



DEPARTMENT OF THE NAVY  
OFFICE OF THE CHIEF OF NAVAL OPERATIONS  
CNO EXECUTIVE PANEL  
WASHINGTON, D. C. 20350

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IN REPLY REFER TO

OP-00K/fmp  
Ser 208

20 February 1975

MEMORANDUM FOR ADMIRAL HOLLOWAY

Subj: Senator McClellan on Defense Spending

Ref: (a) Comment Sheet 0237

1. McClellan drew on data provided by OSD to put the defense budget in proper perspective. His theme is essentially the same one Schlesinger has been hammering recently: the defense budget represents historic lows by most reasonable measures; we must reverse the erosive trend and start to put some very modest real growth back into the budget if we are to maintain balance with the Soviets.

2. I have marked passages of particular interest.

pg 5

a. First clip: To those who talk about "reordering national priorities," McClellan replies that we have "already revised our spending priorities on an across-the-board basis." Welfare programs have grown apace (both absolutely and as a proportion of the budget), while defense now claims the smallest share since 1940.

pg 8

b. Second clip: In his list of items to be closely scrutinized, McClellan includes the \$2.3B for SCN inflation. (Aspin is zeroing in on this. His recent letters to SECNAV suggest the line of attack he may take, i.e.: the SCN 'inflation' is more apparent than real; it represents an effort by shipbuilders to highjack the government; if the Navy would supervise the contractors and make them eliminate glaring inefficiencies the 'inflation' would disappear; if Congress accedes to the \$2.3B request, it will take away the incentive for Navy to provide such supervision.)

pg 10

c. Third clip: Good quote from Thomas Paine.

pg 10

d. Fourth clip: Schlesinger's letter to McClellan highlighting inflationary impact on service programs, with the Navy leading the list.

Very respectfully,

W. A. COCKELL  
Captain, U.S. Navy



OFFICE OF THE CHIEF OF NAVAL OPERATIONS

0237

(OO Control #)

13 FEB 1975

(Date)

**CNO COMMENT SHEET**

Remarks of U.S. Senator John L. McClellan -  
**Subj:** The Facts About Defense Spending United  
States Senate, 11 February 1975

**Ref:**

**1. The CNO made the following comment/notation on  
referenced material:**

Please comment.

Action 00K

Copy to: 09 

Please provide answer/comment/report action taken not

later than 21 FEB 75

- E X C E R P T S

Remarks of

U. S. Senator John L. McClella.

The Facts About Defense Spending  
United States Senate

Tuesday, February 11, 1975

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Mr. President, in my more than three decades of service in this body, I can recall few documents as shocking and as sobering as the Administration's proposed budget for the 1976 fiscal year.

The bare figures speak for themselves--\$349.4 billion in outlays--nearly \$1 billion a day--and a \$52 billion deficit. Thus one day of each week of the coming fiscal year will be a deficit day, adding \$1 billion each week to the already astronomical national debt.

Storms that have been gathering by reason of deficit spending have suddenly swept over our economy with such force and velocity that they are disrupting the American way of life. This budget clearly forecasts a continuation and a growing intensity of these storms.

- 4 -

Inasmuch as the budget request for national defense-- \$94.027 billion in outlays (including \$92.8 billion for the Department of Defense)--almost \$9 billion in expenditures over fiscal year 1975, is the largest single item in the President's request--critics of defense spending are already mounting their usual attack upon it.

From them we hear the same old refrain: "we can't afford a defense budget of this size; defense funds should be slashed and such reduction should be used to increase appropriations for health, education, mass transit or non-military government programs." The more exuberant critics claim the defense budget is "soaring out of control."

We are told that a greedy military-industrial complex is gobbling up funds needed for under-funded social programs; that a national defense budget of this magnitude fuels an ever-spiraling arms race which may end in nuclear disaster.

The facts properly interpreted, however, present quite a different picture.

To be sure, \$94 billion is an enormous sum, especially when compared with the \$55.9 billion cost of defense only ten years ago.

But, outlays for national defense have shrunk during that ten year period from 41.5 percent of total Federal budget outlays to 26.9 percent requested for fiscal year 1976.

