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P4W 10/11

THE WHITE HOUSE
WASHINGTON

Reductions /

- 1) Military & civilian / 250,000
Industry - 100,000
- 2) 20 base closures
- 3) 8% cut in R + D.
- 4) Stretch out of aircraft
procurement.
- 5) Reduction in shipbuilding
- 6) Aircraft carriers - 13/10
- 7) Cutback tank production

THE PRESIDENT HAS SEEN.....

DEFENSE BUDGET

(\$ billions)

| | <u>TOA</u> | <u>OUTLAYS</u> |
|---|------------|----------------|
| <u>1976 Budget</u> | | |
| 1976 President's Budget | 104.7 | 92.8 |
| Congressional action to date (including outlay re-estimate of \$2 billion) | 97.6 | 91.0 |
| Defense appeal to Senate | 100.2 | 92.0 |

1977 Budget

| | | |
|---------------------------------|--------------|--------------|
| <i>May</i> OMB Planning Ceiling | 110.0 | 99.0 |
| Current Service Submits | 122.8 | 108.4 |
| Revised OMB target | 110.0 | 99.0 |
| <i>Possible</i> | <i>107</i> | <i>97</i> |
| | <i>112.4</i> | <i>100.2</i> |



EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

ACTION

MEMORANDUM FOR: THE PRESIDENT

FROM: James T. Lynn

SUBJECT: FY 1977 Defense Budget

I. BACKGROUND

At our recent budget meeting, we reviewed the large gap between current Defense plans and the OMB planning targets. I fully share your desire to develop a Defense budget which will in no way impair our military capability or signal a lack of resolve to the Soviets. With these concerns in mind, I have identified possible Defense budget reductions which will:

- ° Fully fund all of Jim Schlesinger's major force proposals.
- ° Provide real program growth of \$3 billion over 1976 and fully cover anticipated inflation.
- ° Affect only pay and support programs and have no appreciable impact on our military capability.
- ° Provide a substantial (\$4 billion) cushion for Congressional cut insurance, and
- ° Signal our continued commitment to a strong national defense by showing a 12% increase over last year (compared to a 24% increase in Jim Schlesinger's proposed budget).

These figures do not include an allowance for increased expenditures for strategic programs in the event of a breakdown in the SALT negotiations. The budget implications of a SALT amendment are discussed in the last section of this memorandum.

Program Growth in FY 1977

The Defense budget request for 1977 has increased by \$5 billion since January. At the same time Congress has reduced 1976 funding by \$7 billion, resulting in the following picture:

Defense Total Obligational Authority (TOA) (\$ billions)

| | <u>1976</u> | <u>1977</u> | <u>Increase</u> |
|---|-------------|-------------|-----------------|
| January 1975 - President's Budget | 105 | 117 | 12 |
| October 1975: | | | |
| Defense Budget Submission .. | 98 | 122 | 24 |
| OMB Proposed Alternative ... | 98 | 110 | 12 |

This \$24 billion increase is double that envisioned in January, primarily because the Defense 1977 request was developed from a 1976 program base unadjusted for Congressional reductions. In fact, Defense proposes to add to their 1977 budget all of those items deleted by Congress in 1976. The OMB proposed alternative starts from the adjusted 1976 Congressional level.

In outlays, from a 1976 level of \$91 billion, the Defense 1977 request would increase to \$109 billion. The OMB proposal of \$99 billion provides an \$8 billion increase -- which is about the same increase proposed in the 1976 Budget.

Further adjustments below this level are possible but would require substantial reductions in modernization and operating levels which would affect near and long-term capability. These reductions were included in our recent \$25 billion overall budget reduction exercise.

Secretary Schlesinger's proposed budget will hold military manpower levels of about 2,100,000 and will provide the following significant areas of real growth:

- Forces
 - Complete and equip three added Army divisions.
 - Commence buildup of four additional Air Force tactical fighter wings.

- Readiness
 - Reduce maintenance backlogs and improve supplies availability.
 - Improve capability and effectiveness of Army reserves.
- Modernization
 - Increase strategic modernization by \$2 billion.
 - Increase shipbuilding funding.
 - Increase investment in all general purpose and support areas.

The OMB alternative proposal would support the same military manning level, all of the Schlesinger force-related objectives, and much of the funds to achieve his other identified needs. Existing capabilities and readiness would not be reduced. The OMB proposal -- which would reduce the 1977 Defense total by \$12 billion -- would still include real program growth and an allowance for Congressional cuts.

