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1976 Budget  
Session With The  
President

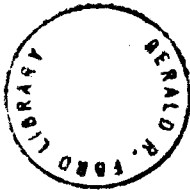
12/9/74

MEETING WITH

ROY L. ASH

Monday, December 9, 1974

2:00 P. M.



1976 Budget  
Session With The  
President  
12/9/74

THE WHITE HOUSE

WASHINGTON

December 6, 1974

MEETING WITH ROY L. ASH  
Monday, December 9, 1974  
2:00 p.m. (60 minutes)  
Oval Office

From: Roy L. Ash



I. PURPOSE

To review the FY 76 budget for the Department of Defense.

II. BACKGROUND, PARTICIPANTS AND PRESS PLAN

A. Background: The anticipated FY 76 budget requests of the Department of Defense and some alternative budget amounts are attached for your review. In that the joint Defense/OMB review of the Department of Defense budget is not completely finished yet, the agency request and the issue papers set out in the attachment represent our best estimate of the final Defense submission at this time. Eight issues raised by the DOD budget have been identified for your consideration at this meeting.

I have also requested a meeting on December 12 or 13 with you and Secretaries Kissinger and Schlesinger to further discuss these issues and to make final decisions on the FY 76 budget.

B. Participants: Roy L. Ash, Paul O'Neill, Don Ogilvie, and Dale McOmber

C. Press Plan: David Kennerly photo.

III. TALKING POINTS

Don Ogilvie, would you describe the first issue we should discuss for the Department of Defense?

Defense

THE WHITE HOUSE

WASHINGTON

December 6, 1974



MEMORANDUM FOR: THE PRESIDENT  
FROM: ROY L. ASH  
SUBJECT: 1976 Budget Decisions: Department of Defense

The anticipated agency request and some alternatives with respect to 1976 budget amounts for the Department of Defense are attached. Because the joint Defense/OMB review of the DOD budget is not yet completed, the anticipated agency request and the attached issue papers represent our best estimate of the final Defense submission.

I have requested a meeting with you, Secretary Kissinger and Secretary Schlesinger on December 12 or 13 to review these issues and reach final decisions on the Defense budget. Eight key issues have been identified for your consideration.

I. Level of Defense Budget

The most important issue is the overall level of the Defense budget. Secretary Schlesinger has indicated that he will request \$94.6 billion in outlays. However, on the basis of decisions already made, his final request will probably be closer to \$95 billion, and we have used \$95 billion in preparing the attached issue papers. This is an increase of \$10 billion over our revised 1975 outlay estimate of \$84.5 billion. It would provide for major increases (above last year) in procurement, R&D, and readiness levels, and would require no major force changes or significant reductions in personnel strengths and benefits.

Three lower alternatives have been prepared for your consideration:

- ° \$94 billion in outlays would cover estimated inflation and provide \$1 billion in real program growth over 1975.

- ° \$93 billion in outlays would cover estimated inflation and maintain the 1975 real program level.
- ° \$92 billion in outlays represents a fiscally constrained budget. After inflation, it would require a real program reduction of about \$1 billion below 1975.

All of the alternatives provide for substantial increases in budget authority over 1975. The Defense request is for budget authority of \$106 billion, 20 percent above 1975. In each of the lower alternatives, budget authority is reduced from the Defense request by an increment of \$2 billion. At the lowest level, budget authority would be \$100 billion, an increase of \$11.5 billion over 1975.

## II. Pay and Benefits

Pay-related costs have been the fastest growing portion of the Defense budget in recent years. Defense recommends no substantial changes in military salaries or benefits.

The alternatives recognize that, while pay increases have brought military salaries in line with those of civilians in the public and private sectors, little has been done to scale back special military pay-related benefits which were initiated when military salaries were relatively low. Candidates for reduction or elimination include the commissary subsidy from appropriated funds, leave payments at reenlistment, travel entitlements for junior enlisted men and the annualization of reenlistment bonuses. The fiscal constraint alternative would also reduce the anticipated October 1975 pay raise.

## III. Manpower

Military manpower is now about 20 percent below the 1964 pre-Vietnam level while civilian manpower has declined by four percent. The current 1976 Defense budget includes a one percent reduction in military manning and no reduction in civilian manpower from 1975 levels.



The alternatives propose further manpower reductions, particularly civilians, without adversely affecting forces or readiness levels. Specific candidates include a manpower drawdown at Pacific bases, an accelerated phasedown in Thailand, an anticipated 1.5 percent improvement in civilian productivity, and a reduction in the number of military officers enrolled fulltime in graduate schools. The fiscal constraint alternative imposes a larger civilian productivity reduction and further reductions in military manpower.

#### IV. Force Modernization

The largest increase in 1976 budget authority occurs in force modernization. The current Defense forecast for R&D and procurement calls for an increase of about \$10 billion in 1976 over last year. This increase recognizes the impact of inflation and includes over \$4 billion in real program growth.



The alternatives address several areas which have a large impact on 1976 budget authority, including: the impact of shipyard capacity limitations and Congressional legislation stipulating nuclear propulsion for all major combatant ships; the Defense proposal in 1975 to suspend full funding procedures to finance higher shipbuilding costs; the level of program growth in other procurement programs; and the size of the 1976 R&D program. An Administration decision on whether to request initial production funds for the B-1 in 1976 is also required.

#### V. Administrative Action

A range of administrative activities within the Department of Defense are proposed to be included in the budget at current or increased levels.

The alternatives propose that, while very large reductions in these programs would ultimately affect military readiness, minor reductions in travel, real property maintenance and selected inventory levels could be made with only limited adverse effects.

## VI. Force Structure

The Department of Defense proposes to increase the number of Army Divisions from 14 to 16 in 1976 and to reduce the number of Navy aircraft carriers from 13 to 12 in 1977. No plans are included for any reductions in reserve forces.

The alternatives propose to slow down the plan to reach a level of 16 Army Divisions by 1978, accelerate the reduction to 12 aircraft carriers from 1977 into 1976; and eliminate 60,000 marginal reservists and reserve program add-ons which do not contribute to readiness.

## VII. Intelligence

These issues will be presented for your review separately.



## VIII. Naval Petroleum Reserves

The Department of Defense proposes to request appropriations of \$270 million to increase fuel purchases so that all available fuel storage will be kept at full capacity to meet emergency requirements.

One alternative would seek authority to increase production from Naval Petroleum Reserve #1 to generate sufficient revenues to finance this additional Defense fuel requirement. The other alternative would seek authority to increase production to 160,000 barrels per day to generate sufficient resources to procure the additional fuel and further exploration and development of NPR #1 and NPR #4.

Attachments



SUMMARY

Table 1  
DEFENSE PROGRAM LEVELS  
 1976 Budget

	Actual			DOD Forecast	
	1964	1968	1974	1975	1976
OUTLAYS (\$ billions):	50.8	78.0	78.4	84.9	95.0
Constant 1976 \$	109.7	148.0	101.0	93.0	95.0
% of GNP	8.3	9.4	5.8	5.8	5.9
PERSONNEL (000) (end of year):					
Civilian (Direct Hire)	1,035	1,287	1,015	995	995
Active Military	2,685	3,547	2,161	2,137	2,113
Reserve Military	953	922	924	917	900
FORCES (end of year):					
<u>Strategic forces</u>					
<u>Intercontinental ballistic missiles:</u>					
Minuteman . . . . .	600	1,000	1,000	1,000	1,000
Titan II. . . . .	54	54	54	54	54
Polaris-Poseidon missiles . . . . .	336	656	656	656	656
Strategic bombers . . . . .	1,277	588	438	396	396
<u>General purpose forces</u>					
<u>Land forces:</u>					
Army divisions . . . . .	16-1/3	18	13	14	16
Marine Corps divisions . . . . .	3	4	3	3	3
<u>Tactical air forces:</u>					
Air Force wings . . . . .	22	23	22	22	22
Navy attack wings . . . . .	15	15	14	14	13
Marine Corps wings . . . . .	3	3	3	3	3
<u>Naval forces:</u>					
Attack and antisubmarine carriers . . . . .	24	23	14	15	13
Nuclear attack submarines . . . . .	19	33	61	65	68
Other warships . . . . .	265	298	161	164	168
Amphibious assault ships . . . . .	139	157	65	65	64

December 6, 1974



BACKGROUND

DEPARTMENT OF DEFENSE  
1976 BUDGET  
BACKGROUND AND STRATEGY

Background

Defense Department (military and military assistance) outlays were held about level at \$78-80 billion between 1968 and 1974 because inflation and increasing personnel costs were offset by manpower and force reductions resulting from phasedown from the Vietnam war and strategy change from 2-1/2 to 1-1/2 war readiness posture. During this period military manpower was reduced by 40% from the Vietnam peak of 3.5 million to 2.2 million and major reductions were made in the general purpose forces.

The 1975 budget request represented a major increase in spending -- up \$6 billion from the 1968-74 level to \$85.8 billion. The reason for the increase was that force and manpower reductions were no longer possible to mask inflation and certain required program increases.

