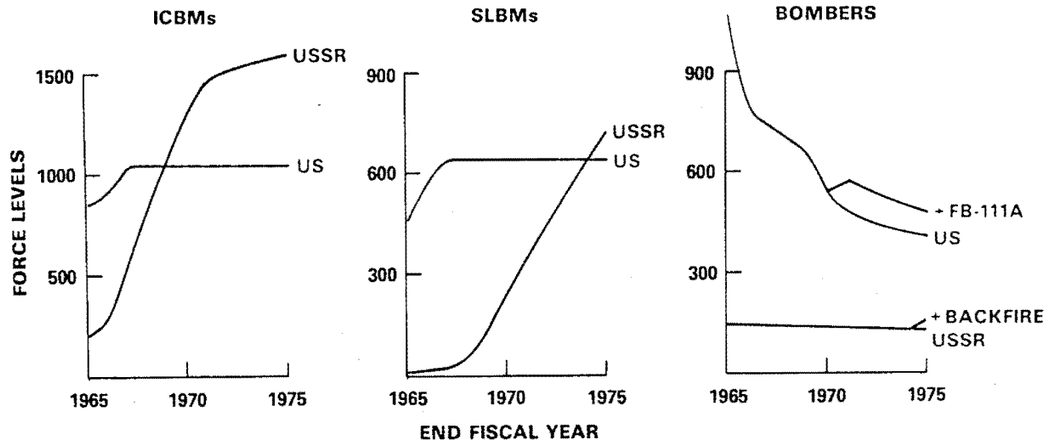
Average Soviet production of major items of ground warfare equipment -- tanks, armored personnel carriers, artillery pieces, and tactical aircraft -- over the past five years is estimated to have exceeded quantitatively that of the U.S. by the margins indicated.

CHANGES IN QUANTITIES OF MILITARY EQUIPMENTS -- U.S./U.S.S.R.

(1965-1975)



CHANGES IN U.S./U.S.S.R. STRATEGIC FORCE LEVELS



Ground and Tacair Force Military Equipment - U.S./USSR

Soviet tank inventories exceed those of the U.S. by roughly 4-to-1, and are increasing.

The Soviets have 2.5 times as much artillery.

They have built a modern, capable tactical aircraft force which in numbers, but not quality, exceeds ours by 30%.

In helicopters the U.S. maintains superiority, but the Soviets are now building helicopters in quantity.

Changes in Strategic Nuclear Forces - U.S./USSR

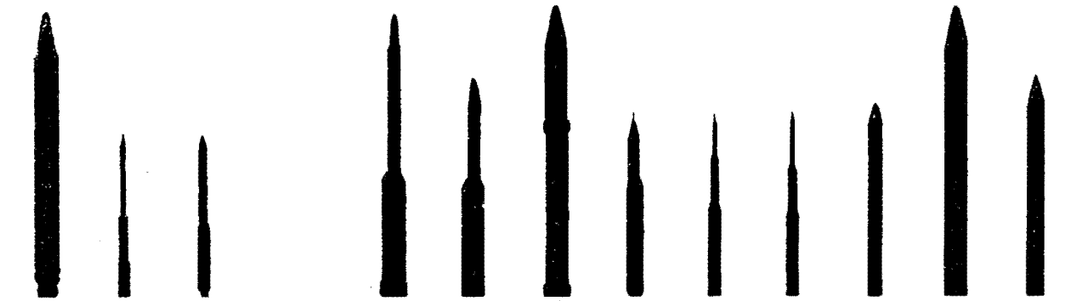
The Soviets have increased from about 225 ICBMs in 1965 to some 1,600 today, having overtaken the U.S. in the late 1960's.

The Soviet submarine-launched ballistic missiles have grown from 29 to more than 700, while the U.S. has been level at 656.

In the bomber force, the U.S. maintains a lead.

These comparisons do not address qualitative differences in the two forces.

COMPARISON OF US AND USSR ICBMs

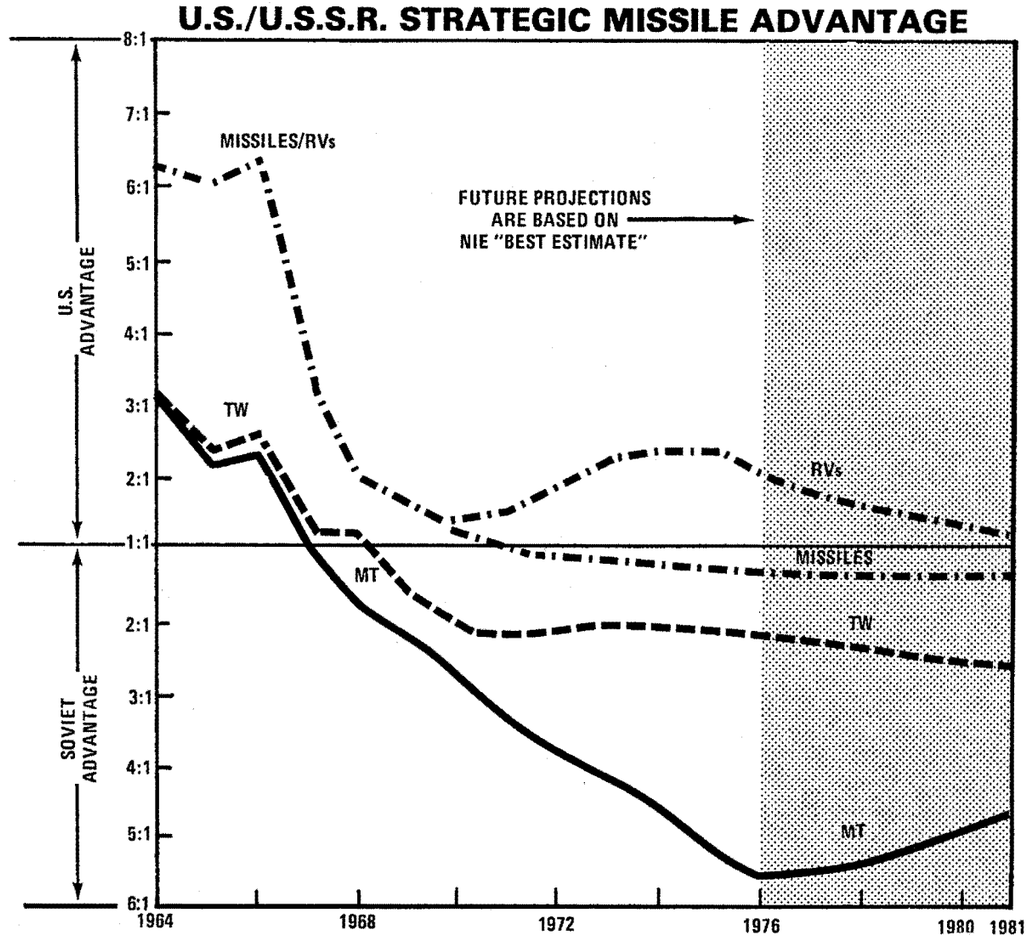


TITAN II	MM II	MM III	TYPE	SS-7	SS-8	SS-9	SS-11	SS-13	SS-X-16	SS-17	SS-18	SS-19
1	1	1/3	WARHEADS	1	1	1/3	1/3	1	1	4	1/8	6
1963	1965	1970	I O C	1962-3	1963	1967-71	1966-73	1969		1975	1974-75	1974

Comparison of U.S./USSR ICBMs

The Soviets have developed four new ICBMs in the past few years, two of which are currently being deployed with multiple independently targetable reentry vehicles (MIRVs). Follow-on missiles are in R&D.

This chart shows on the left the three ICBMs which make up the U.S. inventory -- by name, number of warheads, and year of initial operational capability -- and the nine Soviet counterparts. Where the number of warheads is depicted with a diagonal, it indicates that the later versions of a given missile have multiple warhead capability.

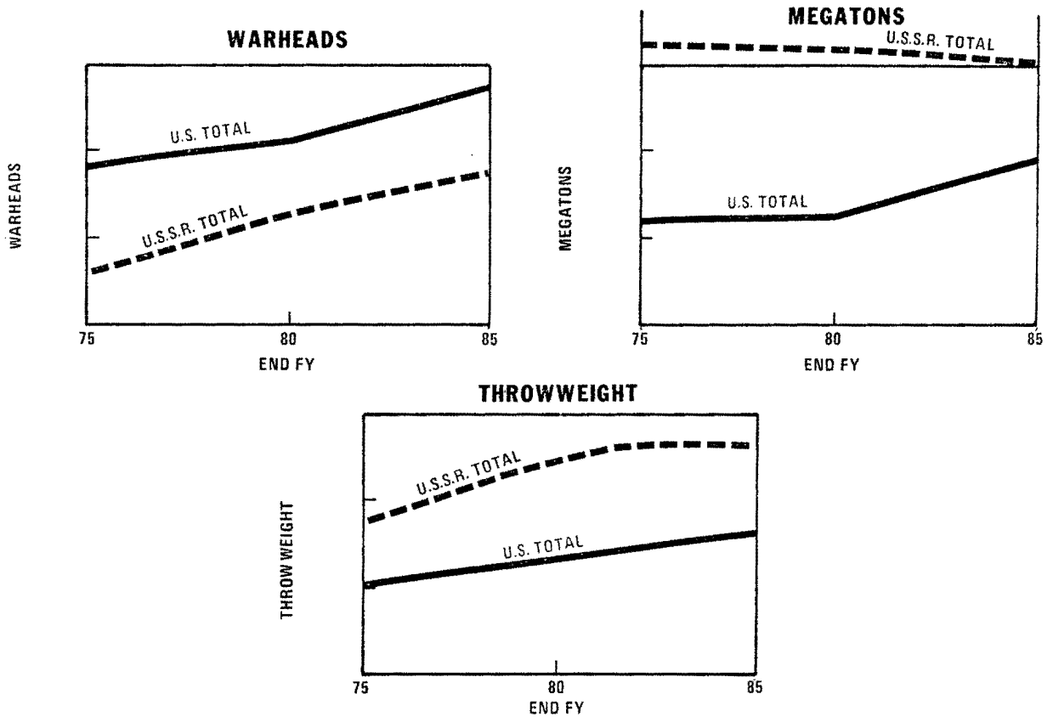


U.S./USSR Strategic Missile Advantage

This chart -- which excludes strategic bomber forces, an area in which the U.S. has an advantage -- shows how the strategic missile advantage has shifted away from the U.S. over time.

Taking Soviet improvements and U.S. developments into consideration, we can expect a continued Soviet advantage in throwweight and megatons, although the U.S. should retain a lead in numbers of warheads. Above the horizontal line which divides the chart, the advantage resides with the U.S.; below the line, it falls to the USSR.

