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SECRETARY OF DEFENSE
3-7-81

ASSISTANT SECRETARY OF DEFENSE

WASHINGTON, D.C. 20301



INTERNATIONAL SECURITY AFFAIRS

13 MAR 1981

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Authority: EO 13526
Chief, Records & Declass Div, WHS
Date: AUG 27 2018

In reply refer to:
I-05687/81

NATO 092

MEMORANDUM FOR THE SECRETARY OF DEFENSE
DEPUTY SECRETARY OF DEFENSE
THROUGH: USD(P&A) 13 MAR 1981
SUBJECT: Improvements to NATO's 3 Percent Real Increase Resource Guidance -- ACTION MEMORANDUM (C)

(C) The 3 percent figure serves two purposes. First, politics. It provides political leverage whereby defense ministries can obtain adequate budgets and to justify those budgets to their publics. It gives us leverage to press Allies who are not doing their share.

(C) Second, substance. The 3 percent goal has an important role in NATO planning. It appears in the ministerial guidance document, approved every two years. This document is now in draft form. It will be approved by you and the other ministers at the DPC meeting in May. The Guidance is the standard against which NATO commanders must measure their force recommendations, which will be published in detail in May of 1982 as the NATO force goals for 1983-88. So the Guidance at the May DPC meeting is substantively important.

(C) Pros and Cons of Current 3% Guidance in the Political Area. The 3 percent target has helped most MODs within their own governments to obtain a higher level of defense spending. Nor do we believe it has held anyone back from larger increases. Not many countries have gone over the 3 percent in one year or another. The main drawback in the political area has been the effect on US relations with the FRG. The FRG finance minister (like OMB in the previous administration) succeeded in holding defense spending below the 3 percent level. MOD Apel was given the task of justifying the shortfall. The US for its part launched an attack on the FRG, because the FRG was better able than any other Ally to meet the target. If the FRG failed, other countries would have a good excuse to do likewise.

(C) Pros and Cons of Current 3 Percent Guidance as a Standard for Military Planning. In the past, the major NATO commanders (MNCs) took the 3 percent guidance and designed force goals around a 4 percent increase in order to provide a 1 percent challenge. The result has been that no country fulfilled its force goals and therefore force goals have been rather ineffective as a means of judging whether a country was doing its part.

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(2) Modifying the 3 Percent Guidance. To make guidance more effective in both the political and the force planning areas, we seek SecDef approval to propose the following modifications:

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- Seek wording in Ministerial Guidance which makes 3 percent guidance a minimum and makes it clear that 3 percent is not adequate at the present time. Approval: OK
 - Find some means of giving credit for economic assistance to Allies such as Turkey and Portugal. (In the past only military assistance has been counted; the Germans feel they should have credit for their economic contributions. Obviously, this will not increase German military spending but it will have a positive bilateral effect and it will allow a greater defense effort by Portugal and Turkey.) Approval: no
 - To assist in both political and force planning areas, make the force goals a more specific measure of performance. For example, we might do this by redistinguishing between minimum essential goals at the 3 percent level and additional important goals at the 3 to 4 percent level and also at the 4 to 5 percent level. Approval: OK
- Finally, we would focus on particular force goals in our meetings with Allies and in the annual defense review, so that the US pressure would be for performance of essential tasks not just a budget number. We will submit these goals to you in mid April. Approval: OK

Mr. West has approved this position.

For our own internal use in weighing allied performance and deciding what positions to take with individual Allies, our report on Allied commitments to defense spending which you forwarded to Congress a short time ago provides a detailed analysis of allied performance in a wide variety of areas.

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Franklin D. Kramer
Franklin D. Kramer
Acting Assistant Secretary of Defense
International Security Affairs

Attachment
Report to Congress on
Allied Commitments to
Defense Spending, Mar 1981

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