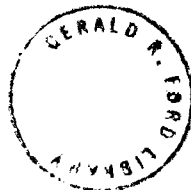
Context for Decision

No official Defense request has been received, since the joint OMB-Defense review is still in progress. We now estimate a request of about \$95 billion in outlays (up 12% from 1975); and \$106 billion in budget authority (up 20% from 1975).

The anticipated Defense request: makes no major change in force structure; provides increased levels of readiness; provides major increases in procurement and research and development; and includes no significant reductions in personnel strengths and benefits.

The planning ceiling established for Defense spending last July was \$93 billion in outlays in the context of a total budget in nearbalance at \$329 billion. Because it is so large and important a part of the total Federal budget, the defense total should be arrived at in the context of that total.

Varying levels of defense spending can be projected, depending upon fiscal policy objectives and the role assigned the defense budget in achieving any particular fiscal objective. Assuming a starting point of \$95 billion in outlays (the estimated Defense request) lower alternatives can be arrived at by application of specific decisions on a number of issues, as shown in the following table.



2.	FY 1976 Defense Issues					
	Limited Real Program Growth 1/		(\$ millions) Constant Program Level 2/		Fiscal Constraint Level 3/	
	BA	Outlays	BA	Outlays	BA	Outlays
ESTIMATED DEFENSE REQUEST	106,000	95,000	106,000	95,000	106,000	95,000
<u>Possible Reductions:</u>						
Pay and Benefits	428	406	428	406	1,108	1,086
Manpower	102	92	247	237	402	392
Force Modernization	1,255	220	2,471	607	3,311	777
Administrative Actions	50	45	330	300	360	330
Force Structure	125	120	201	190	201	190
Intelligence Programs	113	30	235	92	400	200
Naval Petroleum Reserve	270	270	270	400	270	400
TOTAL REDUCTIONS	2,343	1,183	4,182	2,232	6,082	3,375
ADJUSTED DEFENSE FORECAST	<u>104,000</u>	<u>94,000</u>	<u>102,000</u>	<u>93,000</u>	<u>100,000</u>	<u>92,000</u>

1/ Provides a 17% increase in budget authority over 1975. Assuming purchases inflation of 10%, it permits program growth of \$1 billion above the projected increased level of 1975 outlays.

2/ Provides a 15% increase in budget authority over 1975. Assuming purchases inflation of 10%, it provides the same program level as the projected increased level of 1975 outlays.

3/ Provides a 13% increase in budget authority over 1975. It is, in our view, the least painful way of reaching a fiscally constrained reduced level of defense spending.

December 6, 1974



#1 Level of  
Defense Budget

Department of Defense  
1976 Budget

Issue #1: Level of the Defense Budget

Statement of Issue

What should be the level of the Defense budget (including military functions and military assistance) in outlays as well as budget authority?

Background

The Defense budget level must be considered in the context of the total Federal budget, and in relation to the Defense spending rates in prior years. Total Federal budget outlays for 1976 are currently projected at \$343 billion with Defense included at \$93 billion. Defense outlays grew by \$4.6 billion in 1974. The current Defense forecast shows a \$6.1 billion outlay increase in 1975 and a further growth of \$10.5 billion in 1976 to reach the \$95 billion level.

In our 1975 budget restraint message we reduced Defense outlays by \$.4 billion to a level of \$83.2 billion. Review of the latest available actual 1975 outlay data has caused us to reestimate 1975 outlays upward to \$84.5 billion.

The Defense budget authority request of \$106 billion is about \$18 billion above the Congressionally-approved 1975 level. This will be the first time Defense budget authority has exceeded \$100 billion, and the percentage rate of increase is the largest since the Vietnam war.

Alternatives

- . Agency request - \$106 billion in budget authority and \$95 billion in outlays. This reflects a growth of 20% in budget authority above 1975. The outlays will cover the full costs of inflation plus \$2 billion in program growth.



- . Limited real program growth - \$104 billion in budget authority and \$94 billion in outlays. This reflects a growth of 17% in budget authority above 1975. The outlays will cover the full costs of inflation plus \$1 billion in program growth. Reductions to reach this level reflect actions to improve Defense operating efficiency, such as eliminating marginal pay-related benefits and manpower.
- . Constant program level - \$102 billion in budget authority and \$93 billion in outlays. This reflects a growth of 15% in budget authority above 1975. The outlays will cover the full costs of inflation. Reductions to reach this level include lower priority operating and force modernization programs, which have a minimal impact upon force capability and readiness. Some issues will encounter congressional opposition.
- . Fiscal constraint level - \$100 billion in budget authority and \$92 billion in outlays. This reflects a growth of 13% in budget authority above 1975. The outlays will cover inflation but will require a \$1 billion reduction in real program. Reductions to reach this level include further reductions in Defense manpower and possible adjustments to the anticipated October 1975 pay raise. Reduced Defense capabilities would result.

The table on the following page summarizes the reductions from the Defense forecast to reach each of the alternative Defense budget levels.

December 6, 1974





	Limited Real		(\$ millions)		Fiscal Constraint	
	Program Growth		Constant		Level	
	<u>BA</u>	<u>Outlays</u>	<u>BA</u>	<u>Outlays</u>	<u>BA</u>	<u>Outlays</u>
CURRENT DEFENSE FORECAST	106,000	95,000	106,000	95,000	106,000	95,000
Possible Reductions:						
2. <u>Pay &amp; Benefits</u>	(428)	(406)	(428)	(406)	(1,108)	(1,086)
A. Commissary subsidy	208	190	208	190	208	190
B. Reenlistment leave payments	40	36	40	36	40	36
C. Junior enlisted travel entitlement	60	60	60	60	60	60
D. Reenlistment bonuses	120	120	120	120	200	200
E. Government pay raise - 6%					600	600
3. <u>Manpower</u>	(102)	(92)	(247)	(237)	(402)	(392)
A. Pacific manpower	90	80	140	130	140	130
B. Civilian employment			95	95	190	190
C. Officer graduate education	12	12	12	12	12	12
D. Military personnel					60	60
4. <u>Force Modernization</u>	(1255)	(220)	(2471)	(607)	(3311)	(777)
A. Shipbuilding	455	60	571	67	571	67
B. Procurement level (excl. shipbuilding)	800	160	1500	300	2200	440
C. R&D level			400	240	400	240
D. B-1					140	30
5. <u>Administrative Actions</u>	50	45	330	300	360	330
6. <u>Force Structure</u>	(125)	(120)	(201)	(190)	(201)	(190)
A. Army 16 Division schedule	75	70	75	70	75	70
B. Navy carriers	50	50	50	50	50	50
C. Reserve forces			76	70	76	70
7. <u>Intelligence Programs</u>	113	30	235	92	400	200
8. <u>Navy Petroleum Reserve</u>	270	270	270	400	270	400
TOTAL REDUCTIONS	2343	1183	4182	2232	6052	3375
ADJUSTED DEFENSE FORECAST	104,000	94,000	102,000	93,000	100,000	92,000



December 6, 1974



DEPARTMENT OF DEFENSE  
1976 Budget

Issue #2: Pay and Benefits

In recent years the most significant Defense growth area has been in personnel-related costs. This category has grown from 42% of the defense budget in 1968 to a level of 55% by 1974, even though total manpower declined by about one-third over the same period.

A large element of that growth has been accounted for by major pay increases associated with the now successful effort to achieve an all volunteer armed force. In addition, pay costs have been boosted by automatic annual increases in military and civilian pay, both active and retired, and the frequent longevity increases in both systems.

As a result of these changes, military pay scales are now comparable with those of civilians in both the public and private sectors. While salaries have been brought in line, little has been done to scale back the plethora of military pay benefits which were initiated when military salaries were quite low. A review is also called for in the comparability linkage between civilian salaries in the public and private sectors. None of these actions would adversely affect military capabilities or readiness. Potential actions include:

	(\$ millions) <u>FY 1976 Savings</u>
. Terminate the direct subsidy to commissaries from appropriated fund and pass the costs directly on to the commissary patrons.	-190
. Limit reenlistment leave payments to enlisted personnel to those currently enjoyed by officers and civilian personnel.	-36
. Continue the existing policy of no travel entitlements to junior enlisted personnel with less than four years' service.	-60
. Go to a permanent policy of paying reenlistment bonuses in annual increments.	-120
. Initiate a major review of salary comparability between the public and private sectors.	--
Total	<u>406</u>

December 4, 1974



Department of Defense  
1976 Budget  
Issue #2A: Commissary Subsidy

Statement of Issue

Should the direct subsidy to commissaries from appropriated funds be terminated and the costs passed directly on to the commissary patrons?

Background

The Defense commissary system was initiated to meet the needs of military personnel stationed at remote locations and evolved into an economic benefit to offset low military salaries. Today the military salaries are comparable with civilians, but the Defense subsidy remains unchanged.

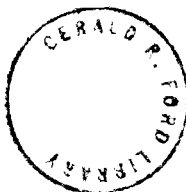
Alternatives

- #1. Continue the present program (DOD recommendation).
- #2. Terminate the existing subsidy on October 1, 1975 and submit legislation in January to implement this change (OMB recommendation).

