Overseas Contingency Operations Funds Impact on Defense Commercial Industrial Base

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Senior Service College Fellowship 2019-2020

Huntsville, Alabama

25 March 2020

This research paper presented to the Defense Acquisition University for partial fulfillment of the academic requirements for the Army's Senior Service College Fellowship (SSCF) under the direction of SSCF Director Mr. Michael Chandler and Research Advisor Ms. Kathleen Carnell.

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Approval Page

Title: Overseas Contingency Operations Funds Impact on Defense Commercial Industrial Base

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Organization: Defense Acquisition University (DAU) - SSCF

Date of Paper: 25 March 2020

Informed Consent Forms: N/A

Research Advisor [Ms. Kathleen Carnell] Approval Date: 21 February 2020

Second Reviewer [Dr. Dana Stewart] Approval Date: 24 February 2020

Third Reviewer [Dr. Bob Lord] Approval Date: 13 March 2020

SSCF Director [Mr. Michael Chandler] Approval Date: 25 March 2020

OPSEC [PEO Missiles and Space] Approval Date: 30 March 2020

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Abstract

Overseas Contingency Operations (OCO) funds are often referred to as a "slush fund" (McGarry & Epstein, 2019, p. 9) to subsidize base defense funding and the Budget Control Act. OCO funds finance unforeseen requirements to support combat operations in specific theaters. One of the 2018 National Defense Strategy objectives is summarized as "harness and protect the National Security Innovation Base" (Carter J. , 2018, para. 20). The defense commercial industrial base is a critical component of the National Security Innovation Base. OCO funds are provided to the defense commercial industrial base for research and development, procurement, sustainment, and / or support services. An objective within the 2018 National Defense Strategy states, "Establish an unmatched twenty-first century National Security Innovation Base that effectively supports Department operations and sustains security and solvency" (Department of Defense, 2018, p.4). Are OCO funds enabling the commercial industry base, as a component of the National Security Innovation Base, to support the objective? Research indicates OCO funds are indeed negatively impacting industry's ability to forecast, plan, and invest in capability, often times resulting in an increased cost to the Government. To mitigate the effects of OCO funds on the industrial base to provide the Warfighter the greatest capability at the lowest cost, recommendations are provided. Eliminate Budget Control Act limits or increase limits of the Budget Control Act, enabling OCO funds to be utilized for only OCO purpose criteria. OCO funds should be used for requirements that are funded based on the OCO funds criteria, not anything else. Enable Department of Defense and services to plan and program OCO funds similar to base across the future years defense program and the extended planning period. The Department of Defense provide a budget to the White House that fully funds the National Security Strategy and National Defense Strategy.

Introduction

The foundation of the United States military strategy and presence is based on the flow from the National Security Strategy (NSS) to the National Defense Strategy (NDS) to the National Military Strategy (NMS), down to individual service strategies, such as the Army Vision and Army Strategy. A key objective in the 2018 NDS is to, "Establish an unmatched twenty-first century National Security Innovation Base that effectively supports Department operations and sustains security and solvency" (Department of Defense, 2018, p. 4). The 2017 NSS defines the National Security Innovation Base as "the American network of knowledge, capabilities, and people – including academia, National Laboratories, and the private sector – that turns ideas into innovations, transforms discoveries into successful commercial products and companies, and protects and enhances the American way of life" (President Donald J. Trump, 2017, p. 21). The 2018 NMS reinforces the NDS objective and criticality of the National Security Innovation Base to enable success of the United States military. The Army Vision of 2028 details the Army's mission, end state, and objectives, focusing on the objectives to man, organize, train, equip, and lead, with a recognition of uncertain future budgets (Department of Army, 2018). The Army Strategy defines how the Total Army achieves objectives as depicted by the Army Vision and fulfills Title 10 duties (Department of Army, 2018).

This research project will revolve around the problem statement. Given the NDS objective, "Establish an unmatched twenty-first century National Security Innovation Base that effectively supports Department operations and sustains security and solvency" (Department of Defense, 2018, p. 4), are Overseas Contingency Operations (OCO) funds enabling the commercial industry base, as a component of the National Security Innovation Base, to support this objective?

Information is available regarding the impact of sequestration and Budget Control Act on the commercial industrial base. This research project studies the impacts of OCO funds on the commercial industrial base, as part of the National Security Innovation Base, to fulfill the National Defense Strategy objective.

Approximately $2 trillion in discretionary budget authority has been approved by Congress since September 11, 2001, designated for emergencies or OCO / Global War on Terrorism (GWOT) in support of United States response to terrorist attacks (McGarry & Epstein, 2019). Total of $2 trillion includes $1.8 trillion for Department of Defense, $162 billion for Department of State and United States Agency for International Development, and $3 billion for the Department of Homeland Security and Coast Guard (McGarry & Epstein, 2019). Within the Department of Defense portion of OCO funds, 56% has been appropriated to Army, with Air Force, Navy, and Defense-wide receiving 16%, 13%, and 15% respectively (McGarry & Morgenstern, Overseas Contingency Operations Funding: Background and Status, 2019).

OCO funds, at core purpose, have a specific operation to fund emergency needs. Since the inception of overseas contingency operation funds, $1.03 billion has been appropriated for United States Army. OCO funds by process are planned, programmed, and appropriated annually to fulfill requirements; thus, resulting in OCO funds being uncertain and unstable.

The intended use of OCO funds has positively impacted combat operations and the commercial industrial base. However, the long-term impacts to the commercial industrial base may be detrimental. OCO funds are indeed affecting the commercial industrial base (Heeley & Wheeler, 2016).

Background

OCO funds commenced in nomenclature in the 2011 appropriations cycle (Congressional Budget Office, 2018). Prior to OCO nomenclature, "supplemental appropriations to provide funds for defense and foreign affairs activities related to operations in Afghanistan and Iraq following 9/11, and each subsequent fiscal year through 2010" (McGarry & Morgenstern, 2019, p. 3). Supplemental appropriations were originally titled simply "supplemental" or "Global War on Terrorism" (McGarry & Morgenstern, 2019, p. 1). To understand the uniqueness of OCO funds, base funds should be defined. "The base defense budget funds the peacetime costs of the DoD" (Harrison, 2014, pg. 13).

The Budget Control Act enacted on August 2, 2011, set limits on defense and nondefense discretionary spending (Congressional Budget Office, 2018). This act was part of an agreement to increase the statutory limit on public debt and aimed to reduce annual federal budget deficits, half of the savings were planned to come from defense (McGarry B. W., The Defense Budget and the Budget Control Act: Frequently Asked Questions, 2019). The Budget Control Act is relevant to this research project, as OCO funds are not restricted as part of this Act. Pentagon and Congress have also been utilizing OCO funds for base requirements to alleviate a portion of the burden of the Budget Control Act (McGarry & Morgenstern, 2019).

President's Budget Fiscal Year (FY) 2020 OCO request was divided into three requirement categories – direct war, enduring, and OCO for base (Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, 2019). OCO functional / mission categories included within the President's Budget FY 2020 OCO request are: operations / force protection; in-theater support; defense threat reduction agency / joint improvised-threat defeat; equipment reset and readiness; classified programs; Afghanistan security forces fund; support for coalition

forces; Counter-ISIS train and equip fund; security cooperation; and European Deterrence Initiative (Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, 2019). This research project will not focus on any one of these functional / mission categories but rather OCO funds as a whole.

Figure 1 below from the President's Budget FY 2020 request provides trend data of OCO (and prior nomenclature) funds from FY08 to FY20 request.

Figure 1. Trends in OCO Funding ($ in Billions)

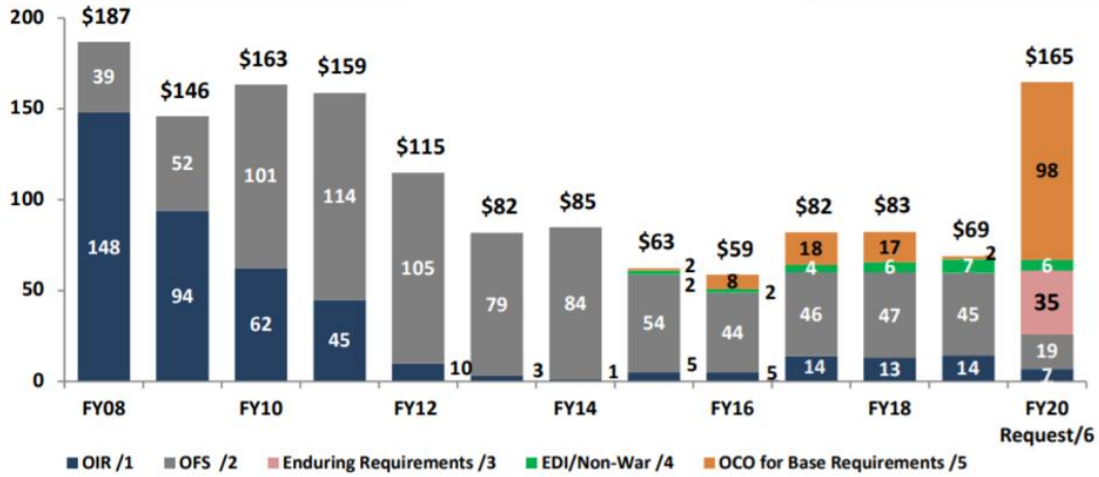

Figure 1. OCO funds trends from FY 2008 – FY 2020 request broken out by Operation Inherent Resolve (OIR), Operation Freedom Sentinel (OFS), enduring requirements, European Deterrence Initiative (EDI), and OCO for base requirements. Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, 2019.

For purposes of this research project, the focus will be on the private sector, specifically the commercial industrial base, as a component of the National Security Innovation Base.

The Defense budget has increased in recent years, as indicated in Figure 2 below. The increase in the defense budget has resulted in an uptick of defense spending to invest in research and development, procurement, and sustainment of military equipment.

Figure 2. Department of Defense Funding from FY 2010 through FY 2020 (Discretionary Budget Authority; Then-Year Dollars in Billions).

Figure 2. Department of Defense Funding from FY 2010 Through FY 2020, broken out by base, emergency, OCO for Base, and OCO. Vergun, 2019.

The commercial industrial base provides significant contribution to the overall success of the United States military. For the Department of Defense to be ready to fight and remain overmatch, the manufacturing and defense industrial base must remain strong, capable, and ready (Department of Defense, 2018).

