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THE SECRETARY OF DEFENSE  
WASHINGTON, D. C. 20301

35567

8 DEC 1971

MEMORANDUM FOR THE PRESIDENT

SUBJECT: FY 1973 Budget

The FY 1973 Defense budget will be critical for US national security. From FY 1969 through FY 1972 net Defense constant dollar outlays, excluding that spending directly attributable to Southeast Asia, have been below that for FY 1964 -- the last fiscal year preceding major US involvement in Southeast Asia. The total FY 1972 Defense expenditures -- including outlays for Southeast Asia -- will be below those for FY 1964 in constant dollars. It is unprecedented for the United States to cut its National Security spending to pre-war levels and below while US forces are still engaged in combat. The National Security interests of the United States require, in my judgment, that the trend in Defense spending be altered. An FY 1973 Defense budget with outlays of \$79.5-80.0 billion is the minimum with which we can adequately support your national security and foreign policy goals.

In the paragraphs that follow I shall make some general observations about Defense budget planning, note the high cost of our past involvement in Southeast Asia, comment on the proposed FY 1973 in the aggregate, and outline my views on selected programs and issues.

General Observations.

We have supported the shift of resources implicit in moving from a war-time to a peace-time economy during the past three years. We also have provided the forces necessary to protect our vital interests. In order to continue the latter, we must now accept the fact the so-called Vietnam dividend has been paid. As you noted in your 1971 Foreign Policy Report:

It needs to be understood with total clarity ... that defense programs are not infinitely adjustable. ... For there is an absolute point below which our security forces must never be allowed to go. ... It serves no purpose in conflicts between nations to have been almost strong enough.

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It is my purpose to recommend spending levels and military forces which provide the US strength necessary to make sturdy the foreign policy pillars of strength, partnership, and willingness to negotiate. If we are to pursue seriously Total Force planning and the Nixon Doctrine, we will need the resources I am now requesting for 1973.

Cost of Past Southeast Asia Involvement.

The cost of the US involvement in Southeast Asia has many aspects, e.g., lives lost, dollars spent, and social trauma. Not the least of the costs have been the opportunity costs. As we have used large amounts of resources in Southeast Asia, we have foregone the opportunity to use the resources for other purposes -- private or public, non-defense or defense. This opportunity cost to the US has provided the Soviet Union a unique opportunity to reduce substantially any national security advantages the United States may have held over the Soviet Union. From FY 1966 through FY 1971 the United States spent in excess of \$100 billion for Southeast Asia military operations. The Soviet outlays to North Vietnam for the same period were less than \$5 billion.

While we have been heavily engaged in Southeast Asia, the Soviet Union has built a military momentum relative to the US in virtually all aspects of military strength. Dealing with this momentum will be a complex matter. Economic strains in the Soviet Union will help. The lessening of our Southeast Asia expenditures is helping. Your many diplomatic initiatives will help. It seems clear, however, that if the latter are to have the best chance for success, we must bolster US military strength. My FY 1973 budget proposal is designed to do that.

The FY 1973 Defense Budget in the Aggregate.

The Defense components budget submission for FY 1973 submitted in accordance with the guidance discussed in the Defense Program Review Committee totaled \$81.9 billion in outlays. This guidance provided for the support of the forces contained in Table 1 at satisfactory readiness levels. Based upon our current forecast of the results of the fiscal year 1973 budget review, I expect to be able to reduce Defense component requests at a maximum by about \$2 billion without force or measurable readiness reductions. This would result in a Defense budget of \$79.7 billion in outlays. I do not believe that further general reductions can be made without impacting upon forces or necessary readiness levels.

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The Defense budget continues to be dominated by pay and related costs. These costs will consume about 54 percent of our FY 1972 outlays. Under a \$79.7 billion budget for FY 1973, they will increase to 56 percent of the Defense budget. The combination of enacted and proposed military and civilian pay raises alone will increase Defense outlay requirements in FY 1973 by \$4.9 billion over the FY 1972 level. This represents 90 percent of the outlay increase over FY 1972. We are moving into a period of major uncertainty and without modern precedent in manpower management. We are proceeding towards an All-Volunteer Force. For forces comparable in size and capability to those being planned, we have no experience without using the draft. It is almost certain, however, that unit manpower costs will continue to rise.

When price increases other than pay are considered, the constant dollar level of Defense outlays in FY 1973 at the \$79.7 billion level will be below FY 1972. It is informative to review the trends in the three principal functional areas aside from military personnel.

Account	Outlays in Constant FY 1973 Dollars			
	FY64	FY68	FY72	FY73
Ops and Maint	18.4	27.5	21.9	21.7
Procurement	20.3	28.3	18.1	17.4
R&D	10.0	9.9	8.1	8.1

In each account the proposed FY 1973 spending level is either equal to or less than the FY 1972 level. The proposed FY 1973 outlays in each account are well below the FY 1968 levels, which reflect the higher spending for Southeast Asia. But the FY 1973 proposed Procurement and R&D outlays are also well below those for the last pre-Southeast Asia involvement year of FY 1964. We are asking for what we need -- but there is no padding in the request.

It is true that we are supporting a larger overhead establishment than we need, despite more than 1,500 installation reduction actions since January 1969 and annual savings of more than \$2.5 billion. I fully support withholding additional major base closures at this time; but Defense budget requirements are higher as a result. We are reducing overhead costs by personnel attrition to the extent possible. Optimum efficiency and additional savings must await actual installation closures, however.

#### Specific Programs and Issues.

I have reviewed the suggested budget adjustments contained on Table 2 and I agree that some changes could be effected. Any lower levels will

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carry some risks as I shall try to indicate.

