

have to be upped to 9 percent to accommodate the costs of the programs envisioned. The *Post* declined to spell out the budgetary implications beyond 1983, but by 1986, a 9 percent annual real increase in defense spending would cost an additional \$40-\$50 billion—all of it to come from further cuts in other programs, or be added to the deficit.

The *Post* article also revealed the next step of the anti-defense budget campaign: it reported that “other administration executives” are “zeroing in” on the defense budget, calling for the DOD immunity from cuts to be lifted.

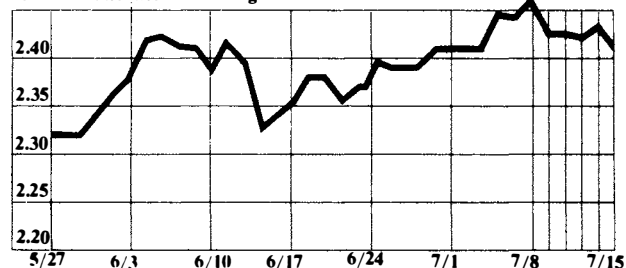
The second element of the picture is the Office of Management and Budget’s sabotage of the Pentagon’s—and the Congress’s—ability to estimate inflation costs in their budget. Despite prolonged criticism of the Carter OMB’s perennial acute underestimation of actual inflation costs for defense programs, David Stockman’s group has taken the last inflation estimate of the previous administration, an absurdly low 9.7 percent (actual inflation ran between 12 and 15 percent), and *dropped* it a point, to 8.7 percent, for fiscal year 1983, and to 5.3 percent by 1986. The Department of Defense is obliged to use the OMB figure, despite the universal recognition that it bears no relation to actual costs. For every point inflation moves above the OMB’s estimate, the defense budget will rise by over \$2 billion. In 1980, according to the report of the House Armed Services Committee, citing Congressional Budget Office figures, defense inflation was 14.9 percent, compared to 9.7 percent OMB allowance. Exclusive of salaries and petroleum, military expenditures rose from 9.7 percent in fiscal 1980 to 12 percent in the first quarter of 1981. Thus, by the most conservative estimates, inflation looks to be 3 to 4 points above OMB’s, or \$8 to \$9 billion dollars in fiscal 1983, beyond the \$6 to \$10 billion admitted by Carlucci and the Pentagon.

Moreover, the historical costs as above have risen further for purchases being ordered now. In January 1981, a panel of defense industry specialists reported to the Defense Science Board on the astounding rates of inflation for selected components of some leading weapons systems, with increases ranging from 50 percent to 150 percent for most items. While subsequent studies showed these rates to be unrepresentative of the industry as a whole, the accuracy was not questioned; and they demonstrate the volatility of many items in the defense procurement pipeline. A more detailed study issued the same month by Coopers & Lybrand, a large accounting firm, showed increases in aircraft procurement costs of 14.9 percent in 1980, compared to 10.0 percent in 1979, and costs of materials leaping from 9.9 percent to 19.2 percent in one year. These cost increases will only demonstrate their full effect at the end of fiscal 1981, and in 1982.

Currency Rates

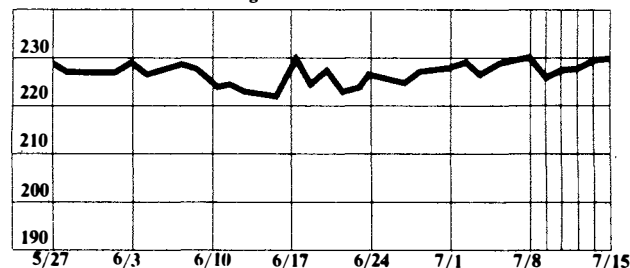
The dollar in deutschemarks

New York late afternoon fixing



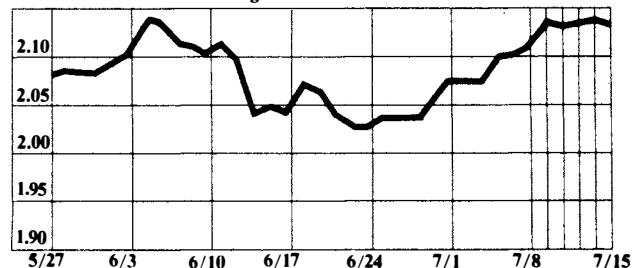
The dollar in yen

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing

