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THE SECRETARY OF DEFENSE  
WASHINGTON, D. C. 20301

*Reference*

FEB 24 1976

Honorable Philip W. Buchen  
Counsel to the President  
The White House  
Washington, D.C. 20500

Dear Phil:

After the presentation on the FY 1977 Defense Budget at the Cabinet meeting on February 19th, there were several requests for unclassified copies of the charts. Attached is a set of charts, with explanatory notes.

As I said in the briefing, no single chart or group of charts can be expected to tell such a complex story completely. However, they do indicate the weight of effort and the momentum of Soviet activity. The trends these charts depict--upward movement over the past decade for the Soviets relative to the U. S.--are what President Ford's FY 1977 Defense Budget is designed to arrest.

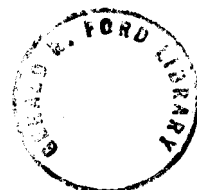
If you would like a more detailed explanation of any point, please call.

Regards,



FY 77 DEFENSE BUDGET  
PERSPECTIVES

DONALD RUMSFELD  
SECRETARY OF DEFENSE  
20 FEBRUARY 1976



## INTRODUCTION

BY MAY 15, 1976, THE CONGRESS WILL HAVE MADE TWO OF THE MOST IMPORTANT DECISIONS IT WILL MAKE ALL YEAR ... THE LEVEL OF TOTAL FEDERAL SPENDING, AND THE AMOUNT OF THAT TOTAL WHICH WILL GO TO THE DEPARTMENT OF DEFENSE.

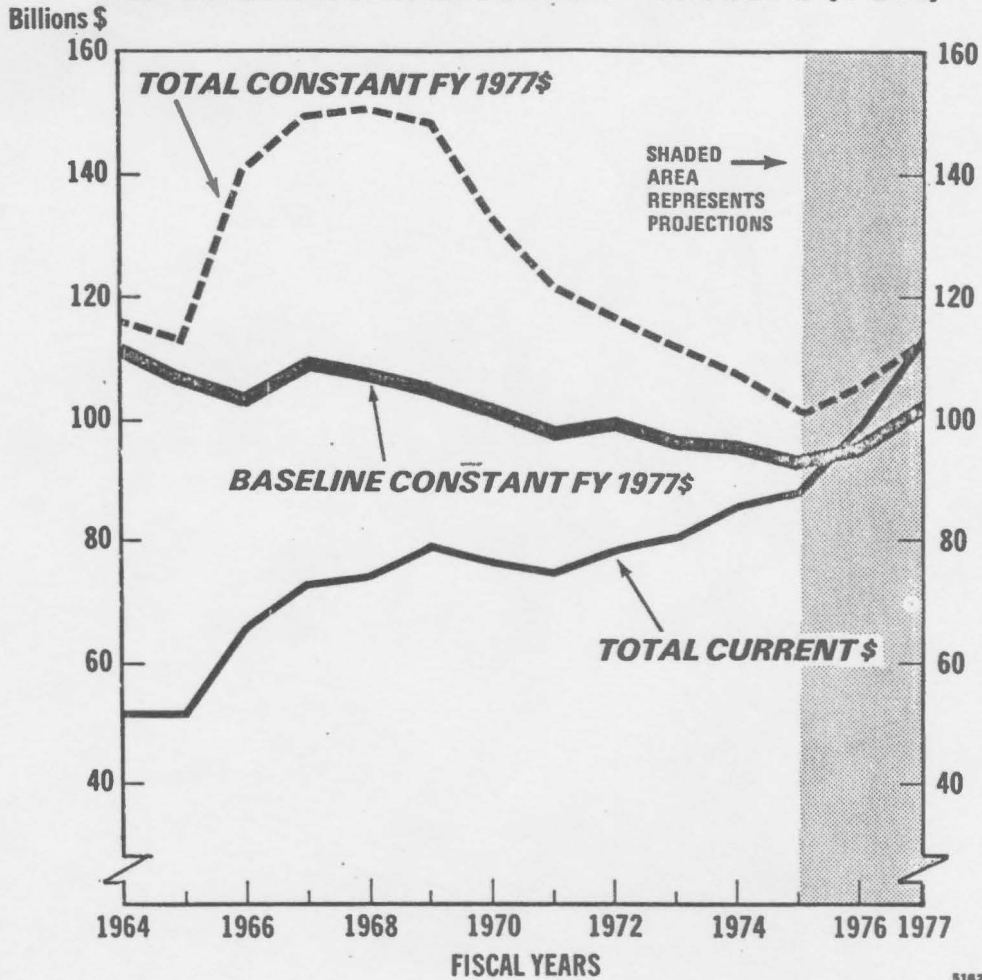
THERE IS CONSENSUS THAT U.S. MILITARY CAPABILITY AND STRENGTH CAN TODAY BE DESCRIBED AS SUFFICIENT ... THAT IS, WE HAVE "ROUGH EQUIVALENCE" TO THE SOVIET UNION, WHICH IS OUR POLICY.

HOWEVER, THE TRENDS OF THE PAST 5-10 YEARS ARE ADVERSE AS FAR AS THE MILITARY BALANCE IS CONCERNED. NO SINGLE CHART OR STATISTIC TELLS THE STORY -- BUT A SWEEPING LOOK AT RESOURCES, PROCUREMENT AND R&D EFFORTS, EQUIPMENT CONSTRUCTION RATES, FORCE LEVEL CHANGES, AND SHIFTS IN RELATIVE CAPABILITY MAKES IT CLEAR. A COLLECTION OF SUCH GRAPHICS IS PRESENTED HERE, ALONG WITH APPROPRIATE EXPLANATIONS AND CAVEATS.

THE CLEAR CONCLUSION IS THAT THE U.S. MUST ACT NOW TO ARREST THE ADVERSE TRENDS BY PROVIDING REAL INCREASES FOR DEFENSE UNLESS WE ARE WILLING TO ALTER OUR POLICY OF MAINTAINING ROUGH EQUIVALENCE. THE AMERICAN PEOPLE ARE NOT LIKELY TO ACCEPT A POLICY OF INFERIORITY.



## DEFENSE FORCES BUDGET TRENDS (TOA)

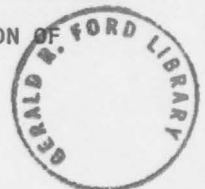


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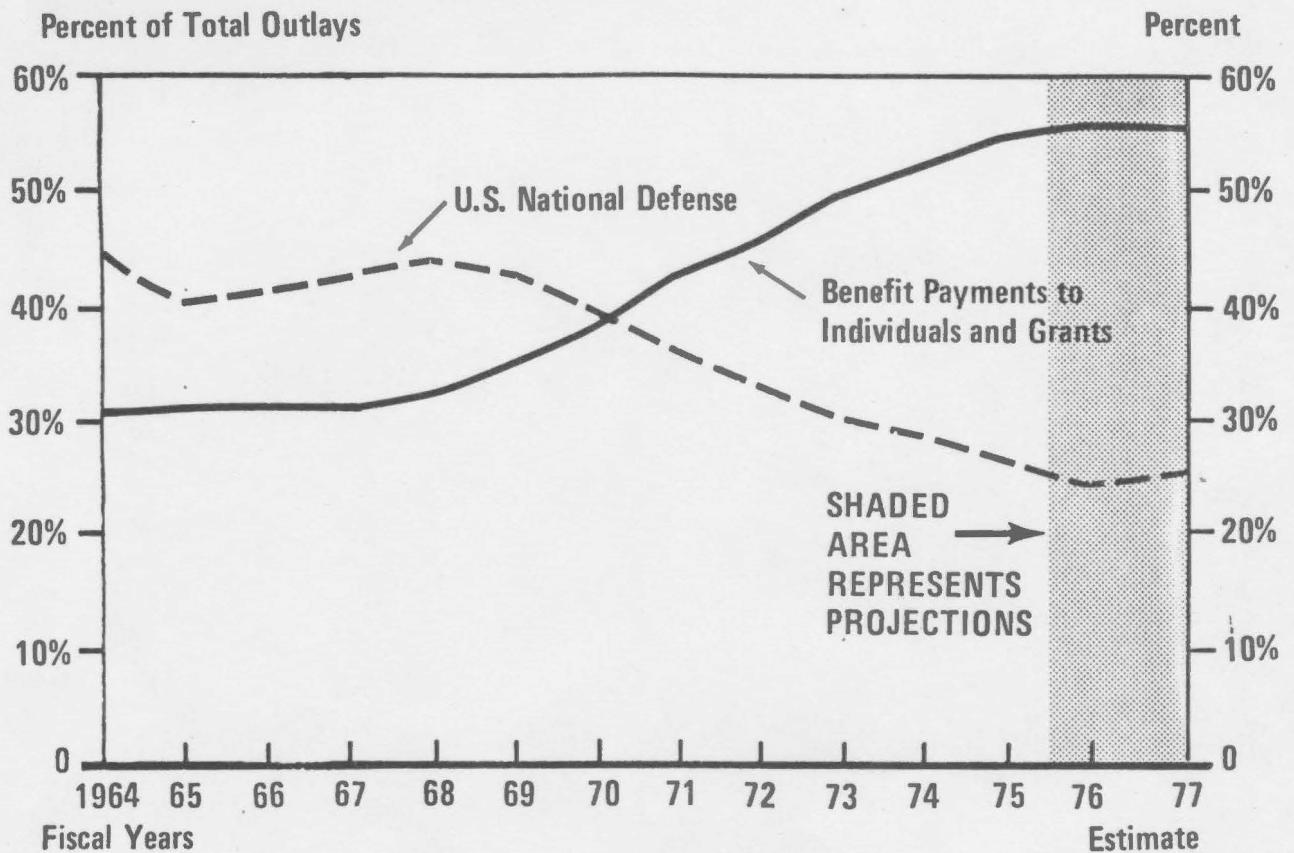
### U.S. DEFENSE BUDGET TRENDS

THE U.S. DEFENSE BUDGET HAS DECREASED IN REAL TERMS BY MORE THAN ONE-THIRD FROM THE 1968 WARTIME PEAK. TODAY, IN REAL TERMS (CORRECTED FOR INFLATION), IT IS 14% BELOW THE LEVELS OF THE PREWAR, EARLY 1960'S.

TRENDS ARE SHOWN HERE IN TERMS OF TOTAL OBLIGATIONAL AUTHORITY (TOA). THE BROKEN LINE SHOWS TOTAL TOA (IN CONSTANT FY 77 DOLLARS); THE THICK LINE LABELED "BASELINE" SHOWS THE TREND OF RESOURCES DEVOTED TO MILITARY CAPABILITY (SEASIA WAR COSTS, RETIRED PAY, AND FOREIGN MILITARY SALES HAVE BEEN EXCLUDED); AND THE LOWER CURVE SHOWS THE PROGRESSION OF DEFENSE BUDGETS AS THEY APPEARED IN CURRENT DOLLARS.



# Shares of the U.S. Budget



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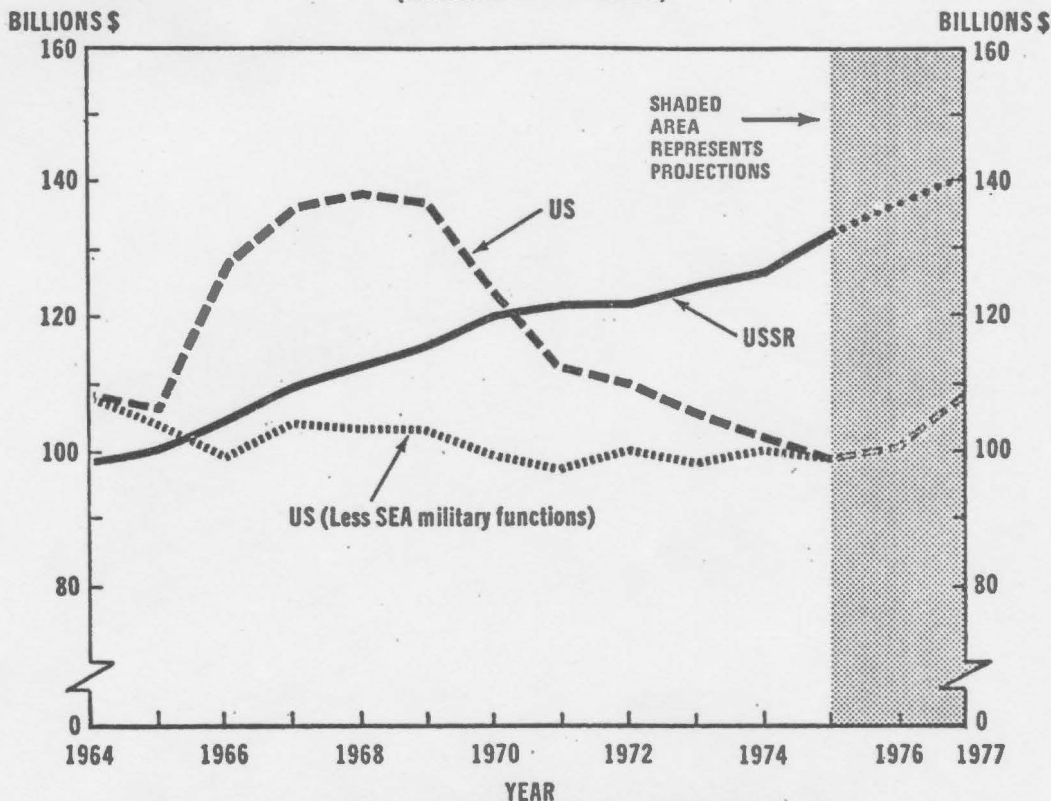
## SHARES OF THE U.S. BUDGET

U.S. DEFENSE SPENDING TODAY IS ABOUT 25% OF THE TOTAL FEDERAL BUDGET -- THE LOWEST SHARE SINCE FY 1940, SHORTLY BEFORE PEARL HARBOR -- HAVING DROPPED FROM 43% IN PREWAR 1964.

AS SHOWN, BENEFIT PAYMENTS TO INDIVIDUALS AND GRANTS HAVE INCREASED FROM A 30% SHARE OF THE DOD BUDGET TO MORE THAN 55% DURING THE SAME PERIOD.



**US / USSR DEFENSE PROGRAM TRENDS**  
 (US EXPENDITURES AND ESTIMATED DOLLAR COSTS OF SOVIET PROGRAMS)  
 (CONSTANT 1977 DOLLARS)



Source: Based upon intelligence estimates of the constant-dollar cost of Soviet military activities, and of US expenditures on a comparable basis. Transformed by DoD from constant 1974 dollars to constant FY1977 dollars. SEA adjustment based on DoD data only.

SOVIET PROGRAM DEFENSE TRENDS

WHILE THESE REDUCTIONS HAVE BEEN GOING ON IN THE U.S., THE SOVIET UNION HAS BEEN MOVING STEADILY IN THE OTHER DIRECTION.