Problem Statement

A 2018 National Defense Strategy objective states "Establish an unmatched twenty-first century National Security Innovation Base that effectively supports Department operations and sustains security and solvency" (Department of Defense, 2018, p. 4). Overseas Contingency Operations funds are programmed and appropriated annually to support development, production, and sustainment of weapon systems and contingency operations. Research is required to determine if OCO funds are impacting the defense commercial industrial base's ability to support the National Defense Strategy objective.

Research Question

How have OCO funds that are used to equip, develop, and / or sustain systems for theater operations impacted, positively and negatively, the Defense Commercial Industrial Base? Have the impacts affected Industry's ability to support the 2018 National Defense Strategy objective, "Establish an unmatched twenty-first century National Security Innovation Base that effectively supports Department operations and sustains security and solvency" (Department of Defense, 2018, p. 4)?

Research Methodology

Given the United States has been at war since 2001 and OCO (under previous nomenclature Global War on Terror and Supplemental) funds originated in 1997, a significant amount of information is available regarding OCO funds and intended use and perceptions thereof. This perception has resulted in multiple Government Accountability Office (GAO) reports, Congressional Research Service studies, and too many to count opinionated articles.

Each budget request including OCO funds results in multiple organizations providing review and analysis, including Center for Strategic and International Studies. For the nation to remain strong in peace and especially in wartime, the industrial base must thrive to provide equipment and services to support Warfighters.

For purposes of this research project, Google, Google Scholar, Bing, Defense Technical Information Center (DTIC), and Proquest were utilized. Searches include "Defense Industrial Base and how Overseas Contingency Operations funds impacted", "Overseas Contingency Operations funds impact on Industry", "National Security Innovation Base", "National Defense Strategy", "National Defense Strategy Overseas Contingency Operations funds", and "National Security Innovation Base OCO funds". These searches returned relevant data and often resulted in multiple layers upon layers to build this research work and contribute to the body of knowledge.

Literature Review and Approach

The literature review focuses on the foundation of the Army Strategy as part of the greater National Security Strategy flow, the history of OCO funds, how the funds and intent have evolved, and the significance of the industrial base to support our nation in war and peace time by providing equipment for Warfighters. Congressional Research Service, Government Accountability Office reports, Department of Defense reports and studies, Presidential Budgets, and relevant publications and articles form the foundation of the literature review.

Limitations and Recommended Areas of Additional Research

The research project scope is the impact of OCO funds to enable the commercial industrial base to support the National Defense Strategy objective, "Establish an unmatched

twenty-first century National Security Innovation Base that effectively supports Department operations and sustains security and solvency" (Department of Defense, 2018, p. 4). The scope is limited to OCO funds. The literature review portion focuses on Department of Defense budget and strategy and United States Army strategy, vision, and modernization, therefore limiting the overall research project to Department of Defense and United States Army, excluding other military services. Due to Defense Acquisition University policy, interviews of commercial defense industrial base representatives were not conducted. The research project does not delve into operations and sustainment services, nor the organic industrial base. OCO funds impact on the organic industrial base is a possibility for another separate research project to help inform decisions for OCO funds and the organic industrial base.

Literature Review

The literature review conducted in support of this research project focuses on United States Government Official strategic and enabling publications, reports, and documents. The basis of this review revolves around the overall National Security Strategy to the National Defense Strategy depicting the defense strategic posture funneling down to the Army implementation of the security and defense strategies. During the research process, multiple studies, reports, articles, and other publications were excavated regarding the strategic documents and resourcing documents associated with implementation and execution.

National Security Strategy, 2017

The National Security Strategy launches the stream of over-arching strategy that forms the strategic security, defense, and military posture of the United States. The President of the United States publishes the National Security Strategy. President Donald J. Trump published the current National Security Strategy in December 2017, focusing on four pillars: "Protect the American People, the Homeland, and the American Way of Life; Promote American Prosperity; Preserve Peace through Strength; and Advance American Influence" (President Donald J. Trump, 2017, p. 4). The strategy continues to provide the security strategy for each region including Indo-Pacific, Europe, Middle East, South and Central Asia, Western Hemisphere, and Africa.

A focus of the National Security Strategy is "America First"; this proclamation of America first revolves around the competition and rivalries of potential threat countries in the world and from the perspective of a strong economy (President Donald J. Trump, 2017). Specific priorities, guidance, and actions are detailed to inform the American public that America will

remain the most powerful military in the world, while providing American military tasks and guidance to retain overmatch.

Through the lens of the Promote American Prosperity pillar, promotion and protection of the United States National Security Innovation Base is critical to the continued success of America security (President Donald J. Trump, 2017). Protection of the National Security Innovation Base requires a collective posture that stretches among laboratories, academia, industry – private sector, governmental agencies, and innovation of the American workforce. Loss of the innovation and technological edge the collective posture produces would have a significantly negative impact on America's continued quest for prosperity and power (President Donald J. Trump, 2017). This quest for prosperity and power is clearly required as part of securing the national defense posture to maintain dominance in the current and future fights (President Donald J. Trump, 2017).

National Defense Strategy, 2018

Secretary of Defense James Mattis published the current National Defense Strategy in 2018. The strategy lays out the foundation for the Department of Defense to compete, deter, and win in the increasingly complex security environment of the world (Department of Defense, 2018). The National Defense Strategy discusses the contested complex environment the Defense forces must fight – within air, land, sea, space, and cyberspace (Department of Defense, 2018).

This complex environment creates challenges, requiring immediate attention for the United States to remain dominant. Rapid technology advancements are affecting the fight, requiring Department of Defense to respond at a rapid rate, to ensure the United States will be able to fight and win in the wars of the future (Department of Defense, 2018). "New commercial

technology will change society and, ultimately, the character of war" (Department of Defense, 2018, p. 3). Commercial technology will potentially be accessed by the United States' adversaries, potentially weakening the United States' overmatch advantage (Department of Defense, 2018). As a result, industry culture, technologies, innovations, and investments must be protected and secured (Department of Defense, 2018).

The National Defense Strategy includes multiple objectives:

> Defending the homeland from attack; sustaining Joint Force military advantages, both globally and in key regions; deterring adversaries from aggression against our vital interests; enabling United States interagency counterparts to advance United States influence and interests; maintaining favorable regional balances of power in the Indo-Pacific, Europe, the Middle East, and the Western Hemisphere; defending allies from military aggression and bolstering partners against coercion, and fairly sharing responsibilities for common defense; dissuading, preventing, or deterring state adversaries and non-state actors from acquiring, proliferating, or using weapons of mass destruction; preventing terrorists from directing or supporting external operations against the United States homeland and our citizens, allies, and partners overseas; ensuring common domains remain open and free; continuously delivering performance with affordability and speed as we change Departmental mindset, culture, and management systems; and establishing an unmatched twenty-first century National Security Innovation Base that effectively supports Department operations and sustains security and solvency. (Department of Defense, 2018, p. 4)

The last defense objective included within the National Defense Strategy, summarized as "harness and protect the National Security Innovation Base" (Carter J. , 2018, para. 20), is key to

this research project; the National Security Innovation Base is critical to the success of national defense (Department of Defense, 2018). "Department [of Defense] technological advantage depends on a healthy and secure national security innovation base that includes both traditional and non-traditional defense partners" (Department of Defense, 2018, p. 3).

National Security Innovation Base

The 2018 National Defense Strategy states, "maintaining the Department's technological advantage will require changes to industry culture, investment sources, and protection across the National Security Innovation Base" (Department of Defense, 2018, p. 3). As stated above, protection of the National Security Innovation Base is a crucial objective of the National Defense Strategy.

National Security Innovation Base is a collective posture that stretches among laboratories, academia, industry – private sector, governmental agencies, and innovation of the American workforce (President Donald J. Trump, 2017). National Security Innovation Base demands interagency alignment in research and development to demand and promote innovation across multiple technology areas to provide stability, deterrence, and ability to destroy enemy capabilities (Morgan, 2018). National Security Innovation Base is defined within report, *The National Security Innovation Base: Investments in the Fourth Industrial Revolution*, as "the whole of American entrepreneurs, companies, industries, universities, research laboratories, and government agencies, to act as a network of people, knowledge, and capabilities to keep America safe." (Govini, n.d., p. 1). To meet the needs of the National Defense Strategy, a village, operating as a village and not individual entities, will be required.

The National Defense Strategy provides the foundation for un-matched success of the United States. However, an implementation strategy is required to enable clear direction of the national military from a Joint Force and Service level.

National Military Strategy, 2018

The Joint Chiefs of Staff published the National Military Strategy in 2018 to provide an implementation strategy to the objectives and direction documented in the National Security Strategy and National Defense Strategy. The "vision of the Joint Force articulated in the 2018 NMS is a Joint Force capable of defending the homeland and projecting power globally, now and into the future" (The Joint Staff, 2018, p. 1). The National Military Strategy introduces "joint combined arms, the conduct of operational art through the integration of joint capabilities in all domains" (The Joint Staff, 2018, p. 2).

Force employment, force development, and force design are the three focus areas of the National Military Strategy (The Joint Staff, 2018). Each of these areas addresses functions to fulfill the objectives in the National Defense Strategy and improve the Joint Force. The primary source of competitive advantage for the Joint Force is people, to "continuously adapt and innovate to maintain competitive edge" (The Joint Staff, 2018, p.5).

Accomplishing the vision of the National Military Strategy to enable successful joint combined arms, requires innovative and adaptable people, as part of the uniformed services and the National Security Innovation Base (The Joint Staff, 2018). Success of the United States national military forces requires the best and brightest of all resources, most critical – people.

The Army is the land dominant force of the United States military, with American Soldiers maintaining dominance today and in the future. To employ this dominance, vision and

strategy are required from Senior Army Leaders for implementation by all that are honored and privileged to be “Army Strong”.

The Army Vision, 2018

The Army Vision attests the United States Army is the “most lethal and capable ground combat force in history…defending the Nation and serving the American people for over 240 years” (Department of Army, 2018, p. 1). The key success of the Army is due to the capabilities, skills, and perseverance of the American Soldier, Army Leadership, superiority of equipment, and the ability of the Army as a whole, including Active, National Guard, and Reserve, as part of the Joint Force (Department of Army, 2018).