PROJECTED INVENTORY U.S./U.S.S.R.
(2400 SNDV/1320 MIRV LEVEL)



Projected Nuclear Inventories - U.S./USSR

From the standpoint of the total strategic nuclear inventory -- which includes missiles and bombers -- projected trends indicate a U.S. lead in numbers of warheads, with the USSR maintaining the advantage in megatons and throwweight.

These projections assume that the Vladivostok Agreement limits of 2,400 strategic nuclear delivery vehicles (SNDV) and 1,320 multiple independently targeted reentry vehicles (MIRV) will be eventually agreed upon by both sides in a treaty.

CENTRAL EUROPEAN BALANCE
(Non-Mobilized 1975)

NATO LEADS		PACT LEADS
	MANPOWER	–TROOPS
–ARMORED PERSONNEL CARRIERS –ANTI-TANK GUIDED MISSILES –MORTARS	GROUND WEAPONS	–ARTILLERY –TANKS –MULTIPLE ROCKET LAUNCHERS
–GROUND ATTACK –RECONNAISSANCE –HELICOPTERS	AIRCRAFT	–AIR DEFENSE

Central European Balance - NATO/Warsaw Pact

Central European force postures and developments suggest that, unless counterbalanced, increasing Soviet firepower and mobility could begin to give the Warsaw Pact forces an unacceptable advantage.

Asymmetries that influence the assessment include the following:

-- NATO has several advantages:

- A defensive mission with advantages of interior lines and familiar terrain.
- Superior tactical airpower.
- More anti-tank weapons, helicopters, and armored personnel carriers.

-- The Warsaw Pact has:

- The initiative in choosing the time and nature of attack.
- More tanks and artillery pieces, and modern sophisticated battlefield air defense systems.

SOVIET WEAPON ADVANCES
1965-1975

WEAPON	ADVANCES	FORCE IMPLICATIONS
–TANKS –ARMORED PERSONNEL CARRIERS –ARTILLERY –ANTI-AIRCRAFT	– IMPROVED ARMOR – NEW GUN SYSTEM – IMPROVED ARMOR – SELF-PROPELLED – ARMORED – RADAR CONTROLLED GUN – FIVE NEW MISSILES – TRACK MOBILITY	–IMPROVED PROTECTION FOR MEN AND EQUIPMENT –INCREASED FIREPOWER –INCREASED MOBILITY –MOBILE GROUND BASED AIR DEFENSE
–AIRCRAFT	– IMPROVED AVIONICS, AIRFRAMES AND MUNITIONS	–GROUND ATTACK CAPABILITY –PAYLOAD – RANGE INCREASES

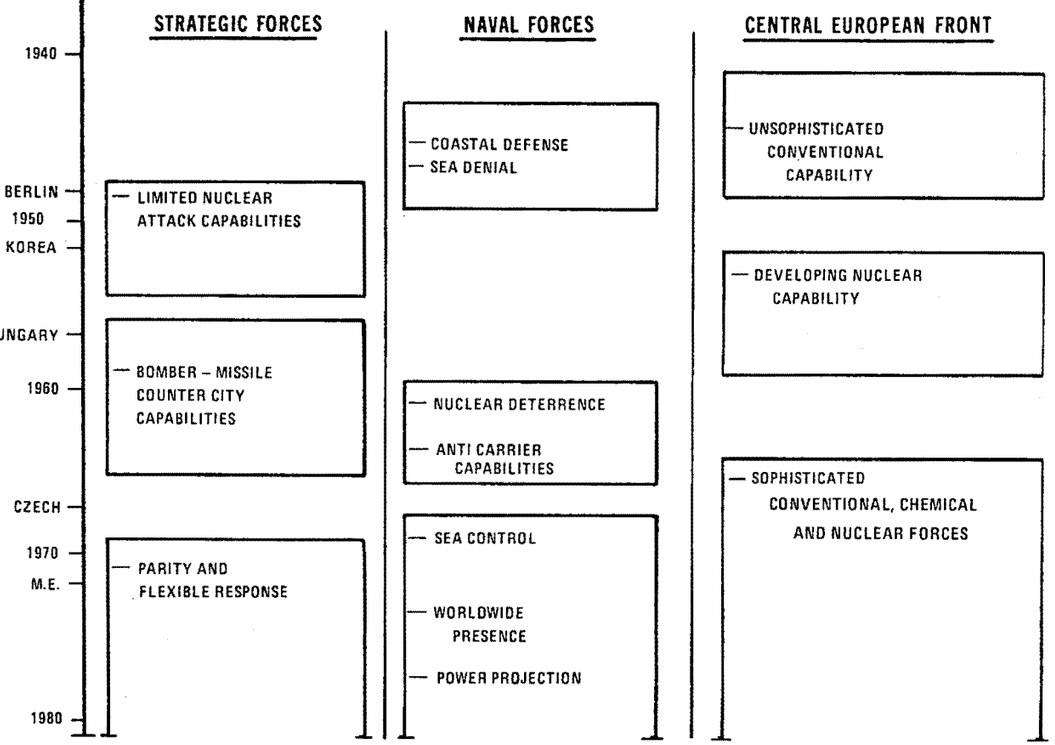
Soviet Weapon Advances

The Soviets for some time have stressed an offensive doctrine for a blitzkrieg-type war. In the past decade they have made progress toward building a force which could implement that doctrine. Since the mid-1960's, they have introduced five new types of aircraft and provided their ground forces with a new generation of weapons in most major categories.

These weapons have been, in most cases, new designs -- and are sophisticated. For example, Soviet divisions have been equipped with as many as five different surface-to-air gun and missile systems, each with overlapping air defense capabilities and using different methods to acquire, track and engage aircraft. Their armored personnel carrier carries troops, enables them to fight from within the vehicle, and mounts anti-tank weapons.

Major improvement in ground based air defense has freed the Soviet Air Force for an air support role.

EVOLUTION OF SOVIET POWER



Evolution of Soviet Power

When one considers the Strategic Nuclear, Naval, and Central European Front Balances together, it is apparent that significant changes in Soviet capabilities have occurred in the past 15 years. The Soviets have come from the unsophisticated, continentally confined, armed forces of the post World War II days to clear military superpower status in the 1970's.

There is powerful momentum in Soviet military programs and in the emerging pattern of external projection of Soviet power.

U.S. DEPARTMENT OF DEFENSE BUDGET

DEFENSE BUDGET TOTALS

($ IN BILLIONS)

CURRENT DOLLARS	FY 1964 ACTUAL	FY 1974 ACTUAL	FY 1975 ACTUAL	FY 1976 ESTIMATE	FY 1977 ESTIMATE	INCREASE FY 1976-77
Total Obligational Authority (TOA)	50.7	85.1	87.9	98.3	112.7	14.4
Budget Authority (BA)	50.7	88.9	91.5	100.7	113.8	13.1
Outlays	50.8	78.4	86.0	91.2	100.1	8.9
CONSTANT FY 1977 DOLLARS						
Total Obligational Authority (TOA)	115.4	107.3	100.7	105.3	112.7	7.4
Budget Authority (BA)	115.5	112.6	104.8	108.0	113.8	5.8
Outlays	113.8	101.7	99.1	98.2	100.1	1.9

U.S. Defense Budget Totals

It is clear to those who look at the military balance which results from the trends described that, if the U.S. is to maintain "sufficiency" and world stability, these trends must be arrested now.

This chart shows where the FY 77 budget -- with which we are attempting to check these relative trends by stopping the downtrend (in real terms) in U.S. defense spending -- stands with respect to budgets over past years. The top three lines display data, with prewar FY 64 for reference, in terms of current or "then year" dollars. The bottom portion of the chart presents the same data in real terms ... constant FY 77 dollars.

ECONOMIES AND RESTRAINTS IN FY 1977 U.S. DEFENSE BUDGET

($ in Billions)

— CUTBACKS IN EMPLOYMENT AND PERSONNEL COSTS, FY 1976-77	$ .9
— PAY RAISE ASSUMPTIONS GS/MILITARY PAY RAISE CAP, NEW/EXISTING GS GUIDELINES	.8/2.6
— COMMISSARIES AND RETIRED PAY "KICKER"	.2
— MILITARY CONSTRUCTION AND FAMILY HOUSING CONSTRUCTION	.9
SUBTOTAL	2.8/4.6
— STOCKPILE ITEMS	.7/.8
TOTAL	**$ 3.5/5.4**

Economies and Restraints

While the President's budget proposes improvements in force modernization and readiness, it also proposes to tighten the budget in the following ways:

- Restraining personnel costs while working to maintain the quality and professional standards of the All Volunteer Force.
- Instituting further efficiencies including base realignments, headquarters reductions, reduced training costs, stockpile level adjustments, and civilian manpower reductions.
- These restraints add up to $3.5 to $5.4 billion, depending on the magnitude of the pay cap achieved.

If Congress fails to approve the recommended belt-tightening measures, additional appropriations will be required to avoid unacceptable force reductions.

U.S. DEPARTMENT OF DEFENSE BUDGET

FINANCIAL SUMMARY

	FY 1964	FY 1974	FY 1975	FY 1976	FY 1977
DOD/MAP as Percentage:					
Federal Budget (Outlays)	42.8%	29.2%	26.5%	24.4%	25.4%
Gross National Product	8.3%	5.8%	6.0%	5.7%	5.4%
Labor Force	7.9%	5.2%	5.0%	4.8%	4.8%
Net Public Spending	28.1%	17.4%	17.3%	16.4%	16.5%

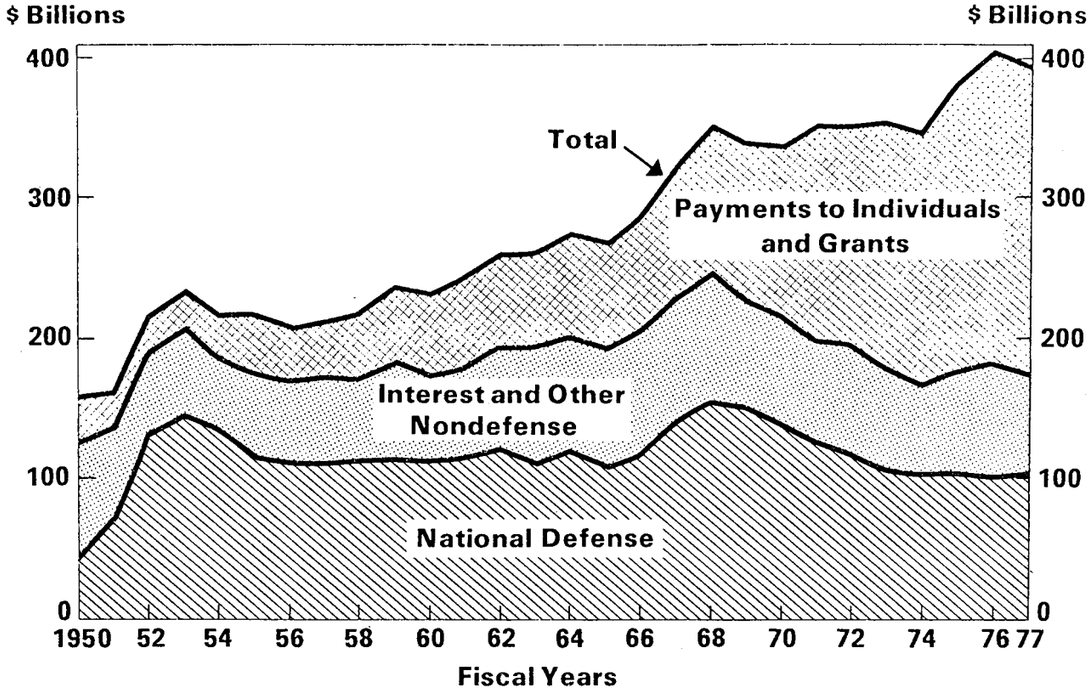
U.S. Department of Defense Budget

Financial Summary

Although DoD outlays increase $8.9 billion from FY 1976 to FY 1977 -- up from $98.2 billion to $100.1 billion -- the portion of the nation's economic resources allocated to defense remains very low, in some cases the lowest level in over a quarter of a century.

- Defense represents 25.4% of the Federal Budget, up slightly from FY 1976. It represents the lowest level since prior to Pearl Harbor.
- Defense as a percent of GNP will be 5.4% in FY 1977, the lowest share since prior to the Korean War.
- Defense employment (including military, civilian and defense industry) represents 4.8% of the labor force, the lowest level since prior to Pearl Harbor.
- In terms of net public spending (Federal and state and local) defense will represent 16.5% of the total, except for FY 1976, also the lowest relative share since prior to Pearl Harbor.

U.S. FEDERAL OUTLAYS - CONSTANT 1977 DOLLARS



Total U.S. Federal Outlay Pattern

Our nation's non-defense spending can no longer be funded out of the Defense Budget. Today, non-defense expenditures are nearly three times those of Defense.

In the extreme:

- A 10% increase in non-defense spending, taken from the DoD budget, would mean a crippling 30% cut.
- A 33% increase in non-defense spending, funded from Defense spending, would wipe out the Defense establishment altogether.

CONCLUSION

CONTINUING THE TRENDS OF THE PAST YEARS WOULD HAVE TO BE CONSIDERED A CONSCIOUS DECISION TO ABANDON THE POLICY OF MAINTAINING "ROUGH EQUIVALENCE" WITH THE SOVIET UNION.

WHEN, AS WOULD BE INEVITABLE, THE FACT THAT THE UNITED STATES HAD MADE A DECISION TO SLIP TO AN INFERIOR STATUS WAS APPRECIATED BY THE WORLD, WE WOULD BEGIN LIVING IN AN UNSTABLE WORLD, FUNDAMENTALLY DIFFERENT FROM THE ONE WE HAVE KNOWN DURING OUR LIFETIMES.

29 March 1976

DEFENSE BUDGET ISSUES

DEFENSE BUDGET ISSUES

I. SENATE BUDGET COMMITTEE

II. HOUSE BUDGET COMMITTEE

III. AUTHORIZATION AND APPROPRIATIONS COMMITTEES

MILITARY RETIREMENT

QUESTION: Should a military contributory (7%) retirement system be enacted?

ANSWER: This is a future possibility. The DoD is considering a contributory retirement system among other options as part of the third Quadrennial Review of Military Compensation. This comprehensive review, required under P.L. 89-132, is intended to provide the basis for modernization of the entire system of military compensation.

It can also be said that military members presently contribute 7% of their salary to fund the retirement system. This contribution is an "imputed" contribution, in that it is neither received by the military member nor invested in a retirement fund; however, it is used as part of the rationale for establishing comparable levels of pay for military personnel. There is no unanimity of opinion concerning the imputed contribution: the House Armed Services Committee accepts the use of the imputed contribution, the Senate Armed Services Committee does not.

A major change in the compensation system, such as a direct contribution system, should be made in the context of the total system in order to minimize erosion of morale among the military members. Attempting to move to a contributory retirement system as part of the FY 1977 budget would be premature.

PAY ABSORPTION

QUESTION: Would a 10% pay absorption on the 4.7% pay cap be acceptable? The result would be a $0.2 billion savings.

ANSWER: In the past, DoD has absorbed cuts in the neighborhood of 10% of requested pay supplementals. The FY 1977 budget already requires some absorption. It is likely that if DoD were to absorb 10% of the planned 4.7% pay raise for military and General Schedule civilians, and 10% of the planned 3.4% pay raise for Wage Board civilians, a real program decrease of some amount up to $160 million would result. The pay cap itself already represents a major restraint on personnel costs. Altogether, nearly $3 billion in compensation savings is already built into the President's Budget. Further reductions in compensation are not warranted.

TROOP STRENGTH REDUCTIONS

QUESTION: Are certain reductions in troop strength possible out to 1980? If you are able to phase out 25,000 additional troops by the end of FY 1977, there would be $0.1 billion savings.

ANSWER: If active military strength were cut an additional 25,000 by end FY 1977, it would save about $100 million. However, it would not be a good idea.

The active military strengths of about 2.1 million programmed for the end FY 1976 and end FY 1977 are the lowest since just before the outbreak of the Korean War in 1950. The active military strength requested for end FY 1977 is a reduction of about 600,000 (-21%) from FY 1964, which was the last peacetime year before the buildup for Vietnam. Over 150,000 military people have been reduced just since FY 1973, and a small reduction of 5,400 is planned for FY 1977. Conversely, U.S. troop strength has been declining, Soviet troop strength has been increasing; from 1964 to the present, Soviet military strength has increased about 1 million men (+30%).

Active military strength reductions have been forced on us by rising manpower and other Defense costs. They do not reflect a lesser need for military forces. As far as possible, we have minimized the adverse impact of these reductions by management improvements, involving substantial trimming of headquarters and support activities and increasing our dependence upon the National Guard and Reserve. We have, for example, reduced our support establishment by nearly 250,000 people (11%) from FY 1973 onward, while holding combat manpower steady.

REDUCING U.S. PACIFIC STRENGTH

QUESTION: Can additional reductions in Pacific deployments be made, since the Vietnam war is now terminated?

ANSWER: No strength reductions are possible by redeploying U.S. forces from the Pacific to the United States. The size of our Armed Forces are already at a very minimum level, given the growing Soviet capabilities. Even if U.S. Forces were to be withdrawn from the Pacific, which is by no means recommended, they would not be eliminated from the force structure, and no appreciable savings would occur -- indeed, some increased costs might result.

Moreover, the United States has already made appreciable reductions in its Pacific deployments. Not only have we eliminated all the forces built up for Vietnam, we are about 40% below the pre-Vietnam Pacific strength levels,as is shown in the following table:

Western Pacific Strengths
(end fiscal year - thousands)

	FY 1964	FY 1976
Military Personnel	249	154
Civilian Personnel	104	64
Total	353	218

Given the trends in Defense budgets and forces in the USSR, and our continuing interests in Asia, the present Pacific deployments are essential to support American interests.

CIVILIAN PERSONNEL REDUCTIONS

QUESTION: Are additional civilian employee reductions possible? If there is a cut of 25,000 additional civilians, there will be a savings of $0.1 million.

ANSWER: An additional reduction of 25,000 civilians would save about $100 million; however, it would not be a good idea in FY 1977. The President has already included a cut of 29,000 civilians in the FY 1977 budget, for a total cut of over 60,000 since 1973. These cuts bring civilian strength down 140,000 below the pre-Vietnam 1964 level (the drop would have been even greater, were it not that 40,000 military jobs were converted to civilian jobs). The cuts in civilians we have taken, moreover, are part of a general reduction in our support establishment -- which we have reduced nearly 250,000 (11%) since 1972. Additional cuts this year would be difficult to manage and would adversely affect our defense posture.

STUDENT/INSTRUCTOR RATIO

Question: Are additional civilian employee reductions possible if current pupil/instructor ratio of 1.34:1 is increased to 2:1 (vs. 10:1 public education and 4.5:1 in non-public eduction) = $0.2 billion savings.

Answer: Some misconceptions implicit in the question should be cleared up first.

- The DoD pupil/instructor ratio is about 5:1.

- The ratios cited are not pupil to instructor ratios. They are, in the case of DoD, the average number of military students during FY 1977 divided by total manpower in support of training, including not only instructors but also allocations of manpower supporting the instruction, operating training bases, and supplying medical and other support to students, training staff and dependents. The civilian education ratios are enrollment divided by identifiable total full-time equivalent employees of the schools.

Total manpower in support of training is being reduced by 31,600 military and civilian spaces, or 16 percent, from FY 1975 to FY 1977. This reduction was accomplished by assuming the release of excess training bases, consolidating Service training activities (notably in undergraduate flight training) and by carefully reviewing all training activities to remove less than essential manpower. It is important to note that this very large reduction -- made in a period when the average number of students to be trained increased by 2 percent -- was the product of a meticulous review, taking into account the effect of these or further possible reductions on the quality of training and the readiness of the force, which depends, to a very large extent, on a continuing input of trained and disciplined manpower.

The reduction proposed is based on the premise that the staffing of military training should mirror that in civilian education. In fact, the two types of training are very different, and the differences are reflected in the varying needs for manpower.

- Military training includes types of training entirely different from that taught in the civilian sector - e.g., flight training, and training with weapons and dangerous equipment. These types of training require large amounts of manpower for instruction, safety, equipment maintenance, and operation of such facilities as airfields, weapons ranges, and complex training facilities.

- A very large proportion of military training is "hands-on" training on actual or simulated equipment, which can only be taught effectively in small groups. High school and college instruction make much greater use of the lecture format, in which one instructor can teach as many students as the classroom will hold.

- Military training operates year-round and generally on a 40-hour week; civilian education provides 12 to 20 hours of instruction at the college level, about 25 hours at the secondary school level.

- Military students are paid and supported, so it is efficient to make courses as short as possible, even if more instructors are required. The application of higher levels of manpower can result in fewer total manyears (student and staff) and cost savings. Civilian schools, whose students are not paid, have no incentive to graduate them as quickly as possible and, in fact, operate on a fixed schedule -- e.g., a high school course is four years.

- Military students are housed, fed, provided full medical care, and otherwise supported to a far greater degree than high school students and a much greater degree than most college students. Military bases also support the training staff and dependents.

When these differences are taken into account, there are no grounds for asserting that the comparison shows inefficiency in the DoD use of training manpower.

If the suggested reduction were to take place, DoD manpower in support of training would have to be reduced by 63,500 military and civilian spaces to reach the imposed ratio. Contrary to the proposal in the question, the reduction could not be made in civilian personnel, since there are only 61,200 civilians in the total program. The reduction would therefore have to be in a combination of military and civilian personnel.

A reduction of this size (33 percent of total manpower in support of training) would have the following effects:

- The quality of training would be drastically reduced. Hands-on training would give way to less effective taching in large groups. Safe operation of complex equipment would be impaired.