Analysis

<u>Budget Authority/Outlays</u> (\$ Millions)	1975		1976		July 1-Sept. 30, 1976		1977	
	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>
Alt. #1 (DOD req.)	272	270	287	285	72	72	287	287
Alt. #2 (OMB rec.)	272	245	79	95	0	10	0	0

Termination of the \$287 million annual subsidy for 27,000 civilian and military direct labor personnel employed in DOD commissaries would reduce the average commissary savings from 22% to about 10-12% over commercial stores. Implementing this change in connection with the October 1, 1975 pay raise is suggested to offset partially the adverse impact of the higher prices upon commissary patrons. Legislation will be required to implement this proposal.



Agency Request: Defense believes no action should be taken at this time because of potential adverse impacts upon the all-volunteer force (AVF) and military morale.

OMB Recommendation. The commissary direct labor subsidy is no longer warranted by either the conditions of remote locations or inadequate pay levels and it should be eliminated. This subsidy is not needed for the AVF because the primary target group for first term enlistment of 17-20 year olds has little interest in commissary privileges.

December 4, 1974



Department of Defense  
1976 Budget  
Issue #2B: Reenlistment Leave Payments

Statement of Issue

Should legislation be submitted limiting reenlistment leave payments for enlisted personnel to those of officers and civilians?

Background

Enlisted personnel under existing legislation are entitled to a cash payment of up to 60 days unused leave at each reenlistment. Officers and civilians, however, are entitled to a maximum 60-day payment only once at the end of a career.

Alternatives

- #1. Attempt to reduce leave payments administratively by directing people to use their leave.
- #2. Submit legislation to limit enlisted member cash payments for unused leave to a career total of 60 days.

Analysis

<u>Budget Authority/Outlays</u> <u>(\$ Millions)</u>	1976		July 1 - Sept. 30, 1976		1977	
	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>
Alt. #1 (Agency req.)	301	306	73	97	285	264
Alt. #2 (OMB rec.)	261	270	53	75	205	190

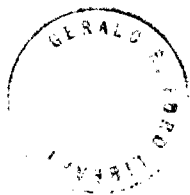


Annual leave is provided for rest and recreation purposes but has become a vehicle for large cash bonuses for enlisted men. Historically, career enlisted personnel have converted about ten days leave annually to cash payments at the end of each enlistment. Defense has decided upon administrative action to encourage greater use of leave, but they do not propose to effect permanent changes in the law. The 1976 budget currently reflects a \$40 million savings from greater utilization of unused leave, but these funds

may be restored by reclama action. A surer, permanent way to correct this situation is a statutory change limiting payment for unused leave to a career maximum of 60 days - the same benefit currently applicable to officers and civilians.

Agency Request: Alternative 1. Defense has issued a directive encouraging personnel to use more of their leave. Implementation is anticipated to reduce cash payments for unused leave by up to 50%.

OMB Recommendation. Alternative #2. Enactment of a statutory change would provide a permanent upper limit on cash payments and would bring the enlisted entitlement in line with those of officers and civilian personnel.



Department of Defense  
1976 Budget  
Issue #2C: Junior Enlisted Travel Entitlements

Statement of Issue

Should existing entitlements for travel and transportation allowances be extended to certain junior enlisted personnel?

Background

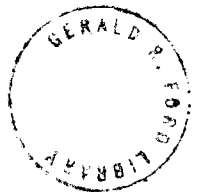
The FY 1975 budget provided for the extension to all junior enlisted personnel of entitlement to travel and transportation allowances now available only to senior enlisted personnel at a cost of \$239 million. The Congress denied these funds for reasons that included high program cost, the potential increase in the number of dependents overseas, removal of a reenlistment incentive and rejection of the equity argument when so many entitlements are differentiated by rank. The FY 1976 budget would again request these funds but only for a smaller group of junior enlisted personnel who have agreed to an active duty commitment of at least four years.

Alternatives

- #1. Extend travel and transportation allowances to junior enlisted personnel who have a four-year active duty commitment (Agency req.).
- #2. Extend travel and transportation allowances to all junior enlisted personnel.
- #3. Retain the current policy of providing travel and transportation allowances only to enlisted careerists (OMB rec.).

Analysis

Budget Authority/Outlays (\$ Millions)	1974		1975		1976		July 1-Sept. 30, 1976		1977	
	BA	0	BA	0	BA	0	BA	0	BA	0
Alt. #1 (Agency req.)	0	0	0	0	60	60	15	15	60	60
Alt. #2	0	0	0	0	184	184	46	46	184	184
Alt. #3 (OMB rec.)	0	0	0	0	0	0	0	0	0	0





Equity alone should not be the basis for extending the entitlement to junior enlisted personnel inasmuch as the entire military pay structure is based on different allowances for individuals of different grade and officer/enlisted status. Providing these entitlements in the first term of service would remove an inducement for a junior enlisted service member to reenlist since he will already be eligible for full benefits before he reaches his first reenlistment. On the other hand, by not providing these new allowances, it can prove an incentive for him to seek both promotion and reenlistment. An equity argument is significantly less compelling in an all-volunteer force than in a draft situation where draftees have no choices.

Agency Request: Alternative #1. The Department believes that extending the entitlement to junior enlisted personnel who have a four-year commitment would be equitable and would encourage longer terms of service.

OMB Recommendation: Alternative #3. Both enlistments and reenlistments are generally exceeding expectations, thus the existing compensation structure appears adequate.

December 4, 1974



Department of Defense  
1976 Budget  
Issue #2D: Reenlistment Bonuses

Statement of Issue

Should attraction and retention incentives be reduced in view of the favorable enlistment and reenlistment situation?

Background

Current law provides authority for an enlistment bonus of up to \$3,000 and for a Selective Reenlistment Bonus (SRB) of up to \$15,000. These provisions are designed to attract and retain members with special qualifications and skills and to avoid chronic shortages. They were designed to be readily started, stopped or modified to reflect changing needs of the armed forces for quantity, quality and experience levels. The SRB can be paid in a lump sum or in annual installments. A recent decision was made that only annual installments would be authorized for the future. The Agency request is based on annual installments only in FY 1975 with lump sum bonuses included in all other years.

Alternatives

- #1. Maintain attraction and retention incentives at currently planned levels and reverse the approved conversion of lump sum bonuses to annual payments (Agency req.).
- #2. Maintain attraction and retention incentives at currently planned levels but continue the conversion of lump sum bonuses to annual payments (OMB rec.).
- #3. Suspend use of the enlistment bonus, fund the Selective Reenlistment Bonus program at one-half of the Defense request and continue the conversion of lump sum bonuses to annual payments (Fiscal constraint level).



Analysis

<u>Budget Authority/Outlays</u> (\$ Millions)	1974		1975		1976		July 1-Sept. 30, 1976		1977		1978	
	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>
Alt. #1 (Agency req.)	0	0	0	0	0	0	0	0	0	0	0	0
Alt. #2 (OMB rec.)	0	0	0	0	-120	-120	-35	-35	-77	-77	-57	-57
Alt. #3	0	0	0	0	-200	-200	-55	-55	-156	-156	-136	-136

Actual experience through 31 October 1974 indicates that enlistments and reenlistments are running substantially ahead of those programmed in the Service budget estimates. In particular, Army is currently above its planned strength and has exceeded its recruiting quotas for FY 1975 to date. Recruit quotas for the next few months have been reduced. In light of recent economic forecasts, DOD should continue to exceed its attraction and retention goals through FY 1977 even without skill differential pays.

While the Services are facing less and less difficulty in meeting their numerical strengths, they continue to experience significant skill mismatch problems. Roughly 90,000 military personnel are surplus to requirements in skills better than 120% manned. A comparable deficit exists in skills less than 80% manned. Traditionally, Defense has resorted to bonus payments in its attempts to channel manpower into shortage skills. The Services, however, have recently initiated retraining, promotion and retention policy changes designed to shift personnel from overmanned to undermanned skills. This approach to specialty imbalance problems may prove to be less costly and more effective than bonus payments.

Agency Request: Alternative #1. The Department believes that converting lump sum bonuses to annual payments will reduce the incentive value of these bonuses significantly for what are primarily short-term savings. For both qualitative reasons and for avoiding skill imbalances, the Department believes the planned programs should be maintained.

OMB Recommendation: Alternative #2. The current favorable reenlistment situation, combined with recent policy incentives to manage the skill shortage problem, provides an ideal climate to reduce these costs. A change can be made in later years if there is an adverse impact on retention.

December 4, 1974



Department of Defense  
1976 Budget  
Issue #2E: Government Pay Raise

Statement of Issue

Should a Presidential commission be established to conduct a comprehensive review of possible changes in Federal compensation practices and should the FY 1976 Budget plan for a maximum increase of 6% in Federal pay?