The Army Mission:

> To deploy, fight, and win our Nation’s wars by providing ready, prompt, and sustained land dominance by Army forces across the full spectrum of conflict as part of the Joint Force. The Army mission is vital to the Nation because we are a Service capable of defeating enemy ground forces and indefinitely seizing and controlling those things an adversary prizes most – its land, its, resources, and its population. (Department of Army, 2018, p. 1)

The Army Vision:

> The Army of 2028 will be ready to deploy, fight, and win decisively against any adversary, anytime and anywhere, in a joint, multi-domain, high-intensity conflict, while simultaneously deterring others and maintaining its ability to conduct irregular warfare. The Army will do this through the employment of modern manned and unmanned ground combat vehicles, aircraft, sustainment systems, and weapons, coupled with robust

> combined arms formations and tactics based on a modern warfighting doctrine and centered on exceptional Leaders and Soldiers of unmatched lethality. (Department of Army, 2018, p. 1)

Army Vision objectives are to man, organize, train, equip, and lead. The equip objective focuses on modernization of equipment and sustainment of equipment to provide to Soldiers at the time the equipment is required and needed for operational mission purposes. Modernization includes "experimenting with and developing autonomous systems, artificial intelligence, and robotics to make our Soldiers more effective and our units less logistically dependent" (Department of Army, 2018, p. 2).

The Army Vision acknowledges the defense budget will decline in the future, forcing difficult choices by decision makers regarding how to spend scarce dollars to meet national objectives (Department of Army, 2018). Thus, requiring the Department of Defense and Army to become more efficient, while needing to modernize; the dilemma of doing more with less.

The Army Vision also recognizes future budgets will be uncertain, requiring the Army to continually assess the process and decisions by, "identifying lower activities to discontinue and ways to improve what we must do, in order to free up time, money, and manpower for our top priorities" (Department of Army, 2018, p. 2).

The Army Strategy, 2018

The Army Strategy describes the Army's plan to achieve objectives outlined in the *Army Vision* and fulfill Title 10 duties. The Army mission and vision remain constant, as described in the *Army Vision*. The Army Strategy goes a bit deeper into the Army vision, by breaking out the

key parts of the vision into: deploy, fight, and win; joint; multi-domain; high intensity conflict; deter; irregular warfare; modernization; and leadership (Department of Army, 2018).

The Army Strategy articulates the complex strategic environment of the present and future, detailing the challenges faced due to political, economic, social, and technological changes and the opportunities (Department of Army, 2018). The Army Strategy embraces multiple assumptions that must remain accurate to enable success of the Army Strategy and Army Vision. Two of the assumptions relevant to this research project include, "predictable, adequate, sustained, and timely funding of the Army budget through the duration of this strategy through 2028" and "reforms will create efficiencies in time, money, and manpower that can be applied to higher priority programs" (Department of Army, 2018, p. 3).

The Army Strategy defines the Army's central challenge as "how to use finite resources to remain ready to fight tonight while simultaneously modernizing and preparing for a fundamentally different future to achieve the Army Vision" (Department of Army, 2018, p. 4). Four lines of effort with specific objectives are documented within the Army Strategy: readiness, modernization, reform, and alliances and partnerships (Department of Army, 2018). Within the modernization line of effort, the Army Strategy acknowledges the effort of industry, university, and private sector partners for combined research and development on innovative technologies (Department of Army, 2018). The reform line of effort states fiscal reforms will be pursued to generate savings and increase efficiencies for higher priorities (Department of Army, 2018).

The impactful concluding line of the Army Strategy includes the critical key assumption of sufficient resources to enable successful outcome of the Army Vision. "We are confident that the Army Strategy, when implemented with sufficient resources and through a sustained effort,

will ensure our Army remains the world's dominant land force as we achieve our Army Vision" (Department of Army, 2018, p. 11).

Army Modernization Strategy, 2019

The Army Modernization Strategy articulates how the Total Army – Regular Army, National Guard, Army Reserve, and Army Civilians – will transform into a multi-domain force by 2035. Specifically, how the Army modernization framework will enable the end state, defined as "modernized Army capable of conducting Multi-Domain Operations (MDO) as part of an integrated Joint Force in a single theater by 2028, and ready to conduct MDO across an array of scenarios in multiple theaters by 2035" (Department of Army, 2019, p. 1). The Army must modernize how the Army fights, what the Army fights with, and who the Army really is. This holistic definition of modernization assimilates the fundamentals of doctrine, organization, training, materiel, leader development and education, personnel, facilities, and policy, within the Army, the Joint Force, and with allies and partners (Department of Army, 2019).

The Army Modernization Strategy provides key assumptions to ensure successful implementation of the Army Strategy. These assumptions mirror the Army Strategy's key assumptions. Relevant to this research project, the key assumptions are "The Army's budget will remain flat, resulting in reduced spending power over time" and "research and development will mature in time to make significant improvements in Army capabilities by 2035" (Department of Army, 2019, p. 3).

The Army's six modernization priorities are long range precision fires, next generation combat vehicles, future vertical lift, Army network, air and missile defense, and Soldier Lethality. The Army Modernization Strategy indicates a reinvigorated budget process and

realignment of over $33 billion in FYs 2020 – 2024 Program Objective Memorandum to fund the six material modernization priorities, new organizations, training upgrades, facilities improvements, and other associated efforts (Department of Army, 2019, p. 2).

Risk management is crucial in the success of the Army Modernization Strategy. Resourcing and budget risk is acknowledged, "budget risk increases if funding decisions are delayed, risking early industry commitment to identified programs and competition, and requiring additional funding from the Army budget" (Department of Army, 2019, p. 11). Relative to this research project, budget certainty and industry commitment must align to mitigate risk to the greatest extent possible to enable overmatched success of the United States military.

Literature Review Strategic Documents Summary

Prior documents reviewed were official United States Government strategic publications from President of the United States, Secretary of Defense, Joint Chiefs of Staff, and Senior Army Leadership. These documents laid the foundation of Defense Strategy and elements required to enable successful implementation for the United States to remain dominant in the "fight tonight" and pivot to modernization for future fight(s).

Following information included in this literature review comprise a variation of documents, containing official United States Government reports, budgets, articles, and studies specifically relevant to the research project. Multiple sources are included in most topic areas.

Fiscal Year 2020 Defense Budget

The Department of Defense FY 2020 defense budget executes the National Defense Strategy by re-prioritizing resources and shifting investments, with a focus on four areas. Areas

include: “investing in the emerging space and cyber warfighting domains…. modernizing capabilities in air, maritime, and land domains …. innovating more rapidly to strengthen competitive advantage; and …. sustaining our forces and building on our readiness gains” (Department of Defense, 2019, p. 1).

Figure 3. Department of Defense Discretionary Budget Authority FY 2010 – 2024. (Then Years Dollars in Billions)

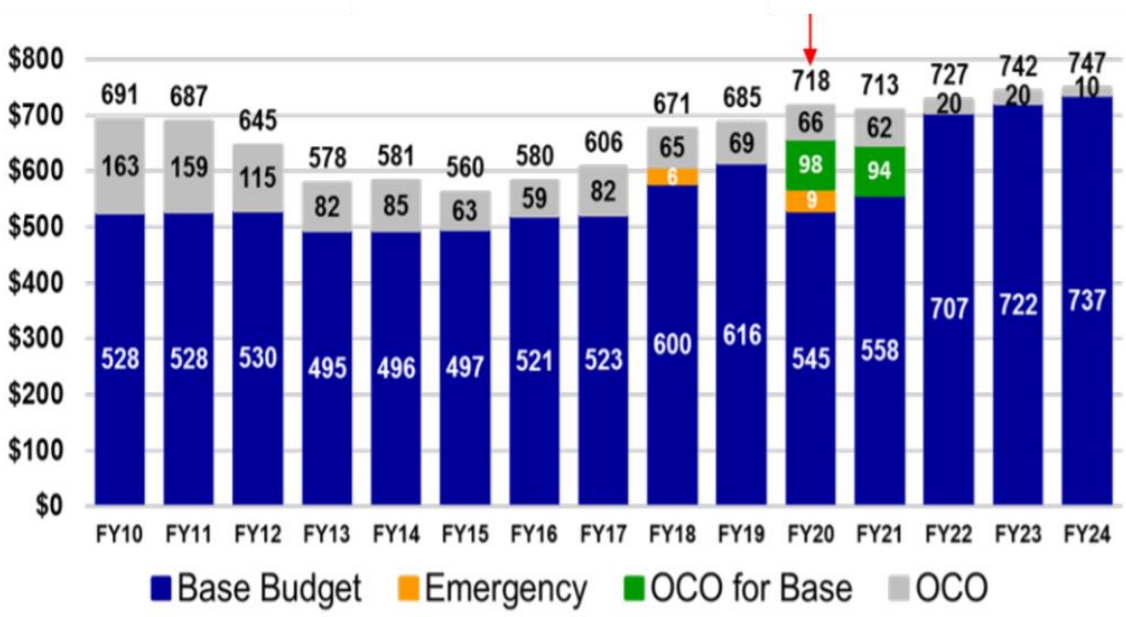

Figure 3. Department of Defense Funding FY 2010 - FY 2024 topline broken out by base budget, emergency, OCO for base, and OCO. Department of Defense, 2019.

As noted in the above figure, the FY 2020 Department of Defense Budget request includes OCO funding for base requirements. This request is in support of the National Defense Strategy, as the base budget defense caps within current law do not enable full funding of the National Defense Strategy. The FY 2020 Department of Defense Budget for OCO / Emergency funds is broken out into four areas: direct war requirements – combat or combat support costs that are not anticipated to continue once war ends; OCO for enduring requirements – enduring

in-theater and within the States costs that will remain after war ends; OCO for base requirements as described above; and emergency requirements – funding for military construction for emergencies, to include border security and reconstruction efforts to rebuild facilities damaged by recent hurricanes (Department of Defense, 2019).

The FY 2020 Department of Defense budget focuses on the National Defense Strategy to build a lethal, resilient, agile, and ready force. “FY 2020 investments request fully implements the National Defense Strategy (NDS) concept and strategy to continue to develop a more lethal, and efficient force that can project power globally against a full spectrum of threats” (Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, 2019, p. 4-1). The FY 2020 Department of Defense budget acknowledges that “building a more lethal force requires predictable and timely funding needed to execute a multiyear plan that rapidly rebuilds the Joint Force warfighter construct” (Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, 2019, p. 4-2).