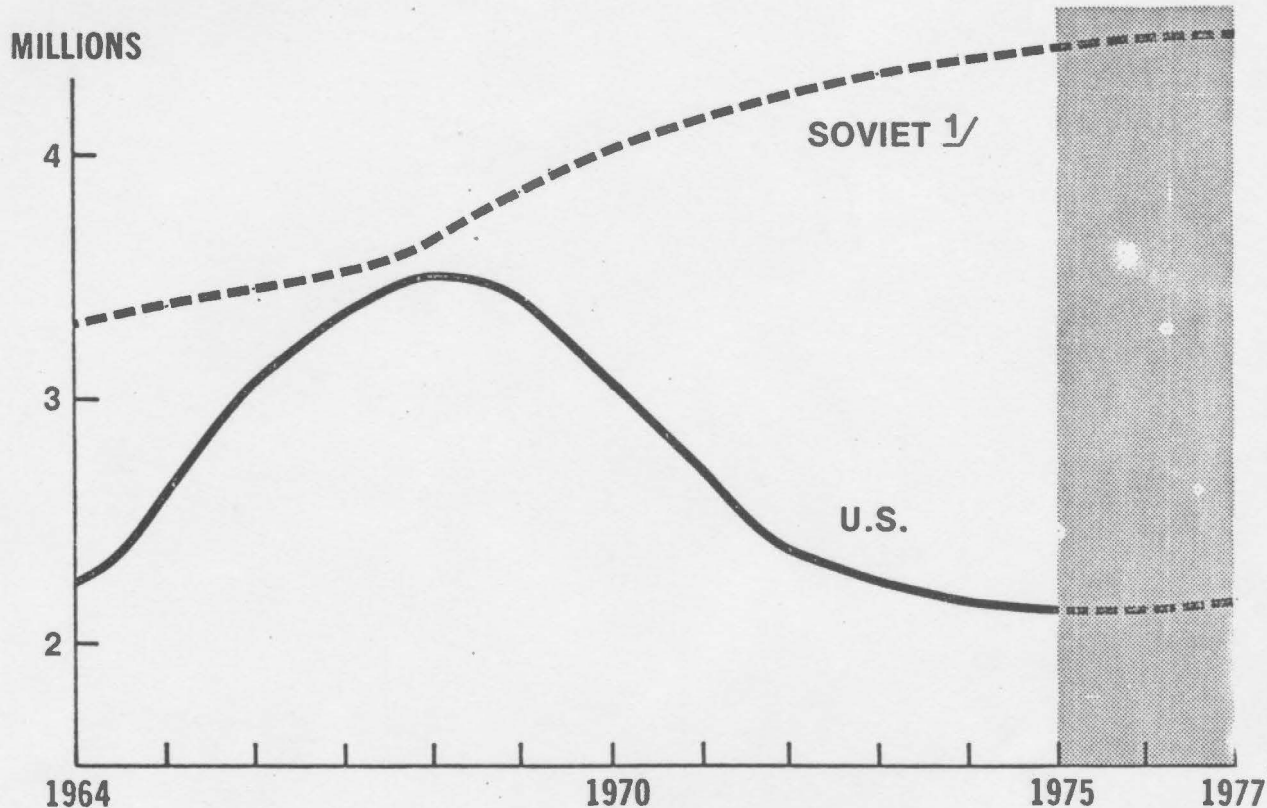
THE INTELLIGENCE COMMUNITY HAS WORKED AT THE DIFFICULT TASK OF ESTIMATING THE MAGNITUDE OF SOVIET EFFORT. THERE REMAINS SOME DISAGREEMENT AMONG ANALYSTS AS TO THE ABSOLUTE VALUE OF MILITARY EFFORTS IN A CONTROLLED ECONOMY, BUT THE CONSTANT 1977 DOLLAR VALUE OF THE RESOURCES ALLOCATED TO SOVIET NATIONAL DEFENSE APPEARS TO HAVE GROWN FROM 102 BILLION IN 1965 TO 135 BILLION IN 1975, AN AVERAGE ANNUAL INCREASE OF AT LEAST 3%.

THE SOLID CURVE SUPERIMPOSES AN ESTIMATE OF SOVIET PROGRAM COSTS ON COMPARABLE CURVES OF U.S. EXPENDITURES.

THE EVIDENCE WE HAVE OF THE WEIGHT OF EFFORT AND THE MOMENTUM IN SOVIET MILITARY MODERNIZATION PROGRAMS IS FULLY CONSISTENT WITH THESE ESTIMATES OF EXPENDITURES.



# MILITARY MANPOWER



<sup>1</sup> EXCLUDES MILITARY SECURITY FORCES.

8210

## COMPARATIVE MILITARY MANPOWER

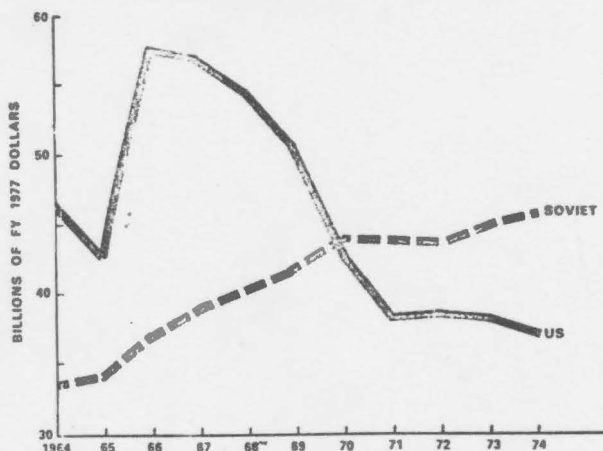
CONSIDERING MANPOWER RESOURCES, THE SOVIETS HAVE INCREASED THE NUMBER OF MEN UNDER ARMS (NOT INCLUDING SOME 500,000 MILITARY SECURITY FORCE MEMBERS) FROM 3.4 TO 4.4 MILLION SINCE 1964.

DURING THE SAME PERIOD, U.S. UNIFORMED MILITARY STRENGTH INCREASED FROM A PREWAR 1964 LEVEL OF 2.7 MILLION TO A PEAK OF 3.5 MILLION DURING THE WAR IN SOUTHEAST ASIA, THEN DECLINED TO 2.1 MILLION TODAY. THERE ARE FEWER AMERICANS IN UNIFORM NOW THAN AT ANY TIME SINCE THE FALL OF 1950.

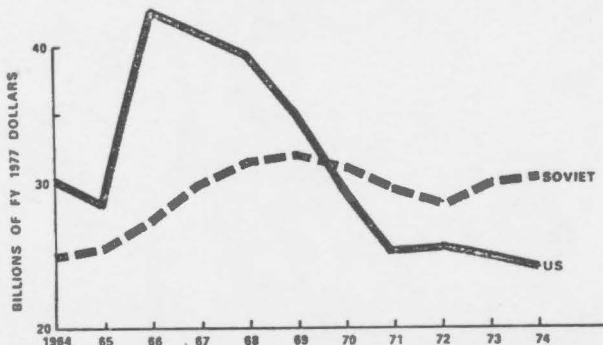




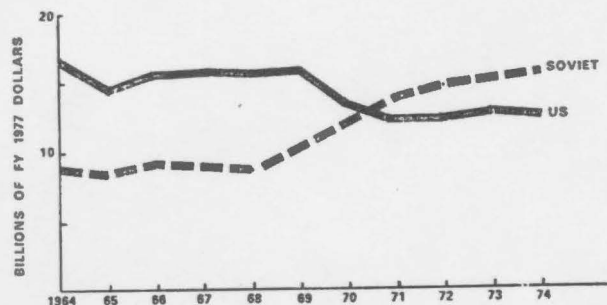
**COMPARATIVE US AND SOVIET INVESTMENT\***  
(PROCUREMENT, FACILITIES, RDT&E)



**COMPARATIVE US AND SOVIET PROCUREMENT\* AND FACILITIES CONSTRUCTION**



**COMPARATIVE US AND SOVIET\* MILITARY RDT&E**



\*BASED ON INTELLIGENCE ESTIMATES IN CONSTANT 1973 DOLLARS; CONVERTED TO CONSTANT FY 1977 DOLLARS BY DOD.

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**COMPARATIVE INVESTMENT  
IN  
PROCUREMENT, FACILITIES, RDT&E**

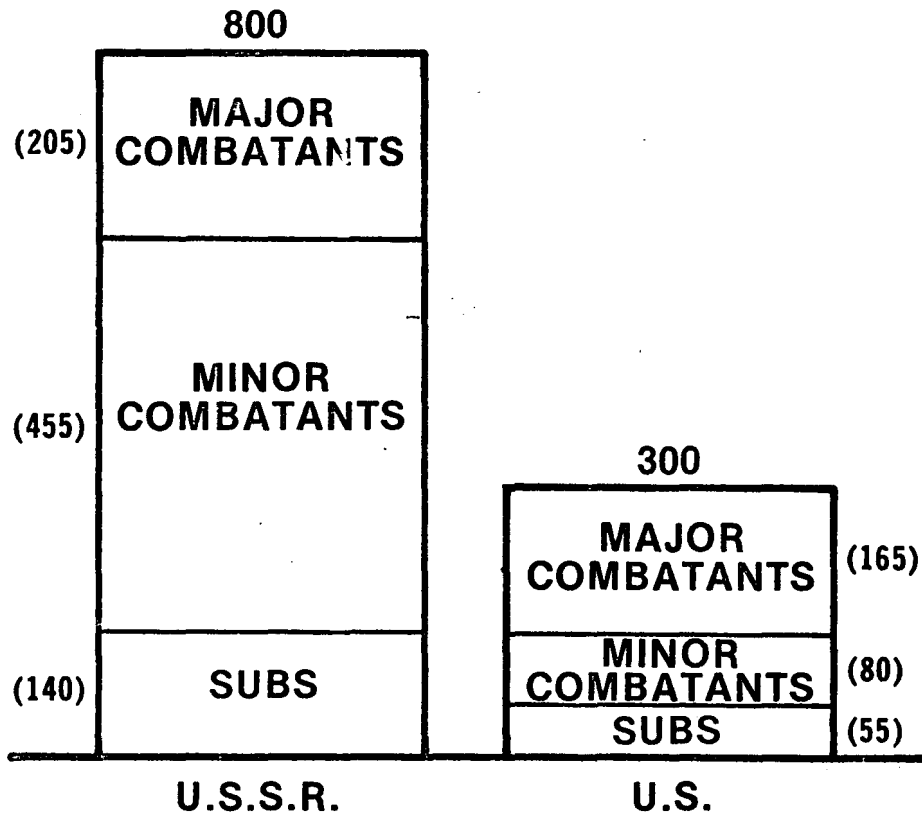
OVER THE PAST 10-12 YEARS, SOVIET INVESTMENT IN REAL TERMS IN DEVELOPMENT AND PROCUREMENT OF NEW SYSTEMS AND FACILITIES FOR PRODUCTION HAS CLEARLY EXCEEDED THAT OF THE U.S.

THE UPPER CHART DISPLAYS AGGREGATED DATA; THE ONE IN THE LOWER LEFT-HAND CORNER SEPARATES PROCUREMENT AND CONSTRUCTION TRENDS FROM RDT&E (LOWER RIGHT-HAND CORNER).

THE SOVIETS HAVE DEVELOPED AN INDUSTRIAL BASE WHICH HAS QUANTITATIVELY OUTPRODUCED THE U.S. IN MOST CATEGORIES OF MILITARY HARDWARE. THE WEIGHT OF SOVIET EFFORT AND THE MOMENTUM THEY HAVE DEVELOPED ARE OF SERIOUS CONCERN.



# U.S.S.R./U.S. NAVAL SHIP CONSTRUCTION 1965-1975



0210

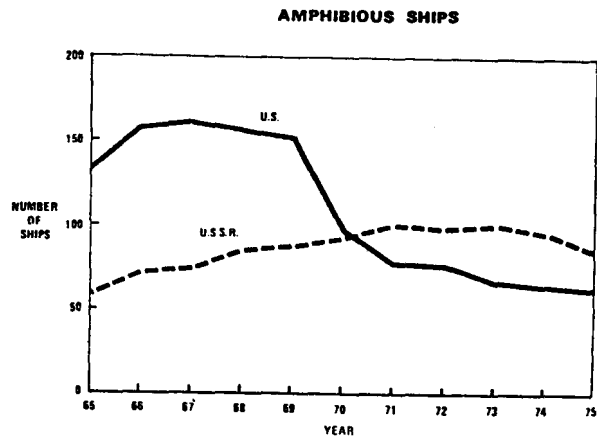
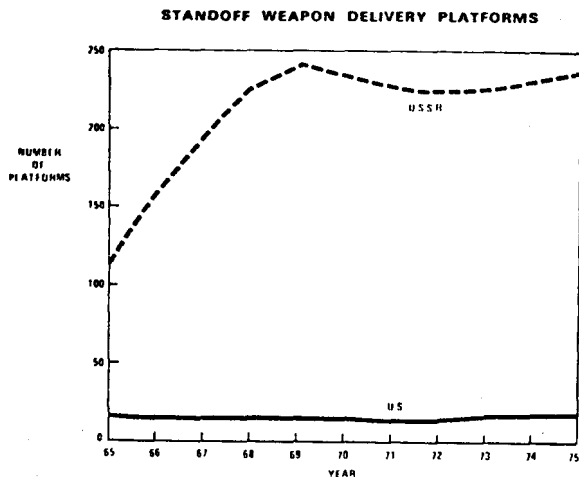
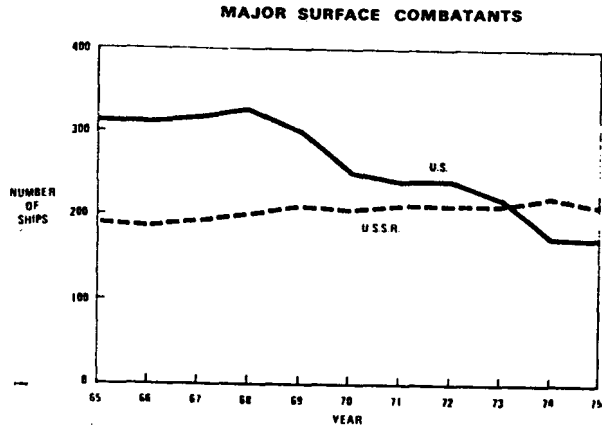
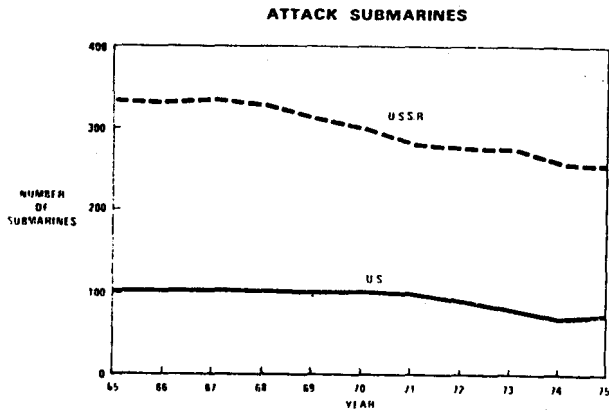
## COMPARATIVE NAVAL SHIP CONSTRUCTION

SINCE 1962, WHEN THE SOVIETS BEGAN EXPANDING MARITIME POWER IN EARNEST, THEY HAVE BUILT MORE THAN FOUR TIMES AS MANY SHIPS FOR THEIR NAVY AS HAS THE U.S.