These reductions are achieved by:

- ° A lower real growth increase for high priority strategic and other investment programs.
- ° More realistic estimates of inflation in investment programs.
- ° Lower pay raise assumptions.
- ° Economies resulting from eliminations or reductions of Defense frills and policies which do not affect capability.
- ° Holding existing backlogs and supply inventories to current levels.

Signals our commitment with the 1977 Defense Budget

Congressional budget reductions of about \$7 billion in TOA and \$2 billion in outlays will be reflected in the 1976 column of the 1977 Budget. The value of the 1977 Defense budget request in conveying a signal of our resolve will be directly related to the size of the year

to year increase. The Congressionally-adjusted 1976 program should be the base for arriving at the 1977 program level.

As shown in the following table, I would propose adding to the Congressionally-adjusted 1976 level all that is required for inflation as well as sizable amounts of program growth and Congressional cut insurance. These increases would be offset partially by holding pay raises to 5% and by other minor pay related and budget scrub reductions to arrive at the desired 1977 budget level.

Alternative 1977 Defense Budget
(\$ billions)

| | <u>TOA</u> | <u>Outlays</u> |
|---|------------|----------------|
| 1976 request to Congress | 105 | 93 |
| Less Congressional action | <u>-7</u> | <u>-2</u> |
| Revised 1976 program | 98 | 91 |
| Changes to arrive at desired 1977 Budget: | | |
| Add: Inflation | 9 | 7 |
| Desirable program growth | 3 | 2 |
| Congressional cut insurance .. | <u>4</u> | <u>2</u> |
| Subtotal | 114 | 102 |
| Subtract: | | |
| Hold pay raise to 5% | -2 | -2 |
| Eliminate frills and improve efficiency | <u>-2</u> | <u>-1</u> |
| Proposed 1977 Budget level | <u>110</u> | <u>99</u> |

Your Defense budget would then appear as follows:

| <u>(\$ billions)</u> | | | | | |
|----------------------|------------|------------|------------|------------|------------|
| 1975 | | 1976 | | 1977 | |
| Actual | | | | | |
| <u>TOA</u> | <u>O/L</u> | <u>TOA</u> | <u>O/L</u> | <u>TOA</u> | <u>O/L</u> |
| 89 | 86 | 98 | 91 | 110 | 99 |

% changes from
prior year

+10% +6% +12% +9%

These Defense increases over 1976 would signal our continued commitment to a strong national defense especially in the face of lesser increases, or even decreases, in other non-defense areas.

Impact of a Possible Breakdown in SALT Negotiations

The OMB planned 1977 Defense budget includes over \$12 billion for strategic programs, or an increase of more than \$2 billion over 1976. This includes increases for research and development programs and for procurement of the TRIDENT missile and the B-1 aircraft which enters major production.

Failure to negotiate an acceptable SALT agreement may require additional increases. The SALT contingency budget amendment which you requested from Secretary Schlesinger would add an additional \$2.8 billion in obligational authority to the Defense budget in 1976 and 1977. The amendment would expand development and production of ongoing systems and would lay the basis for further acceleration in 1978 and later, if required by Soviet actions. In his analysis of this amendment, Secretary Kissinger has suggested that a breakdown of SALT negotiations could require even larger additions of up to \$5 billion in 1976-77. Such additions would more rapidly accelerate ongoing programs and expand TRIDENT and B-1 production capacity. The rate of TRIDENT submarine construction would be doubled and B-1 production increased by 50%.

The Defense amendment is probably as much of an increase as Congress is likely to accept, unless the public is convinced that the Soviets intend an unrestrained expansion of their strategic forces. You approved my recommendation of September 15 that the Defense amendment should not be forwarded to Congress until necessary in the light of SALT negotiations. Any submission to Congress should be modified by excluding certain programs that fail to contribute visibly to our strategic capabilities. This modification would provide an amendment of about \$2.1 billion in 1976-77.

II. OPTIONS

The current gap between Defense and OMB on the 1977 planning level is too great to be resolved between Jim Schlesinger and myself. Your guidance is requested as to the size of the Defense program to be included in your 1977 Budget. There are two options, exclusive of SALT considerations:

1. The Defense proposal of \$122 billion in obligational authority and about \$109 billion in outlays. This will be an extension of the 1976/77 program proposed last January with addbacks for Congressional reductions in 1976.
2. The OMB proposal of \$110 billion in obligational authority and about \$99 billion in outlays. This takes off from the Congressionally-adjusted 1976 program and provides allowances for inflation, real growth and Congressional cut insurance. At \$99 billion, we are \$5 billion above the level of Defense outlays in our exercise of last month which reduced the total budget deficit for 1977 by \$25 billion. Thus, even at \$99 billion we are adding to the difficulty of reducing the total Federal deficit.

III. RECOMMENDATION

I am convinced that you can achieve your objectives of retaining our military capability and sending appropriate signals of our determination to emphasize a strong military posture with Option 2. In the event that SALT negotiations are not successful, additional funds of about \$2 billion could be requested.

Approve Option 1

Approve Option 2

ITEM WITHDRAWAL SHEET
WITHDRAWAL ID 00949

Collection/Series/Folder ID No. : 004700035
Reason for Withdrawal : NS,National security restriction
Type of Material : MEM,Memo(s)
Creator's Name : Leonard Sullivan, Jr.
Creator's Title : Assistant Secretary of Defense
Receiver's Name : James Schlesinger
Receiver's Title : Secretary
Description : Impact of major FY 77 budget reduction on DOD budget.
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THE PRESIDENT HAS SEEN...

THE WHITE HOUSE

WASHINGTON

INFORMATION

November 11, 1975

MEMORANDUM FOR:

THE PRESIDENT

FROM:

JAMES T. LYNN
BRENT SCOWCROFT

SUBJECT:

FY 1977 Defense Budget

This memo responds to your request for a joint OMB and NSC evaluation of the adjustments to reach your 1977 Budget target level suggested in the memo Secretary Schlesinger left with you on November 1. An alternate set of potential adjustments to reach the same target levels has been developed by OMB, and both lists have been reviewed by NSC for possible national security policy implications. We wish to emphasize the tentative nature of both plans since we are still reviewing the entire Defense budget. We will be ready to present firm recommendations to you in about two weeks.

There are several general points to be made about the Defense memo:

- ° The memo neglects to point out that the \$110 billion level for 1977 will provide a \$12 billion increase in total obligational authority over 1976. This increase covers inflation and includes significant real program growth.
- ° Due to the sharp decline in anticipated inflation levels since the 1976 Budget was forwarded to Congress in January, we are still estimating some real growth in the 1976 program even after Congressional reductions.
- ° The actions proposed in the Defense memo emphasize reductions in combat forces and numerous modernization programs. Many of these proposals would seriously degrade U.S. capability and would have adverse effects abroad. The OMB suggested adjustments would protect the existing force structure and would emphasize reductions in support areas and modernization.

The table below identifies the Defense and OMB adjustments required to move from a 1977 request level of \$117 billion after an initial budget scrub to target levels of \$110 or \$107 billion:

| | TOA (\$ billions) | |
|--|-------------------|-------------------|
| | Defense | OMB |
| | <u>Memo</u> | <u>Proposal</u> |
| Revised Defense Department forecast .. | 117.0 | 117.0 |
| <u>Tier I Reductions</u> | | |
| Support | -1.1 | -2.9 |
| Modernization | -4.3 | -4.0 |
| Force reductions | <u>-1.6</u> | <u>- .1</u> |
| Preliminary Guidance Level | 110.0 | 110.0 |
| <u>Tier II Reductions</u> | | |
| Support | -.4 | -1.1 |
| Modernization | -1.1 | -1.9 |
| Force reductions | <u>-1.6</u> | <u> </u> |
| Low Guidance Level | 107.0 | 107.0 |

Attachment A categorizes the reductions in greater detail. Two major differences in approach are noted:

- ° Defense proposes large force reductions while OMB proposes large support reductions in lieu of force reductions. The OMB support reductions will not hurt our defense capabilities but some will be difficult to achieve -- witness the attempt to reduce the commissary subsidy in 1976.
- ° Both Defense and OMB propose sizable modernization reductions. Defense identifies cuts in the B-1 and Trident strategic programs. OMB proposes no strategic program adjustments, and recommends larger adjustments in conventional forces and intelligence modernization. Under both approaches, there will be sizable growth in modernization above the 1976 level. NSC stresses that in the intelligence area further study of specific issues is required before any firm recommendations can be made.