Since fiscal 1966, the cost of the Federal Government has gone up \$214.7 billion--from \$134.7 billion to \$349.4 billion estimated for fiscal 1976. Of that total increase, only \$38.2 billion--or 17.8 percent is attributable to national defense spending. The remaining 82.2 percent, or \$176.5 billion of the \$214.7 billion increase, is attributable to non-military functions and services, such as human resources and general government.

So very little blame can possibly be lodged against the Defense Department for the exorbitant increase in Federal expenditures.

Since fiscal 1966, non-defense programs including Federal outlays for human resource items--education and manpower; health, including Medicare and Medicaid; income security, including individual benefits--have increased from 58.5 percent of the budget to 73.1 percent. In dollar terms, the increase for those functions was \$176.5 billion -- from \$78.8 billion to \$255.3 billion.

Thus, while national defense costs were rising by 68 percent over the past ten years--from \$55.9 billion to \$94 billion, total other government expenditures were climbing by 224 percent.

And the defense share of both the total Federal budget and the Gross National Product continues to decline. In fiscal 1976, for example, proposed national defense outlays constitute only 26.9 percent of the total budget--down about 14 percent from the fiscal year 1966 level. Between 1966 and 1976, National defense outlays declined from 7.7 percent of the Gross National Product to 5.9 percent. During this same period, outlays for the non-defense portion of the budget rose from 10.9 percent to 16.0 percent of the Gross National Product.

Moreover, defense spending has been rising far less rapidly than any other major item in the budget.

For example during the past 10 years:

--Federal aid to education, manpower and social services jumped 257 percent, from \$4.1 billion to \$14.6 billion.

--Public assistance increased 440 percent, from \$3.4 billion to \$18.4 billion.

--Social Security and other retirement and disability programs increased 247 percent, from \$21.4 billion to \$74.3 billion.

--Health services, including Medicare and Medicaid, increased by 963 percent, from \$2.6 billion to \$28 billion.

*prints*

--Interest on the national debt increased by 205 percent, from \$11.3 billion to \$34.4 billion.

Many other like comparisons could be cited.

So, Mr. President, contrary to the misconceptions of many well-meaning persons who demand a revision of priorities with regard to the defense budget--including some members of this body--the truth is that we have already revised our spending priorities on an across-the-board basis.

The truth is that we are spending far less proportionately today to maintain our national security than we are spending for human needs and non-defense programs.

Why, then, are we now being called upon to provide for expenditures of an additional \$9 billion over the amount being spent on national defense in the current fiscal year.

To a great extent, the answer lies largely in the cancer of inflation, the increasing sophistication of weapons systems, the need to replace obsolescent equipment and the high cost of an all-volunteer force.

Even as I speak, the fires of inflation are consuming a significant amount of the funds Congress has made available

to the Department of Defense. For example, on September 30, 1974, the Secretary of Defense sent me a report on the status of 42 selected weapons systems which showed that inflation has driven up the cost of completing these programs by a phenomenal \$16 billion over estimates made only three months before. I ask unanimous consent that it be included in my remarks.

--In World War II, a B-29 bomber cost \$680,000. If we buy the B-1 bomber, each one will cost \$76.4 million.

--In World War II, a P-51 fighter aircraft cost \$54,000. An F-14 of today costs \$17.8 million.

--In World War II, the price of an M-1 rifle was \$50.22. A modern M-16 costs \$137.17.

--The annual pay of a recruit in 1950 was \$960. Today, a recruit receives \$4,130.

--Only eight years ago, it cost \$1.30 a day to feed a soldier. Now it costs \$2.68--and as any housewife knows--the cost of food is still going up.

Here is a table showing the phenomenal increases in the cost of food served in the mess halls of the Armed Forces:

Cost of Food Items	Cost in 1964 (Cents)	Cost today <sup>1</sup> (Cents)	Percent Increase
White bread, 1 lb.	0.21	0.27	28.6
Round steak, 1 lb.	1.04	1.75	68.3
Rib Roast, 1 lb.	.83	1.56	88.0
Chuck Roast, 1 lb.	.57	1.23	115.8
Pork chops, 1 lb.	.88	1.80	104.6
Bacon, 1 lb.	.67	.90	34.3
Hamburger, 1 lb.	.49	.82	67.4
Pork loin, 1 lb.	.61	1.60	162.3
Milk, 1/2 gal.	.48	.76	58.3
Coffee, 1 lb.	.82	1.12	36.6

<sup>1</sup> August 1974. These are bulk prices paid by the Department of Defense.

