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FWP

- Very likely this year will see one of the greatest debates over the Administration's budget.
 - \$349.4B in outlays -- nearly \$1B per day.
 - \$52B deficit -- \$1B deficit each week.
- Defense, always a target, likely to receive increasing attention this year.
 - Peacetime budget exceeding \$100B.
 - Detente requires lesser military capabilities.
 - Vladivostok accord "capped" strategic arms race requiring lower expenditures for strategic forces.
- Yet FY 76 defense budget continues to be lower in real buying power.
 - From the high point in past decade during the Vietnam war, continued decline in real defense expenditures.
 - First budget that has made an effort to stem continued decline.
 - Only 5.9% of GNP.
 - Fallen from 8.9% in 1969.
- On the other hand, Federal non-defense spending has increased substantially.
 - Shifted dramatically away from support for direct Federal operations toward direct benefits to individuals and grants to State and local governments.
 - While Defense spending decreased from 8.9% GNP in 1969 to 5.9% in FY 76, Federal spending grew from 11.6% GNP to 16.0% in FY 76.
- Real growth in Defense spending advertized to be \$8B.
 - Much of this is required to offset inflationary impact on prior year decisions plus retired pay, Southeast Asia costs, etc., and real growth reflected in FY 76 budget nearly half
 - approximately \$4.5B.

-- FY 76 budget will not improve the military capability of U.S. to the degree the numbers imply, but will work to offset the large backlogs accumulated during the years of decline. ||

- It is also important to look at the role of defense in countering our internal threat -- the threat of depression.

-- Defense spending is one method of putting government money into the economy.

--- Reap dual gains -- improve the military strength of the country while giving the economy a shot in the arm.

-- Government contracts reach across the country as the many sub-contractors get involved and orders for new components are let .

--- Each of these actions defends existing jobs, while creating many new ones.

-- Further cuts in defense programs will contribute to the growing rate of unemployment as well as reducing our defensive posture.

- Years of reduced real defense expenditures have continually eroded the military capability of the U.S.

-- U.S. Navy less than half what it was -- lowest point since 1939.

-- Since 1968 the number of military personnel have been reduced from 3.5 million men to 2.1 million in 1976.

--- Yet Soviets have continued to increase their military personnel to approximately 5 million -- over twice that of the U.S.

- As SECDEF has stated, if we are going to become a second rate power, we should do it knowingly, recognizing the consequences of such actions. Today we find:

-- Radically changed world. Smaller, more interdependent. Nowhere more apparent than economic area: witness oil embargo and repercussions; dominance of trade issues in international relations (U.S.-Europe-Japan strains).

-- U.S. relative power diminished -- pol, mil, econ.

-- U.S., USSR nevertheless remain in unique category of superpower; though here too U.S. relative power declining. Shifting balance a significant feature of current scene:

--- From great inferiority a decade ago, Sovs have pulled abreast in strategic area, have potential to surpass us in capabilities.

--- Sovs expanded ground forces to deploy massive army on PRC border, while simultaneously improving capabilities vs. NATO.

--- Most dramatically, built new, technologically advanced navy now challenging traditional U.S. supremacy at sea.

--- Composite picture: Sovs have enhanced traditional supremacy as ground power; overcome our lead in strategic/naval power and -- with momentum in both areas -- can rapidly surpass us.

--- Concern increased by fact that Sovs fully appreciate pol advantage that flows from possession of superior military power: power-oriented mentality, preoccupation with "correlation of forces," etc.

--- No historical experience of Sov behavior under conditions of global military superiority.

- Most serious current threat to stable power balance is shifting military balance,

-- Conclude: our foreign policy objectives can be jeopardized if we do not give careful consideration to maintenance of military equilibrium.

--- Point repeatedly stressed by President, Secretary of State, Secretary of Defense.

--- Defense budget = investment in peace.

--- Our investment currently (adjusted for inflation, manpower price rises) is lowest since 1964.

--- That fact significant only in relation to its effect on equilibrium; must be weighed against:

---- Growing Soviet capabilities.

---- Growing Soviet rate of military investment.

---- Our "investment gap" during VN years.

--- Given these circumstances, would expect our investment to be increasing. Conclude: current budget is bed-rock minimum of safe investment; banks heavily on assumption our diplomacy will continue to keep Sov intentions benign.