Background

A strong case can be made that the current method of setting Federal pay rates is resulting in comparability plus, particularly in the context of total compensation. This case alleges that the combination of the virtually automatic within grade increases, the fact of grade escalation, the exclusion of large numbers of lower paid groups from pay surveys, the extremely generous retirement formula, and other fringe benefits have resulted, over the years since the comparability principle was set, in Federal total compensation that is excessive and highly inflationary. These questions pertain not only to G.S. rates but also the wage board system and retired pay. On the wage board system, the "Monroney Amendment" has resulted in wages more than 10% ahead of the locality prevailing rate in many areas and added costs to Defense of over \$50 million. The appropriateness of the CPI, and particularly the 1% "kicker," as a device to adjust Federal retirement annuities can also be questioned in that Federal retirees may be somewhat cushioned from the effects of CPI increases by health insurance and home ownership.

Alternatives

- #1. Retain the current policies for adjusting military and civilian pay and retirement annuities and plan on a major pay increase October 1, 1975 (Agency req.).
- #2. Appoint a Presidential commission to conduct a comprehensive review of possible changes in Federal compensation practices (OMB rec.).
- #3. Appoint a Presidential commission and plan on only a 6% pay increase on October 1, 1975 (Fiscal constraint level).

Analysis

<u>Budget Authority/Outlays</u> (\$ Millions)	1974		1975		1976		July 1-Sept. 30, 1976		1977	
	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>
Alt. #1 (Agency req.)	-	-	-	-	1975	1915	663	702	2664	2604
Alt. #2 (OMB rec.)	-	-	-	-	1975	1915	663	702	2664	2604
Alt. #3 (Fiscal constraint level)	-	-	-	-	1375	1315	460	488	1854	1817

There are a series of ongoing studies and proposals for change in the area of Federal pay practices. Civil Service Commission has started a major study of a total compensation survey process and methodology. The Commission is also studying the feasibility of using locality rates for lower graded General Schedule employees. The Department of Defense will soon begin the Third Quadrennial Review of Military Compensation. Recent decisions have been made to push for an increase in the employee's contribution to retirement and insurance programs and to change slightly the retirement adjustment mechanism. Defense has also decided to request legislation repealing the "Monroney Amendment" which has resulted in unwarranted increases in wage board pay rates. A Presidential commission could possibly serve to assure that these various efforts result in a coherent whole and could serve to mobilize Congressional and public support for change.

It should be noted that basing the FY 1976 budget on only a 6% increase would possibly prematurely signal a Presidential intention to submit an alternative plan under the Federal Salary Comparability Act.

Agency Request: Alternative #1. The Defense budget is based on the existing system. However, we believe Secretary Schlesinger would support a major review of current policies.

OMB Recommendation: Alternative #2. Current policies appear to be highly inflationary. It has been over 10 years since a comprehensive review was made. A new look would be timely.

December 4, 1974





Department of Defense  
1976 Budget  
Issue #3: Manpower Levels

Defense military and civilian manning levels have varied significantly in recent years. The following table reflects the buildup from the Vietnam War (1968) and the impact of the Vietnam phasedown and the shift to a 1 1/2 war strategy after 1970.

<u>Personnel</u> (000)	<u>Actual Manning</u>			<u>Defense Request</u>	
	<u>1964</u>	<u>1968</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>
Military	2,685	3,547	2,161	2,137	2,113
Civilians	1,035	1,287	1,015	995	995
Total	<u>3,720</u>	<u>4,834</u>	<u>3,176</u>	<u>3,132</u>	<u>3,108</u>

Military manpower is now about 20% below the 1964 pre-Vietnam level while civilian manpower has declined by 4%. The major increases in personnel related costs in recent years place a high premium on a more rigorous review of personnel requirements. While some improvement has occurred, opportunities exist for further manpower reductions through productivity improvements and more efficient deployment and basing patterns overseas and at home.

The following manpower reductions are recommended:

	1976 Savings (\$ millions)	Personnel	
		<u>Military</u>	<u>Civilian</u>
Adjust Pacific manpower levels and accelerate Thailand withdrawals	\$140	5,300	2,000*
Impose a 1.5% productivity savings upon civilian manpower	95		15,000
15% cutback in the number of officers in full time graduate degree programs	12	500	
	<u>\$247</u>	<u>5,800</u>	<u>17,000</u>

\*Does not include an additional 8,200 reductions in indirect hire personnel.

December 4, 1974



Department of Defense  
1976 Budget  
Issue #3A: Pacific Manpower

Statement of Issue

Should military and civilian support manpower in the Pacific be reduced, and should withdrawals from Thailand be accelerated?

Background

Throughout the Pacific, base structure and manning levels have been generated as an historical legacy of World War II and the Korean and Vietnam wars. Bases established to support combat forces continue to exist even though sponsoring units have been withdrawn or redeployed. While some reductions in support personnel are being planned by DOD, the additional reductions can be accomplished without loss of combat capabilities or combat strengths.

In addition to support personnel reductions, Thailand force redeployments currently planned for 1976 can be accelerated into 1975 without loss of contingency combat capability.

Alternatives

- #1. Continue with the current defense plan which includes some reductions in Japan, Okinawa and Taiwan, Air Force headquarters reductions in Hawaii, and 1976 force redeployments from Thailand.
- #2. In addition to the reductions provided by Alternative 1, reduce support manpower in the Pacific by 5,300 military and 10,200 direct and indirect civilian spaces by end FY 1976.
- #3. Same support manpower reductions as Alternative 2 and accelerate force redeployments from Thailand.





Analysis

<u>Budget Authority/Outlays</u> (\$ Millions)	1976		<u>July 1 - Sept.</u> <u>30, 1976</u>		1977	
	<u>BA (Δ)</u>	<u>O (Δ)</u>	<u>BA (Δ)</u>	<u>O (Δ)</u>	<u>BA (Δ)</u>	<u>O (Δ)</u>
Alt. #1 (Agency req.)	--	--	--	--	--	--
Alt. #2	-90	-80	-40	-40	-160	-160
Alt. #3 (OMB rec.)	-140	-130	-40	-40	-160	-160

The additional support manpower reductions proposed in alternative #2 would result from the following actions:

Hawaii: Consolidate Pearl Harbor base support functions with those at Hickam Air Force Base (600 military and 400 civilians).

Japan and Okinawa:

. Close Sasebo Naval Base and transfer functions to Yokosuka and Subic Bay (200 military and 600 civilians)

. Phase-out Army Corps headquarters in Japan and logistics complex on Okinawa (2,700 military reassigned to combat units, 6,100 civilian reduction).

. Reduce support manpower at Yakota and Kadena Air Force bases to levels comparable to other Air Force installations of similar size (2,200 military, 1,800 civilians).

Philippines: Support manpower reductions at Clark Air Force Base (1,700 military, 1,100 civilians).

Korea: Reduce Air Force support personnel at Osan Air Force Base (350 military, 150 civilians).

Taiwan: Reductions in support functions at Taipei and Tainan Air Force Base (280 military, 120 civilians).

Alternative #3 would, in addition, redeploy Air Force units in Thailand as follows:

. Withdraw all B-52 units to Guam by June, 1975.



. Consolidate all remaining forces in Thailand at U-Tapao Air Force Base by June, 1975.

These actions would reduce Air Force end-strength by 5,500 military and 1,300 civilian spaces by the end of FY 1975 instead of end FY 1976 as currently planned. Contingency combat capabilities, as specified in NSC guidance, would still be maintained. However, NSC may object to a reduction of U.S. presence in Thailand earlier than planned.

Agency Request: Alternative #1. Defense believes that currently planned support reductions are sufficient. DOD and Air Force would support accelerated Thailand force withdrawal but NSC is likely to oppose.

OMB Recommendation: Alternative #3. Proposed actions can be accomplished without affecting military capabilities. Visible U.S. presence in each allied nation in the Pacific is retained.



December 4, 1974

Department of Defense  
1976 Budget

Issue #3B: Civilian Employment

Statement of Issue

Should Defense civilian employment be further reduced in FY 1976 in recognition of anticipated productivity improvements?

Background

Defense civilians constitute over half the Federal work force. Despite large reductions in force structure and facilities over the past ten years, there has been only a 4 percent reduction in civilian employment while military manpower levels are 20 percent below those of 1964. Civilianization of some military positions accounts for a portion of this difference.

Alternatives

- #1. Hold Defense civilian employment to current levels (Agency req.).
- #2. Reduce Defense civilian employment by 1.5 percent from the levels requested (OMB rec.).
- #3. Reduce Defense civilian employment by 3 percent from the levels requested.

Analysis

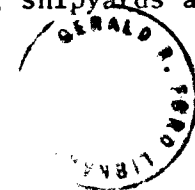
<u>Budget Authority/Outlays</u> <u>(\$ millions)</u>	<u>1976</u>		<u>July 1-Sept.</u> <u>30, 1976</u>		<u>1977</u>	
	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>
Alt. #1 (Agency req.)	0	0	0	0	0	0
Alt. #2 (OMB rec.)	-95	-95	-48	-48	-190	-190
Alt. #3	-190	-190	-95	-95	-380	-380

<u>End/Year Full Time Permanent</u> <u>Civilian Employment</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>July 1-Sept.</u> <u>30, 1976</u>	<u>1977</u>
Alt. #1 (Agency req.)	973,814	963,600	963,600	967,600	967,600
Alt. #2 (OMB rec.)	973,814	963,600	947,000	953,000	953,000
Alt. #3	973,814	963,600	935,000	939,000	939,000

For several years, a joint interagency task force has been developing and refining productivity measures for the Federal Sector. Some 60 percent of the Federal Sector work force has been covered by output per manyear measures. Productivity for the total measured sample rose at an average annual rate of 1.6 percent a year from FY 1967 to FY 1973. If the Department of Defense could achieve an overall productivity improvement of this magnitude, a minimum of 15,000 spaces in one year or up to 30,000 spaces in two years (1974-1976) could be saved.