THE TWO COLUMNS ON THIS CHART COMPARE QUANTITATIVELY USSR AND U.S. SHIPBUILDING PROGRAMS -- MAJOR COMBATANTS, MINOR COMBATANTS (1000 TONS OR LESS), AND SUBMARINES -- FOR THE 1965-1975 PERIOD.



# CHANGES IN NAVAL FORCE LEVELS (1965 - 1975)



## CHANGES IN NAVAL FORCE LEVELS

THE SOVIET FORCE HAS BECOME SMALLER WITH THE RETIREMENT OF LARGE NUMBERS OF DIESEL SUBMARINES. HOWEVER, THE SOVIETS STILL HAVE A 2.5-TO-1 ADVANTAGE IN ATTACK SUBMARINES.

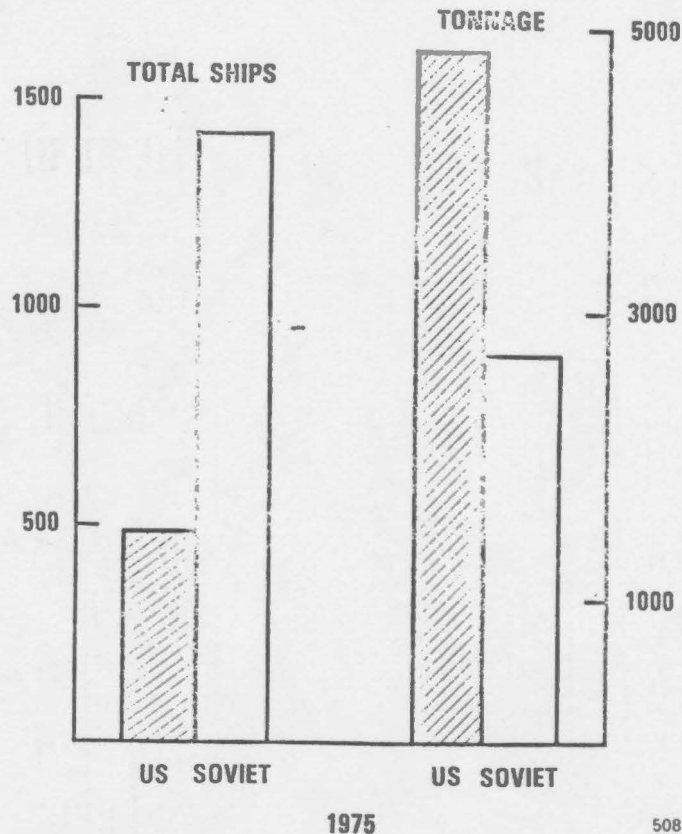
THE SOVIETS HAVE 20% GREATER NUMBERS OF MAJOR SURFACE COMBATANTS -- AIRCRAFT CARRIERS, CRUISERS, DESTROYERS, AND FRIGATES -- ALTHOUGH THE U.S. HAS AN UNQUESTIONED LEAD IN SEA-BASED AVIATION.

THERE IS A MARKED ASYMMETRY IN THE WAY THE TWO NAVIES HAVE DISPERSED OFFENSIVE, STANDOFF WEAPONS CAPABILITY ... THE U.S. STANDOFF, OFFENSIVE STRENGTH LIES ALMOST ENTIRELY IN 14 AIRCRAFT CARRIERS, WHERE THE SOVIETS HAVE 240-ODD SHIPS WITH STANDOFF WEAPONS CAPABILITY.

THE SOVIETS HAVE BUILT A FORCE OF AMPHIBIOUS LIFT SHIPS WHICH NUMERICALLY EXCEEDS OURS, HOWEVER, U.S. ASSAULT CAPABILITY AND FLEXIBILITY VASTLY EXCEEDS THEIRS.



# NUMBER AND TONNAGE OF MAJOR U.S. AND USSR SHIPS



## COMPARATIVE NUMBERS AND TONNAGE OF U.S./USSR NAVAL SHIPS

A 1975 COMPARISON OF THE NUMBERS OF SHIPS AND TOTAL TONNAGE OF THE TWO NAVIES SHOWS TWO ASYMMETRIES. FIRST, THE SOVIETS HAVE MORE SHIPS (MANY OF WHICH ARE SMALLER THAN 1000 TONS), CONSISTENT WITH THE OLD VIEW THAT THEIR NAVY IS THE SEAWARD EXTENSION OF THE RED ARMY, LARGELY COASTAL IN ORIENTATION.

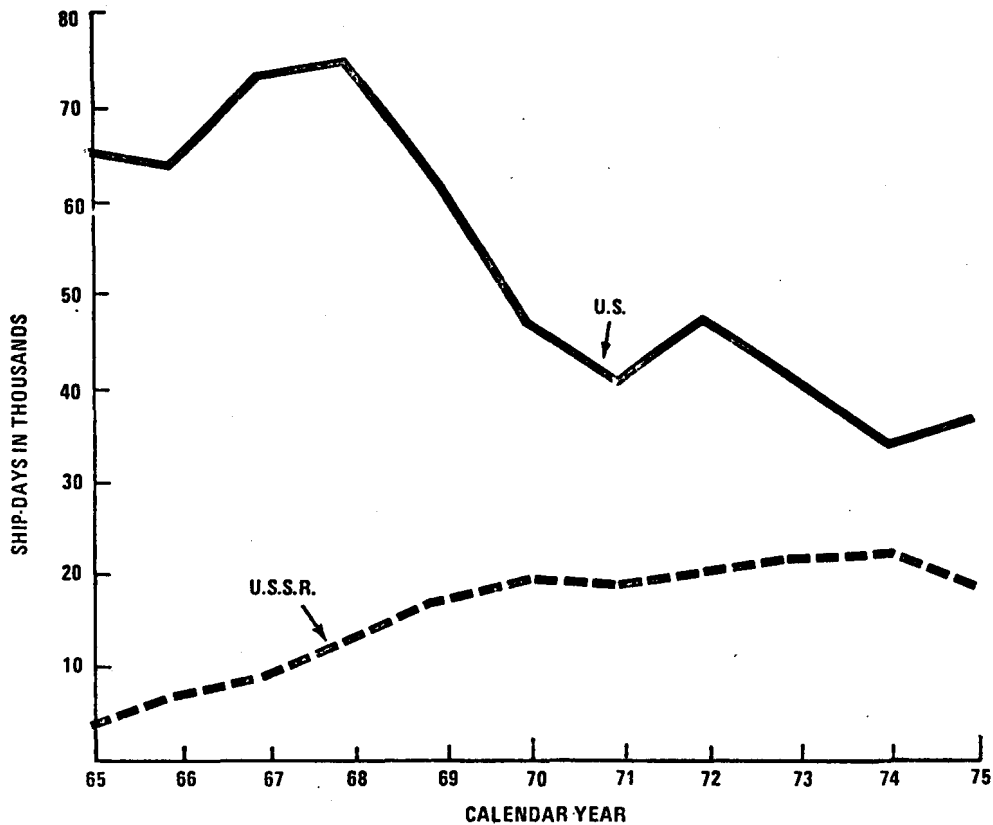
SECOND, THE U.S. LEADS IN DISPLACEMENT BECAUSE WE HAVE BUILT SHIPS FOR ROUTINE OPERATION ON DISTANT DEPLOYMENT. (ABOUT 60% OF THE U.S. ADVANTAGE IN TONNAGE RELATES TO OUR 14 AIRCRAFT CARRIERS.)

THE MIX OF SHIPS IN THE SOVIET NAVY IS CHANGING STEADILY AS THEY BUILD BIGGER, MORE CAPABLE SHIPS AND ADD HELICOPTER AND VSTOL AIRCRAFT CARRIERS.

WHEN THE CONTRIBUTIONS OF PRINCIPAL ALLIES ON BOTH SIDES ARE INCLUDED, THE NUMBERS AND TONNAGES TEND TO EQUATE.



### U.S./U.S.S.R. COMBATANT SHIP-DAYS ON DISTANT DEPLOYMENT



INCLUDES AIRCRAFT CARRIERS, MAJOR SURFACE COMBATANTS, GENERAL PURPOSE SUBMARINES, MINOR SURFACE COMBATANTS, AMPHIBIOUS SHIPS, AND MINE WARFARE SHIPS.

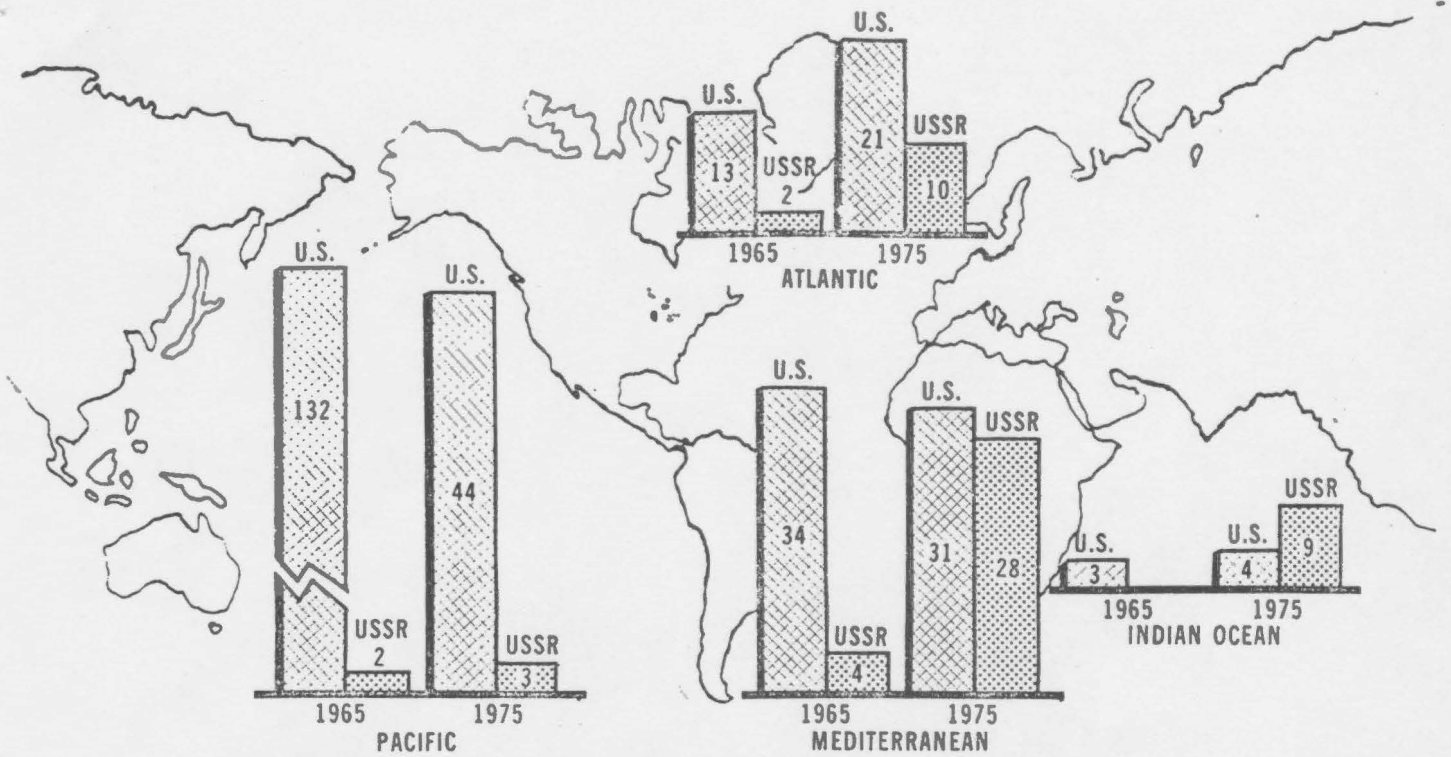
### U.S./USSR COMBATANT SHIP-DAYS ON DISTANT DEPLOYMENT

AS INTERESTING AS THE GROWTH OF THE SOVIET NAVY IS THE DEPLOYMENT OF THEIR SHIPS ON A ROUTINE BASIS -- WORLDWIDE -- BEGINNING IN THE EARLY 1960's.

TODAY, THE SOVIETS MAINTAIN A STEADY-STATE NAVAL PRESENCE AT A LEVEL ABOUT TWO-THIRDS THAT OF THE U.S.



**US/USSR COMBATANT DEPLOYMENTS\***  
(AVERAGE CY 65 AND 75)



\* INCLUDES AIRCRAFT CARRIERS, GENERAL PURPOSE SUBMARINES, MAJOR SURFACE COMBATANTS, MINOR SURFACE COMBATANTS, AMPHIBIOUS SHIPS, AND MINE WARFARE SHIPS.

FEBRUARY 1976  
3127

GEOGRAPHICAL DISTRIBUTION OF  
U.S./USSR COMBATANT DEPLOYMENTS

THE SOVIET UNION HAS ADOPTED A NAVAL DEPLOYMENT PATTERN QUITE DISSIMILAR TO THAT OF THE U.S.

THIS CHART SHOWS 1965 COMPARISONS TO THE LEFT AND 1975 COMPARISONS TO THE RIGHT, BY MAJOR OCEAN AREA. NOTE THAT THE NAVAL CONTRIBUTIONS OF THE NATIONS ALLIED WITH THE U.S. AND THE USSR ARE NOT ADDRESSED IN THESE COMPARISONS.



# U.S./USSR RELATIVE PRODUCTION RATE ESTIMATES



USSR
1973-75 AVG
2,600
3,900
1,400
950

U.S.
1973-75 AVG
450
1,410
156
572

USSR/U.S.
1973-75
5.8:1
2.8:1
9:1
1.7:1

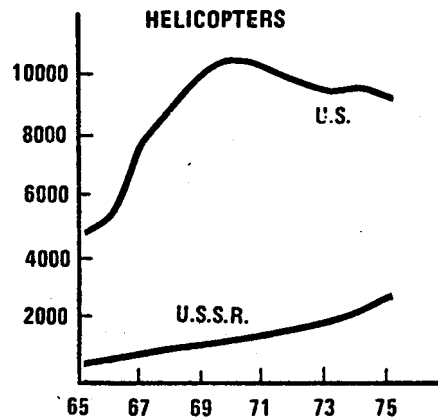
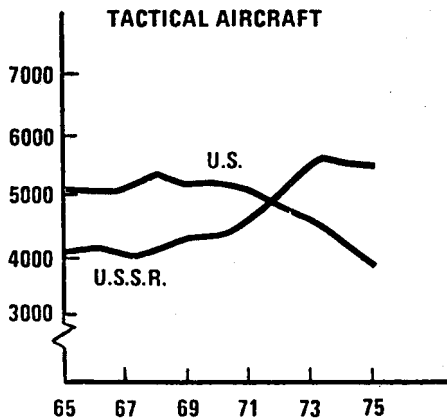
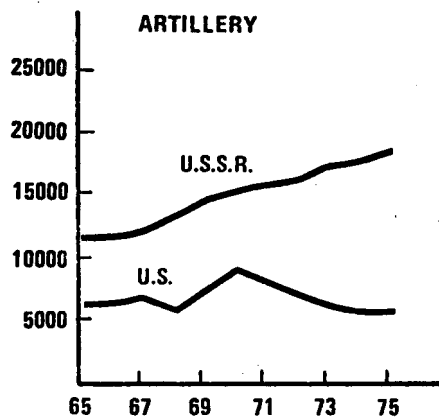
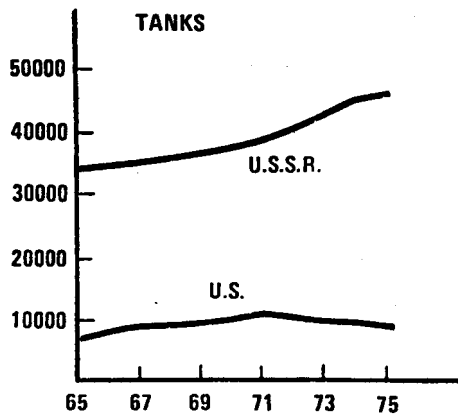
1564

RELATIVE PRODUCTION RATES  
FOR  
GROUND FORCE EQUIPMENT

AVERAGE SOVIET PRODUCTION OF MAJOR ITEMS OF GROUND WARFARE EQUIPMENT --  
TANKS, ARMORED PERSONNEL CARRIERS, ARTILLERY PIECES, AND TACTICAL AIRCRAFT --  
DURING THE PERIOD 1973-1975 IS ESTIMATED TO HAVE EXCEEDED QUANTITATIVELY THAT  
OF THE U.S. BY THE MARGINS INDICATED.



