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AD-A197080

THE DEFENSE RESOURCE ALLOCATION PROCESS

JUNE 88 REVISION

by

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Newport, R.I.

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SELECTE
AUG 23 1988
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ON STATEMENT A
for public release;
unclassified

SELECTED READING
IN
NATIONAL SECURITY DECISION MAKING

28 8 1988



UNCLASSIFIED
SECURITY CLASSIFICATION OF THIS PAGE

REPORT DOCUMENTATION PAGE

1a. REPORT SECURITY CLASSIFICATION Unclassified		1b. RESTRICTIVE MARKINGS N/A	
2a. SECURITY CLASSIFICATION AUTHORITY N/A		3. DISTRIBUTION/AVAILABILITY OF REPORT Approved for Public Release: Distribution is Unlimited	
2b. DECLASSIFICATION/DOWNGRADING SCHEDULE N/A		5. MONITORING ORGANIZATION REPORT NUMBER(S) N/A	
4. PERFORMING ORGANIZATION REPORT NUMBER(S) N/A		7a. NAME OF MONITORING ORGANIZATION Naval War College	
6a. NAME OF PERFORMING ORGANIZATION Naval War College		6b. OFFICE SYMBOL (If applicable) BD-8	
6c. ADDRESS (City, State, and ZIP Code) Newport, RI 02841-5010		7b. ADDRESS (City, State, and ZIP Code) Newport, RI 02841-5010	
8a. NAME OF FUNDING/SPONSORING ORGANIZATION N/A		8b. OFFICE SYMBOL (If applicable) N/A	
9. PROCUREMENT INSTRUMENT IDENTIFICATION NUMBER N/A		10. SOURCE OF FUNDING NUMBERS	
10a. ADDRESS (City, State, and ZIP Code) --		PROGRAM ELEMENT NO --	
		PROJECT NO --	
		TASK NO --	
		WORK UNIT ACCESSION NO --	
11. TITLE (Include Security Classification) The Defense Resource Allocation Process, June 1988 Revision, Newport, RI, Naval War College, 1988. (Unclassified)			
12. PERSONAL AUTHOR(S) KELLER, William C., CDR, USN			
13a. TYPE OF REPORT Selected Reading		13b. TIME COVERED FROM TO	
14. DATE OF REPORT (Year, Month, Day) 88 Feb		15. PAGE COUNT 197	
16. SUPPLEMENTARY NOTATION			
17. COSATI CODES		18. SUBJECT TERMS (Continue on reverse if necessary and identify by block number)	
FIELD	GROUP	SUB-GROUP	Decision Making; PPBS; Planning, Programming and Budgeting; Federal Budget; Budgeting; Strategy; Acquisition, Weapon Systems Acquisition
19. ABSTRACT (Continue on reverse if necessary and identify by block number)			
A detailed technical paper used in the education of senior military and civilian executives. It describes the various subsystems which make up the process for deciding how resources are allocated for U.S. security. Includes chapters on each of the federal budget, the strategic planning system, PPBS (the planning, programming and budgeting system), weapon system acquisition, and how they all work together. Problems and possible remedies are also discussed.			
20. DISTRIBUTION/AVAILABILITY OF ABSTRACT ☒ UNCLASSIFIED/UNLIMITED ☐ SAME AS RPT ☐ DTIC USERS		21. ABSTRACT SECURITY CLASSIFICATION Unclassified	
22a. NAME OF RESPONSIBLE INDIVIDUAL CDR William C. Keller, USN		22b. TELEPHONE (Include Area Code) 401-841-3892	
		22c. OFFICE SYMBOL BD-8	

DD FORM 1473, 84 MAR

83 APR edition may be used until exhausted
All other editions are obsolete

SECURITY CLASSIFICATION OF THIS PAGE

© U.S. Government Printing Office: 1989-529-012

0102-LF-014-6602

Block 18 (Continued)

Planning; Joint Planning; Programming;
Resource Allocation; Joint Strategic
Planning Systems; JSPS



PREFACE

"DOING THIS READING IS LIKE EATING FIVE DESK BLOTTERS"

(A former Naval War College student criticizing an earlier version of Keller's defense resource allocation reading.)

When I first joined the faculty at the Naval War College, the head of the department let me know that I was to be in charge of the PPBS (Planning, Programming, and Budgeting) portion of the curriculum. I immediately broke out in a cold sweat! My tour of duty at the War College was a "payback" tour for graduate education and PPBS was one of the subjects that I never really did understand while pursuing my masters degree.