Military personnel costs have in recent years also escalated as a result of inflation and the all-volunteer services concept. In fiscal 1976, personnel and related costs will account for 53 percent of the Department of Defense outlays, or \$49.2 billion of the \$92 billion estimated. This represents an increase of \$2.4 billion in spending on personnel in one year alone to maintain a smaller force.

Although the number of military personnel will have been reduced from 3.5 million men in 1968 to 2.1 million in 1976, average per capita cost is expected to double--due principally to pay increases and inflation--from \$5,500 to \$12,000 in 1976. As a result, total active duty pay costs for our military personnel have risen from \$19 billion in 1968 to \$25 billion in 1976.

Spending for national defense is up almost \$9 billion over last year, but nearly one-third of this, \$2.4 billion, will go for military and civilian pay and related personnel costs. Of the remaining \$6 billion, about \$1.8 billion will go for procurement; \$2.6 billion for operation and maintenance; about \$1 billion for research and development, and about \$400 million for military construction and family housing.

In the area of fuel costs alone, the bill will rise by \$400 million between fiscal year 1975 and 1976, even though actual consumption will be about the same.<sup>2</sup>

Mr. President, I do not want my remarks today to be misinterpreted. There is a very real and significant growth in funding for our national defense effort contemplated in the fiscal year 1976 budget, and it must bear very close scrutiny in light of the overall budget totals.

I want to assure my colleagues that the Appropriations Committee will examine very carefully some of the following areas of increase, and make prudent reductions where they are feasible. Some of the more significant areas of concern include:

--an increase in military aid to South Vietnam of almost \$600 million;

--a \$650 million increase budgeted for a higher peacetime tempo of air operations, more real property maintenance, greater numbers of ship alterations and increased maintenance in other areas;

--a one-time request of \$2.3 billion to pay for naval ships whose costs were very seriously underestimated by the administration in fiscal year 1975 and previous years;

--very significant increases--approaching \$1 billion--in war reserves;

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<sup>2</sup>In fiscal year 1976, 199.5 million barrels at a cost of \$3.4 billion, compared with 198.2 million barrels at a cost of \$3.0 billion in fiscal year 1975.

*lowest*

- a 20 percent increase (over \$1.6 billion) in research and development funding to pay for a whole range of new initiatives in advanced weapons systems
- both strategic and tactical;

- a significant and costly program to increase exploration, development and production of oil from our Naval Petroleum Reserves as well as to establish a sizeable national strategic petroleum reserve;

- an increase of over \$1 billion in appropriations for military construction and family housing programs.

It is obvious that reasonable men will often differ on the question of "how much is enough" for defense. However, Mr. President, I wish to impress upon this body the following facts:

- During fiscal 1976, national defense will receive the smallest share of the Federal budget since 1940
- the year before Pearl Harbor.

- During fiscal 1976, defense will have the lowest levels in manpower it has had since 1950.

No one can seriously challenge the proposition that there must be significant reductions in Federal spending. But, defense spending is only one segment of the national budget. It cannot be forced to bear the whole burden of fighting inflation.

For the sad truth is that despite detente, military power is by no means irrelevant in the modern world. It is a real, tangible and indispensable element of our national and international policy.

The burden of military preparedness which we must bear is not easy to carry. There is no way to shirk or escape this burden without weakening -- and possibly imperiling -- our national safety and security. As we celebrate the bicentennial of the independence of our nation during this coming fiscal year, it is well for us to be guided by the words of Thomas Paine:

Those who expect to reap the blessings of freedom, must, like men, undergo the fatigue of supporting it.

Mr. President, I ask unanimous consent that a letter from the Secretary of Defense to me regarding the effects of inflation on defense costs and a chart prepared by the staff of the Senate Committee on Appropriations showing the comparison of defense spending to the cost of human resources and other programs from fiscal 1966 to fiscal 1976 be entered in the Record at this point.