## CHANGES IN QUANTITIES OF MILITARY EQUIPMENTS (1965-1975)



### GROUND FORCE MILITARY EQUIPMENT

SOVIET TANK INVENTORIES EXCEED THOSE OF THE U.S. BY ROUGHLY 4-TO-1, A MARGIN WHICH IS INCREASING.

THE SOVIETS HAVE 2.5 TIMES AS MUCH ARTILLERY.

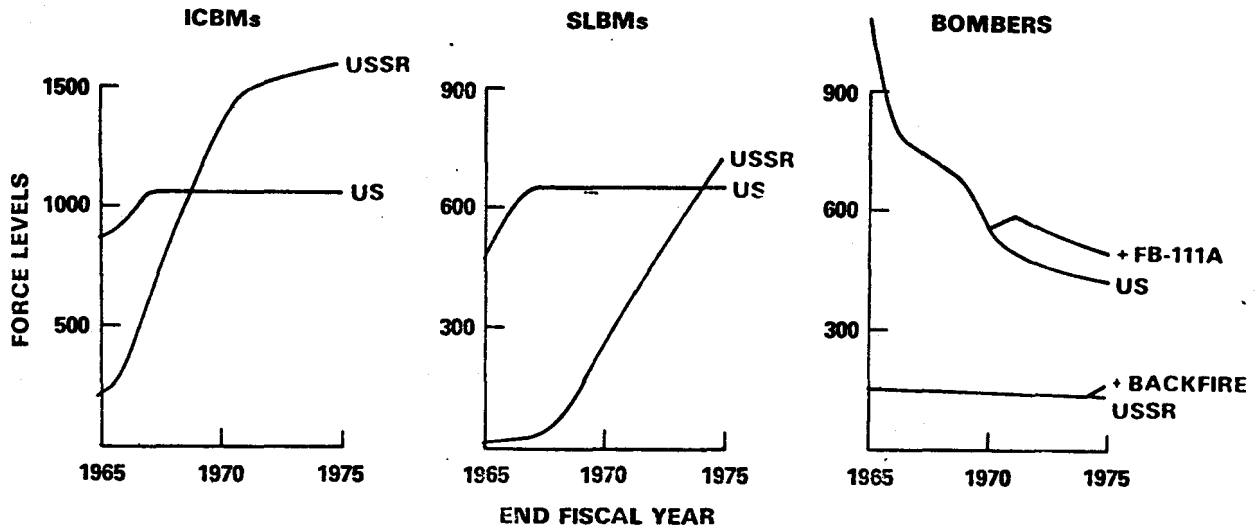
THEY HAVE BUILT A MODERN, CAPABLE TACTICAL AIRCRAFT FORCE WHICH IN NUMBERS, BUT NOT QUALITY, EXCEEDS OURS BY 30%.

IN HELICOPTERS THE U.S. MAINTAINS SUPERIORITY, BUT THE SOVIETS ARE BEGINNING TO BUILD HELICOPTERS IN QUANTITY.





# CHANGES IN STRATEGIC FORCE LEVELS



4758

## CHANGES IN STRATEGIC NUCLEAR FORCES

THE SOVIETS HAVE INCREASED FROM ABOUT 225 ICBMs IN 1965 TO SOME 1600 TODAY, HAVING OVERTAKEN THE U.S. IN THE EARLY 1970'S.

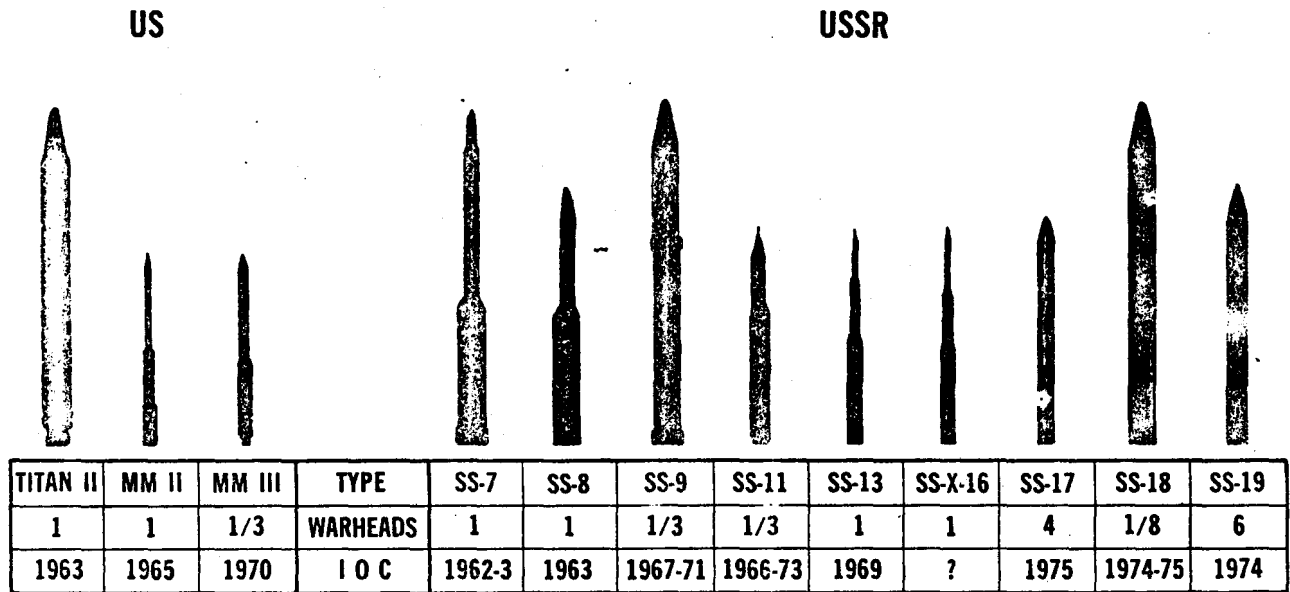
THE SOVIET SUBMARINE-LAUNCHED BALLISTIC MISSILE SYSTEM HAS GROWN FROM 29 TO MORE THAN 700, WHILE THE U.S. HAS BEEN LEVEL AT 656.

IN THE BOMBER FORCE THE U.S. STILL MAINTAINS A LEAD.

THESE COMPARISONS DO NOT ADDRESS QUALITATIVE DIFFERENCES IN THE TWO FORCES.



# COMPARISON OF US AND USSR ICBMs



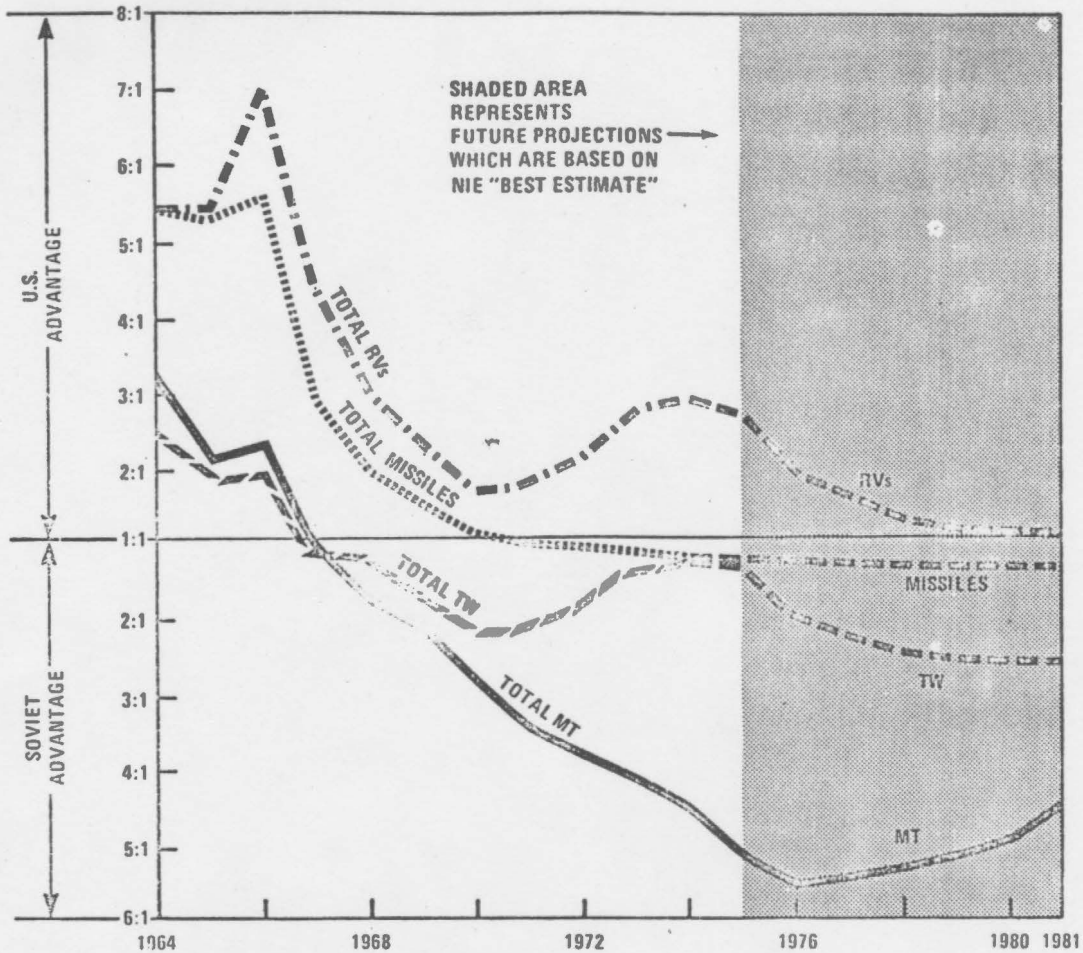
## COMPARISON OF US/USSR ICBMs

THE SOVIETS HAVE DEVELOPED FOUR NEW ICBMs IN THE PAST FEW YEARS, TWO OF WHICH ARE CURRENTLY BEING DEPLOYED WITH MULTIPLE INDEPENDENTLY TARGETABLE REENTRY VEHICLES (MIRVs). FOLLOW-ON MISSILES ARE IN R&D.

THIS CHART SHOWS THE THREE ICBMs WHICH MAKE UP THE U.S. INVENTORY -- BY NAME, NUMBER OF WARHEADS, AND YEAR OF INITIAL OPERATIONAL CAPABILITY -- AND THE NINE SOVIET COUNTERPARTS. WHERE THE NUMBER OF WARHEADS IS DEPICTED WITH A DIAGONAL, IT INDICATES THAT THE LATER VERSIONS OF A GIVEN MISSILE HAVE MULTIPLE WARHEAD CAPABILITY.



## U.S. / U.S.S.R. STRATEGIC MISSILE ADVANTAGE



1295

### US/USSR Strategic Missile Advantage

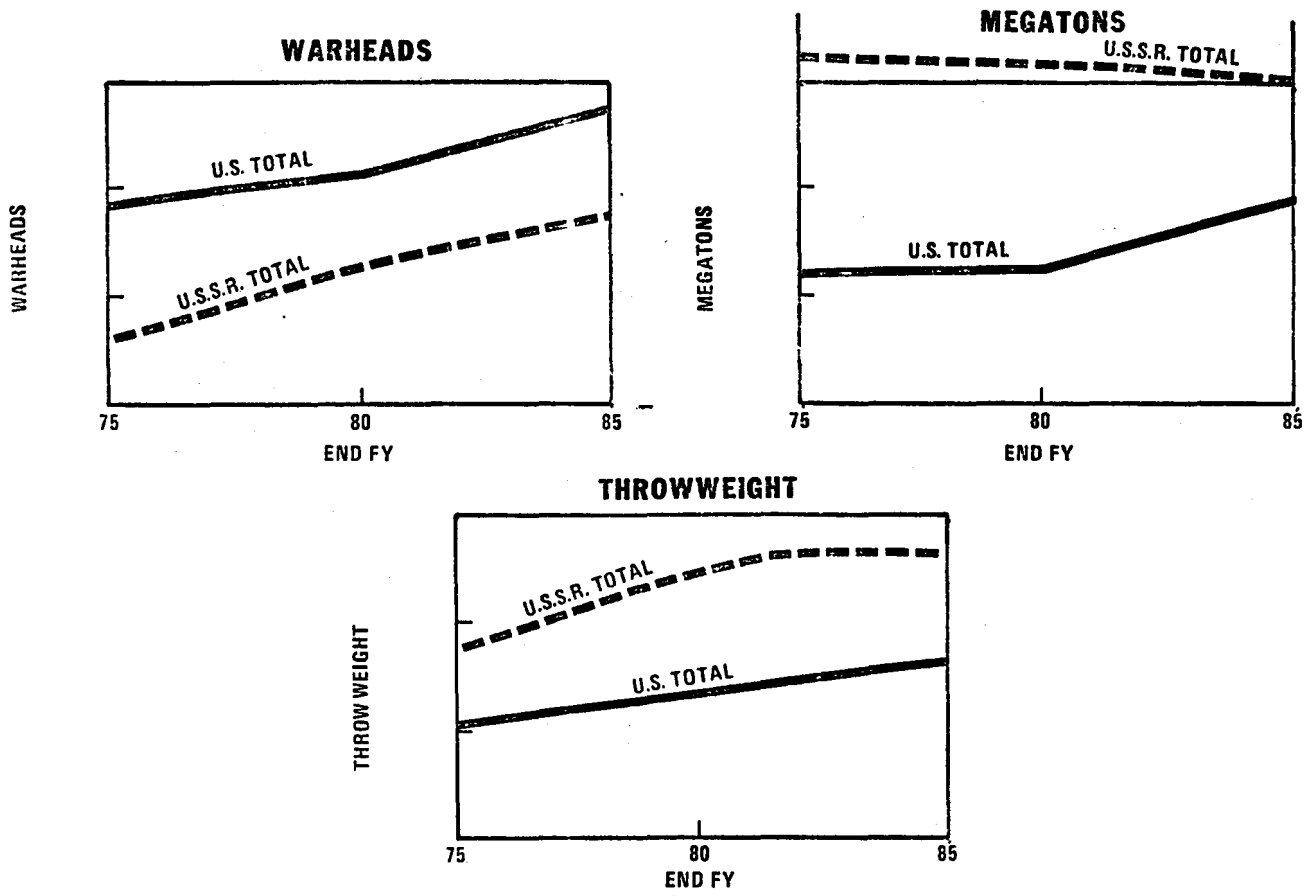
THIS CHART -- WHICH EXCLUDES STRATEGIC BOMBER FORCES, AN AREA IN WHICH THE U.S. HAS A MARKED ADVANTAGE -- SHOWS HOW THE STRATEGIC MISSILE ADVANTAGE HAS SHIFTED OVER TIME.

TAKING SOVIET IMPROVEMENTS AND U.S. DEVELOPMENTS INTO CONSIDERATION, WE CAN EXPECT A CONTINUED SOVIET ADVANTAGE IN THROWWEIGHT AND MEGATONS, ALTHOUGH THE U.S. SHOULD RETAIN THE LEAD IN NUMBERS OF WARHEADS. ABOVE THE HORIZONTAL LINE WHICH DIVIDES THE CHART; THE ADVANTAGE RESIDES WITH THE U.S. BELOW THE LINE, IT FALLS TO THE USSR.



THESE TRENDS MEAN THAT, BY THESE INDICES, THE SOVIET ADVANTAGE COULD INCREASE OVER THE NEXT DECADE.

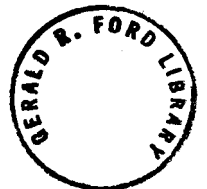
# PROJECTED INVENTORY (2400 SNDV/1320 MIRV LEVEL)



## PROJECTED NUCLEAR INVENTORIES

FROM THE STANDPOINT OF THE TOTAL STRATEGIC NUCLEAR INVENTORY -- WHICH INCLUDES MISSILES AND BOMBERS -- PROJECTED TRENDS INDICATE A U.S. LEAD IN NUMBERS OF WARHEADS, WITH THE USSR MAINTAINING THE ADVANTAGE IN MEGATONS AND THROWWEIGHT.

THESE PROJECTIONS ASSUME THAT THE VLADIVOSTOK ACCORD LIMITS OF 2400 STRATEGIC NUCLEAR DELIVERY VEHICLES (SNDV) AND 1320 MULTIPLE INDEPENDENTLY TARGETED REENTRY VEHICLES (MIRV) WILL BE FINALLY AGREED UPON BY BOTH SIDES.



# CENTRAL EUROPEAN BALANCE (NON-MOBILIZED 1975)

## NATO

727,000  
6,000

GROUND FORCES <sup>1/</sup>  
TANKS <sup>1/</sup>

## PACT

925,000  
15,000

## NATO LEADS

ARMORED PERSON-  
NEL CARRIERS  
ANTI-TANK GUIDED  
MISSILES  
MORTARS

GROUND  
WEAPONS

GROUND ATTACK  
RECONNAISSANCE  
HELICOPTERS

AIRCRAFT

## PACT LEADS

ARTILLERY  
MULTIPLE ROCKET-  
LAUNCHERS

AIR DEFENSE

<sup>1/</sup> 1974 MBFR DATA

6210

### CENTRAL EUROPEAN BALANCE

CENTRAL EUROPEAN FORCE POSTURES AND DEVELOPMENTS SUGGEST THAT, UNLESS COUNTERBALANCED, INCREASING SOVIET FIREPOWER AND MOBILITY COULD BEGIN TO GIVE THE WARSAW PACT FORCES AN UNACCEPTABLE ADVANTAGE.

ASYMMETRIES THAT INFLUENCE THE ASSESSMENT INCLUDE:

-- NATO HAS SEVERAL ADVANTAGES:

- IT HAS A DEFENSIVE MISSION WITH ADVANTAGES OF INTERIOR LINES AND FAMILIAR TERRAIN.
- ITS TACTICAL AIRPOWER IS SUPERIOR.
- IT HAS MORE ANTI-TANK WEAPONS, HELICOPTERS, AND ARMORED PERSONNEL CARRIERS.

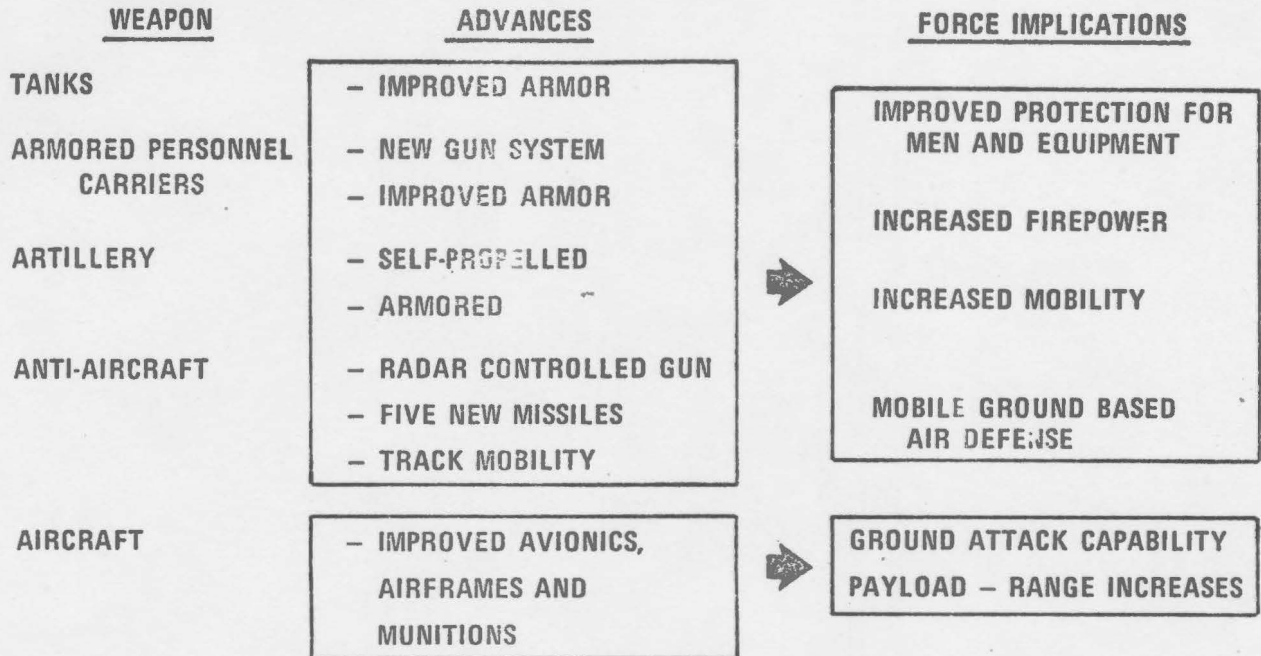
-- THE WARSAW PACT HAS:

- THE INITIATIVE IN CHOOSING THE TIME AND NATURE OF ATTACK.
- MORE TANKS AND ARTILLERY PIECES, AND MODERN SOPHISTICATED BATTLEFIELD AIR DEFENSE SYSTEMS.



# SOVIET WEAPON ADVANCES

## 1965-1975



4981

### SOVIET WEAPON ADVANCES

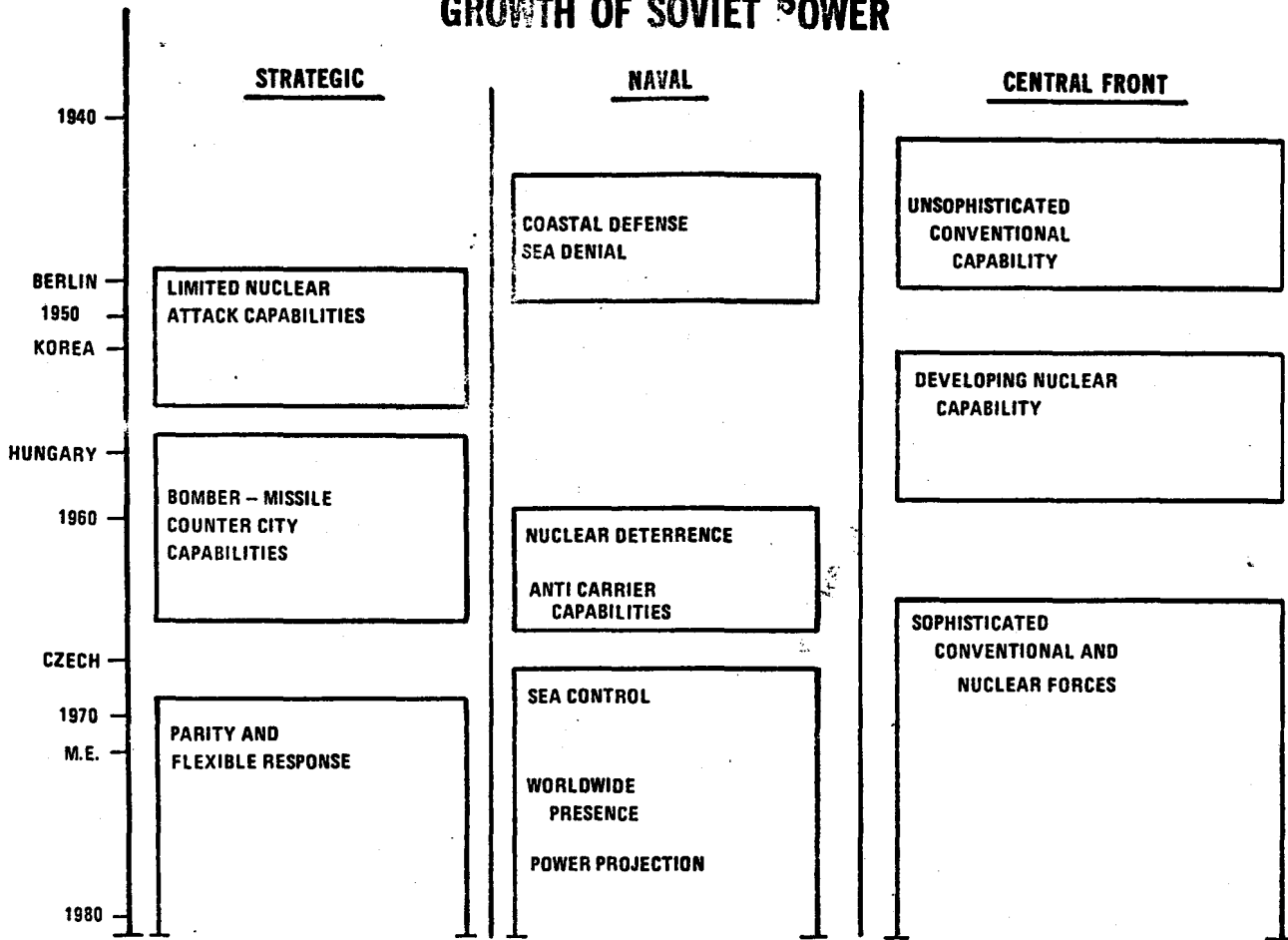
THE SOVIETS FOR A LONG TIME HAVE STRESSED AN OFFENSIVE DOCTRINE FOR A BLITZKRIEG-TYPE WAR. IN THE PAST DECADE THEY HAVE MADE PROGRESS TOWARD BUILDING A FORCE WHICH COULD IMPLEMENT THAT DOCTRINE. SINCE THE MID-1960'S, THEY HAVE INTRODUCED FIVE NEW TYPES OF AIRCRAFT AND PROVIDED THEIR GROUND FORCES WITH A NEW GENERATION OF WEAPONS IN MOST MAJOR CATEGORIES.

THESE WEAPONS HAVE BEEN, IN MOST CASES, NEW DESIGNS -- AND SOPHISTICATED ONES. FOR EXAMPLE, SOVIET DIVISIONS HAVE BEEN EQUIPPED WITH AS MANY AS FOUR DIFFERENT SURFACE-TO-AIR GUN AND MISSILE SYSTEMS, EACH WITH OVERLAPPING AIR DEFENSE CAPABILITIES AND USING DIFFERENT METHODS TO ACQUIRE, TRACK AND ENGAGE AIRCRAFT. THEIR ARMORED PERSONNEL CARRIER CARRIES AND ENABLES THEM TO FIGHT FROM WITHIN THE VEHICLE, AND MOUNTS ANTI-TANK WEAPONS.

MAJOR IMPROVEMENT IN GROUND BASED AIR DEFENSE HAS FREED THE SOVIET AIR FORCE FOR AN AIR SUPPORT ROLE, AND IT HAS CAUSED NATO AIR FORCES TO ALTER THEIR MISSION EMPHASIS SOMEWHAT TO FOCUS MORE ON DEFENSE SUPPRESSION.



# GROWTH OF SOVIET POWER



4991

## EVOLUTION OF SOVIET POWER

WHEN ONE CONSIDERS THE STRATEGIC NUCLEAR, NAVAL, AND CENTRAL FRONT BALANCES TOGETHER, IT IS APPARENT THAT DRAMATIC CHANGES IN SOVIET CAPABILITIES HAVE OCCURRED IN THE PAST 15 YEARS. THE SOVIETS HAVE COME FROM THE UNSOPHISTICATED, CONTINENTALLY CONFINED, ARMED FORCES OF THE POST WORLD WAR II DAYS TO CLEAR MILITARY SUPERPOWER STATUS IN THE 1970'S.

SIGNIFICANTLY, THERE IS A POWERFUL MOMENTUM IN SOVIET MILITARY PROGRAMS AND IN THE EMERGING PATTERN OF EXTERNAL PROJECTION OF SOVIET POWER.



**DEPARTMENT OF DEFENSE BUDGET**  
**DEFENSE BUDGET TOTALS**  
(\$ IN BILLIONS)

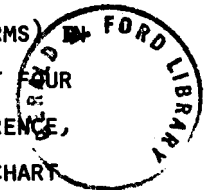
<u>CURRENT DOLLARS</u>	<u>FY 1964 ACTUAL</u>	<u>FY 1974 ACTUAL</u>	<u>FY 1975 ACTUAL</u>	<u>FY 1976 ESTIMATE</u>	<u>FY 1977 ESTIMATE</u>	<u>INCREASE FY 1976-77</u>
Total Obligational Authority (TOA)	50.7	85.1	87.9	98.3	112.7	14.4
Budget Authority (BA)	50.7	88.9	91.5	100.7	113.8	13.1
Outlays	50.8	78.4	86.0	91.2	100.1	8.9
 <u>CONSTANT FY 1977 DOLLARS</u>						
Total Obligational Authority (TOA)	115.4	107.3	100.7	105.3	112.7	7.4
Budget Authority (BA)	115.5	112.6	104.8	108.0	113.8	5.8
Outlays	113.8	101.7	99.1	98.2	100.1	1.9

5077

DEFENSE BUDGET TOTALS

IT IS CLEAR TO THOSE WHO LOOK AT THE MILITARY BALANCE WHICH RESULTS FROM THESE TRENDS THAT, IF WE ARE TO MAINTAIN SUFFICIENCY AND, THEREFORE, WORLD STABILITY, THESE TRENDS MUST BE ARRESTED NOW.

