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GENERAL POLICY GUIDANCE
FOR THE REVIEW OF THE FY 1969 SUPPLEMENTAL AND FY 1970 BUDGET

The FY 1969-70 budget review has now reached the point where Secretary Laird and I believe it would be desirable to state more explicitly some of the policy objectives towards which we believe we should move, pending the completion of the overall reevaluation of our national security policies, plans and programs which is now in progress. From what we have seen thus far, it is quite apparent that our predecessors, Mr. Clifford and Mr. Nitze, have done a very thorough job in preparing the Defense programs and budgets now before the Congress. We differ in some respects, however, in our assessment of the world situation and in the relative emphasis which should be given to various aspects of the Defense program. And, we do have the benefit of a "second look" based on more recent data.

Accordingly, we believe the current program and budget review should be guided by the following considerations:

1. Southeast Asia Requirements

As long as U.S. military forces are engaged in combat operations in Southeast Asia, their essential needs must be met without exception. Furthermore, we must at all times be prepared for a sudden surge of combat operations in that area -- e.g., another "Tet" offensive. At the same time we should take fully into account, in computing our requirements, the latest experience data -- activity, consumption and attrition

Office of the Secretary of Defense
Chief, RDD, ESD, WHS

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rates; stock levels in Southeast Asia and worldwide; the rapid expansibility of production from a "hot" base; etc. With the Korean war experience in mind, we must be particularly careful at this stage of the conflict in Southeast Asia to avoid overstocking and to draw down or ✓ redistribute the excesses which have already accumulated there.

We should also review the composition of our forces in Southeast Asia in the light of the changing character of the conflict. For example, there seems to be an imbalance at the present time between numbers of attack sorties (and attack aircraft) and projected air ordnance consumption. A similar imbalance appears to exist between the number of gun ships available offshore and the consumption of naval gun ammunition.

2. Non-SEA General Purpose Force Requirements

The overriding priority given to the needs of our forces in Southeast Asia during the last 3-1/2 years has apparently caused some significant distortions in the overall balance of our General Purpose Forces. Although it is highly unlikely that these imbalances can be fully rectified until the conclusion of the conflict in Southeast Asia, we should explore the possibilities of doing more to correct some of them during the FY 1970 Budget period, particularly in our forces in Europe and the Mediterranean.]

With regard to the Navy shipbuilding and conversion program, it is clear that the Department has, for some years, been pushing the modernization problem into the future. The FY 1970-74 program, while quite]

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reasonable in its parts, does not appear to be very practical as a whole; it peaks at a very high level in 1971, and then declines to a relatively low level by FY 1974. Although this is a longer range problem, it has some important FY 1970 implications, particularly with regard to multi-year programs and advance procurement for ships to be started in FY 1971. It would seem that the program must be projected over a considerably longer period than five years if we are to meet the need for fleet modernization within acceptable financial limits.

3. Strategic Forces Requirements

The rapid buildup of Soviet strategic forces during the last two or three years -- e.g., ICBMs, new SAMs and interceptors, and the projected increase in SLBMs -- is causing increasing concern with regard to the overall strategic balance between the U.S. and the Soviet Union. Similarly, the potential Chinese Communist ICBM capability is introducing a new element in the strategic threat to the U.S. Accordingly, special attention must be given during the current budget review to the adequacy of our own strategic forces, over both the near term and the longer term.

For the near term, we should consider the desirability of retaining selected elements of the strategic forces now scheduled to be phased out during the next two to three years. For the longer term, we should reexamine both our deployment and R&D programs so as to ensure that the strategic balance remains favorable to the U.S. over the next five to ten years. In this connection we should critically reexamine the

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relative cost/effectiveness of the various competing weapon systems planned for our strategic forces over the longer term, and this will require consideration of deletions from as well as additions to the forces.

In evaluating the adequacy of our strategic forces we must be sure that they will in fact perform as planned if they are needed. Our confidence, particularly in the missile systems which can not be frequently exercised in training, must be supported by adequate and realistic operational testing to the fullest extent feasible. We must also be sure that our missiles can transit a nuclear environment without degradation of their performance, during both the boost and the terminal phases.

With regard to strategic defense, the most pressing near term problem is the role of the SENTINEL system. Given the latest assessment of the strategic threat through the mid-1970s and pending the outcome of prospective talks with the Soviet Union on strategic force limitations, we believe we should move forward with the deployment of the SENTINEL system. However, both the siting plan and the deployment schedule should be reexamined.

It is clear that the siting of the SPARTAN missile launchers in heavily populated areas is causing intense opposition from the people in the localities involved. Accordingly, it would seem advisable to reconsider the presently planned deployment pattern and examine alternative arrangements which would permit the siting of the missile launchers themselves in outlying areas.

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In the light of delays already entailed by the siting problem and the additional delays which may be involved in redesigning the deployment plan, it would appear that a rephrasing of the entire SENTINEL program is now necessary. Although we believe the SENTINEL system should be deployed, we see no reason why it should not be planned on an orderly basis, even if the initial and full operational capability dates have to be slipped to some extent.

