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THE SECRETARY OF DEFENSE

WASHINGTON, THE DISTRICT OF COLUMBIA

#36

December 17, 1984

*Bud*

MEMORANDUM FOR THE ASSISTANT TO THE PRESIDENT FOR  
NATIONAL SECURITY AFFAIRS

I have carefully reviewed your proposal to reduce the Department's 1986 budget request from \$324.8B to \$302.3B. I am sorry I cannot agree with it. Your proposal would substantially reverse the progress we have made in the past four years to improve the quality of our manpower and upgrade the readiness and sustainability of our conventional forces. While it is true that your proposal would retain the full measure of the President's strategic program - 48 MX missiles, 48 B-1 bombers, and a \$3.8B SDI program, it would, I am afraid, lead Congress to accept the cuts you make and also look for larger cuts, starting with the President's strategic program.

There is a serious misconception about, reflected in all of David Stockman's many presentations, and reflected to some extent in your proposal, that some portion of the defense budget is dedicated to obtaining real strength, and some other portion is not. It is thought to follow from this that cuts can be made in something other than "real program" without hurting our defense posture. This is, to be frank, Bud, dangerous nonsense. Each year the defense budget is designed to provide maximum "real program" within a fixed top line. The FY 1986 budget is no exception.

You identify a \$3.8B "program cut" in your proposal that you acknowledge would affect "real program". This would necessarily come from readiness, sustainability, and conventional modernization.

The same is true of the \$6.4B so-called "hidden BA savings". Needless to say, there is no such line item in our budget. But even assuming, for the sake of argument, that such a thing as "hidden BA savings" exists, the important question would be to find where they are "hidden". The answer is, of course, that they would be "hidden" in "real program". Now if our "real program" had grown over the past year to absorb these funds, it might be possible to identify the new components they have funded and thus cut only "new real program". As you know, however, our program has actually been cut; thus, even if these funds really did exist and have migrated, they would now be funding old real program in any sense of the term and their elimination, assuming they could be found, would be a real program cut.

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The same is true of the so-called \$3.0B "set-aside". I, of course, had included this reduction, priced at \$2.4B, in my proposal to the President. It represents real program that will not be available to us. Much of it has already been allocated to cover shortfalls in the Service submission and it, or an equivalent amount, will have to be reclaimed in the form of real program cuts. (Among other items, the "set-aside" has been used to fund the E-6A program and a SSN 688, important and real enough programs in their own right even if Norm Dicks and Lowell Weicker had not identified them as the price of their support for the MX in previous years.)

It may be argued whether cuts in civilian pay have an adverse impact on "real program". My own view is that they hurt us significantly in reducing our ability to retain high quality people; however, I have felt that any pay policy established for non-DoD civilians should also apply to DoD, and, as you know, I included \$3.1B in civilian pay in my proposal to the President. I understand that this should now be repriced at \$2.7B, based on an effective date of January 1, 1986 rather than October 1, 1985 for the 5% cut.

Whatever may be the case on civilian pay, however, the experience of the past eight years demonstrates conclusively that cuts in military pay have a direct and immediate effect on our military strength. The reduction you propose in military pay will lower the quality of people we can attract and retain in the force. The fact that the conventional wisdom does not regard such an event as affecting "real program", is, in my view, conclusive testimony to the bankruptcy of the conventional wisdom - in this respect at least.

We have already included and priced the savings from the adjustments in the GNP deflator and fuel prices at \$1.1B and \$0.5B, respectively, in my proposal to the President.

The \$302.3B program you propose for FY 86 is \$3B below the FY85 budget the President proposed last January. It is \$13B below the level of spending for FY 86 approved by Congress in its budget resolution just two months ago. This is not a standstill, but a retreat. It would destroy the gains in manpower quality, readiness, and sustainability we have made over the first term. It would not reduce the risk of further cuts in our strategic programs, because many in Congress, and some in the Administration, who want a budget showing no real growth, would soon find that the only way to secure that dubious goal would be to go after the President's strategic program. (Indeed, I think that if the President adopted this proposal, it would in all probability add to the risks to his strategic program by lending credibility to the concept that fairness requires that all national priorities be sacrificed equally to cut the deficit.)

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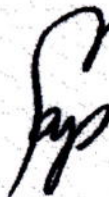
Frankly your proposal would result in outlay reductions in FY86 of \$11-14B, more than OMB has said it requires.

Experience shows that neither OMB nor Congress can keep a commitment to the defense budget for as much as a month, much less a year. Any deal we make on the out years simply becomes a ceiling from which further reductions must be made before DoD has made any "contribution" to deficit reduction. In light of this, I propose that we meet OMB and Congress on their own terms - that is, one year at a time. The FY86 contribution identified for DoD is \$7.6B. We have been asked to come up with this in three weeks. We can do this at some cost to our strength, and I now propose to the President that we do so. This '86 reduction will also produce more than a third of the reduction OMB is currently looking for from us in FY87. It simply does not make sense to attempt to identify sources for further reductions in that budget now. We will merely lower the base from which next December's budget exercise will commence and gut our program in the process.

I propose that we meet the OMB target cut of \$7.6B in FY86 outlays with a reduction of \$10.0B in budget authority. This would be done by limiting the July 1, 1985 catch-up military pay to 4.8% and increasing the program cut by \$1.8B. This proposal is set out in a separate memorandum for the President, a copy of which is attached.

As you see, I urge strongly that we show no more detail than is listed for the years 1987 and '88.

Also, Bud, I think any higher budget authority cut in '86 or additional program cuts would do us all real damage. I hope we can settle the defense budget on the above basis, and get on with the more important business of building support for the defense budget and the President's programs.



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