THIS CHART SHOWS WHERE THE FY 77 BUDGET -- WITH WHICH WE ARE ATTEMPTING TO CHECK THESE RELATIVE TRENDS BY STOPPING THE DOWNTREND (IN REAL TERMS) U.S. DEFENSE SPENDING -- STANDS WITH RESPECT TO BUDGETS OVER THE PAST FOUR YEARS. THE TOP THREE LINES DISPLAY DATA, WITH PREWAR FY 64 FOR REFERENCE, IN TERMS OF CURRENT OR "THEN YEAR" DOLLARS. THE BOTTOM PART OF THE CHART PRESENTS THE SAME DATA IN REAL TERMS ... CONSTANT FY 77 DOLLARS.





# ECONOMIES AND RESTRAINTS IN FY 1977 DEFENSE BUDGET

(\$ in Billions)

CUTBACKS IN EMPLOYMENT AND PERSONNEL COSTS, FY 1976-77	\$ .9
PAY RAISE ASSUMPTIONS GS/MILITARY PAY RAISE CAP, NEW/EXISTING GS GUIDELINES	.8/2.6
COMMISSARIES AND RETIRED PAY "KICKER"	.2
MILITARY CONSTRUCTION AND FAMILY HOUSING CONSTRUCTION	.9
	<hr/>
SUBTOTAL	2.8/4.6
	<hr/>
STOCKPILE ITEMS	.7/8
	<hr/> <hr/>
TOTAL	3.5/5.4

4961

## ECONOMIES AND RESTRAINTS

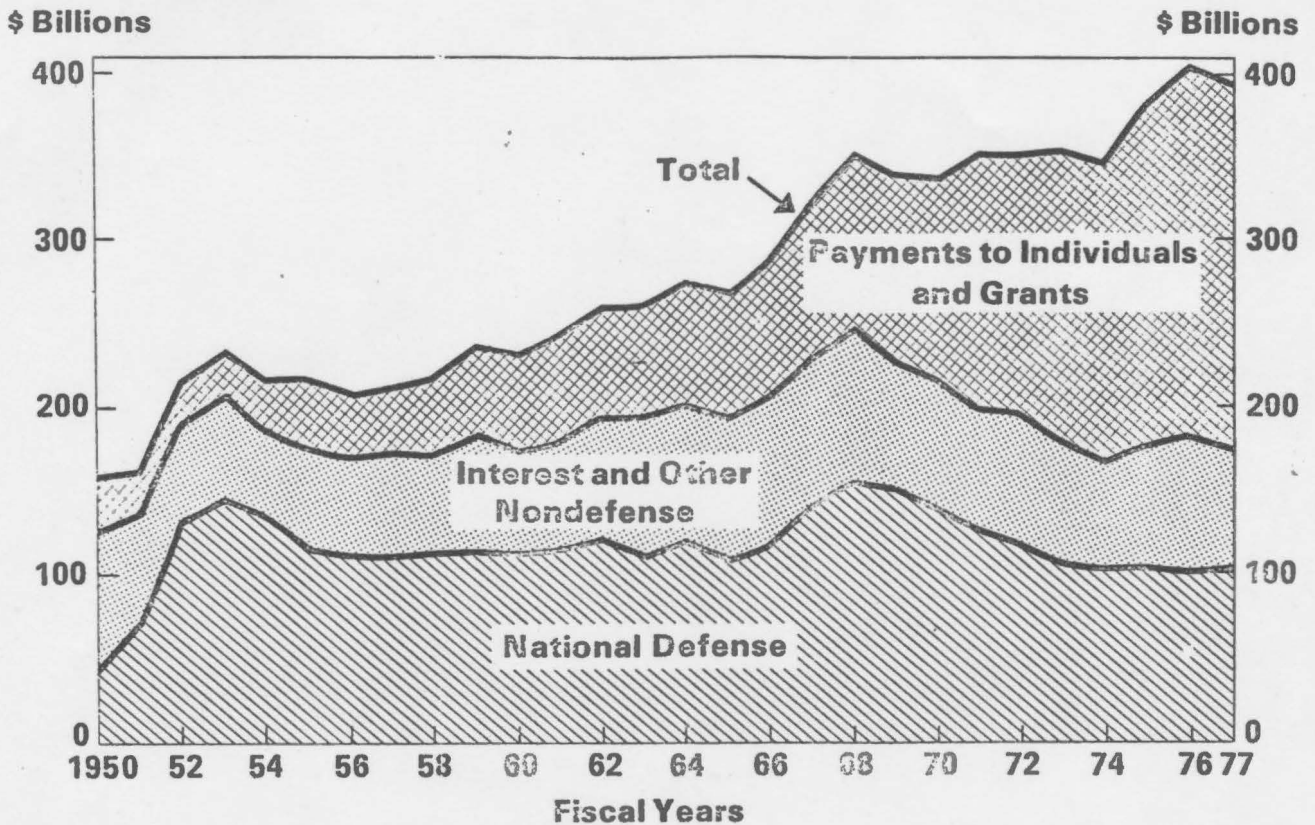
WHILE THE PRESIDENT'S BUDGET SEEKS TO IMPROVE FORCE MODERNIZATION AND READINESS, IT ALSO PROPOSES TO TIGHTEN THE BUDGET IN THE FOLLOWING WAYS:

- RESTRAINING PERSONNEL COSTS WHILE WORKING TO MAINTAIN THE QUALITY AND PROFESSIONAL STANDARDS OF THE ALL VOLUNTEER FORCE.
- INSTITUTING FURTHER EFFICIENCIES INCLUDING BASE REALIGNMENTS, HEADQUARTERS REDUCTIONS, REDUCED TRAINING COSTS, STOCKPILE LEVEL ADJUSTMENTS, AND CIVILIAN MANPOWER REDUCTIONS.
- THESE RESTRAINTS ADD UP TO \$2.8 TO \$4.6 BILLION, DEPENDING ON THE MAGNITUDE OF THE PAY CAP ACHIEVED.



IF CONGRESS FAILS TO APPROVE THE RECOMMENDED BELT-TIGHTENING MEASURES, ADDITIONAL APPROPRIATIONS WILL BE REQUIRED TO AVOID UNACCEPTABLE FORCE LEVEL REDUCTIONS.

## FEDERAL OUTLAYS - CONSTANT 1977 DOLLARS



### TOTAL FEDERAL OUTLAY PATTERN

OUR NATION'S NON-DEFENSE SPENDING CAN NO LONGER BE FUNDED OUT OF THE DEFENSE BUDGET. TODAY, NON-DEFENSE EXPENDITURES ARE NEARLY THREE TIMES THOSE OF DEFENSE.

IN THE EXTREME:

- A 10% INCREASE IN NON-DEFENSE SPENDING WOULD MEAN A CRIPPLING 30% CUT IN DEFENSE.
- A 33% INCREASE IN NON-DEFENSE SPENDING WOULD WIPE OUT THE DEFENSE ESTABLISHMENT ALTOGETHER.

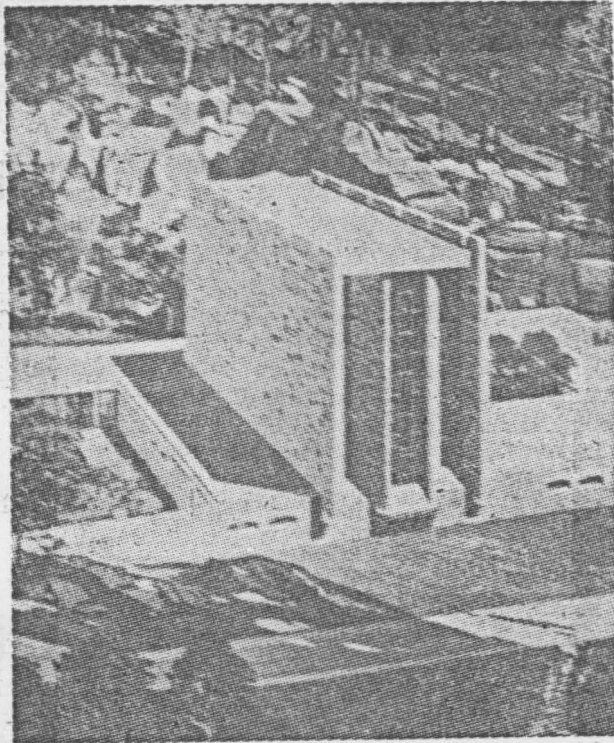


## CONCLUSION

CONTINUING THE TRENDS OF PAST YEARS MUST BE CONSIDERED TO BE A CONSCIOUS DECISION TO ABANDON THE POLICY OF MAINTAINING ROUGH EQUIVALENCE WITH OUR PRINCIPAL ADVERSARY. THIS WOULD BE UNACCEPTABLE.

WHEN, AS WOULD BE INEVITABLE, THE FACT THAT THE UNITED STATES HAD MADE A DECISION TO SLIP TO AN INFERIOR STATUS WAS APPRECIATED BY THE WORLD, WE WOULD BEGIN LIVING IN A WORLD FUNDAMENTALLY DIFFERENT FROM THE ONE WE HAVE KNOWN DURING OUR LIFETIMES.





**JEWISH CHAPEL FOR POINT —** Army Secretary Martin R. Hoffmann has authorized construction of a Jewish chapel at the United States Military Academy at West Point, N.Y., capping a 20-year campaign by Jewish cadets and alumni. The chapel, which will cost an estimated \$5 million, of which \$400,000 has already been raised, will be situated between the Protestant and Catholic chapels, overlooking the parade grounds and the Hudson River.



THE WHITE HOUSE  
WASHINGTON

1/100

March 19, 1976

MEMORANDUM FOR: BARRY ROTH  
FROM: PHIL BUCHEN *P.*  
SUBJECT: Jewish Chapel at West Point

I last talked to Marty Hoffmann on March 8 concerning this matter and the interest of Congressman Jack Murphy in this matter.

I believe the President is being asked to support the efforts to raise money for this purpose. I suggested to Marty that he prepare a letter to us indicating the worthiness of the project and also dealing with the question of whether this effort for West Point might, in turn, lead to further efforts in the same direction for Annapolis and the Air Force Academy.



Monday 3/1/76

2:00 Barry suggests -- since we have not had a paper from Marty Hoffmann -- perhaps you would want to call Marty and see if they can come up with something.

Keep calling Wishart ①

3/2/76

1:20 I called Hoffmann's office — they will have

Col. Wishart call



Monday 3/1/76

Hoffmann,  
Marty

2:00 Barry suggests -- since we have not had a paper from Marty Hoffmann -- perhaps you would want to call Marty and see if they can come up with something.



THE WHITE HOUSE  
WASHINGTON

2/3/76

called Col. Wickhart.  
Barry then  
called & talked  
with him





Thursday 1/29/76

9:00 Col. Wishart in Marty Hoffmann's office called re the Jewish chapel; They're waiting for the paper to arrive in the office. Expect no problem. The paper should be there today.



1/28/76

THE WHITE HOUSE  
WASHINGTON

at Barry's  
request, I called  
Hoffmann's office  
& check —  
they will call  
back



THE WHITE HOUSE

WASHINGTON

January 12, 1976

*Hold*  
*Presidential*  
*endorsements*

MEMORANDUM FOR:

The Honorable Martin R. Hoffmann  
Secretary of the Army

I would appreciate any information you have on the project discussed in the attached correspondence, as well as your personal thoughts or whether the President should endorse this project.

Thank you for your assistance.

*P.W.B.*

Philip W. Buchen  
Counsel to the President



ABRAMS INDUSTRIES, INC.

P. O. BOX 1969

ATLANTA, GEORGIA 30301

BERNARD W. ABRAMS  
*Chief Executive Officer*

December 26, 1975

The Honorable Howard H. Callaway  
Campaign Chairman for the  
Re-Elect Gerald Ford Campaign  
Executive Office Building  
White House  
Washington, D.C. 20500

Dear Bo:

I am sure that you are aware that there is a campaign under way to build a cadet Jewish chapel at West Point. I am enclosing the membership of the National Advisory Committee as of December 3. This represents a good cross section of elected officials, military, religious and secular organizations.

It would be a wonderful thing for President Ford to endorse the campaign. Number one, it would help us in our fund raising; number two, it would be helpful politically to the President in the Jewish community.

I recommend the President's endorsement to you, Bo, and I shall be happy to provide any necessary information.

Looking forward to hearing from you.

Sincerely yours,



Bernard W. Abrams  
Chairman of the Board

BWA:as  
Enc.  
cc: Milton Goldin



Officers and Executives of National Secular  
and Religious Organizations Continued

Herbert Millman, Executive Director, The National Jewish  
Welfare Board

Bishop Paul J. Moore, Episcopal Bishop of New York

Bayard Rustin, President, A. Philip Randolph Institute

Rabbi Alexander M. Schindler, President, Union of American  
Hebrew Congregations

Rabbi Fabian Schonfeld, President, The Rabbinical Council  
of America

Rabbi Mordecai Waxman, President, The Rabbinical Assembly



# President Ford Committee

1828 L STREET, N.W., SUITE 250, WASHINGTON, D.C. 20036 (202) 457-6400

*Handwritten:* President  
Callaway

December 31, 1975

*Handwritten:* 7.

MEMORANDUM FOR: PHIL BUCHEN  
FROM: BO CALLAWAY

*Handwritten:* Bo

Phil:

I talked to Dick Cheney today about the inclosed letter from Bernie Abrams. He suggested that I send this directly to you.

Let me just add that Bernie Abrams is absolutely first-class in every way.

As you can note from the National Advisory Committee, there are some very prominent people connected with this project.

If it fits within your policies, I think it would be great for the President to endorse the Jewish chapel at West Point. Please let me know what you think.

Attachment



ABRAMS INDUSTRIES, INC.

P. O. BOX 1969

ATLANTA, GEORGIA 30301

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*Chief Executive Officer*

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Looking forward to hearing from you.

Sincerely yours,



Bernard W. Abrams  
Chairman of the Board

BWA:as  
Enc.  
cc: Milton Goldin



**Founded 1925**

MEMBERSHIP TO DATE OF NATIONAL ADVISORY COMMITTEE  
(Committee still in formation)

Senators and Congressmen

Senator James L. Buckley (New York)  
Senator Barry Goldwater (Arizona)  
Senator Henry M. Jackson (Washington)  
Senator Jacob K. Javits (New York)

Representative Hamilton Fish, Jr. (New York)  
Representative Elwood H. Hillis (Indiana)  
Representative Abraham Kazen, Jr. (Texas)  
Representative Donald J. Mitchell (New York)  
Representative Richard L. Ottinger (New York)  
Representative Peter A. Peyser (New York)  
Representative Samuel S. Stratton (New York)  
Representative Charles H. Wilson (California)

Military Officers

General Alexander M. Haig, Jr., United States Army  
Lieutenant General Sam S. Walker, United States Army  
Major General Lincoln D. Faurer, United States Air Force  
Major General Bennett L. Lewis, United States Army

General Donald V. Bennett, USA, Retired  
General Mark W. Clark, USA, Retired  
General Michael S. Davison, USA, Retired  
General Andrew J. Goodpaster, USA, Retired  
Major General Robert H. Schellman, USA, Retired  
Captain Joshua L. Goldberg, Chaplains Corps, United  
States Navy, Retired

Officers and Executives of National Secular  
and Religious Organizations

David M. Blumberg, President, B'nai B'rith  
Benjamin R. Epstein, Executive Director, Anti-Defamation  
League of B'nai B'rith  
Father Edward H. Flannery, Director, Secretariat For  
Catholic-Jewish Relations  
Rabbi Harold H. Gordon, Executive Vice-President, The New  
York Board of Rabbis, Incorporated  
Rabbi Arthur Hertzberg, President, American Jewish Congress  
Arthur J. Levine, President, United Synagogue of America  
Rabbi Joseph H. Lookstein, President, Synagogue Council  
of America





Officers and Executives of National Secular  
and Religious Organizations Continued

Herbert Millman, Executive Director, The National Jewish  
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Bayard Rustin, President, A. Philip Randolph Institute  
Rabbi Alexander M. Schindler, President, Union of American  
Hebrew Congregations  
Rabbi Fabian Schonfeld, President, The Rabbinical Council  
of America  
Rabbi Mordecai Waxman, President, The Rabbinical Assembly



*Defense*

March 13, 1976

MEMORANDUM FOR

The Honorable Richard Wiley  
General Counsel  
Department of Defense

Attached are copies of the form I mentioned to  
you on Friday.