Attention should also be given to the bomber defense forces, particularly the balance among the three major components of the planned modernized force -- F-106X, AWACS and OTH radars. The manner and pace at which the old elements of the force are to be phased out should also be reexamined to ensure that a maximum amount of defense is being obtained from the resources allocated to these elements in the FY 1970 Budget and the Five Year Defense Program.

4. Airlift/Sealift Requirements

Our requirements for airlift and sealift forces are closely related to our contingency war plans, which, in turn, are directly derived from our national security policies. Inasmuch as our national security policies are now undergoing a comprehensive reassessment by the new Administration, it may be prudent to defer any new commitments in this area pending the completion of that task. This approach would be particularly relevant to the FDL program, which is scheduled to be initiated in the FY 1970 Budget. It may also have some relevance to the

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procurement of the fourth squadron of C-5As. However, we would have to consider the additional cost which would be involved in delaying the procurement of that squadron, as well as the impact on the financial position of the principal contractor.

Further study should also be given to the tactical airlift requirements, about which there appear to be some important differences of opinion within the Defense Department. In this connection, the role of the reserve components in both the tactical and strategic airlift should be reexamined.

5. Readiness for Production

Our preliminary review of the Defense Program and Budget reinforces our earlier impression that many of the serious problems encountered in production -- delays, cost overruns and failure to meet performance specifications -- could largely be avoided if more time were taken to complete development, test and evaluation of major subsystems and components. In fact, the tendency to rush into large scale production before development has been completed may well cost more time and money over the long run than a more systematic and orderly approach. While each case must be judged on its own merit, taking into account the state-of-the-art and the urgency of the requirement, it would appear that as a general rule we would be better off from every point of view with more realistic scheduling. Accordingly, we should review each new major weapon systems program reflected in the FY 1969-70 Budgets so as to ensure that the development and production schedules proposed

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are truly attainable, not only in terms of time, but of cost and performance as well.

6. The Volunteer Force

President Nixon has directed the Defense Department to study the possibilities of moving to an all-volunteer force after the conflict in Southeast Asia is terminated. It is our conclusion that the logical first step towards that objective would be the modernization of the military compensation system, a matter which has been under study in the Defense Department for the last three years. We believe that the plan developed by our predecessors can, with appropriate modifications, serve as a useful starting point in the Congressional consideration of this problem.

A preliminary costing indicates that the enactment of this plan, with an effective date of July 1, 1969, would add about \$1.2 billion to the FY 1970 Budget, over and above the \$1.8 billion already included in that Budget for the July 1, 1969 pay raise authorized by existing legislation. Under the proposed plan, some part of the \$1.2 billion in additional Defense Department expenditures would be returned to the Treasury in the form of additional tax revenues. Nevertheless, the pay reform would add a significant amount to the cost of national defense in FY 1970 and particularly in subsequent years. Accordingly, we must take advantage of every possibility for savings in the utilization of military manpower which the pay reform promises to provide, such as lower training requirements, greater manpower proficiency, etc.

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7. Economy and Efficiency

In view of the potentially dangerous economic and fiscal situation in which the Nation now finds itself, all demands on the Federal Budget must be matched against a strict set of national priorities. Since the proposed pay reform will further increase Defense expenditures and we will no doubt wish to add to certain programs included in the FY 1970 Budget transmitted to the Congress by the preceding Administration in January, we must also search out every area for potential reduction:

a. Full account must be taken of more recent experience data and other changes which have occurred since the original FY 1969 Supplemental and FY 1970 budget requests were prepared last December.

b. Programs and activities which contribute only marginally to our defense posture must be eliminated.

c. The on-going R&D program must be carefully reviewed and all projects which no longer look promising or do not now appear to be worth their cost, or the need for which is now less certain, must be ruthlessly eliminated so that the resources thus freed can be redirected to more urgent needs.

d. Although the present Administration will probably support the previous Administration's request for relief from the civilian personnel reductions imposed by the Revenue and Expenditure Control Act of 1968, the Defense Department on its own initiative should undertake a vigorous program to reduce civilian employment. Particular attention should be given to overhead activities. The buildup for the Vietnam

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conflict has been completed and it should now be possible to shake down the organization and eliminate activities which are no longer needed.

e. The Defense Department, particularly over the last three years, has accumulated a substantial backlog of needed military construction projects, and several years will be needed to work it off in a reasonable manner. It is therefore imperative that all unneeded or marginal installations be closed or their activities consolidated at other needed installations. Accordingly, a "base closing list" should be promptly prepared and the expected savings reflected in the proposed amendments to the FY 1970 Budget. In this connection, all uncommitted Southeast Asia military construction funds should be reviewed and all funds not required in FY 1969-70 should be identified so that they can either be applied to more urgent needs or eliminated from the FY 1970 budget request.

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