Agency Request: Alternative #1. Defense believes that FY 1975 congressional action has accounted for near term productivity savings and that no further productivity increases should be anticipated at this time.

OMB Recommendation. Alternative #2. Civilian manpower is one of the "softest" areas in Defense. Numerous opportunities for productivity efficiencies exist at bases, depots, shipyards and in-house laboratories.



Department of Defense  
1976 Budget  
Issue #3C: Officer Graduate Education

Statement of Issue

Should the number of military officers receiving full-time free graduate education be reduced?

Background

Defense has a variety of programs to provide officers with the opportunity to obtain a graduate degree. These range from part-time programs where the individual may receive no support or as much as 75% of tuition, to full-time programs with Defense paying all costs (including pay and allowances). Presently, over 3900 officer manyears are devoted to the full-cost program.

Alternatives

1. Continue full cost program at a slightly reduced level in FY 1976 pending completion of DOD study (Agency request).
2. Reduce the proposed FY 1976 program by 521 manyears on the strength of OMB study now available (OMB recommendation).

Analysis

<u>Budget Authority/Outlays</u> (\$ Millions)	1974		1975		1976		7/1 - 9/30/76		1977		1978		1979		1980	
	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>
<u>Graduate Education:</u>																
Agency request	88.9	88.9	89.4	89.4	87.1	87.1	24.2	24.2	83.1	83.1	80.3	80.3	80.3	80.3	76.1	76.1
OMB recommendation	88.9	88.9	89.4	89.4	74.6	74.6	20.3	20.3	61.9	61.9	61.9	61.9	61.9	61.9	61.9	61.9
<u>Manyears</u>																
Agency request	4114		3906		3671		3674		3505		3385		3385		3210	
OMB recommendation	4114		3906		3150		3045		2610		2610		2610		2610	
Proposed reduction					-521		-629		-895		-775		-775		-600	



An OMB study entitled Military Officer Graduate Education (September 1974) indicated that the inventory of officers with graduate degrees exceeds requirements, that greater usage could be obtained from those personnel already having degrees, that less costly methods exist to obtain officers with degrees, that requirements methodology results in excessive graduate production, and that the Defense graduate schools are too costly. Furthermore, despite a 10% decline in requirements since FY 1974 the number of degrees is projected to increase by 10%. Thus, over 20% of all non-medical and non-legal officers will have a graduate degree.

Agency Request. Defense believes the program should continue on its present course until its own study is completed in the Spring of 1975. Any reduction now would provoke a highly emotional reaction from the military services.

OMB recommendation. This would provide enough graduates to meet shortages in principal scientific and technical disciplines, and many other fields, but contemplates a tightening up of requirements, greater use of in-house military training and part-time educational programs, and closer screening of on-board officers already having degrees.



December 4, 1974

Department of Defense  
1976 Budget  
Issue #3D: Military Personnel

Statement of Issue

Should military end strength be reduced by decreasing transient manpower authorizations?

Background

To prevent unit undermanning and thereby maintain readiness in peacetime, the Military Services assert that transient manpower authorizations are needed. These authorizations offset the personnel not available to a unit due to their traveling between assignments. However, leave taken by individuals in units is not considered. Of the 2,100,000 end strength requested by the Services in FY 1976 and FY 1977, approximately 96,000 (or 4.6%) are for transient authorizations.

Alternatives

- #1. Maintain the current system of transient authorization (Agency req.).
- #2. Reduce transients by 20,000 (about one-fourth of the transient requirement). This would mean that some units, primarily support activities, would be undermanned during peacetime, but would be fully manned in a time of mobilization (fiscal constraint level).

Analysis

<u>Budget Authority/Outlays</u> (\$ Millions)	<u>1974</u>		<u>1975</u>		<u>1976</u>		<u>July 1-Sept. 30, 1976</u>		<u>1977</u>	
	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>
Alt. #1 (Agency req.)	0	0	0	0	0	0	0	0	0	0
Alt. #2 (Fiscal constraint level)	0	0	0	0	-60	-60	-56	-56	-224	-224

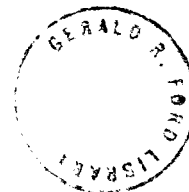


The impact of transient manpower on readiness and mobilization is unclear. If a war or an alert were declared, leave would be cancelled and transients would report to their units. Inasmuch as both combat and support activities are currently programmed at near 100%, mobilization would cause these activities to be manned in excess of 100%.

Agency Request: Alternative #1. The agency will maintain that the total transient authorization is necessary in order to preclude an undermanning of units and a consequent reduction in unit effectiveness.

Fiscal Constraint Level: Alternative #2. Leave taken in units is not a factor in developing transient requirement; while conversely leave taken in route is a factor. To reduce the transient requirement by 20,000 could mean that these activities would more nearly approximate the number of personnel required to respond to mobilization requirements.

December 4, 1974







Department of Defense  
1976 Budget  
Issue #4: Force Modernization

Funding of R&D and procurement of new Defense equipment has been substantial, but relatively constant over the past several years at a level of about \$26 billion in BA. In 1976, however, Defense is requesting a \$10 billion increase to a level of \$36 billion. It is unlikely that this 37% increase will be acceptable to Congress.

Of the \$10 billion increase in 1976, Defense has budgeted an estimated \$6 billion for inflation and cost growth (particularly in shipbuilding programs), and \$4 billion for real program increases.

The attached issues reduce the 1976 and 1977 modernization levels by:

- . Denying \$0.8 billion of an additional request of \$1.1 billion for greater than anticipated inflation.
- . Identifying deferrals and cancellations in R&D and procurement programs that can be accomplished with minimal impact on force capabilities or readiness.

A modernization level of \$33 billion is recommended, a reduction of \$2.5 billion from the Defense request but an increase of \$7 billion from 1975. This increase will provide real program growth even after anticipated Congressional cuts.

In addition, we have identified two issues, which apart from 1976 funding considerations, require special attention:

- . Shipbuilding Programs: What actions to take in response to (1) perceived shipyard capacity limitations; (2) Defense plans to break established "full-funding" procedures in 1975; (3) Title VIII requirements for an all nuclear Navy.
- . B-1 Production: Whether to request initial production funding in 1976 with the prospect of strong congressional opposition, or to defer initial funding to 1977 and major procurement to 1978.

December 6, 1974



Department of Defense  
1976 Budget  
Issue #4A: Shipbuilding

Statement of Issues

There are three issues: (1) should DOD adhere to the policy of full funding shipbuilding in FY 1975? (2) should the level of shipbuilding be reduced on the basis of schedule and capacity considerations? (3) should DOD comply with Congress's desire for surface nuclear ships even though these ships may be too expensive?

Background

Full Funding. DOD procurement programs are financed under the principle of full funding meaning that funds to cover the total estimated cost of an item are available at the time procurement action is initiated. Congress has insisted that this policy be followed and OMB Circular A-11 prescribes it as overall government policy. The FY 1975 shipbuilding budget was requested and defended to the Congress on a fully funded basis. Subsequently, the estimates for escalation and cost growth in this program increased by \$.9B, thereby precluding award of the entire program. Recently, the Secretary of Defense decided to award the FY 1975 program even though funds are not in hand to complete it and request \$.9B in the FY 1976 budget. In waiving full funding the Secretary of Defense will present Congress with a "fait accompli" since the \$.9B for the FY 1975 escalation and cost growth will be committed before Congress provides the funds.

Attack Submarines. In FY 1975 the Navy plans to award five SSN's on an option contract (three with FY 1975 funds and two in FY 1976). There are currently only two builders of nuclear attack submarines. Electric Boat has a backlog of SSN's and does not need award of additional ships until FY 1977 to maintain a continuing production line. Newport News, on the other hand, has already broken its SSN production line because it has been unable to compete with Electric Boat's prices in the past and no change in their price competitiveness is anticipated. On the basis of the Navy's most optimistic schedule, Newport News would require only four submarines prior to a second award scheduled for FY 1977. However, due to capacity limitations three submarines would be sufficient until FY 1977. In FY 1977 both Electric Boat and Newport News will need additional submarines and, therefore, competition should be keener.

Nuclear Cruiser/Title VIII. The Navy is requesting \$116M in advance procurement funds for a new ship, the Nuclear Strike Cruiser (CSGN), planned for authorization in FY 1977. The first ship is estimated to cost \$1.1B and will be equipped with the first AEGIS anti-missile defense system. The CSGN concept appears to stem from Title VIII of the FY 1975 authorization act which directs that future major combatant vessels be nuclear powered unless the President indicates that it is not in the national interest to do so. OMB has supported nuclear power for submarines; however, we do not feel that the additional capabilities of nuclear ships is worth their additional



procurement and operating costs. We have particular concern with CSGN since it is not only nuclear powered, but also because it sets forth a major new capital ship with a significantly different mission. Since the Navy has just recently introduced this idea, there are many questions which have not been adequately addressed within DOD and further analysis is required before embarking on this expensive program.

### Alternatives

- #1. Agency request, which provides for incremental funding and includes the 5 SSN program and the nuclear cruises.
- #2. Full funding. Adhere to full funding principle in FY 1975 on a line item basis. Defer award of FY 1975 ships which cannot be full funded until Congress provides the funding.
- #3. Nuclear attack submarines. Reduce the Navy's FY 1975 and FY 1976 five boat program by two submarines.
- #4. Nuclear cruiser/Title VIII. Build non-nuclear AGEIS ship in FY 1977 and defer decision on CSGN until FY 1978. Inform Congress that nuclear surface ships are not in the national interest at this time due to their high cost.
- #5. All of the above.

### Analysis

<u>Budget Authority/Outlays</u> (\$ Millions)	<u>1975</u>		<u>1976</u>		<u>July 1 - Sept. 30, 1976</u>		<u>1977</u>	
	BA	O	BA	O	BA	O	BA	O
Alt. #1 Agency request	3,129	187	5,806	973	547	456	6,337	2,196
Alt. #2 Full funding	-	-	-	-	-	-	-	-
Alt. #3 Attack submarines			-455	-60*	-37	-22	+34	-90
Alt. #4 CSGN/Title VIII			-116	-7	-61	-7	-278	-44
Alt. #5 All of the above			-571	-67	-98	-29	-244	-134

\* Based on deleting one SSN from the 1975 (167K) and 1976 (288K) programs.



Agency Request: Alternative #1. DOD prefers to waive full funding to expedite award of the 1975 program. They wish to provide a competitive SSN production capability and are more optimistic about capacity constraints. Although Secretary Schlesinger may agree that nuclear surface ships are too expensive, Congressional pressure for such ships would lead him to support the CSGN.

OMB Recommendation. Alternative #5. Full funding should be continued to avoid loss of management visibility, possible contractual difficulties, and potential Congressional adverse reaction. The attack submarine program would not suffer and a non-nuclear AEGIS ship is cost effective and would enter the fleet earlier than a CSGN.

December 4, 1974



Department of Defense  
1976 Budget  
Issue #4B: Procurement Level (excluding shipbuilding)

Statement of Issue

What should be the level of defense non-shipbuilding procurement in total obligational authority and outlays?

Background

Non-shipbuilding procurement is budgeted at \$14.5 billion in 1975 TOA. The same level of real resources in 1976 would require an increase for inflation of 16 percent, or \$2.3 billion, for a total of \$16.8 billion in 1976. The Defense request provides for \$19.3 billion, an increase of \$4.8 billion. This increase includes the full \$2.3 billion inflation allowance, an additional \$1.1 billion inflation allowance, and additional increases of \$1.4 billion in such areas as aircraft modifications and spares, communications and electronics equipment, tank procurement and tactical aircraft procurement (e.g., A-10 and F-15 aircraft).

Alternatives

- #1. Approve a level of \$19.3 billion in 1976 BA.
- #2. Approve a level of \$18.5 billion in 1976 BA, a real program increase of \$1.7 billion.
- #3. Approve a level of \$17.8 billion in 1976 BA, a real program increase of \$1.0 billion.
- #4. Approve a level of \$17.1 billion in 1976 BA, a real program increase of \$.3 billion.

Analysis

BA/Outlays (\$ billions)	1975		1976		July 1 - Sept. 30, 1976		1977	
	BA	O(Δ)	BA	O(Δ)	BA	O(Δ)	BA	O(Δ)
Alt. #1 (Agency req.)	14.5		19.3		4.2		23.6	
Alt. #2	14.5		18.5	-.16	4.2	-.32	23.6	-.24
Alt. #3 (OMB rec.)	14.5		17.8	-.30	3.7	-.70	22.5	-.87
Alt. #4	14.5		17.1	-.44	3.7	-.98	22.0	-1.2



Inflation: The additional \$1.1 billion request represents an unnecessary hedge against a much greater than anticipated rate of inflation. Alternatives 2-4 deny \$.8 billion of this additional request.

Program Adjustments: Alternatives 3 and 4 assume additional program reductions of \$.7 billion and \$1.4 billion respectively. These reductions can be selected from the following list of candidate adjustments which total about \$2 billion in 1976 BA.

(1) Aircraft Modifications: Defense has requested an increase of about \$400 million in Air Force and Navy programs, up about 50 percent from 1975. An increase of this magnitude probably could not be spent in view of large existing installations backlogs (\$-200 million).

(2) Tactical Aircraft Procurement:

- . Defer procurement of AWACS aircraft pending U.S./NATO agreements and completion of AWACS improvement program. This action has strong support in the Office of the Secretary because the current versions of AWACS is probably not suitable for NATO deployment. However, the deferral would be resisted by the Air Force and by Senators Magnuson and Jackson (\$-600 million).
- . Limit F-15 aircraft production to a rate of 72 per year versus the request of 90 aircraft in 1976 and 108 aircraft in 1977. The lower production rate permits the achievement of a less costly force mix with the introduction of the new Air Combat Fighter in late FY 1978 (\$-250 million).
- . Defer production of Navy CH-53E helicopter procurement in view of development and testing problems and R&D schedule slippages (\$-50 million).
- . Terminate the production line of the E-2C and A-6 Navy aircraft and the CH-47 and UH-1H Army helicopters. Requirements for these aircraft are marginal (\$-350 million).

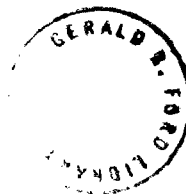
(3) Missile Procurement

- . Provide half of the requested increase for Navy and Air Force air-to-air and air-to-ground tactical missile procurement, delaying the attainment of inventory objectives (\$-240 million).
- . Defer Trident missile initial procurement funding to FY 1977, recognizing the acknowledged slip in the Trident missile development program. This deferral would still provide for deployment of the Trident system in FY 1979 as currently scheduled (\$-370 million).

Agency Request: Alternative #1. Defense believes that the requested level provides a good hedge against congressional reductions.

OMB Recommendation. Alternative #3 provides a realistic increase for inflation and a real program increase even after anticipated congressional cuts.

December 4, 1974





Department of Defense  
1976 Budget  
Issue #4C: R&D Level

Statement of Issue

What should be the 1976 level of Defense R&D?

Background

The Defense request of \$10.4B in BA represents an increase of \$1.9B from 1975. About \$1.0B of the increase is due to inflation and to transfers of programs from other appropriations, as mandated by Congress. The remaining \$0.9B represents program increases in strategic systems (e.g., B-1, Trident), tactical systems (e.g., Air Force and Navy lightweight fighter aircraft, Army Air Defense systems), and technology base programs (e.g., lasers, advanced guidance systems, electron devices).

Alternatives

- #1. Provide a level of \$10.4 billion in 1976 BA (agency req.).
- #2. Provide a level of \$10.0 billion in 1976 BA (OMB rec.).

Analysis

BA/Outlays (\$ billions)	1975		1976		July 1 - Sept. 30, 1976		1977	
	BA	O(Δ)	BA	O(Δ)	BA	O(Δ)	BA	O(Δ)
Alt. #1 (Agency req.)	8.5		10.4		2.7		11.0	
Alt. #2 (OMB rec.)	8.5		10.0	-.24	2.7	-.12	11.0	-.04

The alternative level of \$10.0 billion would still provide a \$1.5B increase from 1975 including a real increase of about \$.5B and would:

- . Provide a full range of strategic program options.
- . Protect high priority general purpose and technology programs.
- . Slow down or terminate several programs of marginal value.

Illustrative program reductions to reach a \$10.0B level are provided in the attached table.

Agency Request: Alternative #1. The Department believes that the requested level will provide a cushion against congressional cuts.

OMB Recommendation. Alternative #2. This provides an increase of \$1.5 billion from 1975 which is sufficient to cover inflation, provide for some congressional cut and allow some real program growth.

December 4, 1974



Candidate RDT&E Program Reductions

(In \$ millions)

	<u>1976 Request</u>	<u>Possible Reduction</u>		
<u>Possible Cancellations</u>				
Advanced Medium STOL Transport	55	-55	)	
Navy Carrier-on-board-delivery aircraft	25	-25	)	Marginal program requirements
EF-111 Aircraft	35	-35	)	
Subtotal		<u>-115</u>		
 <u>Possible slow-down and deferrals</u>				
Cruise Missile Programs	193	-70		Consolidates parallel Navy and A.F. programs.
Lightweight Fighter Programs	383	-30		Two month delay in Navy program.
Surface Effect Ship	79	-40		Limits program to technology effort.
UTTAS Transport Helicopter	85	-25		Recognizes 1975 program slip.
Site Defense of Minuteman	160	-20		Recognizes reorientation of program to development of sub-systems and components.
Improvements				
Fleet Ballistic Missile Accuracy/	70	-50		Slow-down because of marginal requirement.
Miscellaneous minor reductions		<u>-150</u>		
Subtotal		-385		
 TOTAL		 -500		



December 4, 1974

Department of Defense  
1976 Budget  
Issue #4D: B-1

Statement of Issue

Should B-1 initial production funding be delayed by one year?