To maintain flexibility given the uncertainty of our world, “the budget request provides flexibility for the Secretary of Defense and Combatant Commanders to sustain military operations while future plans are developed and implemented” (Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, 2019, p. 6-2). The Comptroller notes, “The FY 2020 Budget maintains momentum from the sustained funding increases enacted in FY 2017, FY 2018, and FY 2019 to repair damaged readiness, and the Budget marks a key next step in how we operationalize the 2018 National Defense Strategy” (Department of Defense, 2019, p. 1).

Overseas Contingency Operations Funds

As with any United States Government publication, the FY 2020 budget release garnered media attention. Specifically, the OCO funds portion of the FY 2020 budget was analyzed by many agencies and organizations. Seamus P. Daniels of the Center for Strategic and International Studies describes OCO funds, "the account was used as a loophole by both Congress and DoD to fund certain activities that should have been subject to the caps" (2019, p. 2).

Congress has appropriated approximately $2 trillion in discretionary budget authority since September 11, 2001, designated for emergencies or OCO / Global War on Terrorism in support of United States response to terrorist attacks (McGarry & Epstein, 2019). Total of $2 trillion includes $1.8 trillion for Department of Defense, $162 billion for Department of State and United States Agency for International Development, and $3 billion for the Department of Homeland Security and Coast Guard (McGarry & Morgenstern, 2019, p. 1).

Figure 4. Emergency and OCO / GWOT Discretionary Budget Authority (Billions of Dollars)

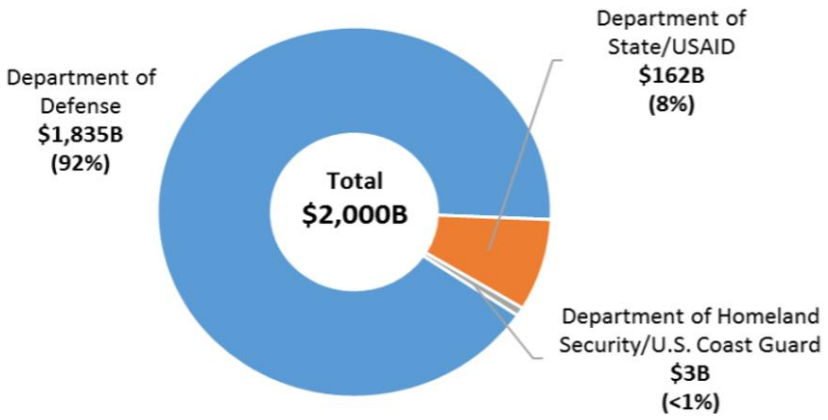

Figure 4. Emergency and OCO / GWOT Discretionary Budget Authority FY 2001 – FY 2019 by agency. McGarry & Morgenstern, 2019.

Within the Department of Defense portion of OCO funds, Army has the largest allocation. Fifty-six percent has been appropriated to Army, with Air Force, Defense-wide, and Navy, receiving 16%, 15%, and 13% respectively, as depicted in below graph (McGarry & Morgenstern, 2019, p. 2).

Figure 5. Base and OCO / GWOT Funding by Military Service

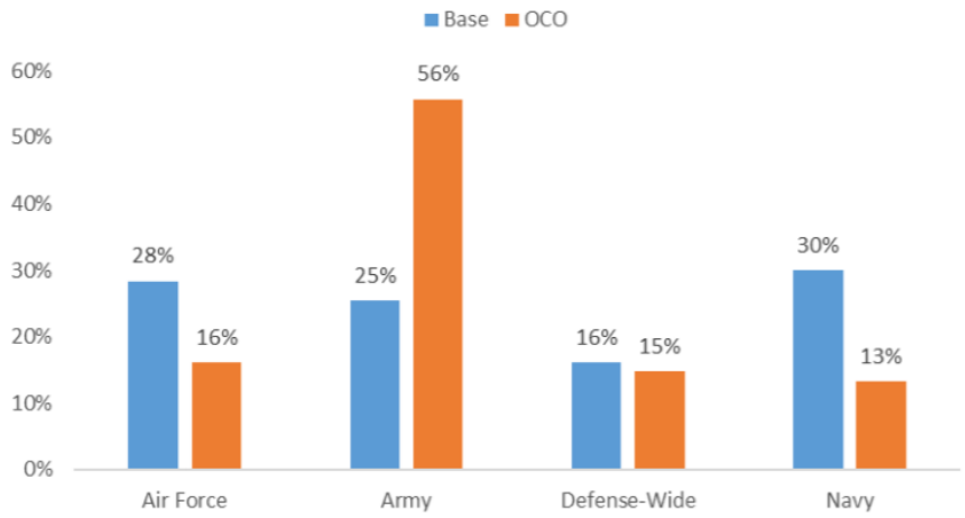

Figure 5. Base and OCO / GWOT Funding by Military Service FY 2001 through FY2019. McGarry & Morgenstern, 2019.

Overseas Contingency Funds Purpose

OCO funds serve a real purpose, as indicated by *Politico* journalist Danny Vinik (2016). The OCO funds account was established in 1997 and referred to by many in the Pentagon Defense Community and Congress as an emergency fund (Vinik, 2016). Congress authorizes and appropriates money to fund unplanned needs, such as war.

In its classic usage, OCO covers costs over and above the regular costs of equipping and maintaining military units in the course of normal operations. For example, the base budget pays the salaries of an Army unit and its normal organizational and training

> expenses, but OCO pays the additional marginal cost of transporting the unit overseas for operations, the costs of fueling and resupplying the unit while deployed, and any special expenditures associated with deploying the unit such as hostile fire/imminent danger pay. (Hunter, 2019)

Office of Management and Budget criteria for OCO funding includes theater of operations in geographic areas in which combat or direct combat support operations occur. These areas include: Iraq, Afghanistan, Pakistan, Kazakhstan, Tajikistan, Kyrgzstan, Horn of Africa, Persian Gulf and Gulf nations, Arabian Sea, Indian Ocean, Philippines, and other countries on a case-by case basis (Epstein & Williams, 2016). The funding requirement must take place in one of those countries, as well as meet one of the following criteria: replacement of combat loss equipment, replacement or repair of equipment to original capability, equipment modifications as required in direct support of combat operations, replenishment of munitions expended in combat operations, military construction in theater of operations in direct support of combat operations, research and development required for combat operations in specific theaters that can be delivered in twelve months (Epstein & Williams, 2016).

The National Defense Authorization Act provides authorization of the use of OCO funds by budget line, appropriation, and specific weapon system. The Defense Appropriations Act provides an additional level of detail, specifying expiration date of funds. The Act may designate specific uses and purposes, and may indicate specific provisions that allow or disallow certain items or overrules certain items.

OCO funds are designated on an account-by-account basis and must be subsequently designated by the President (Driessen & Lynch, 2019). Given the definition of OCO funds as discretionary to use for unplanned bills and requiring such designation by the President, OCO

funds are typically budgeted annually. Defense spending limits apply to national defense budget, but not to funding designated as OCO requirements (McGarry, 2019).

Overseas Contingency Operations and the Budget Control Act

Former Defense Secretary Jim Mattis stated:

> Let me be clear: As hard as the last 16 years of war have been on our military, no enemy in the field has done as much to harm the readiness of the United States military than the combined impact of the Budget Control Act's defense spending caps, worsened by operating for 10 of the last 11 years under continued resolutions of varied and unpredictable duration. (Cronk, 2018, para. 5)

Bernard Brodie of the RAND Corporation wrote in 1959, "The establishment of the budget ceiling is sufficiently detached from an objective consideration of military needs to warrant our proceeding in this manner" (p. 364).

OCO funds (formerly called Global War on Terrorism funds) are excluded from the discretionary spending limits (Driessen & Lynch, 2019). The Budget Control Act effectively does not limit the level or amount of spending that may be designated as OCO funds, or for emergency purposes (Driessen & Lynch, 2019). For OCO budget accounts, the Budget Control Act provides upward adjustments to the discretionary caps (Driessen & Lynch, 2019).

OCO funds often referred to as the "slush fund" (McGarry & Epstein, 2019, p. 9) or the "safety valve" (Belasco, 2015, p. 15) of the defense budget. Other budget requests under previous Administrations have received questions and criticism regarding the utilization of OCO funds. OCO funds may also be referred to as the "convenient tool for Congress and DoD to negotiate around the budget caps" (Harrison, 2017, p. 2). Representative Mick Mulvaney co-

sponsored an amendment to the FY2017 National Defense Authorization Act that would restrict the use of OCO funds for base budget activities, ending the use of the loophole; however, the bill did not pass (Harrison, 2017). “By designating OCO funding for ongoing activities not directly related to contingency operations, Congress and the President can effectively increase topline defense, foreign affairs, and other related discretionary spending, without triggering sequestration” (McGarry, 2019, p. 6).

Future of Overseas Contingency Operations Funds

Research indicated the future of OCO funds is unknown. There is no true consensus as to how long OCO funds may continue (Belasco, 2015). President Trump and Former Acting Defense Secretary Patrick Shanahan have stated the Department of Defense budget will remain at a flat-line ceiling amount of $700 billion annually over the Future Years Defense Program (Epstein & Williams, 2016). Analysts have noted OCO funds transferred back to the base budget would increase both the defense and non-defense Budget Control Act budget caps for FY 2020 and FY 2021 (Epstein & Williams, 2016).

Figure 6. Department of Defense Discretionary Budget Authority (Dollars in Billions)

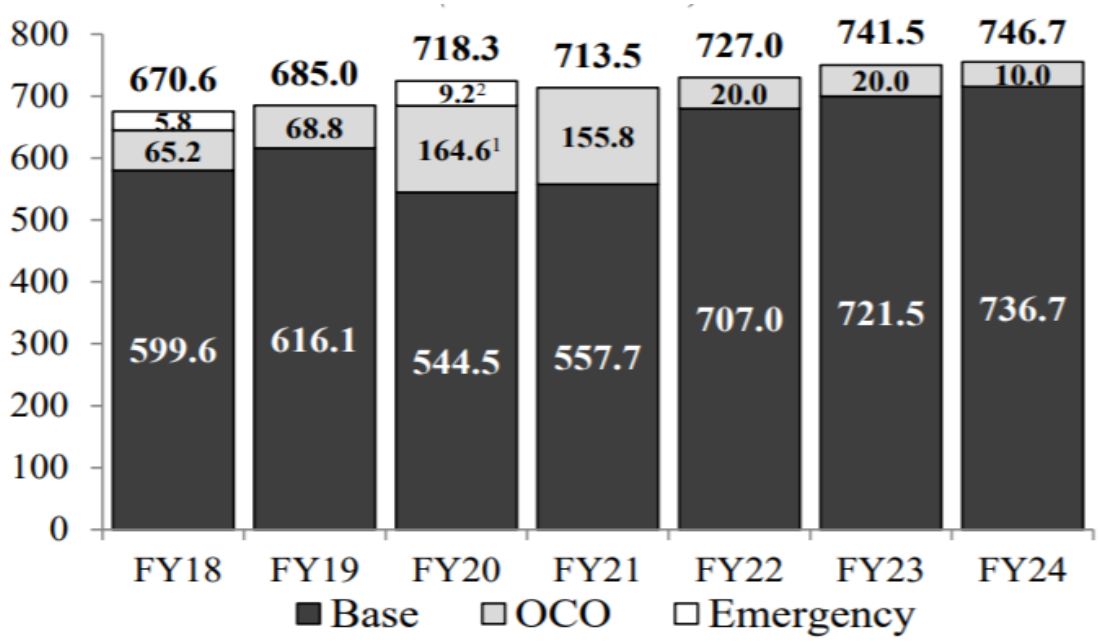

Figure 6. Department of Defense Discretionary Budget Authority from FY2018 actuals to FY 2024 projection, based on FY 2020 President's Budget request, depicting a significantly large reduction in OCO funds. Comptroller, Office of the Under Secretary of Defense, 2019.

Reference figure 6 above, the FY 2020 budget request includes OCO funds at $66.7 billion and OCO for base at $97.9 billion. However, OCO funds are requested annually, these figures likely do not depict actual amounts in each future year.

As Secretary of Defense Ashton Carter stated:

> OCO is Overseas Contingency Operations funding, so called war time funding…. is funding that is intended to cover the variable costs of operations that go up and down in the course of a year…. A major hurricane occurs about every three years and we're asked

> to respond. So you can have us do that in two ways. You can give us the money every year and we'll spend it or you can give us the money when the hurricane occurs and we'll spend it then. That's obviously more efficient. So there's a – it makes sense to have variable costs in the budget. That's what OCO does. (Carter, Remarks by Secretary Carter on the Budget at the Economic Club of Washington, D.C., 2016, p. 21)

OCO funds are one of the many types of funds utilized to finance weapon system modernization and procurement. The defense industrial base and supply chain, funded by the multiple appropriations, are critical to the success of the National Security and Defense Strategies and the United States military.

Defense Industrial Base and Supply Chain of the United States

Defense industrial capabilities include knowledge, skills, materials, facilities, manufacturing processes, equipment, and technologies required to design, develop, produce, sustain, and / or provide services to fulfill the contract obligation of the Department of Defense to assist in achieving National Defense objectives.

In July 2017, President Donald Trump issued executive order 13806 to the Secretary of Defense, in coordination with Secretaries of Commerce, Labor, Energy, and Homeland Security, and in consultation with the Secretaries of the Interior and Health and Human Services, the Director of National Intelligence, the Assistant to the President for National Security Affairs, the Assistant to the President for Economic Policy, the Director of the Office of Trade and Manufacturing Policy, and the heads of such other agencies as the Secretary of Defense deems appropriate (President Donald J. Trump, 2017). Executive Order requested a report detailing: raw goods and material that are essential to national defense; manufacturing capabilities needed

and emerging needs essential to national defense; contingencies that may disrupt or eliminate supply chain and manufacturing essential to national defense; resiliency and capability of manufacturing, defense industrial base, and supply chain needed to support national security; causes of deficient industrial base or supply chain critical to national security; and any recommended legislative, regulatory, and / or policy changes needed (President Donald J. Trump, 2017).

Assessing and Strengthening the Manufacturing and Defense Industrial Base and Supply Chain Resiliency of the United States report published in September 2018 by the Interagency Task Force in Fulfillment of Executive Order 13806, provides a detailed response of all elements as requested by the President. As summarized in the report:

> America's manufacturing and defense industrial base ("the industrial base") supports economic prosperity and global competitiveness, and arms the military with capabilities to defend the nation. Currently, the industrial base faces an unprecedented set of challenges: sequestration and uncertainty of government spending; the decline of critical markets and suppliers; unintended consequences of U.S. Government acquisition behavior; aggressive industrial policies of competitor nations; and the loss of vital skills in the domestic workforce. Combined, these challenges – or macro forces – erode the capabilities of the manufacturing and defense industrial base and threaten the Department of Defense's ability to be ready for the "fight tonight" and to retool for great power competition. (Department of Defense, 2018, pp. 1-2).

America's manufacturing and defense industrial base must be secure, robust, resilient, and ready to provide for national security. The defense industrial base must support economic

prosperity, remain globally competitive, and provide capability plus capacity to innovatively equip the military to enable over-match and dominance.

Relative to this research project, one of the top five macro-forces increasing risk inherent in America's industrial base is uncertainty of U.S. Government spending. Uncertainty is defined as "inconsistent appropriations, uncertainty about future budgets, macro-level ambiguity in U.S. Government expenditures, and the effects of the Budget Control Act create market instability" (Department of Defense, 2018, p. 19).

Industrial Base Need for Stable and Certain Budgets

The National Defense Strategy states, "The Department, with the support of Congress, will provide the defense industry with sufficient predictability to inform their long-term investments in critical skills, infrastructure, and research and development" (Department of Defense, 2018). Stability of the industrial base is needed to enable success of the National Defense Strategy.

The Government Accountability Office (GAO) interviewed twelve United States companies. Six of twelve companies indicated one of the top three challenges that deter companies from developing products for military use is an unstable budget environment (United States Government Accountability Office, 2017). To that extent, one of the defense industry officials stated doing business with any company or organization that has an unstable budget environment creates additional risk and may potentially cause the company to go out of business and / or lose investors (United States Government Accountability Office, 2017).

Defense companies have indicated doing business with the Government makes good business sense due to guaranteed buyers and an existing and consistent market (Armbruster,

2014). The major investor for both Government and Industry is the American public, either through taxpayer dollars or shareholders (Armbruster, 2014). Stability of the industrial base is required to enable success for both elements of the American public: taxpayers and investors.

If the fiscal environment is uncertain, industry must adjust their strategy and make hard decisions. Decisions may include reducing investments, diversifying market base, and restructuring business operations (Riley, 2012). When industry is required to make changes to business plans, whether significant or insignificant, the customer, in this case the United States Government, pays for the change in cost, lack of capability, and / or lack of capacity. This may result in losing the supplier.

> The National Security Innovation Base must greatly improve its procurement practices to optimize for speed over burdensome processes in order to deliver scalable solutions to Warfighters….Uncertain budgets and Continuing Resolutions create confusion in an already fluid National Security environment. (Govini, n.d., p. 2)

The Center for Strategic and International Studies conducted a comprehensive study in 2017 evaluating the effects of sequestration, Budget Control Act, and drawdown on the industrial base. The study concluded the effects on defense industrial base were substantial (McCormick, Sanders, & Hunter, 2017). Of note, the data showed the big five defense contractors' (Lockheed Martin, Boeing, Raytheon, Northrop Grumman, and General Dynamics) contract portfolios shifted toward products and services and away from research and development (McCormick, Sanders, & Hunter, 2017). The number of tier one prime contractors declined by approximately 20 percent (McCormick, Sanders, & Hunter, 2017). Subcontractors and suppliers that are typically not equipped to withstand significant supply / demand swings were also significantly impacted; however, data is unavailable to prove to what extent (McCormick, Sanders, & Hunter,

2017). "Maintaining a technologically superior industrial base requires a wide vendor pool from which to produce products, conduct research and development (R&D), and provide services for the Department of Defense (DoD)" (McCormick, Sanders, & Hunter, 2017, p. VI). "The ability of the United States to maintain readiness, and to surge in response to an emergency, directly relates to the capacity, capabilities, and resiliency of our manufacturing and defense industrial base and supply chains" (President Donald J. Trump, 2017, para. 2). The factors affecting this ability studied by the Center for Strategic and International Studies not only affect industry from a matter of jobs and economic posture, but from a bigger picture ability to modernize and sustain United States forces and ensure continued technological superiority (McCormick, Sanders, & Hunter, 2017). A clear, stable demand signal from Department of Defense is required and crucially needed to enable the United States forces to conduct their mission and protect the United States.

An investor analytical report published by Global Data reviewing defense industry forecast for 2020-2023 reports a steady defense budget with increase to expenditures as compared to 2014-2018 (Global Data, 2018). As noted:

> Between 2014 and 2018, the United States allocated an average of 35% of its total defense budget to capital expenditure, primarily to fulfill the equipment needs of its overseas contingency during the Iraq and Afghanistan wars. However, with the country expected to focus on the replacement of damaged and obsolete defense equipment rather than on war needs, the capital expenditure is estimated to average 37.5% .... the share of revenue expenditure is expected to average 62.5% … as compared to 65% during 2014-2018. (Global Data, 2018, Scope, para. 2).

Secretary of Defense Ashton Carter testified before the Senate Appropriation Committee's defense subcommittee on the Defense Department's FY 2016 budget request. During this testimony, Secretary Carter stated, "Defense industry partners also need stability and longer-term plans to be efficient and cutting-edge" (Pellerin, 2015, p. 3).

"Department of Defense's enduring mission is to provide combat-credible military forces needed to deter war and protect the security of our nation" (Department of Defense, 2018, p. 1). The industrial base's ability to develop, supply, and support the Warfighter enables our nation to remain protected and secure from adversaries and threats.

Analysis and Findings

National Defense Strategy states, “The Department, with the support of Congress, will provide the defense industry with sufficient predictability to inform their long-term investments in critical skills, infrastructure, and research and development” (Department of Defense, 2018). Research and data are available proving the negative impacts of sequestration, Budget Control Act, and continuing resolutions on the defense industrial base. Some data is available on how OCO funds have positively impacted the defense industrial base.

Analysis and findings will delve into the topic of how OCO funds are enabling and / or inhibiting the Department of Defense, Congress, and Army’s ability to accomplish the National Defense Strategy objective. “Establish an unmatched twenty-first century National Security Innovation Base that effectively supports Department operations and sustains security and solvency” (Department of Defense, 2018, p. 4).

Overseas Contingency Operations Funds are Unstable and Uncertain

“OCO is not the way to provide adequate and stable resources for such a long-term endeavor, given its lack of predictability and the limitations on what OCO funds can be used to buy” (Edelman, 2018, p. 59). OCO funds, by purpose and definition, are discretionary to use for unplanned bills and emergency purposes. OCO funds are designated by the President and typically budgeted annually. Given the definition and original intended purpose of OCO funds, one would define these funds as unstable and uncertain from year to year. However, given OCO funds have been in the Department of Defense budget each year since 2010 (reference figure 1), one could argue OCO funds are stable at a Defense and an Army level. The argument then turns

to level of funds at specific budget lines and programs. The annual request is unstable and uncertain, depending on the direction of the swing of political climate and environment.

A study conducted by the Stimson Center think tank analyzing OCO stated:

> The use of OCO creates a concern that programs that are currently considered essential requirements, and thereby designated OCO, may be defunded if the political atmosphere changes. Defense is never fully insulated from politics, but the continued use of OCO-designated funds may make the military budget more contingent upon yearly political whims rather than long-term strategic needs. (Heeley & Wheeler, 2016, p. 12)

Some programs, especially in the rapid acquisition environment, live on OCO funds, with minimal base funds appropriated. Each year the Department of Defense and Military Services request OCO to continue to provide equipment and services to the Warfighters based on the OCO funds criteria. Typically, each year funds are appropriated to continue equipping the weapon system for Warfighters. In a typical program with base funds, multi-year funding requests are submitted as part of the Program Objective Memorandum Budget Estimate Submission through the Future Years Defense Program for a five-year period. The submission may not be approved as the request progresses through the Planning, Programming, Budgeting, and Execution System process; however, the estimated budget will be approved for planning and programming for the five-year period. This known five-year planning estimate enables services and programs to forecast and make decisions to increase capability and promote stability and sustainability. Of note the Future Years Defense Program is submitted by the Services to the Office of Secretary of Defense for base requests; however, these requests are not submitted to Congress as part of the President's Budget and Justification Book.

Many have criticized the uncertainty and instability of Department of Defense budgets. “The failure to provide timely, sustained, and predictable funding is a strong negative message regarding the worth of the men and women who serve in uniform” (Edelman, 2018, p. 57). “It is hypocritical for policymakers to advocate that American allies commit to multi-year defense budgeting while the United States refuses to do so itself” (Edelman, 2018, p. 57).

OCO funds, by intent and purpose, are uncertain and unstable annually. This uncertainty and instability affects multiple areas of the Department of Defense and military services, all the way to the industrial base.

As Defense Secretary Carter stated in the FY 2016 budget request testimony to the Senate Appropriations Committee:

> The one-year OCO approach does nothing to reduce the deficit. It risks undermining support for a mechanism – OCO – meant to fund incremental costs of overseas conflicts in Afghanistan, Iraq, and elsewhere. Most importantly, because it doesn’t provide a stable, multi-year budget horizon, it is managerially unsound, and also unfairly dispiriting to our force. Our military personnel and their families deserve to know their future more than just one year at a time. And not just them. Our defense industry partners, too, need stability and longer-term plans – not end-of-year crises or short-term fixes – to be efficient and cutting-edge. As a nation, we need to base our defense budgeting on our long-term military strategy, and that’s not a one-year project. (Carter, Submitted Statement -- Senate Appropriations Committee-Defense (Budget Request), 2015, p. 34).

FY 2020 budget request for Department of Defense categorized the OCO funds into four categories to provide as much transparency to Congress as possible (Norquist, McCusker, &

Ierardi, 2019). Deputy Under Secretary of Defense (Comptroller) McCusker described the bins as direct war requirements, enduring requirements, OCO for base, and emergency funding for military construction (2019). Deputy Under Secretary of Defense (Comptroller) McCusker explained the OCO request was consistent with FY 2019 levels (2019). Information indicates the Department of Defense is attempting to establish a level of stability in the OCO top line defense requests from year to year. Lieutenant General Horlander, Military Deputy for Budget to the Assistant Secretary of the Army for Financial Management and Comptroller, in his press briefing of the FY 2020 Army budget described the true OCO request as the same as in FY 2019, including Operation Freedom Sentinel – Iraq and Afghanistan – including European Deterrence Initiative (McCarthy & Horlander, 2019).

Base requirements have been included as part of the OCO funds request and appropriation to supersede the Budget Control Act limits. This push may result in base funds becoming unstable and volatile. Given Congress recognition and acknowledgement of the use of OCO funds to fund base requirements, will there be a change in operations and / procedures? If not, the multiple impacts from true OCO funds may also bleed over to the base programs, resulting in additional accounts and programs being volatilely funded.

As research indicated, OCO funds are unstable and volatile based on original purpose and intended to fund emergency requirements as needed. These funds provide Defense and Army Senior Leaders the ability to respond proactively and reactively to un-anticipated requirements. Conflicts have grown in multiple areas of operation, increasing the overall OCO funds request based on legitimate needs. As the Budget Control Act was introduced, implemented, and enforced, Department of Defense and Army have been forced to increase the scope of OCO

funds to finance genuine base requests to fulfill requirements, including National Defense Strategy objectives.

Unstable and Uncertain Funding Effects on Department of Defense

At the 2015 Defense One Summit, Deputy Secretary of Defense Robert Work spoke of the struggle to balance ends and means. To ensure the strength and stability of the US armed forces, Work iterated that last-minute budget deals would not be sufficient, either stating that it would ultimately be up to Congress to re-think the ends (strategy) or means (budget) or both (2015). During the 2015 Defense One Summit closing keynote, Deputy Secretary of Defense Work stated, "Using Overseas Contingency Operations to fill the gap between ends and means does not incentivize action" (2015, n.p.).

Department of Defense at all levels of leadership must forecast, plan, and program to enable successful operations, programs, and ultimately fulfill the National Security, Defense, and Military Strategies. The budgetary process is a critical piece in the center of the strategic forecasting and planning process, because without money, very little can be accomplished and achieved.

> Further, uncertain budgets threaten the DoD's ability to attract efficient and competitive contracts…. These issues impact the Pentagon's ability to plan for the future and remain competitive in an environment that is constantly changing. The need to provide long-term stability in budgeting is integral to a solid national defense. (Heeley & Wheeler, 2016, p. 13)

Conducting the strategic budget process enables leaders to program dollars of all appropriations to implement strategy, develop technology, and innovate both the Government

and industry workforce. “Political leaders… must manage an incentivized defense industry if the United States expects to enable innovative technologies comprehensively and integrate technological solutions across multiple instruments of national power” (Morgan, 2018, para. 9).

Amy Belasco, in a Congressional Research Service report, summarizes statements by Senior Leaders Secretary of Defense Ashton Carter, Department of Defense Comptroller Michael McCord, and the service chiefs by stating:

> All expressed concerns about providing Department of Defense with a one-year increase using OCO-designated funds, saying this approach was not a “sustainable” path, and therefore would not alleviate their concerns. A one-time spike, without assurances of longer-term increases, could complicate defense planning. (Belasco, 2015, pp. 13-14).

Senior Navy Leader, Vice Admiral John C. Aquilino, Deputy Chief of Naval Operations for Operations, Plans and Strategy, states the uncertainty and discontinuous funding “impacts our ability to stay on path… it makes [planning] more challenging, it impacts operations… the unknowns really make it hard to build a plan that is consistent and [it] impinges on getting to execute the strategy” (Heeley & Wheeler, 2016, p. 12).

“The Pentagon has made clear that the uncertainty created by this budgetary game-playing could be detrimental to national security over the long term” (Heeley & Wheeler, 2016, p. 4). Department of Defense leaders are uncertain of the budgetary level for the future years, resulting in inability to plan, forecast, and make long-term commitments to services and programs. “It is up to the Department of Defense and Congress to make sure that the defense-industrial base becomes, as the National Defense Strategy demands, an unmatched 21st century National Security Innovation Base” (Inhofe, 2019, para. 4).

In a budget uncertain environment, industry often responds by reducing investments, diversifying market base, and restructuring operations (Riley, 2012). However, Department of Defense and Army Acquisition must also change. The likely response of Department of Defense and Army acquisition is to adjust the scope of acquisition, acquisition structure will shift, and competition will change (Riley, 2012). One can speculate how each of these elements will change. Industry may decide to trade operating margins for revenue, or the reverse may occur given companies are exiting the market, resulting in single source suppliers and increase cost and price to the Government (Riley, 2012).

Unstable and Uncertain Funding Effects on Department of Army

The published Army Strategy made some critical assumptions regarding funding and processes that have affected the Army thus far and potentially in the future. The Army Strategy makes one critical assumption that predictable funding is stable through 2028. “There will be predictable, adequate, sustained, and timely funding of the Army budget through the duration of this strategy to 2028” (Department of Army, 2018, p. 3). As General Odierno stated, “One of the persistent challenges to the Army has been a lack of predictable funding” (Committee on Armed Services House of Representatives, 2013, n.p.). Given the methods and manners in which the Army is funded and utilizing President’s Budget FY 2020 as an example with multiple categories (base, OCO for direct war requirements, OCO for base, and OCO for emergency), to assume that funding is stable for an eight-year period contributes to increased risk to fulfilling the Army Strategy. The Army Strategy acknowledges the true reality of budget uncertainty. “The Army made necessary but difficult choices to defer modernization over several years of defense budget uncertainty while engaged in Iraq and Afghanistan” (Department of Army, 2018, p. 3). Due to

the focus of the operations, uncertainty of funds contributed to the increased risk the United States military is now facing with the lack of modernization.

> Global competitors are now challenging our conventional superiority as they implement comprehensive modernization programs. While current budgets provide the Army with the resources we need, fiscal uncertainty and decreased buying power will likely be a future reality, threatening our ability to achieve the Army Vision. The Army must pursue reforms and prioritize investments now to minimize the impact of fiscal constraints in the future. (Department of Army, 2018, p. 3)

The Army Strategy also assumes business reforms, as called out in the National Defense Strategy, will result in efficiencies to be re-prioritized to other Army programs. “Reforms will create efficiencies in time, money, and manpower that can be applied to higher priority programs” (Department of Army, 2018, p. 3). This assumption is similar to Better Buying Power. Implementation results in cost avoidance and / or cost savings. Assuming efficiencies from reform and stable funding may potentially result in increased stress and risk to successful execution of the Army Strategy. An element of line of effort within the Army Strategy titled “Budget” includes fiscal reforms to improve business processes, organizational structures, and human resources management (Department of Army, 2018). The sub-elements include business processes, program management, and fiscal management.