Over the past several years, we have made significant reductions in our air defense structure and level of operations. The proposed reduction of \$100 million in outlays would constitute a further degradation of our air defense posture. Additionally, it would require a significant reduction in the Air National Guard and Army National Guard structure. I do not believe we should reduce our air defense readiness to the extent necessary to make this saving, and I believe that a reduction in the Air and Army Guard structure is not politically feasible at this time. Some adjustments in the air defense program can be made without affecting Guard structure or significantly reducing readiness. These savings, however, are nominal for FY 1973. I therefore recommend that we plan only a minimal change in our air defense forces at this time.

The inclusion of funding for four SAFEGUARD sites in FY 1973 is a reasonable approach to this program and would maintain the option to proceed towards the twelve site objectives. I believe, however, the outlay saving related to the proposed change is closer to \$100 million than \$200 million as shown on Table 2. If this budget level is approved, I believe it essential that our public posture portray the ultimate objective for SAFEGUARD as a 12-site program. This is the logical program from a national security viewpoint. It will maintain our bargaining position with respect to SALT. It is the position we maintained in presenting the FY 1972 budget to the Congress.

We are presently making a detailed review of the intelligence program. The current Defense component requests for general intelligence are about \$400 million higher than we expect to obtain from the Congress for FY 1972. The proposed \$200 million outlay reduction would require that we hold the general intelligence effort to the FY 1972 TOA level of approximately \$3.4 billion. Because of pay and other cost increases, and the content of the intelligence program, I believe we must increase the program in FY 1973 by at least \$200 million (TOA) over the FY 1972 level. This will, however, make a reduction in outlays in this area of about \$100 million below the Service requests for FY 1973.

We have budgeted Southeast Asia tactical air sorties at the levels you previously directed. Those levels, you will recall, called for 10,000 tactical sorties a month for FY 1972 and 8,000 a month for FY 1973. In order to reduce the cost of programmed sorties by \$200 million, it would be necessary to budget for an FY 1973 average of 6,000 tactical air sorties a month. This adjustment can be made if it is acceptable to you for purposes of planning our air activities in Southeast Asia for FY 1973.

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We have been planning a \$3.5 billion outlay level for the All-Volunteer Force consistent with guidance contained in NSDM 84. By virtue of the military pay raise and other All-Volunteer Force actions, it would be necessary -- without the funding levels we have requested -- to reduce the program in the FY 1973 budget to the FY 1972 level annualized, plus allowance for the Allot pay increase. The proposed FY 1973 budget plan would disallow any new initiatives to meet Volunteer force objectives above the first year program level. Such a limitation would seriously constrain our efforts to attain an All-Volunteer Force. The limitation would require us to make significant reductions in efforts planned for special compensation incentives, recruiting, personnel housing and service attractiveness programs. In order to maintain our momentum toward attaining an All-Volunteer Force, I believe it is essential that our public image reflect full support of the program. I do not believe such support would be apparent if funding in the FY 1973 budget were held to the annualized FY 1972 level. I therefore recommend that the \$3.5 billion programming level be retained in the budget for FY 1973.

Another area of particular concern is Research, Development, Test, and Evaluation (RDT&E). Our current budget planning provides for an RDT&E program level of \$8.3 billion TOA for FY 1973. This compares to an expected Congressionally approved FY 1972 program of about \$7.7 billion. I believe that an RDT&E program of \$8.3 billion is essential for two major reasons. First, recent analyses indicate that the USSR has significantly increased its budgetary level for RDT&E. If we are to maintain our weapons superiority over the USSR, it is absolutely essential that we adequately fund RDT&E programs in our budget. Second, RDT&E is an area that is subjected to significant Congressional pressure. We were able to obtain an increase in our FY 1972 program over FY 1971 because we requested an increase of almost \$800 million for FY 1972 and strongly supported these requirements before the Congress. If we do not request a program at the \$8.3 billion TOA level, I do not believe we will obtain funding adequate to meet our needs. We can expect Congressional reductions from whatever level our budget request contains. Dave Packard is personally monitoring this program. We will hold it to the minimum level consistent with our national security needs.

I believe that it would be desirable to include and highlight some Submarine Launched Ballistic Missile (SLBM) initiatives in the budget. We have been studying several approaches, including the acceleration of ULMS as well as some possible alternatives regarding Poseidon conversions. We have concluded that it is essential to accelerate the initial operating date for ULMS. This will require outlay increases of about \$200 million and additional TOA of \$1 billion. While the outlay impact of the ULMS acceleration would be nominal in FY 1973, it would be sizeable during the FY 1974-1977 period. This is important with respect to our long range planning and the resource constraints we may face in future years. ✓

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I do not believe it is necessary to allocate additional money to Marine Corps manning and to tactical air readiness. The current budget levels for Marine Corps manning provide for a force of approximately 197,000. That is an adequate level. I would consider any add-on for this purpose to be of lower priority than the programs we are now considering. Any tactical air readiness increase would be attained primarily by increasing flying hour programs above currently budgeted levels. Again, I feel that this is not now necessary and such increases would be of lower priority than other program requirements.

We have initiated action to accelerate program execution for FY 1972 and to increase procurement of munitions and other supplies and materials for mobilization reserves where such increases would improve our readiness and provide for increased employment above our current program levels. While outlays for this effort will begin in FY 1972, they will continue in FY 1973. We estimate that this impact will be about \$200 million above our currently planned program. Provision for these increased outlays should be considered in the development of the Defense budget level for FY 1973.

Recommendation.

Based upon our current review and the considerations that I have outlined, I recommend a Defense outlay allowance for FY 1973 of \$79.5 to \$80.0 billion. This would provide for budget authority in the range of \$83 to \$84 billion. ✓

*William R. Spiro*

Enclosures

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