While I still don't know everything about PPBS, I have come to understand three things.

o Defense Resource Allocation is the result of much more than PPBS. The way we in the United States make decisions about resources for defense involves federal budgeting, weapons system acquisition, and joint planning, as well as the PPBS. It is possible to discuss PPBS without reference to the other systems but that just would not provide a complete view of how defense resource allocation works. The result of this "discovery" is that my initial paper on PPBS has grown into this book on the defense resource allocation process.

o In order to contribute effectively in the national security environment, a defense executive should understand the structure of the process within which defense resource allocation decisions are made. At least, it is true that players in this complex game should know the rules and how it "all" fits together. One means of gaining this knowledge--and one might think a reasonable way--is to read about it. However to my knowledge, and my initial chagrin, there is nothing written which describes the whole defense resource allocation process. In fact, there is little that is current and comprehensive on even the PPBS. Given that the topic was important, it remained to describe it in writing, regardless of its complexity.

o Nobody wants to eat desk blotters! No matter how important a subject is, it will not be understood unless it is presented in a readable fashion. Responsible executives want to understand the resource allocation process. The purpose of this work is to help achieve that goal. From the opening quote, it can be seen that earlier versions of this effort have been difficult to read, at best. My intent is to make this tough subject as readable and accessible as possible. I would appreciate any suggestions for improving this work.

I am indebted to my colleagues and the staff at the Naval War College. Their help has been instrumental in putting this latest revision together. The advice, comments, and ideas of the faculty (in both the Operations and National Security Decision Making Departments have been invaluable. The assistance of the graphic artists has given the work pictures that are worth more than a thousand words each. And finally, anyone who has seen my handwriting would join me in applause for the word processing crew. Thanks to you all.

WCK 6/88

The opinions expressed in this paper are those of the author and do not necessarily reflect the views of the Naval War College, the Navy or the Department of Defense.

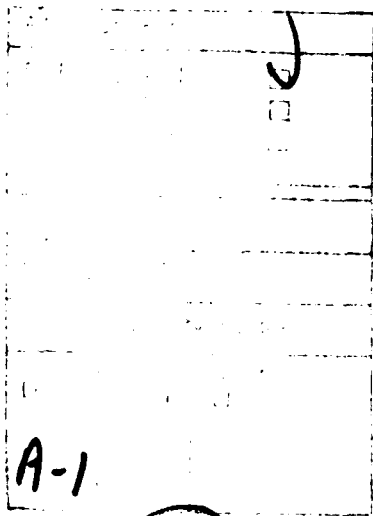


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CHAPTER 1

OVERVIEW

ALLOCATION IS A DECISION PROCESS

Above all, this paper is about DECISION MAKING. In particular, it attempts to describe the formalized process by which we in the United States make and implement decisions about resources for our national security. The purpose of this "defense resource allocation" process is to MOST EFFICIENTLY BUY, OPERATE, AND SUPPORT EFFECTIVE MILITARY FORCES TO PROTECT OUR NATIONAL SECURITY INTERESTS.

There are several deterrents to learning about this defense resource allocation business. First of all, it is complex. There are many thousands of people and scores of organizations involved. Rules governing the process originate in statutes, presidential directives, and Department of Defense instructions. However, these rules are not necessarily mutually supportive. And, of course, not everybody follows the rules, so there is a difference between how things are "supposed to work" and how they really do. Next, there is no universal reference or approved documentation on this system. In fact, the name "defense resource allocation system" has been arbitrarily assigned by the author. There is no way we can, in the near-term, make the process any less complex. . . that is the way it is. It does, however, remain to try to comprehend it. That is the purpose of this paper.