- More training in operational units would be required, diverting them from their primary missions. This option, even if justified on its own merits, would tend to be foreclosed by imposing a set ratio, since it would act to reduce the number of students in formal training and "worsen" the ratio.

- Time in training would have to be stretched out to maintain effective training. This would "improve" the ratio but waste the additional student pay and support costs. It would also increase the number of military members in student status. A 10 percent increase in training time would increase active force students by 20,000, thus requiring a rise of 20,000 in total military strength or acceptance of a 20,000 man shortage in operating units.

In summary:

- The proposal is based on fundamentally unsound premises.

- A reduction of this magnitude would have grave consequences for force readiness and national security.

PROPOSED REDUCTION IN PROGRAM GROWTH

Question: Should the proposed real growth of $9.6 billion in budget authority and $2.9 billion in outlays be approved for DoD budgets?

Answer: This is the central issue of the Senate and House Budget Committees, thus it is important to have a clear picture of the defense baseline trend from FY 1976 to FY 1977 in constant prices.

For baseline purposes, DoD sets aside such non-baseline items as retired pay, prior-year shipbuilding adjustments, military assistance program, petroleum reserves, and the stockpile. The result is a net real increase of $7.4 billion in baseline TOA, as follows:

TOA, Constant FY 1977 Prices
($ Billions)

	Personnel	Material	Total
Increases	-	$+9.8	$+9.8
Decreases	-1.4	-1.0	-2.4
Net	-1.4	$+8.8	$+7.4

DoD has stressed that these changes are totally separate from the constraint package -- e.g., higher pay raises would require more dollars in FY 1977, but would not provide any more real program.

DoD presentations have highlighted net real growth of $7.4 billion. The House Budget Committee chose to highlight an $8.4 billion growth in the materiel area. The Senate Budget Committee highlights an increase of $9.6 billion -- essentially the $9.8 billion shown above, less adjustments.

Thus, the Senate Budget Committee shows a "real growth in President's request" of $9.6 billion, offset only by "President's Economies (pay caps, stockpile sales, etc.)." These economies amount to $2.4 billion, however, and reduce real program growth to about $7.4 billion, as shown above.

Proposed reductions frequently ignore the need to overcome deficiencies in our forces that have been accumulating for a number of years. As can be seen in the following table, Defense has had no real growth in the past four years in its procurement and RDT&E programs. Priority has gone to domestic programs. A backlog of deficiencies in our defense posture is the result.

Baseline TOA - Constant FY 1977 Prices
(Billions)

	FY 73	FY 74	FY 75	FY 76	FY 77
Procurement	22.1	22.0	21.1	21.5	27.7
RDT&E	10.8	10.2	9.9	10.2	11.0
Total	32.9	32.2	31.0	31.7	38.7

The United States has many equipment shortages to overcome -- tanks and other armored vehicles, aircraft, ships. It also must repair and replace the equipment it now has. (A satisfactory "aging" situation would be one in which the average age of equipment in inventory was half its useful life; the trend is sharply away from this goal.)

The amount of money required to overcome existing deficiencies is several times the amount proposed by the President for purchases. The President's budget aims only at arresting the trend.

The Defense Department has made extraordinary efforts to achieve economies and efficiencies. Almost 250,000 people have been cut out of the support forces since 1973, while holding the combat forces constant. This is a reduction of 11% in the support establishment. We have lean armed forces. They need adequate levels of modern, serviceable equipment. Any proposals before the Committee to reduce purchases -- were they accepted -- would not provide sufficient defense purchases to achieve an adequate defense posture.

Similarly, outlay reductions cannot be made without having an unacceptable impact on the overall Defense Posture. Outlay reductions are largely comprised of prior year program pay-out and personnel costs. Making sizable reductions in outlays in the current year would require significant program reductions and/or further personnel cuts. (See outlay issue paper).

ELIMINATION OF THE B-1

QUESTION: Should the B-1 be cancelled in favor of a stand-off bomber with cruise missile capability?

ANSWER: Exhaustive studies made by the DoD and reviewed by the Congress conclude that a bomber force is needed into the foreseeable future and that the B-1 is the most cost-effective bomber option.

Outside studies which recommend a stand-off bomber with cruise missile capability (the "B-747" option) neglect certain essential considerations:

- The standard wide-bodied commercial cargo design would have to be extensively re-done to carry out the military mission, and at considerable cost.

- A penetrating bomber carrying SRAMs (a short range, supersonic, low-radar-cross section air-to-surface missile) is needed to counter low-altitude SAM systems which exact very high attrition from cruise missiles.

- Against the Soviet AWACS and fighter interceptor air defenses and low-altitude SAMS projected for the 1980s, the B-1 has been shown to be more cost-effective than improved B-52s, improved FB-111s, and wide-bodied cruise missile carriers to destroy defended targets.

However, a portion of the bomber force of the 1980s can be equipped to carry cruise missiles to attack targets which are not defended by SAMS, that is why DoD is developing the Air Launched Cruise Missile (ALCM).

Other essential considerations:

- The strategic bomber force is necessary to the balance of deterrent forces.

  - contains about 45% of our nuclear throw weight

  - contains about 60% of our nuclear megatonnage

- In 1985 the newest B-52 bomber will be 22 years old and the oldest 28.

CONVENTIONAL POWER FOR NEW NAVY SHIPS

QUESTION: Would it be good to choose a conventional power mix for new Navy forces and thereby save substantially on DoD budget authority and outlays?

ANSWER: Budget Committee reductions should be based on realistic assumptions. To assume that conventional propulsion will dominate future Navy ship construction is simply unrealistic. The jurisdictional committees of the Congress have reviewed the propulsion mix repeatedly and intensively and the Congress has approved specific legislation directing certain elements of the mix. The DoD budget request recognizes the Congressional views but still increases the proportion of the non-nuclear ships. A Budget Committee ceiling recommendation based on an even greater proportion of conventional power ships would be unrealistic and in the Congressional budget process, could result in lower defense levels. Such a proposal, therefore, would simply result in a non-specific reduction in defense.

"LOW MIX" TACTICAL AIR FORCE

QUESTION: Would added emphasis on the low end of the high-low mix provide significant savings without weakening our forces?

ANSWER: The Department of Defense is giving great emphasis to "low-mix" tactical aircraft. The Congress last year approved this emphasis and funded specific low-mix programs.

The mix is carefully tailored to provide American air crews effective and competitive weapons and still curb the tactical aviation cost burden.

A distortion of the low-mix for economy reasons could be a serious and -- to the aircrews -- fatal mistake.

The concept:

- The "high-low mix" involved, for example, the higher cost Air Force F-15 and Navy F-14 fighters complemented by cheaper F-16s and F-18s, respectively.

- The higher cost F-15 and F-14 fighters employ powerful and complex radar fire control systems along with associated radar missiles. These weapon systems can operate autonomously and are designed to counter the most sophisticated air threats likely to be encountered in their respective areas of operation.

- The second line of defense is provided by the lower cost, and more numerous F-16s and F-18s. They are more dependent on friendly command and control systems, both airborne and land based, and will be used to directly engage enemy aircraft in the lower threat situations.

- It is critical that the "high-low mix" be properly balanced to insure both adequate quantities of aircraft and an adequate degree of sophisticated capability to counter the full threat array in both a quantitative as well as qualitative sense.

- The unit costs of the low mix aircraft will be approximately half that of the high mix aircraft.

It is vital that the currently planned high-low mix balance not be changed for the following reasons:

- The F-15 will be the only Air Force aircraft equipped with beyond-visual-range air-to-air missiles during the late 1980s.

- The F-14 with its Phoenix missile system offers an interception capability unmatched by any existing or projected aircraft in the world.

MILITARY ASSISTANCE PROGRAM AND FOREIGN MILITARY SALES

QUESTION: Should the levels of the Grant Military Assistance Program and Foreign Military Sales Credit Program be approved as proposed in the Budget?

ANSWER: The President's amended Budget Request for FY 1977 funding includes $294 million for the Military Assistance Program and $852 million in Foreign Military Sales credits.

These programs are tools of foreign policy and collective security. Cuts to these programs would seriously undermine our policy and defense posture.

For example, the Koreans are trying very hard to acquire their self defense capabilities. We have requested $275 million in Foreign Military Sales credits to assist Korea in the modernization of its defense forces. Such improved defense is indispensable to eventual withdrawal of the 42,000 troops stationed there.

Another example is the need for $50 million MAP, $2 million training and $150 million in FMS credit for Turkey. We seek to restore relations with that country and assure access to bases in that country which are of significant value to our own national security.

The largest single recipient of FMS and grant support proposed for FY 1977 is Israel. The importance of continued support for Israel need not be stressed. $1 billion of FMS credits is required to continue our agreed support for the next year. Because Israel is already devoting so much of its resources to defense, the President will once again this year ask the Congress to waive payment of one-half of this amount, or $500 million.

PROPOSED REDUCTIONS IN PROGRAM GROWTH

1. The proposal before the House Budget Committee calls for a reduction in real program growth by $4.2 billion. In addition, it is proposed to reduce unexpended/unobligated balances by $1.4 billion; since, in practice, it will not be possible to achieve reductions in this account by more than $100 million (and probably not that), the effect is an additional reduction in programs by at least $1.3 billion. Thus the proposal before the Committee is, in fact, for reductions in programs of $5.5 billion.

2. The Committee proposal describes the $4.2 billion cut as still permitting 15% growth in Defense purchases before inflation, and 8% in real growth, after inflation. This is misleading in a number of respects:

   First, as noted, the real cut in programs is not $4.2 billion but at least $5.5 billion.

   Second, the Defense budget is not, in any case, developed on a "rate of growth" principle. It is based on requirements to maintain armed forces of a certain size and at a particular level of readiness given the world conditions that presently exist. The proposed cut means a less than adequate Defense posture for the country.

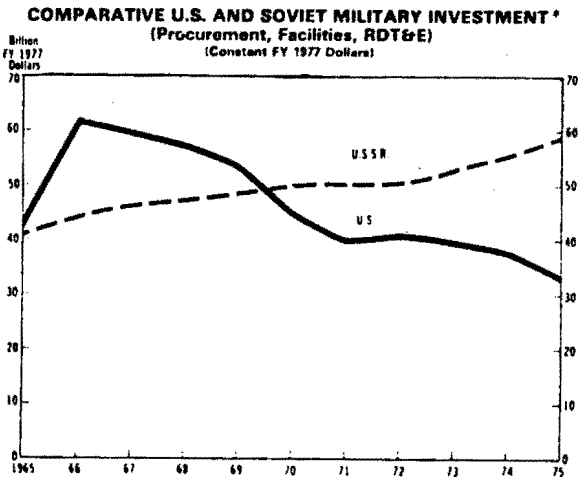
   Third, the Committee proposal has ignored all but the purchases portion of the budget. It ignores the manpower cost restraints proposed by the President. The effect of this is to imply a rate of growth for Defense budget twice the actual rate of growth.