Background

Current DOD plans call for a November, 1976 B-1 production decision with major development to begin in FY 1977. In anticipation of a go-ahead decision, initial production funds are included in the FY 1976 budget request with major procurement funding in FY 1977. Inflation and cost growth have already increased the investment cost for the full 244 aircraft program from \$11 billion in June 1970 to \$18.6 billion today. Aircraft unit costs have increased from \$46 million to \$76 million over the same period.

Alternatives

- #1. Provide initial funding for advanced procurement in the FY 1976 budget, planning for full-scale production in FY 1977.
- #2. Delay initial procurement funding until FY 1977 and full-scale production until FY 1978.

Analysis

Budget Authority/Outlays (\$ Millions)	1975		1976		July 1 - Sept. 30, 1976		1977	
	BA	O ( )	BA	O ( )	BA	O ( )	BA	O ( )
Alt. #1 (Agency req.)	445		749		199		1,499	
Procurement	--		141		79		1,117	
R&D	445		608		120		382	
Alt. #2	445		672	-15	168	-40	491	-200
Procurement	--		--		--		109	
R&D	445		672		168		382	



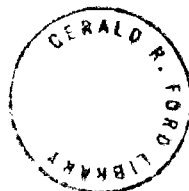
The following considerations argue for a production delay:

- . Congressional opposition. Requesting production funds in the FY 1976 budget, in advance of the completion of critical development milestones, will be strongly criticized as premature and may create an adverse congressional climate for the \$20 billion B-1 program.
- . Resolve technical uncertainties. With first flight planned for December 1974, a one year delay would allow additional time for more complete systems testing and for possible redesigns to overcome already identified technical problems such as airframe overweight. Congressional reductions to the FY 1975 R&D program have increased the risk associated with a November 1976 decision date.
- . Military need. There is no military urgency for the current B-1 production date in view of the capabilities of the B-52 and FB-111 strategic aircraft which have structural lifetimes extending beyond 1990.

It should be recognized, however, that SALT considerations may argue against any program delay.

Agency Request: Alternative #1. A delay would be strongly resisted by the Air Force and would appear inconsistent with public support of the program by Secretary Schlesinger. In addition, the principal contractors, particularly Rockwell, would experience an employment dip from a schedule delay. NSC is likely to oppose any program slip because of SALT impact.

Fiscal/Constraint/Level: Alternative #2. Delaying production by one year would avoid a congressional battle over the program in 1976 and would allow time for more complete systems testing before a major commitment to production.



December 4, 1974

#5 Administrative  
Action

Department of Defense  
1976 Budget  
Issue #5: Administrative Action

Statement of Issue

What kinds of administrative actions can be taken to reduce costs in the Department of Defense?

Background

DOD estimates include funds to continue, at current or increased levels, a number of non-force related actions such as temporary duty travel, real property maintenance and supply inventories. While these relate ultimately to military readiness, they can be reduced without noticeable impact on military capabilities.

Alternatives

1. Continue activities and maintain stock levels at the current rate.
2. Direct belt tightening and reduce travel and real property maintenance.
3. Direct belt tightening and reduce travel, real property maintenance and stock levels.
4. Same as #3 but with a greater reduction in real property maintenance.

Analysis

<u>Budget Authority/Outlays</u> <u>(\$ Millions)</u>	<u>1976</u>		<u>7/1 -</u> <u>9/30/76</u>		<u>1977</u>	
	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>
Alternative #1 (Agy request)	--	--	--	--	--	--
Alternative #2	-50	-45		-10	-50	-45
Alternative #3 (OMB recom.)	-330	-300		-30	-330	-300
Alternative #4	-360	-330		-30	-360	-330
			<u>Alt. #1</u>	<u>Alt. #2</u>	<u>Alt. #3</u>	<u>Alt. 4</u>
Travel	---			-20	-60	-60
Real Property Maintenance	---			-30	-70	-100
Inventories	---				-200	-200
				<u>-50</u>	<u>-330</u>	<u>-360</u>



- Travel. Congress is proposing a 10% reduction to federal travel programs in 1975. This proposal would continue the new limitation into 1976 and 1977.

- Real Property Maintenance. The OMB preferred alternative is 60% of a similar reduction proposed in the President's Budget Restraint message of November 26, 1974 for a six-month period.

- Inventories. As contractor backlogs decrease and deliveries accelerate the inventory required to be on hand during the reorder period can be reduced. The alternatives provide for a 15-day reduction in each year based on average production time of 9 months. Defense prefers not to anticipate but to reflect after the fact reductions.

Agency request. Alternative #1 - The DOD would prefer not making these adjustments to provide a hedge against inflation and because of possible, potential impact on readiness.

OMB Recommendation. Alternative #3 -







Department of Defense  
1976 Budget  
Issue #6: Force Structure Overview

There have been significant reductions since 1968 in our force structure and active military personnel, as shown in Table 1. These result from the termination of U.S. combat operations in Southeast Asia and revision of our ready defense posture from a 2-1/2 to a 1-1/2 war fighting capability. Reduction of the active forces has been accompanied by greater emphasis on Reserve training and readiness.

Few adjustments are planned for the relatively stable force structure and strength levels of recent years, and it is to these areas that the issues which follow - principally issues of timing - are addressed. The alternatives and resultant 1976 savings are listed below.

	(\$ Millions)
. Retain the Army's original plan for achieving a 16 division force - in FY 1978 rather than 1976 as now proposed.	-70
. Advance from FY 1977 to 1976 the Navy plan for reducing its aircraft carrier force from 13 to 12.	-50
. Eliminate 60,000 marginal Reserve spaces (mostly support) and some recent program add-ons that make only a limited contribution to readiness.	<u>-70</u>
Total	-190



December 4, 1974

Department of Defense  
1976 Budget  
Issue #6A: Army 16 Division Force

Statement of Issue

Should the plan for achieving a 16 division force within a military strength of 785,000 be accelerated from FY 1978 to 1976 as proposed by Army?

Background

The Secretary of Defense is strongly committed to a 16 division Army force as an integral part of the tail-to-teeth concept, and OMB has also supported the idea. Although Congress approved the requested end strength of 785,000 for FY 1975, support was not overwhelming and continued approval for future budgets cannot be assumed.

The formation of new divisions constitutes a major change in U. S. force structure and as such should have specific Administration approval. A positive Administration commitment to the 785,000 strength needed to achieve a 16 division force is essential to win Congressional approval.

Alternatives

- #1 Increase the Army divisions from 14 to 16 in FY 1976 (Agency request).
- #2 Increase to 15 divisions in FY 1977 and 16 in FY 1978 (Recommendation).

Analysis

<u>Budget Authority/Outlays</u> <u>(\$ Millions)</u>	July 1 - Sept. 30, 1976											
	1974		1975		1976		1977		1977		1978	
	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>
Agency Request	--	--	43	--	311	115	19	35	--	130	--	60
Proposed reduction	--	--	--	--	-75	-70	--	--	+40	+40	+35	+35
 <u>Number of active Army divisions</u>												
Agency Request	13		14		16		16		16		16	
Alternative	13		14		14		14		15		16	



In early 1974 the Army initiated a plan to convert support structure to combat forces by creating three additional divisions by FY 1978. One new division was added in 1975, with Administration approval, and two more were planned for 1977 and 1978. The plan is based on maintaining 785,000 military end strength.

The FY 1975 Procurement Authorization Act (Nunn Amendment) directed the Army to reduce support structure in Europe by end FY 1976, with permission to substitute combat units.

Agency request: The Army decided to use the Nunn Amendment as a building block and accelerate by two years the achievement of a 16 division force. While recognizing that the accelerated buildup will be attended by key equipment shortages, delayed modernization of the Reserves, extensive billeting of troops in inadequate housing, and compressed recruiting for the enlarged combat arms requirement; nevertheless, the Army is confident it can contain these difficulties and achieve a 16 division force of acceptable readiness.

OMB Recommendation. Alternative #2. Reversion to the original plan would place the activation of new divisions in a feasible time frame consistent with production availability of weapons, completion of buildings, and spreading the increased combat arms requirements over a longer period. However, Congressional support for a 785,000 strength level will be more difficult to sustain without the additional divisions to show for it.



Department of Defense  
1976 Budget  
Issue #6B: Navy Carriers

Statement of Issue

Should the planned reduction from 13 to 12 aircraft carriers be advanced from 1977 to 1976?

Background

The Navy has been directed to reduce its aircraft carrier deployments to the Pacific by one in 1977. This would leave two carriers deployed at all times in the Pacific and two in the Atlantic. These deployments would be supported by a total force of 12 aircraft carriers, down from 13 in 1976.

Decommissioning of the carrier also would entail the decommissioning of five escort ships and deactivation of five fighter/attack squadrons plus supporting search and rescue, early warning, tanker and reconnaissance aircraft.