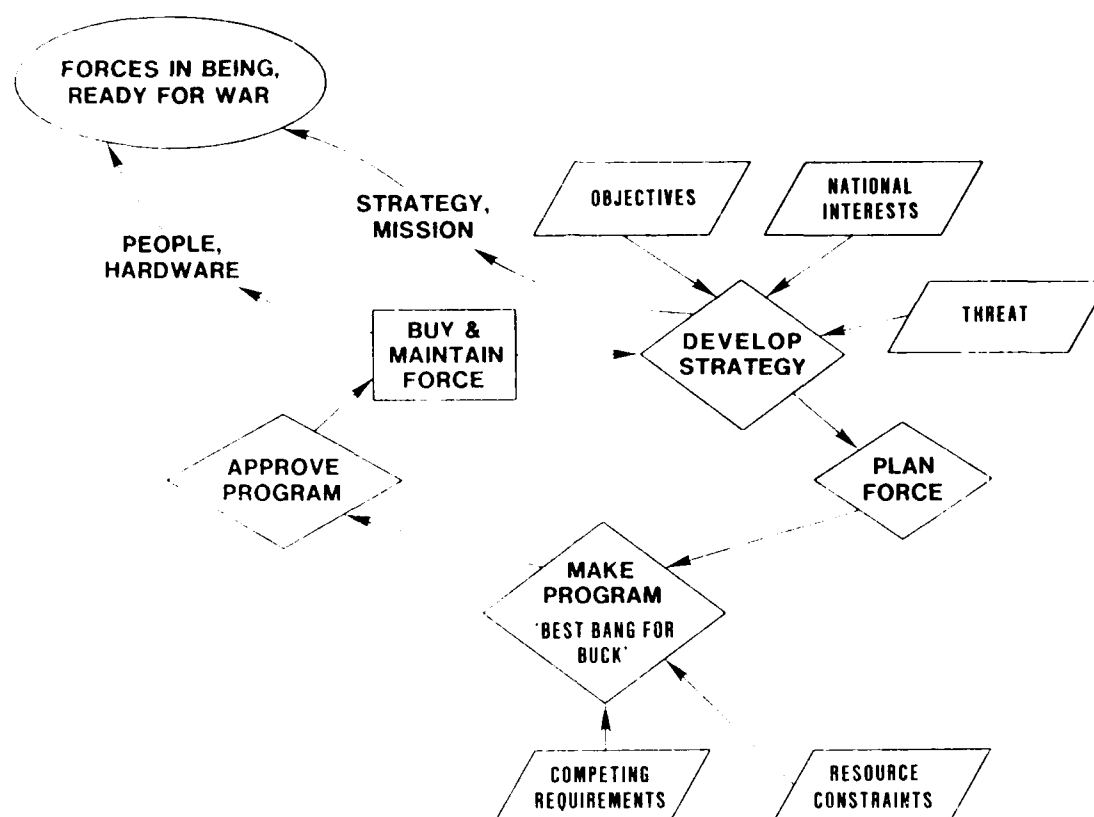
This Chapter

This brief opening chapter is designed to orient the reader to the overall process that will be described later in greater detail. First, we will conceptualize the basic resource allocation process in very general terms. Next, we will discuss the organization and players. Then we will introduce the systems that will be developed in later chapters. Finally the author will offer some advice on how to control frustration and/or fight off fatigue while learning about the resource allocation process.

The Process in General Terms

Figure 1-1 and the following discussion depict, in very general terms, how the existing defense resource allocation process is supposed to work. The activity is cyclical, so in theory one might think that it does not matter where one starts in the loop. However, we'll take the "top-down" approach and start at the 12 o'clock position with objectives.

Figure 1-1 - The Defense Resource Allocation Process: Strategy to Reality



(Artwork by Gerry Hamoth)

We could say that the first decision in the process is to create, modify, or otherwise articulate MILITARY STRATEGY. Strategy is a plan of action. Well developed strategy must consider national interests, policy, and objectives as well as the threats to our interests. We have certain national interests, basic wants and needs, that our nation is willing to fight for. The defense of our homeland, a favorable world order, promotion of American values, and economic well being have been described as vital national interests. From these are derived narrower implementing goals, or the national security objectives deemed necessary to achieve our interests. These objectives are normally articulated in a policy--a course of action designed to promote our national interests within the international community. For example, some elements of our current national security objectives are reflected in our position of deterrence, maintaining a healthy system of alliances, nonproliferation of certain weapons, anti-terrorism, etc. Next, we assess the threats to our national security interests. We must have an idea of the obstruction that might stand in the way

of achieving one's objectives. On a grand scale, a nation should have an overall strategy with political, economic, and military components. Military strategy is THE ORGANIZATION AND DIRECTION OF MILITARY POWER TO ACHIEVE NATIONAL POLICY OBJECTIVES.⁴ It is the MILITARY COMPONENT OF OUR GRAND STRATEGY. Most of our military strategy, particularly the means by which our forces will operate, is classified information. For our purposes, some of the elements of our more general strategy are forward deployment and maintaining sufficient base and logistic capabilities to resupply an air/land battle in Europe.

Strategy decisions drive the next step in the resource process: to decide on what KIND AND NUMBERS OF FORCES we should have to be able to EXECUTE OUR STRATEGY. This part of the decision process is called future FORCE PLANNING, which asks questions like, "How many and what kind of army divisions, air wings, and carrier battle groups does the nation need to have reasonable assurance of achieving our national objectives?"