Army Vision admits the budget is uncertain, “to achieve and sustain these objectives [man, organize, train, equip, and lead], given the uncertainty of future budgets, the Army must continually assess everything we do” (Department of Army, 2018, p. 2). The Army has acknowledged the uncertainty of budgets and inability to rely on stable budgets, thus, making the assertion that the Army should shift and alter processes. An evident question is should the United

States Army, “the most lethal and capable ground combat force in history” (Department of Army, 2018, p. 1), shift processes to align with the instability and uncertainty of the budget. One would conclude this concept seems a bit backwards - budgets should be stable, certain, and processes agile to enable success of the United States Army to support the Joint Services to execute the National Security and Defense Strategies objectives to implement national security.

The Army Strategy acknowledges the crucial dilemma of lack of resources, need to modernize, and need to win the fight tonight. “The Army’s central challenge is how to use finite resources to remain ready to fight tonight while simultaneously modernizing and preparing for a fundamentally different future to achieve the Army Vision” (Department of Army, 2018, p. 4). The Army Strategy recognizes the indispensable role industry plays in the success of the published strategies, and ultimately, the Warfighter. “The Army will work with defense industry, university, and private sector partners to pursue opportunities for combined research and development on emerging technologies” (Department of Army, 2018, p. 7).

Former Army Undersecretary Mr. Ryan McCarthy, stated the Army senior leaders have a dinner with industry Chief Executive Officers once weekly to be as transparent as possible with industry to mitigate the effects to the greatest extent (McCarthy & Horlander, 2019). Undersecretary McCarthy also iterated the highest priority was funding the ambitious National Defense Strategy objectives (McCarthy & Horlander, 2019).

Unstable and Uncertain Funding Effects on Industrial Base

President Donald J. Trump stated in the National Security Strategy, “A healthy defense industrial base is a critical element of United States power and the National Security Innovation Base” (President Donald J. Trump, 2017, p. 29). The defense industrial base is a crucial

component of the United States military and achievement of the National Security and Defense Strategies.

Honorable Carter during the 2013 committee hearing stated:

> The quality of the weapons produced by our defense industry is second only to the quality of our people in uniform in making our military the greatest in the world. As such, a technologically vibrant and financially successful defense industry is in the national interest. The act of sequestration and longer-term budget cuts and even the prolongation of uncertainty will limit capital market confidence in our industry, and companies may be less willing to make internal investments in their defense portfolio. And the impact will be even greater on our subcontractors. Remember that between 60 and 70 cents of every dollar we contract is subcontracted to the tier below the prime contractors. Many of these smaller companies don't have the capital structure that will allow them to withstand this uncertainty and turmoil. And yet many of them are small businesses; they are a source of innovation and new people for our industry. So it is very serious. (Committee on Armed Services House of Representatives, 2013, para. 15).

As the Government Accountability Office reported, one of the primary industrial base risks that could impede Department of Defense's ability to obtain products at time, quantity, and quality needed is financial instability (United States Government Accountability Office, 2018). Instability may be caused by a decline in Department of Defense or commercial sales leading to a company going out of business or abandoning its defense portfolio (United States Government Accountability Office, 2018).

One of the key components of industrial base instability is that it not only directly impacts the industry, but also impacts the Government's ability to achieve National Security and Defense Strategies, while also lessening ability to innovate and buy at economic levels.

> Uncertainty created by current reliance on OCO, particularly to fund base budget needs, could be detrimental to national security on three levels: (a) by undermining budget controls and contributing thereby to larger deficits, (b) by generating insecurity in the Defense workforce and in Defense suppliers, and (c) by creating long-term uncertainty in defense planning. (Heeley & Wheeler, 2016, p. 3)

The uncertainty industry is faced with results in increased risk to the Government and ultimately, the taxpayer. "This [uncertainty] lessens the incentive to invest in new technologies, prevents the Department from gaining savings through larger purchases of spare parts, and prevents non-traditional defense suppliers from considering competing for defense business." (Heeley & Wheeler, 2016, p. 12).

The GAO published a report analyzing Department of Defense processes impact on industry and the mitigations in place. The report found many of the companies that currently conduct business with the Department of Defense are frustrated with the Government funding and contracting processes (United States Government Accountability Office, 2017). Some of the non-traditional companies GAO interviewed expressed the same frustration of budgetary delays and burdensome processes, resulting in delayed contractual awards (United States Government Accountability Office, 2017).

> One official said that doing business with any company or organization that has an unstable budget environment creates additional risk and could cause them to go out of

> business or lose investors. Their [small non-traditional company official] experiences with DoD, in some cases, drove them away from the defense market and back to pursuing business with more financially stable entities. (United States Government Accountability Office, 2017, p. 11)

The budgetary delays and processes are not just affecting first tier suppliers, but also second, third, and further tiers down the supply chain. At times, the lower suppliers are not traditional defense contractors. Their business models do not allow for delayed contractual awards. “Defense spending uncertainty makes predicting the overall market size difficult, impeding forecasting across every tier in the supply chain” (Department of Defense, 2018, p. 20). This unstable and uncertain budget environment is harming multiple layers of the contractor industrial base.

The GAO report stated:

> DoD must adjust to the fact that it is no longer the dominant player in all markets. In this ever-changing environment, MIBP [manufacturing and industrial base policy], and DoD as a whole, is tasked with the difficult mission of assessing risk at all levels of the supply chain and ensuring that suppliers are capable of meeting DoD’s needs. (United States Government Accountability Office, 2018, p. 32)

The Department of Defense is initiating efforts to attract / recruit non-traditional defense companies to work with Department of Defense to provide services, products, etc. If traditional defense companies that are accustomed to Government processes and budget timelines, including OCO, are making business decisions to exit the Defense market, then how does the Department of Defense expect non-traditional companies to face the situation and want to work with the

Department of Defense? Other Transactional Agreements are one of the contracting mechanisms to enable non-traditional defense suppliers to work with the Government in an attempt to attract the non-traditional companies with a less burdensome process. These agreements enable contracting without all of the Defense Federal Acquisition Regulation and Federal Acquisition Regulation provisions. However, the agreements do not prevent the unstable budgets and budgeting timelines that may detract the non-traditional companies from working with the Department of Defense.

The Department of Defense, with interagency task force in fulfillment of Presidential Executive Order 13806, identified five macro forces driving risk into America's industrial base. Number one macro force is "sequestration and uncertainty of United States Government spending" defined as "inconsistent appropriations, uncertainty about future budgets, macro-level ambiguity in United States Government expenditures, and the effects of the Budget Control Act create market instability" (Department of Defense, 2018, p. 19). The interagency task force reports that markets thrive on predictability, which enables businesses to make informed decisions and invest in the future (Department of Defense, 2018).

Budget uncertainty not only affects the companies of the industrial base, uncertainty also affects the companies' most critical resource – people. Similar to the effect sequestration and furlough had on the Government workforce, only greater, the defense industrial base finds itself sometimes in dire need of specialized skills with the inability to attract those best and brightest given the budget uncertainty and unknowns the uncertainty causes. This impacts not only the industrial base, but also the Government from a larger picture perspective. "It [uncertainty] also affects the outlook of aerospace companies and other defense suppliers, who cannot count on

their programs to continue to be funded as they could if they were included in the base budget and multi-year FYDP [future years defense program]" (Heeley & Wheeler, 2016, p. 12).

> A significant fraction of the defense industrial workforce will retire in the coming years and, if there is little demand for certain types of equipment, there will be no incentive for defense contractors to hire younger workers and for intergenerational skillset transfer to occur. As a result, if defense priorities were to shift in the future and the demand for certain types of equipment increases, it could be difficult for defense industries to adapt to the changes. (Hensel, 2016, p. 1)

Without a strong national security innovation base, the Pentagon cannot implement the National Defense Strategy. Appropriate, tailored policies should be in place and provide sufficient, predictable resources to assist the industrial base to meet these challenges and achieve the National Defense Strategy (Department of Defense, 2018).

Unstable and Uncertain Funding Effects on Industrial Base – Army Specific

The United States Army is "the most lethal and capable ground force in history" (Department of Army, 2018, p. 1). The ground system sector of the industrial base is facing specific challenges due to budget uncertainty and diminishing workforce skills (Department of Defense, 2018). Due to budget uncertainties, the ground systems industrial base made the tough decision to incrementally adopt new technologies to maintain and / or modify current ground systems (Department of Defense, 2018). This decision enabled the Government to defer long schedules and high costs; however, the decision resulted in the workforce not being a part of the transition from design to fielding (Department of Defense, 2018). A generation of the workforce

– technicians, engineers, and scientists, is now lacking experience in the crucial elements of the technologically advanced combat vehicle (Department of Defense, 2018).

The United States Army utilizes a fleet of aviation rotary wing platforms for multiple missions. Due to budget uncertainty and instability, the single domestic source for large thin wall castings for rotary wing gearboxes filed for bankruptcy, resulting in multiple programs at production risk, including the AH-64E Apache and CH-53K Heavy Lift Replacement Helicopter (Department of Defense, 2018).

The GAO report provided an example of how the unstable environment impacts a non-traditional company.

> After demonstrating its product for nearly 4 years, one company that produces augmented reality products was provided funding to support additional engineering and development activities by the Army. However, the Army program subsequently lost funding due to sequestration. As a result of these difficulties experienced in the past, the company is no longer actively pursuing business in the defense market. (Government Accountability Office, 2017, p. 12)

In all essence, based on the Army program losing funding due to sequestration and being burned on the internal investment, the company made the decision to no longer conduct business with the Army. This is only one example. It is unknown how many other businesses have made similar decisions. These decisions, based on unstable and uncertain budgets, are impacting the Department of Defense and Army Acquisition's ability to fulfill the National Defense Strategy. The commercial industrial base provides technology and capability to the Warfighter, and some of those companies are exiting the market, there is an apparent conflict of the processes. "A ways

and means mismatch currently exists between what the Department of Defense is asked to do and what it is given the funds to do" (Heeley & Wheeler, 2016, p. 11). As Heeley and Wheeler indicated, the funds are a multiple-fold struggle – amount of funds, stability of funds, and timeliness of funds, similar to the recognition of the dilemma identified in the Army Strategy.