THE SECRETARY OF DEFENSE  
WASHINGTON, D. C. 20301

SEP 30 1974

Honorable John L. McClellan  
Chairman, Committee on  
Appropriations  
United States Senate

Dear Mr. Chairman:

The Selected Acquisition Reports for June 30, 1974 are currently being finalized for transmission to you in the near future. The reports are behind schedule this quarter to permit implementation and refinement of the changes previously discussed with the Committee staff and the inclusion of more realistic escalation indices for the out-year programs.

In the interim, there is attached for your information a summary of the more significant program cost data reflected in the preliminary SAR's for June. While some of the data included therein may change, the summary will provide you with advance information on the magnitude of the cost increases since the March submission.

Since the factors that influence economic escalation are beyond the control of the Department of Defense, we continue to believe that the Base Program estimates provide you and the Congress with the best measure of management efficiency. The Base Program includes the best estimate of all acquisition costs associated with a program except for economic escalation. The increase in Base Program estimates since the March SAR's is \$857M bringing the Base Program cost to complete for the 42 SAR programs to \$106.5B. By Service, the increase is \$619M for the Navy, \$261M for the Army, and a decrease of \$23M for the Air Force.

In addition to providing estimates for the Base Programs, we have, as previously agreed, provided estimates reflecting the impact of economic escalation for all programs in the SAR system through completion, in some cases extending 15 years into the future. In providing these economic escalation factors, we are attempting to provide you and the Congress with our best estimate of the eventual dollar costs of systems procured, as described in each of the SAR's. These are our best estimates and their development required assumptions concerning the overall economy and the impact of national and international events on the various elements of costs for our weapons systems. In addition, our estimates are heavily influenced by the timing and rate of procurement for these systems.

The rate of inflation experienced in the U. S. since last December (when previous indices were developed) has been much greater than anticipated. As a result, the inflation indices developed last July reflect much higher rates and this accounts for the significant increase in the escalation estimates reported in the June SAR's.

For the December and March SAR's, we developed general price escalation indices which provided for a 4.5% increase for procurement in FY 1975 and 3.1% in FY 1976 and each year thereafter. For the June SAR's, we developed revised price indices which indicated an 11% increase from 1974 to 1975, 8% in 1976, decreasing to 4.3% in 1980 with 5.7% per year thereafter. Although the Services are provided the OSD indices for general application, they are encouraged and do in fact develop their own indices which are representative of the conditions pertinent to a particular program. Based on the past few months' experience, the 11% projection for FY 1975 may be too low.

The overall increase since the March SAR's is \$16.9B, bringing the total cost to complete for the 42 SAR programs to \$143.6B. By Service, the increase is \$7.3B for the Navy, \$3.7B for the Army, and \$5.9B for the Air Force. A \$16.0B increase in the provision for economic escalation reflected in the June SAR's is responsible for 95% of the overall cost increase this quarter. The increase in economic escalation by Service is \$6.7B for the Navy, \$3.4B for the Army and \$5.9B for the Air Force.

By weapon system, 10 programs account for \$15.1B or 89% of the total cost increase reported this quarter. These are the programs of longer range where the effects of higher out-year escalation are most significant. The 10 programs, which are marked with a check on the enclosure, are the Navy's TRIDENT, SSN-688, DD-963 and PF systems; the Army's SAM-D, UTTAS, AAH and XM-1 systems; and the Air Force B-1 and F-15 systems.

With kindest regards,

Sincerely,



Enclosure

SAR PROGRAM ACQUISITION COST SUMMARY  
 June 30, 1974  
 (\$ In Millions)