Resources are limited. And there are other competing, requirements for our scarce national resources. Hence, our preferred force is not likely to be a feasible choice. A PROGRAMMING effort becomes necessary to determine the best forces to buy, given the facts of life. Programming is that part of the process WHERE OBJECTIVES ARE RECONCILED WITH AVAILABLE MEANS.

Defense programs are not automatically executed. They MUST BE APPROVED. Approval of the defense program ultimately provides the budget authority to buy the ships, tanks, rifles, etc.; to pay the soldiers, sailors, and airmen; and to purchase fuel, paper, bullets, etc. necessary for their support.

Finally, after all the big decisions have been made, the budgeted force must be realized. The allocated resources must be put to work, the budget executed, and the FORCES BOUGHT AND MAINTAINED.

As we can see in figure 1-1, this process is cyclical. The development of subsequent strategy considers the existing force capability along with the evolving threat and interests.

Structure of this paper - parts of the overall system

There is a tendency, especially within the DOD, to equate the resource allocation process to the Planning, Programming, and Budgeting System (PPBS). While indeed the PPBS constitutes a major portion of the defense resource allocation process, there really is more to it than just PPBS. This paper prescribes a broader view by describing the process in terms of four systems.

- the whole of the Federal budget System.

Chapter II describes the process of budget formulation by the executive branch, congressional action to approve and modify the president's budget, and how the money actually gets spent in budget execution.

Joint Strategic Planning.

Chapter III has to do with developing military strategy, defining resource needs, and articulating the missions of the operating forces.

- the PPBS.

Chapter IV offers a view of how the Planning, Programming, and Budgeting System works. As one might guess from the name, this involves force planning, programming, and formulating a budget for congress to consider.

- the Weapons Systems Acquisition Process.

Chapter V describes the process of choosing, buying, and supporting our defense systems.

People

This work is process oriented. However, throughout this paper, it will be necessary to describe the roles of the various players and organizations that participate in the process. Before tackling the subsequent chapters, it may be helpful to review the general function and relationship of some of the key players.

Executive Branch

In the executive branch, some of the more important players in the defense resource allocation process, along with the president, include the National Security Council (NSC), the Office of Management and Budget (OMB), the Secretary of Defense (SECDEF), the Chairman and Joint Chiefs of Staff (JCS), the Unified and Specified Commanders (CINCS), the Service Chiefs, the Office of the SECDEF (OSD), The Defense Resources Board (DRB), and The Defense Acquisition Board (DAB).

The National Security Council is the principle forum where international security issues requiring a presidential decision are considered. The NSC is made up of the president, vice president, Secretary of State, and SECDEF with the Director of the CIA and Chairman of the JCS as official advisors to the council. The Assistant for National Security Affairs is usually invited to serve as chief staff officer for the council. The Treasury Secretary, Attorney General, UN Ambassador, and White House Chief of Staff are often invited to attend. The NSC's basic role in the defense resource process involve STRATEGY AND POLICY GUIDANCE.

The OMB, originally called the Bureau of the Budget, is the president's principal staff arm in fiscal matters. OMB helps the president put together his budget request and keeps an eye on executive department spending activities. OMB's primary role in the allocation process is LEVELING FISCAL CONSTRAINTS ON PROVISIONAL BUDGET LEVELS, COLLATING DATA FOR THE PRESIDENT'S BUDGET, AND MONITORING EXECUTION OF THE BUDGET.⁶

The Chairman of the JCS is the principal military advisor to the president, SECDEF, and the NSC. Other members of the JCS have the right to present dissenting views. The JCS contributes to the allocation process in various ways including STRATEGY, FORCE PLANNING, MISSION DEFINITION, AND ASSESSING PROGRAMMING DECISIONS.

The Unified and Specified Commanders are the warfighters, operationally in charge of all our armed forces. They develop the WARPLANS to execute our military strategy. In the resource allocation process, the CINCs provide their input for WHAT IS NEEDED IN THE NEAR TERM, AND THEY, OF COURSE, EXPEND THE BUDGETED RESOURCES IN THE FIELD.

The Service Chiefs, in the context of resource allocation, BUILD PROGRAMS AND PREPARE THEIR FORCES FOR WAR. They provide trained and equipped forces for the CINCs.