   Fourth, it ignores the need to overcome deficiencies in our forces that have been accumulating for a number of years. As can be seen in the following table, except for a relatively small amount in FY 1976, Defense has had no real growth in the past four years in its procurement and RDT&E programs. Priority has gone to domestic programs. A backlog of deficiencies in our defense posture is the result.

Baseline TOA - Constant FY 1977 Prices
(Billions)

	FY 73	FY 74	FY 75	FY 76	FY 77
Procurement	22.1	22.0	21.1	21.5	27.7
RDT&E	10.8	10.2	9.9	10.2	11.0
Total	32.9	32.2	31.0	31.7	38.7

3. Soviet spending on procurement and RDT&E, however, has been increasing. While the United States still maintains a lead in many areas, and the quality of our forces overall is high, we lag in important respects. For example, the Soviets out-number us in tanks by 4 to 1, in armored personnel carriers by 3 to 1, and in aircraft by 1.7 to 1. Moreover, Soviet equipment is becoming more modern and sophisticated.



4. The United States has many equipment shortages to overcome -- tanks and other armored vehicles, aircraft, ships. It also must repair and replace the equipment it now has. (A satisfactory "aging" situation would be one in which the average age of equipment in inventory was half its useful life; the trend is sharply away from this goal.) The amount of money required to overcome existing deficiencies is several times the amount proposed by the President for purchases. The President's budget aims only at arresting the trend. Neither the House Armed Services nor the House Appropriations Committees were able to recommend reductions of this magnitude; indeed, the Armed Services Committee recommended an increase in the Defense Budget.

5. The Defense Department has made extraordinary efforts to achieve economies and efficiencies. Almost 250,000 people have been cut out of the support forces since 1973, while holding the combat forces constant. This is a reduction of 11% in the support establishment. We have lean armed forces. They need adequate levels of modern, serviceable equipment. The proposal before the Committee, to reduce purchases $4.2 billion -- actually $5.5 billion -- were it to be accepted, would not provide sufficient defense purchases to achieve an adequate defense posture.

UNEXPENDED BALANCES AND UNOBLIGATED BALANCES *

DoD/MAP unexpended balances are summarized as follows:

(Unexpended balances, $ billions)

	FY 1973	FY 1974	FY 1975	FY 1976	FY 1977
DoD/MAP total unexpended	48.1	58.9	63.7	72.6	84.1
Deduct MAP (largely trust fund)	-8.5	-15.2	-19.7	-22.6	-24.3
DoD unexpended balance	39.6	43.7	44.0	50.1	59.8
Obligated (under contract)	-26.9	-28.6	-27.3	-37.8	-45.0
Unobligated DoD	12.7	15.1	16.7	12.3	14.8

Aside from unfilled trust fund orders, the MAP balance is small and declining. The trust fund is obviously not a source that can be tapped to finance defense programs.

Obligated balances are large because lead times are long. They are growing primarily because of inflation.

Unobligated balances are necessary to complete approved programs. They are not free balances. Such balances exist for two interrelated reasons:

- The Congress has for many years followed the full-funding principle with respect to defense procurement. When the Congress approves 10 aircraft, it appropriates all the funds necessary to deliver these 10 aircraft. There are overwhelming advantages to this approach, as distinguished from incremental funding. So far as we know, no one is questioning full funding.

- The Department, as a matter of good management, does not contract for an entire system (ship or aircraft) at one time, or in the first year. The longest-lead-time items are contracted first. Other items (e.g., electronics or ordnance items for a ship) are contracted later, lead-time away. If everything were ordered at once, then electronics and ordnance items would come into inventory long before they were needed. The taxpayers would pay holding and interest costs. We could easily lose technologically. The Congress recognizes this and provides 5 years to obligate shipbuilding funds, 3 years for other procurement, 2 years for RDT&E, and no time limit on construction. Here is the normal obligation rate for major systems:

	1st Year	2nd Year	3rd Year	4th Year	5th Year
Ships	52%	27%	16%	3%	2%
Aircraft	80%	14%	6%	-	-
Missiles	90%	8%	2%	-	-

Thus, 48% of the FY 1977 shipbuilding program would normally be unobligated at the end of FY 1977; 20% of the aircraft program; and 10% of the missile program.

These two factors -- full funding and the lead-time-away practice -- make it inevitable that there will be unobligated balances. That's not in itself a bad condition -- it's the result of sound and logical budgetary and management practices. The only question is whether unobligated balances are too high. They've grown just 17% since FY 1973, while prices have risen 46%.

The House Budget Committee has alleged that unobligated balances are too high, and that some of these funds can be used to finance the FY 1977 program, in lieu of new budget authority. In discussions, they have cited several points.

First, it is noted that unexpended balances are rising sharply -- from $48.1 billion in FY 1973 to $84.1 billion estimated for FY 1977. That's true but, as noted, very little of this has anything to do with unobligated balances.

Second, the HBC noted a DoD table which showed that $2.8 billion from FY 1974 and prior budget authority would remain unexpended at the close of FY 1981. The Committee is correct in concluding that, according to our best estimates, most of that $2.8 billion will never be spent. The Committee is incorrect in concluding that these amounts could be applied to finance the FY 1977 program. About $.3 billion of this amount is for revolving funds, which turn over several times a year and which require a minimal cash balance. About $.5 billion involves foreign military sales -- no cash we can use. The remaining $2 billion has largely expired, or will by June 30, 1976.

Third, the HBC has noted that our financing adjustments (use of prior balances and free assets in lieu of new budget authority) have fallen off in recent years -- evidence, to them, that we are piling up balances. Actually, there are four reasons for this falloff:

- The end of the war, and of wartime financing practices.
- Inflation, which has dried up the wells.
- A falloff in shelf sales, since foreigners have come to prefer new production items rather than reconditioned items from US inventory.
- The imposition of multiple-year appropriations, in lieu of no-year appropriations, for procurement and RDT&E starting in FY 1971. As a result, $894.3 million has lapsed, most of which would have been available to apply to new programs under the old practices.

It is important to bear in mind that this prior-balance issue arose last year. The House Budget Committee proposed (and this was carried through into both budget resolutions) a cut of $1 billion in the FY 1976 defense request, to be covered by "use of funds from prior-year accounts." After detailed review of the FY 1976 requests, the Congress found just $122.9 million in such balances. Of that, $75 million arose from the decision to kill the DLGN in the FY 1975 program and $24.3 million resulted from approval of the President's rescission proposal involving termination of the FY 1975 quantities of the F-111. Aside from these unusual actions -- for which there are no counterparts this year -- the Congress found just $23.6 million in old balances to apply. What started out as a painless $1-billion financing adjustment in the Budget Committee wound up as $877 million in FY 1976 program cuts.

* Unexpended Balances - That portion of prior years' budget authority which remains either unobligated (i.e, for which no contract has been awarded) or which, though obligated, has not been paid to a contractor.

Unobligated Balances - That portion of unexpended balances for which no contract has been awarded.

EFFECT OF OUTLAY REDUCTIONS ON THE DEFENSE BUDGET

Table 1 shows FY 1977 proposed Total Obligational Authority (TOA) and Outlays spread across various budget categories for DoD/MAP.

As noted, $25.5 billion in Outlays will come from prior balances (largely amounts under contract on September 30, 1976) and $8.4 billion will be spent for retired pay. These are relatively fixed amounts. Of the $66.2 billion remaining, two-thirds ($42.2 billion) goes for the military and civil service payroll. Of the $24 billion remaining, about $14 billion will go for nonpay operating costs, a large part of which are tied to the base structure and hence are difficult to control in the short run.

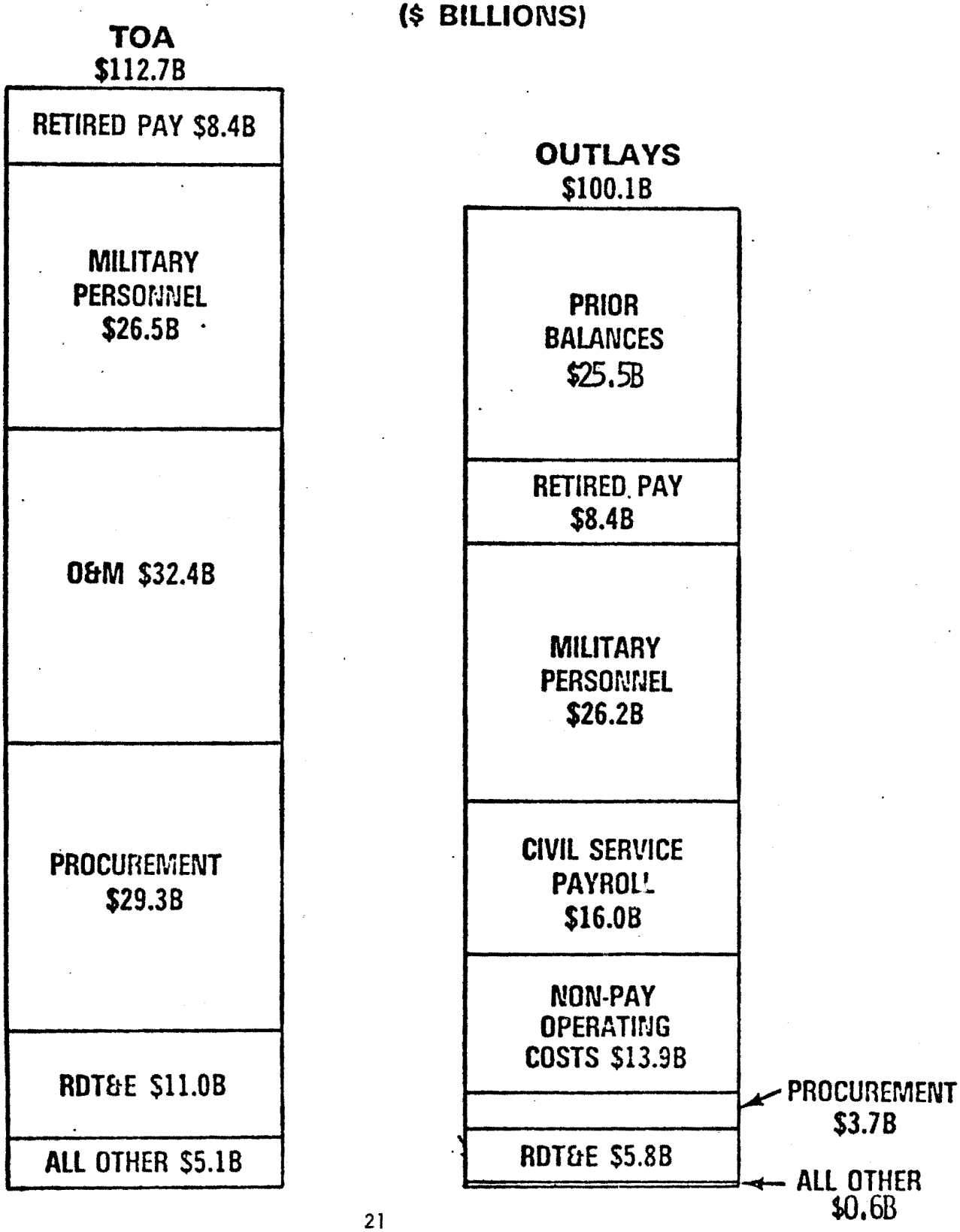
The remaining $10 billion in Outlays is in the investment area, shown in the three lower segments. A comparison with the $45.4 billion in TOA shown in the lower three segments of the left bar shows that, in the investment area of the budget, a $4.50 change in TOA (or Budget Authority) produces a $1 change in Outlays.