Philip W. Buchen  
Counsel to the President

Attachment (Financial Data Statement)

PWB:11



THE WHITE HOUSE  
WASHINGTON

*Defense*

March 19, 1976

MEMORANDUM FOR: BARRY ROTH

FROM: PHIL BUCHEN *P.*

SUBJECT: Jewish Chapel at West Point

I last talked to Marty Hoffmann on March 8 concerning this matter and the interest of Congressman Jack Murphy in this matter.

I believe the President is being asked to support the efforts to raise money for this purpose. I suggested to Marty that he prepare a letter to us indicating the worthiness of the project and also dealing with the question of whether this effort for West Point might, in turn, lead to further efforts in the same direction for Annapolis and the Air Force Academy.



THE WHITE HOUSE

WASHINGTON

June 7, 1976

*Refer*  
(see  
Clemency)

MEMORANDUM FOR:

KEN LAZARUS

FROM:

PHIL BUCHEN *P.*

Please review the attached file from Ted Marrs. I agree that the letter drafted by the Department of Defense ought to be revised. I suggest that the last sentence of the third paragraph be dropped and I question whether the second sentence of the third paragraph is correct because I find nothing to that effect in the Department of Justice rules unless you can imply it from the fact that there has been no conviction and therefore no lapse of the essential waiting period.

I think you could redraft the letter and send it out with a copy to Ted Marrs.

Attachments



THE WHITE HOUSE

WASHINGTON

June 9, 1976

Dear Mr. Mezvinsky:

This is in further response to your letter of June 2 regarding your investigation of an allegation that a military promotion list sent to the Senate was improperly altered. A member of my staff has checked the appropriate White House logs for the time period in question. These logs clearly indicate that the President signed two promotion lists and that only the second list was submitted to the Senate for confirmation.

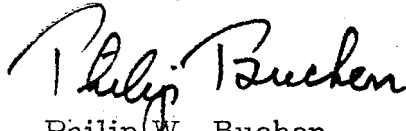
On January 13, 1975, the President signed a promotion list containing the names of 405 persons including that of USAR Lt. Colonel Wilfred Ebel. Subsequent to the President's signature and prior to the submission of the promotion list to the Senate, DOD requested that the list be returned to DOD for amendment. It is my understanding that such requests are infrequent but are not unusual. The President's signature was then destroyed and the list returned to DOD on January 15. On January 16, DOD submitted a new promotion list to the White House with a cover memorandum stating that Lt. Colonel Ebel's name had been withdrawn from the list of those recommended for promotion to Colonel because of allegations which may be the basis for his permanent removal from the list. This memorandum also stated that this action did not preclude the resubmission of the recommendation for promotion of Lt. Colonel Ebel should the allegations prove to be unfounded. The revised list, containing 404 names, was signed by the President on January 17 and sent to the Senate on January 21, 1975.



The transmission to the Senate on January 21, 1975, was made by a White House employee, as is customary for all communications from the President to the Congress. Contrary to what the Department of Defense may have advised you, no promotion list was signed by the President on January 14, 1975, or sent to the Senate on January 15, 1975; and the only one transmitted to the Senate was the second list signed by the President on January 17, 1975, which, when it was signed, did not contain the name of Lieutenant Colonel Ebel.

I trust this information will provide the answers to the inquiries which you have made of the President.

Sincerely,



Philip W. Buchen  
Counsel to the President

The Honorable Edward Mezvinsky  
House of Representatives  
Washington, D. C. 20515



June 3, 1976

Dear Ed:

This will acknowledge receipt of your June 2 letter regarding your investigation of allegations that a promotion list sent to the Senate on January 15, 1975 was improperly altered.

Please be assured your letter will be called to the President's attention at the earliest opportunity.

With kind regards,

Sincerely,

Charles Leppert, Jr.  
Deputy Assistant  
to the President

The Honorable Edward Mezvinsky  
House of Representatives  
Washington, D. C. 20515

~~cc:~~ w/incoming to Philip Buchen for DIRECT REPLY as appropriate.

CL:JEB:VO:vo



6-3

Congress of the United States  
House of Representatives  
Washington, D.C. 20515

June 2, 1976

ME  
Gerald R. Ford, President  
United States of America  
The White House  
Washington, D. C. 20500

Dear Mr. President:

For the past several months, I've been investigating allegations that past Secretary of the Army, Howard Callaway improperly removed the name of LTC Wilfred Ebel from a promotion list signed by you and sent to the Senate for approval.

Much of the factual background of the matter remains unclear, although Pentagon logs indicate that you signed the promotion list on January 14, 1975, and the list was then sent to the Senate on January 15th. In order to clarify varying accounts on the succeeding sequence of events, it would be very helpful if you would clarify your own role in this process. Was LTC Ebel's name removed with your permission, and, if so, was the second list signed by you? Was the Senate officially notified of the change?

As you can well appreciate, there are numerous legal and constitutional issues yet to be resolved in this matter. The possibility that a Secretary of the Army illegally removed a name from a promotion list for reasons totally unrelated to that officer's military record are alarming indeed. Whatever information you can provide will be extremely helpful.

Sincerely,

  
Edward Mezvinsky  
Member of Congress



EM:jkr



THE WHITE HOUSE  
WASHINGTON

June 23, 1976

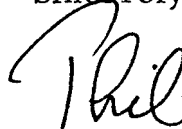
Dear Mac:

This is to thank you for your recent note supporting the promotion of Commander Rawlins to the grade of Captain in accordance with S. Res. 5.

As you may know, my office recently requested a report on this subject from the Defense Department. Upon receipt and review of their report, I shall advise you further on any developments in this regard.

With best wishes,

Sincerely,



Philip W. Buchen  
Counsel to the President

The Honorable Charles McC. Mathias, Jr.  
United States Senate  
Washington, D. C.



THE WHITE HOUSE

WASHINGTON

June 23, 1976

*Holmes*

*(see*

*Rawlins)*

Dear Senator Beall:

This is to thank you for your recent note supporting the promotion of Commander Rawlins to the grade of Captain in accordance with S. Res. 5.

As you may know, my office recently requested a report on this subject from the Defense Department. Upon receipt and review of their report, I shall advise you further on any developments in this regard.

With best wishes,

Sincerely,

*Philip Buchen*

Philip W. Buchen

Counsel to the President

The Honorable J. Glenn Beall, Jr.  
United States Senate  
Washington, D. C.



THE WHITE HOUSE

ACTION MEMORANDUM

WASHINGTON

LOG NO.: *Defense*

Date: October 20, 1976

Time:

FOR ACTION:

cc (for information):

Phil Buchen

Bob Hartmann

Jim Cannon

Jim Lynn

Max Friedersdorf

Bill Seidman

Dave Gergen

Brent Scowcroft

FROM THE STAFF SECRETARY

DUE: Date: Friday, October 22

Time: 10 A. M.

SUBJECT:

Letter from Secretary of the Army re:  
Resolution of the Board of Directors of the  
Panama Canal Company increasing rates of tolls  
for use of the Panama Canal.

ACTION REQUESTED:

For Necessary Action

For Your Recommendations

Prepare Agenda and Brief

Draft Reply

For Your Comments

Draft Remarks

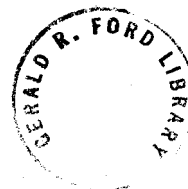
REMARKS:

For your information, we are also attaching a copy of  
letter from the President of the American Institute of  
Merchant Shipping dated October 12, 1976 on the above  
subject.

No objection.

*P.W.B.*

Philip W. Buchen  
Counsel to the President



PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a  
delay in submitting the required material, please  
telephone the Staff Secretary immediately.

Jim Connor  
For the President

THE WHITE HOUSE

WASHINGTON

October 22, 1976

MEMO FOR: PHIL BUCHEN

FROM: BOBBIE KILBERG

*Bobbie*

SUBJECT: Letter from Secretary of the  
Army re: Resolution of the Board  
of Directors of the Panama Canal  
Company increasing rates of tolls  
for use of the Panama Canal

Suggested response:

No objection.





SECRETARY OF THE ARMY  
WASHINGTON

8 OCT 1976

The President  
The White House  
Washington, D. C. 20500

Dear Mr. President:

*Rb  
Jm*  
In my capacity as "stockholder" of the Panama Canal Company under authority delegated to me by Executive Order 11305 of September 12, 1966, I am forwarding for your approval a Resolution of the Board of Directors of the Panama Canal Company increasing rates of tolls for use of the Panama Canal by 19.5%.

The action by the Board of Directors is based on Sections 411 and 412 of Title 2 of the Canal Zone Code under which the Panama Canal Company is required to establish tolls at rates sufficient to cover the costs of operation and maintenance of the Panama Canal together with the facilities and appurtenances related thereto. Section 412 provides that changes in the rates of tolls shall be subject to and take effect upon the approval of the President of the United States. Section 411 requires six months' notice of the change in tolls. This notice was published in the Federal Register on May 14, 1976, so that the earliest date on which the new rates could become effective is November 15, 1976.

Following publication of the notice in the Federal Register, the Panama Canal Company invited written comments from the public and held a public hearing in accordance with applicable regulations. After consideration of all relevant matter presented in the written comments received and presented at the hearing, the Board of Directors found that the rates of tolls should be changed and adopted the Resolution making the change, subject to your approval.

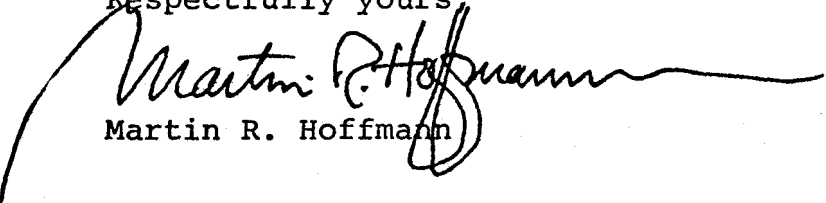
The inclosures to this letter set out in detail the background of the requirements for the increase in rates of tolls including the pertinent fiscal data, the comments received



from interested parties, and the proceedings by the Board of Directors leading up to the adoption of the Resolution making the change in rates of tolls.

Your approval of the proposed increase in rates of tolls for the use of the Panama Canal is recommended, effective November 15, 1976.

Respectfully yours

A handwritten signature in black ink, appearing to read "Martin R. Hoffmann". The signature is fluid and cursive, with a long horizontal stroke at the end.

Martin R. Hoffmann

Inclosures



## RESOLUTION

WHEREAS, pursuant to the authority of Section 411 of Title 2 of the Canal Zone Code, at a special meeting on May 6, 1976, the Board of Directors adopted a Resolution proposing changes in the rates of tolls for the use of the Panama Canal.

WHEREAS, at the special meeting of the Board of Directors on May 6, 1976, pursuant to the provisions of the applicable regulations of the Panama Canal Company, four members of the Board of Directors were designated as a panel to conduct a public hearing on the proposed changes in rates of tolls; and

WHEREAS, notice of the proposed change was published in the Federal Register on May 14, 1976; and

WHEREAS, the notice of the proposed change in rates of tolls invited interested parties to participate in the rulemaking through submission of written data, views or arguments not later than July 16, 1976, and supplementary data, views or arguments at a public hearing to be held in New York, N.Y. on August 23, 1976; and

WHEREAS, in accordance with the notice and the provisions of the Company's rules establishing procedures for rulemaking, interested parties did submit written data, views and arguments in reference to the proposed change in rates of tolls; and

WHEREAS, the panel designated by the Board of Directors to conduct the hearing has submitted its report including the written data submitted by interested parties and a full transcript of the hearing, with copies of documents submitted at the hearing and the recommendations of the panel with respect to the proposed change in rates of tolls; and

WHEREAS, all relevant matters presented including an assessment of the environmental impact of the proposed Panama Canal tolls increase have been considered by the Board of Directors; and

WHEREAS, the Board having given careful consideration to the assessment of the environmental impact of the proposed Panama Canal tolls increase has determined that the proposed increase in rates of tolls would not significantly affect the quality of the human environment;



NOW, THEREFORE BE IT RESOLVED, That, in accordance with Sections 411 and 412 of Title 2 of the Canal Zone Code, the rates of tolls for use of the Panama Canal be changed, upon approval by the President, but not earlier than six months from May 14, 1976, by amendment of Section 133.1 of Title 35 of the Code of Federal Regulations to read as follows:

§ 133.1 Rates of toll.

The following rates of toll shall be paid by vessels using the Panama Canal:

(a) On merchant vessels, yachts, army and navy transports, colliers, hospital ships, and supply ships, when carrying passengers or cargo, \$1.29 per net vessel ton of 100 cubic feet each of actual earning capacity -- that is, the net tonnage determined in accordance with Part 135 of this chapter.

(b) On vessels in ballast without passengers or cargo, \$1.03 per net vessel ton.

(c) On other floating craft including warships, other than transports, colliers, hospital ships, and supply ships, \$.72 per ton of displacement.

BE IT FURTHER RESOLVED, That the Secretary of the Panama Canal Company cause notice of the proposed change in rates of tolls to be published in the Federal Register in the form prescribed by applicable laws and regulations.

BE IT FURTHER RESOLVED, That upon publication of the said notice of change in the rates of tolls in the Federal Register, the Stockholder of the Panama Canal Company transmit the change in said rates of tolls to the President for his approval.

APPROVED:





a  
i  
m  
s

## AMERICAN INSTITUTE OF MERCHANT SHIPPING

1625 K Street, N.W., Suite 1000, Washington, D.C. 20006

Phone: 202/783-6440

October 12, 1976

The President  
The White House  
Washington, D. C. 20500

My dear Mr. President:

I am writing on behalf of the American steamship industry to urge that you decline to approve a toll increase proposal recently submitted to you by the Panama Canal Company.

This is the third increase proposed by the Company since 1974, and is as unjustified and harmful as were the two which preceded it. After 60 years of uninterrupted profitable operations, the Company obtained a 19.7% toll increase in 1974 and sought your approval of certain tonnage measurement rule changes in 1975 which would have resulted in increases ranging to 50% on certain types of vessels, particularly U. S. -flag containerships. Your disapproval of a substantial portion of those rule changes was greatly welcomed, although Canal users were still left with a 5% increase. The proposal presently before you would add an additional 19.5% to the Canal tolls.