The following table compares the DOD and OMB programs for 1977 with the 1976 funds anticipated to be received from Congress: (\$ billions - TOA)

| | 1976 Congress <u>Level</u> | 1977 <u>Defense</u> <u>Memo</u> | <u>OMB</u> <u>Proposal</u> |
|---------------------|----------------------------------|---------------------------------------|-------------------------------|
| Forces | 27 | 29 | 31 |
| Modernization | 31 | 39 | 39 |
| Support | <u>40</u> | <u>42</u> | <u>40</u> |
| Total | 98 | 110 | 110 |

Significant increases are provided in forces and modernization under both options. The Defense proposal produces a larger increase in support funding while the OMB proposal permits greater funds for forces. Both alternatives result in the same overall level of modernization funding.

While we have not completed our budget review and will not be prepared to present our firm recommendations on the Defense budget to you for another two weeks, we are confident that your proposed Defense budget target can be achieved without the drastic force reductions shown in the Defense memo.

Attachment

Comparison of
DOD vs. OMB Adjustments

| | <u>(\$ Billions)</u> | |
|--|----------------------|-------------|
| | <u>DOD</u> | <u>OMB</u> |
| Revised budget forecast | 117.0 | 117.0 |
| <u>TIER I</u> | | |
| A. <u>Support</u> | <u>-1.1</u> | <u>-2.9</u> |
| Construction/family housing | - .2 | - .8 |
| Military assistance program | - .4 | - |
| Enlistment bonuses, travel, and PCS moves..... | - .2 | - .6 |
| Compensation | - | - .4 |
| Real property maintenance and supply levels | - | - .7 |
| Base closings | - .3 | - |
| Civilian reductions | - | - .3 |
| Civil defense | - | - .1 |
| B. <u>Modernization</u> | <u>-4.3</u> | <u>-4.0</u> |
| Strategic: slowdown B1 and Trident .. | - .5 | - |
| Tactical: Army missiles and tanks .. | - .2 | - .2 |
| Navy ships, aircraft, weapons | -1.6 | -1.5 |
| Air Force aircraft | - .9 | -1.4 |
| Intelligence | - | - .2 |
| R&D | - .7 | - .3 |
| Communications equipment | - .4 | - .4 |
| C. <u>Force Reductions</u> | <u>-1.6</u> | <u>- .1</u> |
| Close safeguard and Nike Hercules .. | - .1 | - |
| Delete 45,000 reservists | - .1 | - .1 |
| Active/Reserve shifts | - .5 | - |
| Reduce combat unit manning | - .4 | - |
| Overseas reductions (Thailand, Panama, etc.) | - .3 | - |
| Delete 1 aircraft carrier and 5 air squadrons | - .1 | - |
| Reduce shifts in communications stations | - .1 | - |
| <u>Total Tier I Adjustments</u> | <u>-7.0</u> | <u>-7.0</u> |
| ADJUSTED 1977 DEFENSE BUDGET | 110.0 | 110.0 |

| | (\$ Billions) | |
|---|---------------|--------------|
| | <u>DOD</u> | <u>OMB</u> |
| ADJUSTED 1977 DEFENSE BUDGET | <u>110.0</u> | <u>110.0</u> |
| <u>TIER II</u> | | |
| A. <u>Support</u> | <u>- .4</u> | <u>-1.1</u> |
| Reduce family housing and pilot training | - .3 | - .3 |
| Eliminate reenlistment bonuses | - .1 | - |
| Disapprove rate stabilization | - | - .5 |
| Reduce fuel consumption by 2-1/2% .. | - | - .1 |
| Reduce 25,000 civilians | - | - .2 |
| B. <u>Modernization</u> | <u>-1.1</u> | <u>-1.9</u> |
| Army tank production | - .1 | - |
| Navy ships and aircraft | - .7 | -1.2 |
| Air Force aircraft (A-10) | - | - .2 |
| Advanced wind tunnel | - | - .4 |
| Intelligence | - | - .1 |
| Maintain 1976 real R&D program level | - .3 | - |
| C. <u>Force reductions</u> | <u>-1.6</u> | <u>-</u> |
| Strategic: delete 5 Polaris subs, all air defense and eliminate all FB-111/B-52D | - .7 | - |
| Tactical: delete 2 tactical air wings, 2 ground force divisions and 2 additional aircraft car- riers | - .9 | - |
| <u>Total Tier II Adjustments</u> | <u>-3.0</u> | <u>-3.0</u> |
| ADJUSTED DEFENSE BUDGET | 107.0 | 107.0 |