Overseas Contingency Operations Positively Impacted Industrial Base

As stated above, OCO funds have contributed greatly to uncertainty and instability of resources from year-to-year creating an inability to plan and forecast for Government and Industry. However, OCO funds have also contributed positively for both Government and Industry.

> Overseas Contingency Operations (OCO) funds are wonderfully useful. They allow the Department of Defense (DoD) to carry out uncertain and expensive warfighting operations in difficult to reach and challenging parts of the world. Thanks to OCO, DoD can do this without having to postpone the more regular and predictable elements of its budget to offset the cost of these operations. (Hunter, 2019)

OCO funds are appropriated by Congress to provide resources for theater of operations in specific geographic areas for efforts that meet specific criteria. Criteria includes replacement of combat loss equipment, replacement or repair of equipment to original capability, equipment modifications as required in direct support of combat operations, replenishment of munitions expended in combat operations, military construction in theater of operations in direct support of combat operations, research and development required for combat operations in specific theaters that can be delivered in 12 months (Epstein & Williams, 2016).

OCO funds have replaced and / or repaired combat loss equipment, enabling Warfighter to have full complement and equipment, while also providing industry dollars to maintain production and sustainment lines. OCO funds have replenished munitions that are expended in theaters of operations providing Warfighters with critically required munitions and potentially maintaining the production line for industry. Research and development funds are provided to further expand technology to deliver needed capability to Warfighters.

Other benefits of OCO funds include modernizing equipment when reset is needed to ensure equipment is restored to the latest most capable configuration.

> Equipment reset, for its part, has largely taken place over the course of the wars. Among other base budget requirements, past OCO-designated funding has helped the Army to modernize and upgrade its armored vehicle fleet sooner than anticipated because of the additional wear and tear of war operations. Depot maintenance of equipment has also been carried out earlier than planned. (Heeley & Wheeler, 2016, p. 10).

Depot maintenance of vehicles and other equipment is conducted prior than planned due to OCO demands and funds (Belasco, 2015). Defense budget pressure may have been and continued to be reduced in some areas, such as reset and depot maintenance, due to OCO funds (Belasco, 2015).

Many rapid acquisition capabilities are fielded in response to urgent operational needs, such as Joint Urgent Operational Needs, Joint Emerging Operational Needs, Operational Need Statements, etc. Often times these urgent operational needs development, procurement, and sustainment are funded with OCO funds, based on the emergency critical need that was unknown

prior to war contingency. Without OCO funds, the rapid capabilities may not have been fielded to Warfighters providing critically needed capability for specific mission sets.

OCO funds have contributed to uncertain budget environments. However, the purpose and use of the funds have also contributed positively to Government, Industry, and Warfighters, in pursuit of the National Defense and Army Strategies.

Conclusions & Recommendations

Conclusions and recommendations below are based on the research conducted in the literature review, analysis, and findings inclusive of the research project. The conclusions and recommendations are from the author's perspective.

Conclusion

The National Security Strategy frames the critical need of the National Security Innovation Base to support national security. "A healthy defense industrial base is a critical element of U.S. power and the National Security Innovation Base" (President Donald J. Trump, 2017, p. 29). The National Defense Strategy further emphasizes the need for National Security Innovation Base with an objective to "establish an unmatched twenty-first century National Security Innovation Base that effectively supports Department operations and sustains security and solvency" (Department of Defense, 2018, p. 4). This objective summarized as "harness and protect the National Security Innovation Base" (Carter, 2018, para. 20), is crucial to the success of the National Security Strategy, National Defense Strategy, National Military Strategy, Army Vision, Army Strategy, and Army Modernization Strategy.

Research project problem statement: a 2018 National Defense Strategy objective states "Establish an unmatched twenty-first century National Security Innovation Base that effectively supports Department operations and sustains security and solvency" (Department of Defense, 2018, p. 4). Overseas contingency operations funds are programmed and appropriated annually to support development, production, and sustainment of weapon systems and contingency operations. Research is required to determine if OCO funds are impacting the defense commercial industrial base's ability to support the National Defense Strategy objective. The

conclusion is yes, overseas contingency operations funds are negatively impacting the commercial industrial base's ability to fulfill the National Defense Strategy objective.

Data and information is available regarding the impact of sequestration and Budget Control Act on the commercial industrial base. This research project studied the impacts of Overseas Contingency Operation funds on the commercial industrial base, as part of the National Security Innovation Base, to fulfill the National Defense Strategy objective.

The President of the United States and United States Congress have funded emergency needs since 1997 utilizing OCO funds. OCO funds are received by all military services and other federal departments to pay for bills from military salaries to research and procurement of weapon systems to hurricane support. OCO funds, at core purpose, have a specific mission to fund emergency needs. Since the inception of OCO funds, $1.03 billion have been appropriated for United States Army. OCO funds by process are planned, programmed, and appropriated annually to fulfill requirements; thus, making OCO funds uncertain and unstable.

Some rapid acquisition programs have come to rely on OCO funds to fulfill the critically needed requirement. OCO reliance increases the risk to the program due to instability and uncertainty of funds. Industrial base thrives on constant requirements and stable funds with the United States Government winning with lower cost and more consistent production. Without stability, the commercial industrial base is at a higher risk level, thus resulting in increased costs and potential loss of skilled workforce, consequentially passing this increased risk to the United States Government.

Conclusion – Simply Stated

A critical element of the National Security and Defense Strategies is a successful National Security Innovation Base. A commercial industrial base is a crucial element of the National Security Innovation Base that needs stable / certain funds. OCO funds are unstable and uncertain. OCO funds are indeed affecting the commercial industrial base's ability, as part of the National Security Innovation Base, to fulfill the National Defense Strategy objective. Uncertain and unstable OCO funds are resulting in increased cost and risk to the United States Government. The recent utilization of OCO funds for base requirements is only proliferating this increased risk across a broader enterprise.

OCO funds have benefited national security in multiple ways, including replacing combat-expended munitions, funding development, procurement, and sustainment requirements for critical theater needs, etc. Each of these avenues have also benefited the commercial industrial base by maintaining production lines, enabling reset and refurbishment of equipment, facilitating research and development and production of rapid capability programs to provide Warfighters critically needed equipment outside normal funding processes and timelines.

OCO funds are beneficial to National Security and Warfighters. The intended use and recent loophole use of OCO funds have positively impacted combat operations and the commercial industrial base; however, the long term impacts to the commercial industrial base may be detrimental. In conclusion, the negative impacts of the uncertainty and instability of OCO funds outweigh the positive impacts, as OCO funds are currently planned, programmed, budgeted, and executed annually.

Recommendations

Based on the research project's literature review, analysis, findings, limitations, and conclusions, below are recommendations for consideration.

Recommendation 1: Eliminate Budget Control Act limits, enabling OCO funds to be utilized for only OCO purpose criteria. Currently, OCO funds are used for base requirements, due to Budget Control Act limits restricting total obligation authority of base funds to finance all base requirements. If the Budget Control Act limits were eliminated, OCO funds would be used as originally intended, to fund emergency requirements only. If this recommendation were implemented, programs and associated commercial industrial base accurately funded with OCO funds would still be impacted by uncertainty and instability of funds. However, programs that should be base funded would eliminate the element of OCO funds instability and uncertainty, not as greatly affecting the commercial industrial base.

Recommendation 2: As an alternative to recommendation 1, recommendation 2 is to increase ceiling of Budget Control Act, enabling OCO funds be utilized for OCO purpose criteria only. Budget Control Act ceiling limit increase would enable base funded requirements to be funded with base budget dollars. If this recommendation were implemented, programs and associated commercial industrial base accurately funded with OCO funds would still be impacted by uncertainty and instability of funds. However, programs that should be base funded would eliminate the element of OCO funds instability and uncertainty, not as greatly affecting the commercial industrial base.

Recommendation 3: OCO funds be utilized for requirements that meet OCO criteria requirements, nothing else. The loophole that is being utilized and referred to as the "slush fund"

(McGarry & Epstein, 2019, p. 9) to fund other requirements, including base requirements, should be eliminated. OCO funds have a specific purpose with specific language. It is recommend that language be tight and precise to eliminate the loophole and negative "slush fund" (McGarry & Epstein, 2019, p. 9) connotation of OCO funds. If this recommendation were implemented, OCO funds would be appropriated for only those programs and requirements that meet OCO criteria, continuing to adversely affect the commercial industrial base by instability and uncertainty. Base requirements will be base funded, eliminating the OCO funds uncertainty element.

Recommendation 4: Enable Department of Defense and services to plan and program OCO funds similar to base across the Future Years Defense Program and the extended planning period. OCO funds are the appropriate funding source for some programs and requirements, thus receiving OCO funds each year to finance the need. However, there is no guarantee the funds will be planned and programmed each year since OCO funds are budgeted annually. Base requirements are not guaranteed and must go through the planning, programming, budgeting, and execution process. OCO funds should be a part of the Department of Defense planning, programming, budgeting, and execution process to guarantee, to the greatest extent possible, funds will be appropriated in future years. If this recommendation underwent implementation, the commercial industrial base would be able to plan, to an extent, providing lower cost to the Department of Defense.

Recommendation 5: Department of Defense provide a budget to the White House that fully funds the National Security Strategy and National Defense Strategy. "The National Defense Strategy requires adequate resources to position the United States for great power competition" (Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, 2019, p. 1-2). As Bernard Brodie stated in 1959, "The absence of a deep and constant concern with dollars in

making choices between weapons systems would argue the grossest kind of incompetence" (Brodie, 1959, p. 364).

> [Department of Defense] should either submit a budget that fully funds the strategy and clearly communicates the difference between the BCA budget caps and the needs of the strategy, or it should revise defense strategy to fit within the resource constraints of the BCA and communicate the strategic risks and limitations this would impose. (Harrison, 2014, p. 11).

Submitting a budget with concern of only Defense-level vetted requirements to fulfill the National Security Strategy, without concern of the Budget Control Act, would depict to the Nation's leaders the true top-line requirement to meet the nation's security objectives.

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