The conclusion here is that, if Outlays were to be reduced significantly, manpower costs would have to be reduced. The President's Budget already assumes that nearly $3 billion will be saved through initiatives designed to restrain the growth of manpower costs. Thus, further cuts in manpower costs would require strength reductions. The nation cannot afford to cut military strength further. As far as civilian reductions are concerned, the Budget already assumes a reduction of nearly 29,000 from the level approved by Congress for the end of the Transition Quarter. About half of this reduction is tied to base closures and consolidations, while the rest is associated with headquarters and other support reductions yet to be identified. Further civilian cuts would be risky since they would be unspecified; the effect would certainly be to reduce military readiness and possibly to force further base consolidations.

The main point is this: Outlays largely comprise prior year program pay-out and personnel costs. Making sizeable reductions in Outlays in the current year would require significant new program reductions and/or personnel cuts, which cannot be made without an unacceptable impact on the overall Defense posture.

TABLE I

DEFENSE TOA AND OUTLAYS
FY 1977
($ BILLIONS)



DOLLAR SUMMARY

	HASC	SASC	HAC	SAC
Changes to Budget Authority				
Manpower	+286	+1,096	+300	
RDT&E	-497			
Weapons Systems			+488	
Ship Construction	+1,088		-800	
Other Procurement	-43		-100	
Operations & Maintenance	+658		-75	
Military Construction	-40			
Stock Funds	-398	+ 746 a/		
Civil Defense	+39			
Foreign Military Sales	-1,601 a/	-1,600 a/		
Unspecified		-1,000		
Other	+161	+61	-743	
Recommended BA Total	114,558	114,208	113,975	114,905
Net change from Pres Bud (114,905)	-347	-697	-930	
Recommended TOA	113,963	112,866	111,779	112,709
Net change from Pres Bud (112,709)	+1,254	+157	-930	---

a/ Not applicable to TOA.

PRESIDENT'S ALTERNATIVE PAY PLAN

President's Budget: Assumes administrative changes in the mechanics of determining comparability adjustments for General Schedule employees which would reduce the October comparability pay raise to 6.3%, for an FY 1977 savings of $1.75 billion in civilian and military compensation. In addition, the President will send to Congress by September 1, 1976, an alternative (below comparability) pay raise proposal averaging 4.7%, for a further FY 1977 savings of $500 million.

Congressional Action:	HASC	SASC	HAC	SAC
		+$503M		

The Congressional Committees appear generally supportive of the President's pay proposals. SASC, however, added $503 million to the DOD budget without prejudice, pending Congressional acceptance of the Alternative Plan.

Key Points:

- The Administration has decided to adjust the formula for determining pay comparability by including secretaries and computer operators in the annual survey of private sector wage levels. No Congressional action is required.
- This will save $1.75 billion in FY 1977, and over $8.0 billion between FY 1977 and FY 1980.
- In addition, the President proposes to hold General Schedule and military pay increases this year to an average of 4.7% (minimum 3%, maximum 5%).
- These actions are a major part of our effort to restrain growing manpower costs. Congressional approval of the President's alternative pay plan is absolutely essential to achieving a balanced Defense posture.

WAGE BOARD PAY SYSTEM REFORM

President's Budget: Assumes savings of $250 million resulting from reform of the pay system for Wage Board employees. The proposed reforms required legislative action to (1) repeal the "monroney Amendment", which causes the Government to pay Wage Board employees a higher salary than their counterparts in civilian industry, (2) adjust Wage Board pay grades so that they more closely resemble their counterparts in civilian industry, (3) eliminate the uniform night differential pay rate (which causes the Government to pay more than competitive wages) in favor of locally-established differentials, (4) equate average private sector wage to average Federal wage, and (5) adjust the comparability formula to include state and local employees in comparability calculations. The effect of these actions, taken together, could result in some Wage Board employees not receiving a pay raise in FY 1977; accordingly, the President is also proposing that every employee will receive a pay raise of at least 3%.

Congressional Action:	HASC	SASC	HAC	SAC
		+$241M		

SASC added $241 million to the budget without prejudice, pending approval of the necessary legislation.

Key Points:

- The Government is now paying wages greater than those being paid for comparable jobs in private industry.
- If the President's proposals are not approved the cost to DoD in FY 1977 will be $250 million.
- The annual savings in FY 1980 will be $1.2 billion.
- The aggregate FY 1977-1980 savings in the Defense budget alone resulting from the President's proposals will be about $3.2 billion.

ONE PERCENT RETIRED PAY "KICKER"

President's Budget: Revises the formula for automatic cost of living adjustments to civilian and military retired pay. The present formula requires that cost of living adjustments be increased by 1% over and above the actual rise in the Consumer Price Index. The President proposes, and the budget assumes, elimination of this 1% "kicker."

Congressional Action:	HASC	SASC	HAC	SAC
	+$48M	+$112M		

HASC endorsed elimination of the "kicker" but revised the savings from $112 million to $64 million or an increase of $48 million.

The SASC placed funds in the budget without prejudice, pending legislative action.

Key Points:

o Retired pay increases are adjusted periodically to keep pace with inflation as measured by the Consumer Price Index (CPI)

o When the CPI increases by 3%, and remains at or above that level for 3 consecutive months, retired pay is increased by the highest percentage attained in that 3 month period -- plus 1%.

o The additional 1% is intended to compensate for the time lag between the conditions triggering the increase and the receipt of the actual increase in retired pay.

o Studies by the Defense Manpower Commission show that the 1% "kicker" overcompensates during periods of high inflation.

o Eliminating the 1% "kicker" would save about $75 million in FY 1977 and over $1 billion between 1977 and 1980.

PHASE-OUT OF COMMISSARY SUBSIDY

President's Budget: Proposes a 3 year phase-out of the commissary subsidy, with FY 1977 savings of $94 million, and an eventual annual savings of about $340 million.

Congressional Actions:	HASC	SASC	HAC	SAC
	+$94M	+$128M*	+$128M*	

HASC and HAC are rejecting the Administration proposal and are increasing O&M funds to restore the commissary subsidy. SASC added funds without prejudice, pending legislative action.

*Preliminary estimate originally submitted with President's Budget. Correct amount is $94 million.

Key Points:

- Continued Government subsidy of the commissary system is not necessary in this period of pay comparability for military personnel.
- Labor and utility costs can be paid from sales receipts, in a manner similar to the Post Exchange system.
- Other Government support (rent-free space, tax exemptions) would continue.
- Commissary patrons would still receive, through advantages such as tax-free space and better management, average prices 10%-12% below commercial prices.
- Three year phase-out proposal would minimize the impact on commissary users.
- Making the commissaries self-supporting is probably the best way to ensure their long-term viability.
- The FY 1977 savings is $94 million, and the aggregate savings from 1977 to 1980 approaches $1 billion.

ADJUSTMENTS IN RESERVE PAY PRACTICES

President's Budget: Proposes savings of $60 million in FY 1977 through enactment of legislation and administrative action (1) eliminating dual pay (civilian and military) for Federal civilian employees on military leave for duty with Reserve Components ($45 million); (2) reducing the number of paid drill periods (from 48 to 36 to 24) for National Guard and Reserve personnel in functions where high training levels are not required to maintain sufficient proficiency ($14.9 million), and (3) eliminating the $240 annual allowance (called "administrative duty pay") for Guard and Reserve unit commanders for duties performed outside prescribed drill periods ($2.1 million).

Congressional Action:	HASC	SASC	HAC	SAC
	+$60M	+$60M	+$60M	

HASC and HAC increased funds by $60M, rejecting all DoD reserve pay adjustment proposals. SASC added funds without prejudice, pending legislative action.

Key Points:

- Dual pay (civilian and military) for reservists who are Federal employees is a residual of the low-pay, pre-All Volunteer Force era. It is no longer necessary or proper to pay Federal employees twice for annual reserve duty. Therefore, the DoD proposal is to pay the higher of the civilian or military salary, but not both, for the two-weeks annual training period.

- This follows the most common paractice of civilian firms, which is to make up the loss in salary occasioned by reserve duty of their employees.

- The reduction in paid drill periods to less than 48 for certain reservists is based on a decision that (a) certain units no longer require that level of implied readiness, and (b) certain functions do not require 48 paid drill periods to maintain proficiency.

- Administrative duty pay is also a carry-over from the earlier low-pay era and no longer appropriate.

- Taken together, these proposals will save $60 million in 1977, and $270 million between 1977-1980.

TRANSITION TO CONCEPT OF FAIR MARKET RENTAL FOR MILITARY

President's Budget: Assumes application of a larger portion of future military pay raises to the Basic Allowance for Quarters, thus raising quarters allowance at a greater percentage rate than base pay, and saving $52 million in FY 1977.

Congressional Action:	HASC	SASC	HAC	SAC
	+$52M	+$52M	+$52M	

HASC and HAC rejected the budget proposal and added $52 million to the DoD Budget. SASC added funds without prejudice, pending legislative action.

Key Points:

o Military family quarters, on average, have rental value substantially above the rates of the Allowance for Quarters, while military bachelor quarters have value substantially below current allowances.

o We propose to achieve, by 1984, a system for charging military members living in government quarters a fair market rental.

o As a first step, the Allowance for Quarters rate would be adjusted upward toward the average value of family quarters.

o We would achieve this by applying more than a proportionate share of future military pay raises into Allowances for Quarters.

o This would save $50 million in 1977, and about $700 million between 1977 - 1980.

NAVY RESERVE PAID DRILL REDUCTION

President's Budget: Reduces Navy Selected Reserve strength from 102,000 (FY 1976 Congressional appropriation level) to 52,000, by (1) eliminating 10,000 billets (principally 9 construction battalions) and (2) transferring 40,000 billets to the Individual Ready Reserve (permitting summer training but no monthly drill periods). The FY 1977 savings is $60 million.

Congressional Action:	HASC	SASC	HAC	SAC
	+$62M		+$60M	

HASC and HAC rejected the budget proposal and restored end strength to 102,000. SASC and SAC have not taken a position.

Key Points:

- The President's proposal tailors reserve training requirements to mobilization assignments, eliminates costly training that exceeds operational needs.
- The 40,000 billets transferred to Individual Ready Reserve are individual augmentees to the Shore Establishment (support)-whose readiness does not require monthly drill periods. The 15 day summer training is sufficient. Billets include intelligence, security, personnel, administration, headquarters augmentees -- needed to convert certain stations to 24 hour operations.
- The balance of 52,000 Selected Reservists -- augmentees for ship's companies, aircraft squadrons, Fleet marine forces, Sea Bees, Coastal and Inshore warfare forces -- need to train frequently as units, and will do so under the President's proposal.
- The eliminated construction battalions are clearly excess to all wartime requirements. The balance of 16 Navy construction battalions (8 active, 8 reserve), augmented by Army and Air Force engineering units, are sufficient for wartime needs.
- Savings of $60 million in FY 1977.

HASC RDT&E REDUCTION

President's Budget: Requests $10,854.4 million for RDT&E. The major thrusts of the program are to:

- Provide real growth in investment sufficient to maintain the "quality" component of the U.S. deterrent posture in the 1980's and beyond.

- Strengthen our near-term deployed capabilities by emphasizing successful completion and fielding of superior systems already in development.

- Support retention of our technological leadership in areas vital to our military security.

- Continue to produce affordable weapons and support systems and minimize costs of operating and supporting these systems.

Congressional Action:	HASC	SASC	HAC	SAC
	-$497M			

The recommended reduction of $547 million (gross) and $497 million (ret) practically eliminates the real growth urgently needed in FY 1977 to achieve long-term U.S. RDT&E objectives.

Cuts will stretch out the development of several major systems (F-18, F-15, SLCM, ASH), which were previously approved by the Congress. The delays will require program restructuring, postpone eventual deployment and increase the costs.

Key Points:

o Soviets, in words and deeds, show they are determined to achieve technological supremacy.

o Current U.S./USSR military technology trends, if continued, could result in Soviet dominance in deployed military technology in the 1980's.

o A fully-funded FY 1977 RDT&E program is required to reverse these trends and to maintain our technological initiative over the long haul.

o Reductions of this size preclude significant real growth in the US program.

o The very detailed changes in the proposed program make management of the program exceedingly difficult and much less efficient.

F-18 AIRCRAFT

President's Budget: Includes $346.9 million for continuation of of Navy's F-18 development and flight test programs.

Congressional Action:	HASC	SASC	HAC	SAC
	-$46M			

The proposed HASC decrease would require revision of the F-18 development and flight test programs. A lengthened design effort would delay the first flight of the F-18 by several months.

Key Points:

- o A reduction of this magnitude would stretch out the design effort, the major area of work during TY 1977, and delay first flight and the subsequent development milestones, including the engine development.
- o An amount in excess of the reduction would be required later in the program in order to compensate for this delay.

F-15 AIRCRAFT

President's Budget: Includes $51 million for additional testing of the F-15 tactical early warning system and for additional missile tests.

Congressional Action:	HASC	SASC	HAC	SAC
	-$45M			

Key points:

- The major portion ($29million) of the cut would prevent development of the ground equipment required to support the avionics of the F-15. The remaining $16 million would hold back necessary testing.

- These reductions will not reduce costs. In fact, they are likely to increase costs.

- The requirements will not go away, they can only be deferred until a later date -- and at a higher cost.

- The cut would also decrease the operational ready rate because the avionics maintenance would necessarily shift from a field level "repair or replace" concept to a "black box exchange" concept which would require many more spare parts. Thus, we can expect to see a dramatic decrease in the ready rate with little decrease in maintenance hours required.

AERIAL SCOUT HELICOPTER (ASH)

President's Budget: $26 million to continue competitive contractual efforts which begins in FY 19TQ.

Congressional Action:	HASC	SASC	HAC	SAC
	-$26M			

HASC deleted all funds for development of the Aerial Scout Helicopter. Committee believes Army should rely on Armed Attack Helicopter (AAH) until need for the Aerial Scout Helicopter can be fully defined.

Key Points:

- The Defense Systems Acquisition Review Council (DSARC) supports full funding of the Aerial Scout Helicopter in FY 1977 ($26 million) and initiation of the airframe in FY 1978.
- Transfer of the FY 1977 funds from Aerial Scout Helicopter to Armed Attack Helicopter will help in the face of the HASC cut, but it will have the adverse effect of breaking continuity in program management and preclude preparation for airframe contracting.
- Development of a common Target Acquisition and Designation System and Pilots Night Vision System for both the Aerial Scout Helicopter and the Armed Attack Helicopter is considered imperative.
- However, zeroing the Aerial Scout Helicopter in FY 1977 will prohibit the close interaction needed between the two Program Managers.

SEA LAUNCHED CRUISE MISSILE (SLCM)

President's Budget: Includes $164.9M for funding the SLCM engineering program.

Congressional Action:	HASC	SASC	HAC	SAC
	-$64.9M			

The proposed HASC decrease would result in a one year delay. Reductions would be taken as follows:

Delay surface ship launch	$10.2M
Delay land launch	10.7M
Delay tactical SLCM	14.6M
Reduce strategic SLCM effort	29.4M
	$64.9M

Key Points:

- This is designed to be a long-range cruise missile with both strategic and tactical uses. It will fit in torpedo tubes and be capable of launching from a variety of air, surface, subsurface and land platforms.
- The value of a cruise missile lies in its ability to attack, with a high probability of success, targets which are not defended by high quality surface-to-air missile units.
- The SLCM is needed also as a competitive hedge against performance shortfalls in the Air Launched Cruise Missile (ALCM).
- Most important, the SLCM is directly related to SALT and to hedges against failure of SALT.

DIRECTOR OF RESEARCH AND ENGINEERING EMERGENCY FUND

President's Budget: Does not include a request to establish an Emergency Fund.

Congressional Action:	HASC	SASC	HAC	SAC
	+$49M			

Projected Impact: Although HASC reduced RDT&E funds by $547 million it also proposed the establishemnt of an emergency fund of $49 million with specific instructions to use the funds as follows:

-- $15M for development of F-104 engine*

-- $15M for development of Joitn Navy/AF all-weather missile*

-- $11M for R&D effort in conversion of USS LONG BEACH to AEGIS

-- $8M for R&D effort to refurbish USS BELKNAP

*These items are significant in that they may develop into major procurement programs.

Key Points:

- An Emergency Fund would, in principle, enable DOD to meet unforeseen and unprogrammed research, development, test and evaluation needs without seriously disrupting current programs.
- In the past, this management flexibility has enabled DOD to advance military technology more than the amount of money involved would imply.
- To be a true emergency fund, however, it ought to be essentially unrestricted in use, and not designated for particular projects.

ADDITIONAL FUNDS FOR B-1 BOMBER (HAC PROPOSAL)

President's Budget: Includes $1,519.0 ($482.0 for R&D, $1,037.0 for procurement) for the B-1.

Congressional Action:	HASC	SASC	HAC	SAC
			+$200M	

HAC increased funds by $200M ($170M for R&D and $30M for procurement).

Key Points:

- DoD could use the $200 million if it is truly additional.

INITIATE PRODUCTION OF MK-12A REENTRY VEHICLE (HAC PROPOSAL)

President's Budget: Does not request procurement funds for the MK-12A. The MK-12A is still under development and will undergo qualification and flight testing in FY 1977.

Congressional Action:	HASC	SASC	HAC	SAC
			+$25M	

HAC increased funds by $25M for procurement of the MK-12A. This would advance the availability date for MK-12A by about 16 months.

Key Points:

- The MK-12A reentry vehicle for the Minuteman III ICBM takes advantage of improved technology to increase the yield of the MK-12 -- but with the same weight and the same aerodynamic and radar signature characteristics as the MK-12.
- Increased yield of the MK-12A provides a limited hard target capability for Minuteman III.

ADDITIONAL FUNDING FOR ADVANCED ICBM (MX) (HAC PROPOSAL)

President's Budget: Includes $84 million to continue development of the MX propulsion and guidance systems and to study alternate basing concepts, prior to a decision in FY 1978 on full-scale development.

Congressional Action:	HASC	SASC	HAC	SAC
			+$80M	

HAC proposes to increase funds and hasten development.

Key points: Money could be used as follows:

- Guidance and Control — about $10.0M
  Establish second source for Advanced Inertial Reference Sphere development to reduce risk of shortfall by one contractor and reduce cost by competition.

- Post Boost Vehicle — about $15.0M
  Develop preprototype bus and increase payload fraction for higher efficiency.

- Propulsion — about $15.0M
  Begin competitive development of prototype motors to reduce risk in propulsion system development.

E-3A AIRBORNE WARNING AND CONTROL SYSTEM (AWACS)

President's Budget: Includes $474.7 million for procurement of 6 AWACS aircraft during FY 1977 (1 produced every 2 months), 13 AWACS aircraft are currently on hand. Future production in FY 1978 and beyond calls for 6 per year for a projected total of 31.

Congressional Action:	HASC	SASC	HAC	SAC
			-$242M	

HAC decreased funds by $242M, approving the purchase of 3 instead of 6 AWACS during FY 1977.

HASC proposes to authorize the $474.7M for procurement of 6 AWACS aircraft but says that the funds cannot be spent until NATO makes a favorable decision for the procurement of the AWACS.

Projected Impact: According to the Air Force, the purchase of only 3 AWACS during FY 1977 would entail a production break of up to 9 months and possible additional cost up to $200M to restart production. Additionally, there would be a delivery slip up to 6 months in the overall program. The NATO negotiations are such that linking decisions by NATO countries to U. S. production for FY 1977 would risk a production break and increased costs.

Key Points:

- o A decrease of $242M in FY 1977 production funds will not provide enough resources to purchase 3 aircraft, to buy the Peculiar Support Equipment for the aircraft currently in production, or to buy advance procurement items necessary for subsequent production in FY 1978.
- o Prolonging the purchase of spares and support equipment also results in increased reliance on expensive contractor support when deploying the AWACS.
- o A stretchout in AWACS production reduces NATO incentive for near-term production funding for a NATO AWACS, resulting in possible further delay in a NATO AWACS decision.

CONTINUATION OF A-6E AIRCRAFT PRODUCTION (HASC PROPOSAL)

President's Budget: Funds were not requested in the budget for continuing Navy A-6E production in FY 1977; instead, the decision was made to terminate A-6E production after FY 1976 funding deliveries.

Congressional Action:	HASC	SASC	HAC	SAC
	+$125M			

HASC increased procurement funds to allow production of twelve A-6Es during FY 1977.

