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MEMORANDUM

NATIONAL SECURITY COUNCIL

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December 3, 1982

MEMORANDUM FOR ROBERT C. MCFARLANE

THROUGH: RICHARD T. BOVERIE/

FROM: ROBERT W. HELM

SUBJECT: FY 84 Defense Budget Meeting

DECLASSIFIED IN FULL
 Authority: EO 13626
 Chief, Records & Declass Div, WHS
 Date:

SEP 21 2018

RCM HAS SEEN

You are scheduled to meet with Carlucci and Stockman today at 4:30 p.m. to discuss major FY 84 budget issues.

OMB intends that the meeting be philosophical in nature and not address specific issues. Stockman will try to explain OMB's general approach to the FY 84 defense budget preparation effort to Carlucci and essentially initiate the official negotiating dialogue with DOD.

OMB's approach to the FY 84 defense budget has been to start with the topline BA and outline figures specified by the President in the Mid-Session Review (\$284.7 billion in BA and \$247.0 billion in outlays). It has then tried to identify possible reductions from that topline which could be justified on the basis of prior Congressional action or new economic assumptions (inflation and wage changes). The goal is a lower defense topline (intended to help the deficit and also help lever additional social spending reductions in Congress) which can be justified as "fact of life" changes rather than as an Administration decision to reduce its defense program. Al Keel has outlined this general approach to you previously. Initial OMB calculations yield approximately \$5 billion in outlay reductions in FY 84 and \$70 billion over 5 years.

DOD is wedded to the original FY 84 defense topline contained in the February 1982 defense request and reauthorized by the President in the Mid-Session Review. DOD budget officials might be willing to agree with some of OMB's calculations of inflation and other economic changes (although they dispute the logic of all of them) and of the out-year outlay impact of FY 83 defense BA reductions made by Congress.

However, DOD argues that it has identified additional needed defense increases which will require any savings from the original topline attributable to Congressional action or economic changes. The DOD position is that there be no deviation from the established defense budget topline. Al has presented his proposal to Carlucci and the response was that Secretary Weinberger had a decision from the President on this matter supporting the topline and that any change was a matter for the President to decide.

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Given this situation, it is difficult to imagine what results will come from this meeting. Stockman may raise technical budget issues involving defense outlay rates, management savings, inflation calculations, and military pay caps as specific examples of how reductions in the defense topline could be achieved. Carlucci will counter that, even assuming changes in economic assumptions and the effects of Congressional action regarding the FY 83 defense request, justification exists for staying at the original topline.

Carlucci will also argue legislative strategy, saying that it is counterproductive to signal an Administration retreat on defense spending. If Congress is intent on reducing the defense request, the Administration should force it to cut from the original topline. He may further cite the adverse programmatic planning implications of reductions of the OMB magnitude, specifically its impact on multiyear funding arrangements and efficient procurement levels. A reduction in the topline would also throw the DOD back into a rushed time frame for identifying additional cuts. This scenario has occurred twice already.

Carlucci may also dwell on possible adverse defense and foreign policy implications of a reduction in the Administration's defense request, arguing that it would reflect Administration inconsistency, lack of commitment, indecision, and would confirm views in certain quarters that the President never had a rational and sustainable defense program. It could further be taken as an Administration admission that the global security threat is not as ominous as first presented, allowing the U.S. and its allies to all relax their defense efforts in the face of economic stress.

Stockman is capable of rebutting all of these arguments. He can cite that the proposed reductions would not represent any conscious U.S. backing down from original defense program commitment, only a recognition of economic and legislative realities. Even with OMB's proposed reductions, the Administration can still point to a very impressive five-year plan of defense improvements and funding increases compared to prior years. OMB values a sustainable defense effort as much as DOD, but that is inextricably tied to the overall health of the economy. In the current economic/political environment, prudence on defense spending levels in the short-term is desirable if Administration long-term national security goals are to be realizable. It is important that the Administration go out of its way to demonstrate some flexibility on defense spending if there is to be any success in getting Congress to adopt more repressive social spending levels and other alterations in economic policy. Similarly, our allies and enemies alike will be more impressed (and our allies more grateful) if we take steps which will improve our economic health than they would be if we adhered to some arbitrary defense spending plan.

Since both Stockman and Carlucci have valid considerations to advance, the real determinant is where the President will choose to come down on this issue. The Stockman, Carlucci meeting is

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the first step leading to a Weinberger, Stockman session with the President. In the past, he has been unshakably opposed to altering his basic defense program, but he has agreed to cuts in each budget year as the exigencies of political bargaining have demanded. The President's basic choice will be whether he wants to stick with his existing topline and accept a reduction in FY 84 only later if political bargaining with the Hill requires, or whether he chooses to endorse, in advance, a multiyear shift in his defense spending plan. Neither choice is cost free. The former risks a major political backlash and could inspire revolt even among Senate Republicans if it is regarded as simply Administration intransigence. The latter could unravel the Administration's national security program and cause great turbulence in DOD.

The best thing we can do to help the President resolve this choice is to promote his understanding of the elements of his defense program, as reflected in the budget and its national security policy implications. His decision on this matter should be based on something more than an unstructured 20 minute meeting with Stockman and Weinberger.

From a policy standpoint, no one is currently prepared to discuss the implications of what alternative defense spending levels would mean. The current defense plan is designed to achieve a certain force size and capability by a certain time. This force size, capability, and timing is presumably tied to a particular political/military situation we wish to promote and perpetuate in various regions of the world. However, since this specific relationship is never precisely articulated, we really are in no position to judge how sensitive our national security policy goals are to levels of defense spending.

Less money for DOD inevitably means more selective prioritization of objectives, which means certain desirable defense efforts would have to be reduced, deferred, or withheld altogether. National security requires that certain priorities must be accommodated. If the current defense topline reflects priorities essential to policy goals, then it should be protected; but DOD must be able to fully explain such a relationship.

DOD should be tasked to prepare a presentation to the President and the NSC which illustrates the relationship between force capability goals (hopefully in terms of regional security policy objectives) and the budget request. The SIG/DP would be the appropriate forum in which to initiate such an examination. Secretary Weinberger could then present this overview to the President. Secretary Shultz, Stockman, and others could then comment as required. The President might very well decide to hold to the original defense topline after such a discussion (and there are compelling reasons for him to do so), but he would do so on the basis of a comprehensive presentation.

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~~CONFIDENTIAL~~Recommendation

At today's meeting, you will not be asked to do anything other than listen. As you do, consider what type of Presidential action would be best suited to resolve this issue quickly within the Administration and what type of forum would best serve the President. You should also ask Stockman and Carlucci what the OMB and DOD budget preparation timetables are -- when can this issue of the proper defense topline be resolved? Planning ahead should begin immediately on a presentation to the President which would summarize the FY 84 and outyear defense budget and discuss its policy significance. The SIG/DP should oversee preparation of this presentation and it should serve as the President's basis for his defense spending decision.

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

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