Various spokesmen for our industry, as well as shippers, other governments, port associations, foreign shipowners associations, and organized labor have submitted detailed oral and written testimony to the Company since 1974, pointing out the harm caused by these increases and suggesting ways by which they could be avoided or lessened. A report (94-1342) issued on July 14, 1976 by the Committee on Merchant Marine and Fisheries following the preparation of detailed studies and the completion of lengthy hearings, strongly and clearly recommends a series of non-legislative changes to the Company's financial and accounting structure which are needed if that once-strong entity is to be returned to an even keel.

I will not attempt to reiterate these materials here, although I have enclosed a copy of the House Committee's Report and a paper which we presented to the Company on August 23, 1976. I will merely state that the Company has totally ignored all of this, and has arbitrarily and wrongly determined to continue seeking even higher tolls. Indeed, in



The President - 2.

order to justify this present proposal, the Company underestimated toll revenues, overinflated expenses, and projected a loss for fiscal year 1976 of \$12.1 million. Only after the proposal was sent to you did the Company reveal that their actual loss was 40% less.

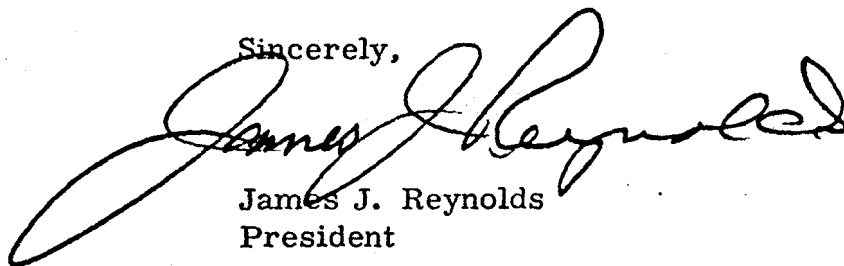
The imposition of this additional 19.5% increase would result in shipowners paying an additional \$29 million for transiting the Canal, a burden eventually to be passed on to shippers and consumers. It is worth noting here that about 65% of the goods which transit the Canal are destined for or originate from an American port.

This increase would be a major blow to an already strained American intercoastal shipping industry which has for 100 years provided excellent, low-cost service for shippers and a very healthy measure of competition for other transcontinental transportation modes. It would adversely impact the economies of lesser developed nations which depend heavily on the Canal, particularly those in the Caribbean and Latin America. It would lessen the commercial attractiveness of the Canal and encourage companies to utilize other trade routes, particularly the Suez Canal.

In 1975, I know that you and your staff reviewed the Company's proposal and the recommendations made by ourselves and other groups, and based on the merits, you made a fair decision. I am confident that a similar review of this proposal will lead to the same conclusion. The Company's proposal should not be approved.

Thank you for your consideration of this matter.

Sincerely,

A large, stylized handwritten signature in black ink, appearing to read "James J. Reynolds".

James J. Reynolds  
President

Enclosures



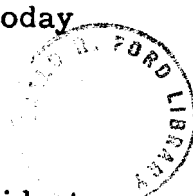
STATEMENT OF  
JAMES J. REYNOLDS, PRESIDENT  
AMERICAN INSTITUTE OF MERCHANT SHIPPING  
at the hearing held by the  
PANAMA CANAL COMPANY  
on  
Proposed Toll Rate Increase  
in  
New York City

August 23, 1976

My name is James J. Reynolds and I am President of the American Institute of Merchant Shipping, an organization commonly referred to as AIMS. AIMS is the national trade association of the American steamship industry, is composed of 36 member companies who own and operate 340 U. S. -flag vessels constituting about two-thirds of the active U. S. ocean-going merchant fleet.

I am appearing today in response to the Panama Canal Company's notice of proposed rule making entitled, "Tolls for Use of the Panama Canal" which appeared in the Federal Register on May 14, 1976. Preliminary comments were submitted by AIMS on July 16, 1976. My statement today is intended to amplify those preliminary comments.

The proposed rule making, if ultimately approved by the President, would result in a 19.5% toll rate increase, the third major adjustment to tolls since 1974. And, like the two which preceded it, this proposed increase is totally unnecessary and would place a serious additional financial burden on users.



I intend to be quite brief today. The record on the issue before us has been well established, and I do not intend to waste your time and mine by starting to invent the wheel all over again. But I do want to clarify a few points of ours which I think have been misunderstood by the Company.

First, AIMS and others who have appeared in many forums during the past three years to oppose certain measures taken by the Company have been accused of seeking a subsidy, or a free ride. This is simply not so. We, and I am certain the others would agree, are simply trying to insure that carriers transiting the Canal are not being required to pay more than their fair share.

Secondly, it is also said that U. S. carriers represent only 8% of the traffic and toll payers, hence any "concession" made by the Company primarily benefits foreign maritime interests. This is, of course, sheer nonsense. We are in this forum primarily to protect our own interests. But the real burden of toll rate increases is ultimately borne in very substantial measure by the American exporter and importer whose goods represent about two-thirds of your traffic. Much of this is carried in container vessels over 50% of which transiting the Canal fly the U. S. flag.

Third, we appreciate that the Company has been hard hit by the forces of inflation and recession during these past several years. Your fixed costs go up and up, led by fuel and personnel expenses. Your volumes

I believe, and I think the Company shares this view, that we have already reached the end of this severe, short-run, downward cycle. We may not be entering a boom period, but at least things are returning to an even keel.

You have several tools at your disposal to remedy the balance sheet problems which the economy has inflicted upon you. A toll rate increase is one such tool, but in our view it is a most drastic and counter-productive measure, and should only be taken after all others have been tried and found wanting.

Regrettably for we users, it is also the easiest step for the Company to take. You have your studies which show that increases up to 75% can be swallowed by cargo shippers. Hiking tolls avoids having to make certain difficult decisions and, worst of all, reversing a few which have already been made. Hence, we find ourselves again in what appears to be well on its way to becoming an annual tradition.

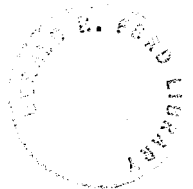
In our view this proposed toll rate increase is entirely unnecessary. Let's look at a few specifics. You have estimated a deficiency for Fiscal Year 1977 of \$36.45 million, which includes a \$16.4 million charge for the unearned costs of Fiscal Year 1976 and the transition quarter. The House Committee on Merchant Marine and Fisheries has recommended the pay back of these unearned costs over a five-year period. Adoption of this recommendation, which we strongly support, would reduce the Fiscal Year 1977



The prompt enactment of H. R. 14311 by the Senate, and approval by the President, would almost halve the remaining deficit. This measure has already been passed with strong bipartisan support by the House of Representatives, despite the vigorous, ill-advised efforts of the Company and the Department of the Army to kill it.

Section 1 of H. R. 14311 would allow the Company to receive interest credit for the very substantial cash deposits it is required to maintain on deposit with the U. S. Treasury as well as for tolls computed for government vessels which transit the Canal. This credit would then be applied to reduce the Company's annual interest payment to the U. S. Treasury for the net direct investment of the U. S. Government in the Company. This Section would reduce Company expenses and its deficit by about \$2.0 million annually.

Section 2 would require the Company to revise the accounting policy adopted in 1973 under which depreciation is taken on certain lands, titles, treaty rights and excavation, all of which were considered to be non-depreciable assets for 60 years. We have been fighting this policy change since the day we first became aware of it. We said at the beginning, and will reiterate with even more certainty now; that the taking of depreciation on these fixed assets was a nice little accounting gimmick designed to increase cash flow by \$8.5 million per year and thus allow the undertaking of projects for which the monies would not otherwise be available.



into a drain.

There is nothing I could say which would sum up this issue better than the following paragraphs taken from pages 13 - 15 of House Report 94-1342 which accompanies H. R. 14311:

"Thus, it is undeniable that the initiation of depreciation by the Canal Company in fiscal year 1974 of titles, treaty rights, excavations represented a complete turnabout in Company intention and application. Instead of depreciating only part of the original value of the assets at one per cent per year over 100 years as repeatedly proposed, the Company began to depreciate the total value of the assets at two and one-half per cent per year over forty years! Instead of using the depreciation to systematically repay the investment of the U. S. Government in the Canal, or holding it for capital projects or other internal uses only with Congressional consent, the Company has used all the funds accruing to it from this source for capital projects without seeking anyone's consent! Instead of having the effect of ultimately reducing toll rates for Canal users, the Company's use of the depreciation has actually raised toll rates!

"Through its intensive investigation of the subject of lands, titles, treaty rights, and excavations, including the interrogation of officials who made the decisions on depreciation, the Committee concluded there were three major reasons why, after 60 years of not depreciating these assets, depreciation was initiated: (1) Treaty negotiations were continuing and seemed to be heading toward a yielding of U. S. control of the Canal over some period of time; (2) there was acceptance of the concept of a limited life for the present Canal; and (3) the Canal Company desired money for the continuation of its capital program but was unable to obtain it through tolls and was unwilling to ask for appropriations or use its borrowing authority. "

The Report concludes its discussion of this matter with the following language:

"The Panama Canal Company, until recent years, has had sufficient cash generated through tolls to provide for its capital program. In the past three years, the capital program has been

a fact which is continually pointed out by the Panama Canal Company. The Canal organization was established as one which was to be self-sustaining, except for funding for capital improvements. Explicit provision was made in the Reorganization Act for such types of improvements. The Committee reaffirms the basic soundness of the law which governs the Canal's financial mechanism, including the provisions regarding capital improvements.

"The Committee commends the Company's past financial successes, but does not approve its failure to utilize, during a period of losses, these provisions set by Congress. The law pointed the course to be taken, and it was not that followed by the Company when it undertook to depreciate what had traditionally been considered by all to be non-depreciable."

The thrust of these paragraphs, and those which supplement them in the Report, is most clear and specific. But hell still hath no fury like a bureaucracy challenged, and the Company is no exception to this Washington axiom.

The time has come for a change. You were wrong when the policy was adopted and you are wrong to keep it in effect today. It has resulted in an \$8.5 million annual burden being imposed upon users, and \$8.5 million being added to the bottom red line.

The enactment of H. R. 14311 would result in a savings of about \$10.5 million annually and would reduce the FY 1977 projected deficit to \$12.9 million. The Company should make every effort to secure prompt and favorable Senate consideration of the measure, rather than acting to have it pigeonholed as you are now doing.





The establishment of an account for the debts owed by the Republic of Panama, and the subsequent imposition of this burden upon carriers transiting the Canal is another inequity with which we are faced. There may be many good reasons why bills for water, sewer and other services rendered to Panama are allowed to remain unpaid for years on end, but there is certainly no reason in the world why carriers, whose fees must always be paid in advance, should be charged \$1.6 million annually as a result.

The total debt owed by the Republic of Panama is currently nearing \$8 million. The Company should revise its accounting policy and return this burden to the U. S. Government where it belongs. This would reduce the projected Fiscal Year 1977 deficit to \$11.3 million.

User charges for non-transit services, particularly in the areas of retail and food store sales, are still inadequate. Over \$1.1 million will be lost, apparently because the Company feels it must subsidize employee purchases. If such a subsidy is needed, it should be taken up as a separate item during the budget authorization and appropriation process, and thus be measured as a part of overall employee costs. Failing this, a decision should be made promptly to make all services fully reimbursable by users, and thus reduce the Fiscal Year 1977 deficit by \$1.1 million to \$10.2 million.

Similarly, carriers are required to assume the net cost of the Canal Zone Government which in Fiscal Year 1977 is projected to be \$22.5 million.

Many of the services provided by the Government, such as Postal, Customs and Immigration, Education, and Health and Sanitation, are neither self-sustaining nor transit related, yet carriers are required to pay for them in toto. We have pointed out during hearings conducted earlier this year by the House Panama Canal Subcommittee that over \$10.5 million could be saved if the Canal Government were to increase user charges and if the Company were to develop an appropriate formula for apportioning the net cost of the Government so that carriers would only be required to pay their fair share. We reiterate this recommendation. Its adoption would reduce the projected Fiscal Year 1977 deficit to \$800,000.

Finally, we come to the SS CRISTOBAL. What a fitting gesture for the Bicentennial it would be to retire this venerable but costly 37-year old lady to the Smithsonian or some other appropriate facility. There is a certain humor about the CRISTOBAL I suppose, but there is nothing funny about the losses which she incurs each year being passed on to carriers. Not only do we lose the cargo, but we have to underwrite the competition.

I was delighted when the Company agreed this spring during a hearing of the House Panama Canal Subcommittee to do a study of the CRISTOBAL's costs and operations, and I trust the results of this study will be available shortly.



Canal. They operate container, barge-carrying, and break-bulk ships. They can provide fast, regular service from all U. S. ports, and I am certain will be able to extend this service at a lower cost than the true cost of the CRISTOBAL. The savings should more than exceed the remaining \$800,000 deficit.

I said at the beginning that there is no need for a toll increase, and I reiterate it here. If the several steps which we have recommended are taken promptly, the Company will not have a deficit but rather a modest surplus in Fiscal Year 1977. These steps are realistic and reasonable. They will aid in restoring the Company's complete financial integrity. But time is of the essence.

I thank you for your attention and interest, and urge that you promptly cancel the May 14 notice of proposed rule making which is before you today. I would be pleased to answer any questions you might have.



Wednesday 11/10/76 Brockway, Capt. David  
Rose, Michael F.  
Rothblatt, Henry B.  
Defense -- West Point  
Cadets

- 1:25 The file concerning the Honor Code proceedings at West Point has been sent to Central Files.
- 8/10/76 Letter to the President from Michael Rose -- with attachments.
- Letter to Philip Buchen
- 8/12/76 Memo for Richard Wiley, General Counsel, Department of Defense, forwarding materials for preparation of reply.
- 8/31/76 Letter to Michael Rose from R. L. Adcock Acting Director of Military Personnel Management
- 9/3/76 Letter to President Ford from Rev. Thomas J. Curley, Catholic Chapel of the Most Holy Trinity, United States Military Academy, West Point, New York, enclosing affidavits
- 9/9/76 Letter from Mr. Buchen to Rev. Curley returning the affidavits [by registered mail] and advising that the Secretary of the Army is monitoring the situation at West Point.
- 9/15/76 Memo from Philip Buchen to Les Janka re authority of the Secretary of the Army to dismiss cadets from the U.S. Military Academy.
- 10/21/76 Letter from Philip Buchen to Henry B. Rothblatt, replying to his letter signed by eleven cadets at U.S. Military Academy, as well as by Michael F. Rose, Henry Rothblatt and Capt. David E. Brockway, JAGC, as counsel for the cadets, requesting intervention and redress of wrongs (backup material previously sent to Central Files).



THE WHITE HOUSE  
WASHINGTON

*Reference -  
see serial*

November 22, 1976

MEMORANDUM FOR

THE HONORABLE JACK L. STEMLER  
GENERAL COUNSEL  
DEPARTMENT OF THE AIR FORCE

Attached is a copy of a telegram to me from  
Mr. J. R. Sebastian, Chairman, Rapistan Incorporated  
in Grand Rapids, Michigan.

I would appreciate your handling this matter and  
keeping my office informed.

*P.W.B.*  
Philip W. Buchen  
Counsel to the President

Attachment