- With that background, want to review the current balance. Address self to two areas in which most intimately involved: strategic and naval.
- Strategic
 - Balance has steadily shifted over past decade, as Soviets advanced their strategic programs at increasing pace, while U.S. programs leveled off.
 - Rationale presented for SALT I's Interim Agreement was that it covered arms where Soviets had ongoing programs and in which U.S. had none. Agreement was executed in full knowledge that Soviets could proceed ahead where permitted.
- Hence, a situation was set up in which Soviet numerical superiority was protected by the terms of the Agreement, while the U.S.'s countervailing technological superiority (mainly in MIRVs) would steadily erode as Soviet MIRV programs proceed without constraint.
- It was recognized that a steady shift in the strategic balance would be inevitable under these circumstances, unless:
 - U.S. resumed improvement of its strategic capabilities (e.g., TRIDENT, B-1).
 - While simultaneously pursuing the goal of a permanent agreement that provided for long-term strategic balance.
 - These two objectives were interlocked, in the sense that without improvement of U.S. capabilities the Soviets would have reduced incentive to come to an equitable permanent agreement.
- Chiefs supported SALT I agreements as a reasonable step toward a permanent agreement providing for essential equivalence.
- Since signing the Interim Agreement, the Soviets have proceeded apace to develop and test new systems:
 - Four new ICBMs with MIRV capability (SS-16, 17, 18, 19), together with R&D on systems a generation beyond these.
 - New missiles represent not only advances in technology, but are significantly heavier than those they will replace. [SS-19, e.g., lifts over 2 times the weight of our MINUTEMAN. The even larger SS-18 lifts nearly 7 times MINUTEMAN's throw-weight, and is 25% heavier than the SS-9 missile it will replace.]

-- DELTA class missile submarine deployed, with new, 4000 mile range missile (i.e., equivalent of our TRIDENT -- which will not be operational until 1978).

-- BACKFIRE bomber.

-- Soviet superiority in missile numbers + their steadily widening superiority in missile throw-weight + acquisition of MIRV technology, when coupled with SALT I's constraints on U.S. missile numbers = the potential for a steadily widening margin of Soviet superiority in strategic capabilities.

-- Vladivostok accords, while generally provide essential equivalence in missile numbers, will leave the Soviets with a superiority in throw-weight.

- Two solutions:

-- Negotiated equivalence. Clearly preferable; emphasizes importance of early attainment of permanent agreement in SALT.

-- U.S. programs to avoid yielding advantage to Soviets. More expensive route; but essential if diplomatic solution unattainable.

-- Since limiting strategic expenditures in both countries' interest, U.S. position predicated on belief Soviets will see advantage of diplomatic solution. Outcome of current negotiations will determine if this assumption is valid.

- Naval balance.

-- U.S. maritime nation; dependent on sea for vitality of economy and mutual support with allies.

-- Geographical asymmetries: U.S. and USSR. Conclude: sea more important to us than Sovs.

-- Sovs in Cuba learned globally-capable naval power essential attribute of superpower status; embarked on major expansion program.

-- Began continuous OOA deployments in 1964 to Med; later to Indian Ocean, Caribbean, west coast of Africa. Level of deployment activity (ship days) increased six-fold from 1965 to 1970.

-- Soviet numbers, deployments impressive; quality even more impressive.

-- Sovs have embraced naval power as major element of foreign policy.

-- Gorshkov has given fair warning that Sov Navy will be used to further Soviet political goals throughout the world and, in the process, to neutralize shrinking USN.

-- He goes on to say Sov Navy of future will be the largest in the world; and will, in its possession of highly modern, efficient warships, be a Navy second to none.

-- As result of shifting naval balance, Sovs now have capability to thwart U.S. movement in certain sea areas and may well be building capability for intervention overseas.

--- Naval infantry expansion.

--- KURIL class.

-- Steady buildup of Sov Navy presence in Indian Ocean over last seven years, coupled with even more important (and unheralded) buildup of logistics support capability for extensive naval force in area, demonstrates their recognition of naval power's utility in advancing key strategic objectives.

--- Berbera, Mogadiscio, Aden, Socotra, Umm Quasr; bunkering rights; anchorages with mooring buoys.

-- Soviet performance in Med during Yom Kippur war: surge to over 90 ships exceeded SIXTHFLT numbers by 50%.

--- Useful experience; lessons learned.

--- Sovs demonstrated:

---- Willingness to apply massive resources in support of key foreign policy objectives.

---- High readiness of military forces.

---- Detente not only, and in some cases not primary, policy interest of USSR.

---- Related to this: when stakes high enough, Sovs ready to deploy large-scale military forces outside USSR in situation entailing high risk of combat.

-- Sov sub fleet (world's largest) threatens key LOCs.

-- Constructed largest ballistic missile sub (DELTA), with longest range missile.

--- No similar U.S. capability till 78.

--- Sov missile sub program continues while ours (TRIDENT) faces repeated challenges in Congress.

-- While Sovs go up, USN has been declining (reduced by 45% since 1969). Calculated risk, to fund future capabilities.

--- Carrier forces down from 26 to projected 13.

--- Major surface combatants from 300 to 185.

--- At bottom of curve now; can redress and stabilize balance with ongoing programs + continued support from public, Congress.

- What to be done?

-- Informed citizenry greatest safeguard.

-- Public has never failed to respond when country's interests at stake.

-- Today's climate:

--- VN syndrome wearing off.

--- Events of Mid East war brought more realism into our thinking.

--- Recognition that Sovs have never stopped increasing military budget and capabilities (while ours were first eroded by VN, then reduced in face of budget stringency) generates increasing questions about durability of world power balance (hence, peace) in absence of stable military equilibrium.