System	Current Estimate			Changes in Current Estimate This Quarter		
	Base Program	Prov. for Eco. Escal.	Total	Base Program	Prov. for Eco. Escal.	Total
	\$ 2,226.0	\$ 364.5	\$ 2,590.5	\$+ 4.1	\$+ 17.7	\$+ 21.8
	883.6	101.2	984.8	- 2.3	+ 6.0	+ 3.7
	5,338.3	968.7	6,307.0	- 29.7	- 8.7	- 38.4
	2,428.1	295.9	2,724.0	- 50.0	+ 24.7	- 25.3
	2,377.8	910.9	3,288.7	+ 12.0	+ 36.0	+ 48.0
	501.7	47.6	549.3	-	-	-
OR	366.8	45.7	412.5	+ 11.5	+ 5.0	+ 16.5
ON	783.0	395.9	1,178.9	-	+ 147.1	+ 147.1
NIX	991.7	162.6	1,154.3	-	+ 37.9	+ 37.9
EDON	4,790.7	N/R	4,790.7	+ 47.7	N/R	+ 47.7
WINDER AIM-9L	101.8	30.6	132.4	+ 6.8	+ 18.1	+ 24.9
ROW III F	587.8	212.0	799.8	- 50.2	+ 34.4	- 15.8
ENT.	11,417.2	4,029.2	15,446.4	+ 94.3	+2,921.0	+3,015.3 ✓
3	1,369.4	187.8	1,557.2	- 4.2	+ 100.9	+ 96.7 ✓
588	5,932.6	1,930.0	7,862.6	+ 84.1	+ 756.3	+ 840.4 ✓
53	2,838.2	760.4	3,598.6	+241.7	+ 277.7	+ 519.4 ✓
-38	1,272.7	319.1	1,591.8	+ 25.0	+ 200.0	+ 225.0
	980.5	199.4	1,179.9	- 1.3	+ 35.9	+ 34.6
	2,807.8	2,466.8	5,274.6	+130.2	+1,661.6	+1,791.8 ✓
	776.2	331.3	1,107.5	+ 99.8	+ 249.3	+ 349.1
-68 Class	2,045.5	512.3	2,557.8	-	+ 211.9	+ 211.9
Navy	\$50,817.4	\$14,271.9	\$65,089.3	\$+619.5	\$+6,732.8	\$+7,352.3
E	\$ 898.4	\$ 47.3	\$ 945.7	\$+ 4.5	\$+ 16.2	\$+ 20.7
HAWK	700.6	151.8	852.4	+ .1	+ 21.4	+ 21.5
GUARD	4,572.0	790.0	5,362.0	- 14.0	-	- 14.0
D	3,810.0	2,579.0	6,389.0	+259.4	+1,229.9	+1,489.3* ✓
	252.0	2.3	254.3	-	+ 2.3	+ 2.3
S	1,918.6	1,484.2	3,402.8	-	+ 727.2	+ 727.2 ✓
	226.4	118.5	344.9	-	+ 59.3	+ 59.3
T	204.5	57.8	262.3	-	-	-
	1,464.0	1,054.2	2,518.2	+ 11.2	+ 505.9	+ 517.1 ✓
	2,328.3	1,946.9	4,275.2	-	+ 874.9	+ 874.9 ✓
Army	\$16,374.8	\$ 8,232.0	\$24,606.8	\$+261.2	\$+3,437.1	\$+3,698.3

Reflect changes since December 31, 1973; no SAM-D SAR for March 31, 1974.

(\$ In Millions)

System	Current Estimate			Changes in Current Estimate This Quarter		
	Base Program	Prov. for Eco. Escal.	Total	Base Program	Prov. for Eco. Escal.	Total
FORCE						
7D	\$ 1,324.4	\$ 157.9	\$ 1,482.3	\$- 3.8	\$ -	\$- 3.8
20	1,779.0	954.5	2,733.5	-	+ 212.6	+ 212.6
21	12,209.8	6,422.8	18,632.6	-	+ 3,632.6	+ 3,632.6 ✓
5E	387.8	34.7	422.5	-	-	-
15	7,586.5	3,354.8	10,941.3	+ 47.1	+ 1,620.0	+ 1,667.1 ✓
111	5,492.4	1,625.4	7,117.8	- 8.1	-	- 8.1
FACS	1,965.9	689.5	2,655.4	-	+ 178.8	+ 178.8
BNCP	466.2	52.4	518.6	+ 23.3	+ 11.0	+ 34.3
VERICK	410.3	162.9	573.2	-	-	-
MUTEMAN III	5,992.7	968.4	6,961.1	- .4	+ 115.8	+ 115.4
AM	1,135.4	19.8	1,155.2	-	-	-
DEWINDER AIM-9I	184.1	57.1	241.2	-	+ 38.4	+ 38.4
ARROW III F	368.4	142.0	510.4	- 81.1	+ 76.8	- 4.3
1 Air Force	\$ 39,302.9	\$14,642.2	\$ 53,945.1	\$- 23.0	\$+ 5,886.0	\$+ 5,863.0
TD TOTAL	\$106,495.1	\$37,146.1	\$143,641.2	\$+857.7	\$+ 16,055.9	\$+ 16,913.6