Key Points:

The DoD-proposed force is adequate because:

- There would be mutual reinforcement between Navy and Marines. The Navy needs the A-6, for (1) all-weather anti-ship, and (2) interdiction missions, while the Marines depend upon it for (3) all-weather close support. It is difficult to imagine circumstances in which all three missions would be required simultaneously.
- Since the A-6 readily operates from either the Navy carriers or Marine expeditionary fields ashore, a 12-squadron force is adequate to meet the threat with a prudent level of risk.
- There are other capable aircraft available to complement the A-6 in combat situations.

SHIP CONSTRUCTION AND CONVERSION
($ Millions)

President's Budget: Includes $6,289.5 million for construction of 16 new ships to provide significant growth in the categories of surface combatant ships and nuclear attack submarines. Funds also provided to begin growth in the support ship force.

Congressional Action:	HASC	SASC	HAC	SAC
New Ships	+$2,241M			
Cost Growth & Escal.	-$1,153M		-$800M	

HASC proposed increases of $2,241 million and decreases of $1,153 million for a net increase of $1,088 million. HASC proposals include an increase of four ships, two conversions and the initiation of long lead time procurement for four ships (see table below). HASC proposals are primarily directed toward achieving growth in nuclear ship construction.

	President's Budget		HASC Proposals		Totals
New Ships and Conversion					
Trident Submarine	1	$791.5	+1	+$728.8	2	$1,520.3
Attack Submarine	3	$958.7	+1	+$357.0	4	$1,315.7
Destroyer, AEGIS, non-nuclear	1	$858.5	-1	-$858.5	0	
Frigate	8	$1,179.5	-4	-$589.5	4	$590.0
Destroyer Tender	1	$260.4	+1	+$247.0	2	$508.0
Submarine Tender	1	$260.9	+1	+$248.1	2	$509.0
Fleet Oiler	1	$102.3	+1	+$102.4	2	$204.7
Multi-Purpose Destroyer			+4	+$940.0	4	$940.0
Service Craft		$13.5				$13.5
Rpr and Mod. USS BELKNAP				+$213.0		$213.0
Conversion, USS LONG BEACH(AEGIS)				+$371.0		$371.0
Long Lead Time (3) Cruisers (nuc)		$170.0		+$132.0		$302.0
Long Lead Time (1) CVNX Carrier				+$350.0		$350.0
Subtotal	16	$4,595.3	+4	+$2,241.9	20	$6,847.2
Other						
Outfit & Delivery		$71.0				$71.0
Cost Growth		$533.7		-$320.0		$213.7
Escalation		$1,089.5		-$833.1		$256.4
Subtotal		$1,694.2		-$1,153.1		$541.1
Total		$6,289.5		+$1,088.8		$7,378.3

Key Points:

- The President's Budget recommended a minimum prudent risk shipbuilding program for FY 1977

- The House Armed Services Committee recommended a much larger program, adding to and altering the President's proposals for new ships by $2.2 billion.

- The Administration has a new study of ship requirements underway.

- Any additions to the shipbuilding program must be separately funded, and cannot be absorbed within the Budget already proposed to the Congress.

ESCALATION AND COST GROWTH IN SHIP CONSTRUCTION COSTS

President's Budget: Proposes $1,623.2 million to complete full funding for FY 1975 and prior ships, including $1,089.5 million for cost escalation (inflation) and $533.7 million for cost growth.

Congressional Action:	HASC	SASC	HAC	SAC
	-$1,153.1M		-$800M	

HASC and HAC are recommending that funds for cost escalation be limited to those to be obligated in FY 1977, thus cutting the budget by $833 million. HASC also eliminated $320 million for settlement of claims.

Key Points:

- The $320 million is expected to be obligated for claims during FY 1977; if not appropriated other delays will result since claims, once adjudicated, must be paid.
- If other FY 1977 obligations for escalation and cost growth exceed funds proposed by HASC and HAC, funding shortages could cause reprogramming of funds and possible delay in ship completion/fleet modernization to avoid violation of the Anti-Deficiency Act.
- Funds, perhaps in greater amounts, would have to be restored in future years in order to complete current shipbuilding programs, displacing other Defense programs if DoD targets cannot be raised.
- If a buy-now, pay-later policy is adopted for cost growth and escalation, uncertainty about future financing will make all DoD planning more difficult and shipbuilding more difficult to execute efficiently.
- Despite recent deviations in practice, Congress strongly supports full-funding in principle.

INCREASE IN DEPOT MAINTENANCE

President's Budget: Includes $5,600 million for depot maintenance, which is an increase of $1 billion over FY 1976 in order to reduce the serious maintenance backlog, especially in ship overhauls.

Congressional Action:	HASC	SASC	HAC	SAC
	+$407M			

HASC believes that the budget request is too low because it did not allow for inflation.

Key Points:

- HASC increase covers inflation only
- It would permit DOD to carry out a full depot maintenance program. Without it, ship overhauls would probably be reduced from 105 to 90 in FY 1977.

REDUCTIONS IN WAR RESERVE MATERIALS

President's Budget: Includes $358 million for FY 1977 procurement of war reserve materials.

Congressional Action:	HASC	SASC	HAC	SAC
	-$179 M			

HASC reduced war reserve procurement authorization by 50%

Key Points:

- Adequate stocks of expendable war materials are an unheralded but essential element of war plan execution.
- Failure to provide adequate war reserve stocks is a fundamental deficiency in our readiness position.
- War plans call for $4.4 billion in expendable war reserve materials to keep men and machines combat operational. Present stocks contain only $1.8 billion (40% of total requirements).
- President's FY 1976 budget requested $326.8 million but only $47 million was approved. The FY 1977 request, therefore, must make up a portion of last year's deficiency.
- President's FY 1977 budget request ($358 million) represents the minimum requirements of each Service to prevent further dilution of our combat capability. Satisfaction of the total $2.6 billion deficiency is programmed to take place over five years based on successive, incremental authorizations from Congress.

PROCUREMENT OF COMMUNICATIONS EQUIPMENT

President's Budget: Requests $1,132 million, including $428 million over the FY 1976 level, primarily to provide for additional equipment procurement as follows:

	FY 1977	Growth
Satellite Communications	$627 million	$308 million
Communications Security	148 million	57 million
Tactical Communications	121 million	30 million
All other	236 million	33 million
Total	$1,132 million	$428 million

Congressional Action:	HASC	SASC	HAC	SAC
			-$100M	

HAC proposes reductions of $100 million in real growth of communications equipment procurement.

Key Points:

- Communications equipment needed on a priority basis to provide more secure and reliable means of controlling and supporting strategic and tactical forces.
- The requested increase over FY 1976 is needed to shift many systems from R&D into production.
- Satellite Communications
  - Defense Satellite Communications Program will provide four communications satellites in orbit and two spares.
  - Replace two satellites lost in May 1975 due to failure of a launch vehicle.
  - Procure replenishment satellite, launch vehicle, ground and airborne terminals, to support worldwide command and control system and improve communication with strategic forces.
- Communications Security
  - Update and expand security of record/data communications systems

- Procure new families of equipment for voice transmission security.

o Tactical Communications

- Army requires increased funding to maintain satisfactory levels of tactical radios, related equipment, and spare parts.

- Continue Navy program to automate shipboard communications.

DOD INTELLIGENCE PROGRAM

President's Budget: Requests continuation of existing intelligence programs, with no real growth from FY 1976 levels. The recent reorganization of the intelligence community was not a factor in determining budget authority for National Foreign intelligence programs. The reorganization was aimed at improving the quality of the intelligence produced, not at achieving substantial reductions in strength.

Congressional Action:	HASC	SASC	HAC	SAC
			-$75M	

HAC believes the recent national intelligence reorganization might make reductions possible in the DoD intelligence community, and therefore proposed a decrease of $75 million.

Key Points:

- The reorganization was designed to insure that
  - the U.S. has strong and effective intelligence capability and
  - that these activities are conducted in a lawful manner
- The reorganization is not effecting substantial reductions in manpower and dollars.
- The President's FY 1977 Budget request for the intelligence program calls for no real growth over FY 1976.
- DoD has already cut out lower priority programs, and only essential items have remained in the President's Budget request for the intelligence community.

UNDERGRADUATE HELICOPTER PILOT TRAINING CONSOLIDATION

President's Budget: Operation and Maintenance funding levels assumed consolidation of all Service undergraduate helicopter pilot training at Fort Rucker, Alabama.

Congressional Action:	HASC	SASC	HAC	SAC
	+$30M			

HASC, by legislative initiative, increased operation and maintenance funds by $30.4 million, the amount of the expected first year savings from consolidation.

Key Points:

- Consolidation will provide the essential training for all Services without any diminution in quality.
- Consolidation makes better use of Defense facilities.
- Consolidation will save about 2300 people
- Consolidation will save between $30 - $40 million a year.

STOCK FUND SURCHARGE

President's Budget: Requests a 7% surcharge (inflation/cost growth factor) on sales of supplies and materiel within Defense stock funds during FY 1977 ($188 million). Further requests a 7¢ per gallon increase in the cost of petroleum products purchased from stock funds ($385 million), for a total increase in authorized stock fund expenditures of $573 million.

Congressional Action:	HASC	SASC	HAC	SAC
	-$219M		-$566M	

HASC believes the surcharge concept is sound, but excessive as originally proposed, and thus reduced the proposed surcharge from 7% to 5% and the POL increase from 7¢ to 4¢ per gallon. HAC apparently rejects the surcharge in principle.

Key Points:

- The stockfund is a mechanism by which Defense purchases goods from the economy for Congressionally-approved programs, and "sells" them to the various Defense consumers. Nearly 4 million items are involved, with an annual volume of business almost $17 billion.

- Inflation causes fluctuation in the cost of supplies and materiel managed through the stock fund, and the result is that adequate funds are not available to purchase the supplies and materiel needed to support the approved programs.

- The surcharge would ensure price stabilization within the stock fund, and provide for more orderly execution of Congressionally-approved operating programs within a fixed budget - thereby maintaining the readiness of military forces.

- The surcharge would provide a uniform, controlled, and defensible cost growth factor in formulating budget estimates.

- The surcharge would minimize or avoid reprogramming actions.

- Without a surcharge, inflation will proportionately reduce the Defense Department's ability to execute approved programs with approved funds.

INCREASE STOCKPILE SALES AND RECEIPTS

President's Budget: Assumes a savings of $870 million ($746 million over and above the $124 million currently authorized by law) through FY 1977 stockpile sales.

Congressional Action:	HASC	SASC	HAC	SAC
		+$746M*		

SASC does not support stockpile sales in excess of present legal authorization. HASC approves additional sales of $746 million and total FY 1977 sales of $870 million -- as requested by the President.

* Budget Authority, not TOA.

Key Points:

- The quantities of materials proposed for disposal are clearly excess to Defense Department requirements.
- GSA has determined that the proposed sales will not result in market disruption.
- Receipts from stockpile sales are credited against FY 1977 expenditures, and result in net budget savings.
- Interagency Strategic and Critical Materials Stockpiling Study is providing a means for constant reevaluation of defense requirements versus existing stockpile levels.