Alternatives

- #1. Reduce carrier deployments in the Pacific by one in FY 1977 (Agency request).
- #2. Advance the reduction to FY 1976 (OMB recommendation).

Analysis

<u>Budget Authority/Outlays</u> <u>(\$ Millions)</u>	<u>1974</u>		<u>1975</u>		<u>1976</u>		<u>7/1 -</u> <u>9/30/76</u>		<u>1977</u>		<u>1978</u>	
	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>
Agency request	0	0	0	0	0	0	0	0	-52	-42	-99	-79
OMB recommendation	0	0	0	0	-50	-50	-15	-15	-99	-79	-99	-99
<u>Military End Strength (000)</u>												
Agency request	0		0		0		0		-6		-6	
OMB recommendation	0		0		-6		-6		-6		-6	

Agency request. For each of the past several years the budget plan has anticipated a reduction of one Pacific carrier in the following year. Each year the reduction has been postponed. A repetition of this pattern can be expected in the FY 1977 budget request.

OMB recommendation. The 13th carrier and supporting units are marginal and should be phased out as originally planned; however, strong objection can be expected from the Secretary of Defense.

December 4, 1974

Department of Defense  
1976 Budget  
Issue #6C: Reserve Forces

Statement of Issue

Can portions of the Selected Reserve program beyond identified Defense force requirements be eliminated?

Background

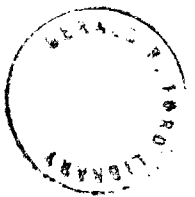
Selected Reserve strengths show a decline from 924,000 to 900,000 during the FY 1974-1976 time period. Options for lower strength levels and reduced support funding are possible without degrading the capability to meet assigned missions.

Alternatives

- #1. Continue the Reserve Forces strength and funding programs as requested by Department of Defense.
- #2. Reduce the Selected Reserve strength by 60,000 and deny large funding increases in areas where the incremental readiness improvement is marginal.

Analysis

<u>Budget Authority/Outlays</u> (\$ millions)	<u>1975</u>		<u>1976</u>		<u>July 1 - Sept.</u> <u>30, 1976</u>		<u>1977</u>	
	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>
Alt. #1 (Agency req.)	0	0	0	0	0	0	0	0
Alt. #2 (OMB rec.)	-8	-7	-76	-70	-19	-17	-149	-141



The recently completed Defense study of reserve requirements identified 45,000 Navy reserve spaces within currently planned levels which are not required to meet currently planned contingencies.

Readiness objectives could be met while reducing the training required for these 45,000 headquarters and support Naval Reservists from regular monthly paid drills plus two weeks active duty for training to only two weeks active duty for training only. In addition, it is likely the Army Reserve Strength will be programmed

to attain an end strength of 226,000 in FY 1976 in lieu of an earlier approved level of 212,400 because of a strong reclama from the Reserve community. The desirability of the increase appears questionable in that the level of 212,400 satisfies current readiness objectives. Large proposed budget increases for increased readiness levels actually are of marginal value and can be eliminated.

Agency Request: Alternative #1. Defense feels that lower strength levels will be reversed by the Congress and might lead to further Congressional legislative initiatives to manage the Reserves. They feel that support funding levels, especially those related to civilian technician manning, are "key" to combat readiness.

OMB Recommendation. Alternative #2. Forwe requirements and readiness levels can be fully satisfied by drawing down the Navy and Army Reserve strengths to the suggested levels.

December 4, 1974









Department of Defense  
1976 Budget  
Issue #8 : Naval Petroleum Reserves (NPR)

Statement of Issue

Should oil be extracted from Naval Petroleum Reserves #1 (Elk Hills, California) for use by DOD or to reduce dependence on oil imports?

Background

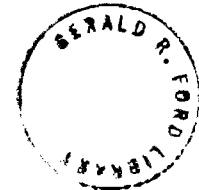
The Navy administers four reserves of crude oil. Only NPR #1 is sufficiently developed to enable quick production. Proven reserves at NPR #1 far exceed military requirements under current "worst case" scenarios. Production from the NPR could help alleviate our dependence on oil imports; however, past efforts to obtain Congressional authorization for production have failed in the HASC. The most recent effort has been pending in that committee for a year. No action is anticipated during this session. Because of DOD concern regarding another Arab oil embargo, they plan to "top-off" all tanks with 18 million barrels of POL at a projected cost of \$270 million. Fuel reserves would then exceed the additional usage projected for wartime.

Alternatives

- #1. Request appropriation of \$270 million to "top off" fuel tanks and continue to restrict oil production from NPR #1.
- #2. Seek authority to increase production from NPR #1 to cover "topping off" requirements (up to 67,000 barrels per day).
- #3. Seek authority to produce up to 160,000 barrels per day from NPR #1 with proceeds to cover costs of "topping off" and further exploration and development of NPRs #1 and #4.

Analysis

	1974		1975		1976		1977	
Budget Authority/Outlays (\$ Millions)	BA	O	BA	O	BA	O	BA	O
Alt. #1 (Agency Request)					270	270		
Alt. #2					-270	-270		
Alt. #3 (OMB Rec.)					-270	-400		



The Energy Council (Morton/Zarb) are reviewing alternatives for use of all petroleum reserves. They will probably recommend production from the Naval Petroleum Reserves but probably not under the auspices of the Navy.

OSD would probably support increased production. but the NPR office would be opposed. The HASC, which has jurisdiction for legislation related to NPRs, is opposed to any peacetime use of these reserves.

Agency Request

Alternative #1. DOD believes the positive way to get funding for "topping off" is by direct appropriation.

OMB Recommendation

Alternative #3. This would satisfy two requirements: "topping off" and increased domestic availability. Wartime requirements would be adequately covered. Continued production in subsequent years would generate \$.4B in revenues annually.

December 4, 1974



Small Agencies

NATIONAL SECURITY COUNCIL



Comments

OMB recommendation is based on projection that the NSC workload will remain essentially constant. A modest increase which largely covers space and salary costs is recommended.

	<u>Budget authority</u> (in thousands)	<u>Outlays</u> (in thousands of dollars)	Full-time permanent employment
1974 actual.....	2,802	2,531	69
1975 current estimate...	2,900	2,913	72
1976 agency request.....	3,118	3,130	75
1976 OMB recommendation.	3,000	3,002	72
Effect of OMB recom- mendation on agency request.....	-118	-128	-3
Transition period.....	650	750	72
1977 estimate.....	3,000	3,000	72

U.S. SOLDIERS' AND AIRMEN'S HOME



Comments

OMB recommendation reflects reduced funding needs due to stabilization of Home membership, reduced employment levels, and reduced usage of the Home hospital. There are no major outstanding issues.

	Budget authority (in thousands)	Outlays (of dollars)	Full-time permanent employment
1974 actual.....	14,152	14,125	1,078
1975 current estimate...	15,361	17,180	1,031
1976 agency request.....	15,840	15,853	1,014
1976 OMB recommendation.	15,700	15,705	1,014
Effect of OMB recom- mendation on agency request.....	-140	-148	---
Transition period.....	3,915	3,920	1,014
1977 estimate.....	15,700	15,700	1,014

AMERICAN BATTLE MONUMENTS COMMISSION



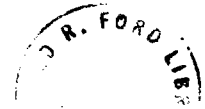
Comments

OMB recommendation allows for the continuation of the current level of operations, with modest increases to cover certain rising uncontrollable costs.

	<u>Budget authority</u> (in thousands)	<u>Outlays</u> (in thousands of dollars)	<u>Full-time permanent employment</u>
1974 actual.....	4,147	4,199	384
1975 current estimate...	4,827	4,740	392
1976 agency request.....	6,240	5,595	392
1976 OMB recommendation.	5,060	4,950	392
Effect of OMB recom- mendation on agency request.....	-1,180	-645	---
Transition period.....	1,460	1,400	392
1977 estimate.....	6,135	5,200	392



DEFENSE MANPOWER COMMISSION



Comments  
No Change from Agency Request.

	<u>Budget authority</u> (in thousands of dollars)	<u>Outlays</u> (in thousands of dollars)	Full-time permanent employment
1974 actual.....	400	28	4
1975 current estimate...	800	1,052	26
1976 agency request.....	1,300	1,260	---
1976 OMB recommendation.	1,300	1,260	---
Effect of OMB recom- mendation on agency request.....	---	---	---
Transition period.....	---	160	---
1977 estimate.....	---	---	---

CEMETERIAL EXPENSES - ARMY



Comments

The Secretary of Defense concurs in the recommendation, which sharply reduces the Army request.

	Budget authority (in thousands of dollars)	Outlays (in thousands of dollars)	Full-time permanent employment
1974 actual.....	7,898	11,104	197
1975 current estimate.....	258	7,350	220
1976 agency request.....	21,011	9,146	252
1976 OMB recommendation.....	5,617	5,500	235
Effect of OMB recommenda- tion on agency request.....	-15,394	-3,646	-17
Transition period.....	966	1,200	225
1977 estimate.....	5,400	5,800	225