Department of Defense  
OASD(Comptroller)

**BUDGET OUTLAYS BY FUNCTION**  
**Ten Year Comparison (1966-1976)**  
(\$ Millions)

	<u>Fiscal Year 1966</u>			<u>Fiscal Year 1976 (Proposed)</u>			<u>Budget \$ and Increase From FY 1966</u>
	<u>Amount</u>	<u>Percent of Total Budget</u>	<u>Percent of GNP</u>	<u>Amount</u>	<u>Percent of Total Budget</u>	<u>Percent of GNP</u>	
National Defense (Department of Defense Portion)	55,856 (54,178)	41.5 (40.2)	7.7 (7.5)	94,027 (89,800)	26.9 (25.7)	5.9 (5.6)	Up 38,171 or (Up 35,622 or
Education, Manpower and Social Services	4,093	3.0	0.6	14,623	4.2	.9	Up 10,530 or
Public Assistance	3,400	2.5	0.5	18,368	5.3	1.2	Up 14,968 or
General Retirement and Disability Insurance (including Social Security)	21,435	15.9	3.0	74,356	21.3	4.7	Up 52,921 or
Health	2,638	2.0	.4	28,050	8.0	1.8	Up 25,412 or
Interest	11,286	8.4	1.6	34,419	9.9	2.2	Up 23,133 or
General Government and Other Costs	35,944	26.7	5.0	85,529	24.5	5.4	Up 49,585 or
<b>TOTAL</b>	<b>134,652</b>	<b>100.0</b>	<b>18.7</b>	<b>349,372</b>	<b>100.0</b>	<b>21.9</b>	<b>Up 214,720 or</b>

Education, Manpower and Social Services	4,093	3.0	0.6	14,623	4.2	.9	Up 10,530 or
Public Assistance	3,400	2.5	0.5	18,368	5.3	1.2	Up 14,968 or
General Retirement and Disability Insurance (including Social Security)	21,435	15.9	3.0	74,356	21.3	4.7	Up 52,921 or
Health	2,638	2.0	.4	28,050	8.0	1.8	Up 25,412 or
Interest	11,286	8.4	1.6	34,419	9.9	2.2	Up 23,133 or
General Government and Other Costs	35,944	26.7	5.0	85,529	24.5	5.4	Up 49,585 or
<b>TOTAL</b>	<b>134,652</b>	<b>100.0</b>	<b>18.7</b>	<b>349,372</b>	<b>100.0</b>	<b>21.9</b>	<b>Up 214,720</b>

10 YEAR COMPARISON OF DEFENSE OUTLAYS TO TOTAL OUTLAYS  
(\$ Millions)

	Fiscal Year 1966			Fiscal Year 1976 (Proposed)			Increase
	Amount	Percent of Total Budget	Percent of GNP	Amount	Percent of Total Budget	Percent of GNP	
National Defense (Department of Defense Portion)	55,856	41.5	7.7	94,027	26.9	5.9	38,171
Federal Government Other Than Defense	(54,178)	(40.2)	(7.5)	(89,800)	(25.7)	(5.6)	(35,622)
<b>TOTAL</b>	<b>78,796</b>	<b>58.5</b>	<b>10.9</b>	<b>255,345</b>	<b>73.1</b>	<b>16.0</b>	<b>176,549</b>
	<b>134,652</b>	<b>100.0</b>	<b>18.7</b>	<b>349,372</b>	<b>100.0</b>	<b>21.9</b>	<b>214,720</b>

<sup>1</sup>/Of the total increase of \$214.7 billion, only 17.8% is attributable to national defense, while 82.2% of the increase is attributable to non-military functions.

NOTE: Columns may not add due to rounding.