The DRB is made up of the Deputy SECDEF, the Service Secretaries, the Chairman of the JCS, and a host of Under and Assistant Secretaries of Defense.⁸ The DRB serves as DOD's BOARD OF DIRECTORS FOR RESOURCE ALLOCATION. The DRB's role is multifaceted. It oversees the whole resource allocation process and plays an especially key role in developing force planning guidance, debating resource issues, and reviewing the total program. In short the DRB ADVISES SECDEF ON MAJOR RESOURCE ISSUES AND PROPOSED DECISIONS.

The DAB is a separate but not mutually exclusive body of advisers⁹ to the SECDEF. In fact, many DAB members are also DRB members. The DAB is the primary forum for DOD components to get together and RESOLVE ISSUES, PROVIDE GUIDANCE, AND MAKE RECOMMENDATIONS TO THE SECDEF ON BUYING AND SUPPORTING WEAPON SYSTEMS.

Legislative Branch

Representatives and Senators, and a very complex committee/subcommittee organization make the laws that ultimately decide how much money goes to the defense programs.¹⁰ The organizations that help congress decide and oversee budget matters are the General Accounting Office (GAO) and the Congressional Budget Office (CBO).

The GAO is basically a NONPARTISAN AUDITING ARM OF CONGRESS. GAO has offices in the U.S. as well as overseas. It checks to see that public funds are being spent as intended.

The CBO is the "Watchdog of Congress." Like the GAO, the CBO is a nonpolitical, nonpartisan agency. CBO GATHERS INFORMATION AND PROVIDES CONGRESS WITH ANALYSES OF ALTERNATIVES for achieving national objectives. Their independent economic analyses in particular are thought to be an important "counterweight" to the executive branch's OMB. The CBO contribution is most significant in the congressional budget process.

Tips on Reading this Work

This paper was written for readers with varying levels of experience. The author hopes it will serve the novice as well as those who have participated in resource decisions in congress, on the staff of the JCS, in OSD, with the services, and in the field. In order for this work to be useful to all readers, the author has tried to make the basic text a simple primer, while providing more details in the footnotes. A suggestion for the novice is to read only the basic text the first time through. Save the footnotes for later. . . or a time after the basic processes are understood.

This paper is written so that each chapter stands by itself. The idea is that this whole process is very complex, and one way to come to understand it all is by dealing with the parts. It is suggested that this paper be taken in small doses. . . Pick a chapter at a time. When you have digested them all, read Chapter VI for an integration of all the parts that make up the whole defense resource allocation system.

If you need to refresh your memory for the meaning of a term or acronym, refer to the appendix.

Finally, this paper was written with a systems approach. The author conceives the whole process as one which is designed to produce the forces needed for our national defense. Each of the subsystems plays a part in this grand scheme. Each chapter should provide a clear idea of the purpose of a subsystem. In the end, the reader should come away with ideas about how we make those decisions which yield the ARMED FORCES READY TO FIGHT. . . AND WIN.

NOTES AND REFERENCES

Footnotes

1. See Collins, Grand Strategy: Principles and Practices, 1973, U.S. Naval Institute, Annapolis, Maryland.

2. Neuchterlein, "National Interests and National Strategy: The Need for Priority," Understanding U.S. Strategy: A Reader, Terry L. Beyns editor, National Defense University Press, Washington, D.C.: 1983.

3. The definition of Policy is from the Policy and Strategy course at the Naval War College.

4. Another Naval War College Policy and Strategy course definition.

5. Ball, Private and Public Participants in the National Security Process, Naval War College, March 1983.

6. Details of OMB Functions are available in Footnote 26 to Chapter 11.

7. The unified commands (commands with broad continuing missions under a single commander and composed of forces from two or military departments) are:

U.S. Atlantic Command is responsible for the defense of the eastern approaches to the U.S. and the lines of communication in the Atlantic area. CINCLANT is also Supreme Allied Commander, Atlantic (SACLANT), a major NATO commander.

U.S. Southern Command is responsible for the defense of the Panama Canal and fulfills our military responsibilities throughout the Latin American area.

U.S. European Command is responsible for the U.S. contribution to NATO and for commanding our forces assigned to Europe. Its area of responsibility also includes portions of the Middle East and most of the African states bordering on the Mediterranean. Commander-in-Chief, Europe (CINCEUR) is also Supreme Allied Commander, Europe (SACEUR), a major NATO commander, and as such is responsible for the defense of Allied Command Europe.

U.S. Pacific Command is responsible for defense of the U.S. from attacks through the Pacific Ocean and for U.S. defense interests in the Pacific, Far East, South Asia, South East Asia, and Indian Ocean.

U.S. Central Command is responsible for Southwest Asia (SWA), the Arabian Peninsula and the Horn of Africa.

U.S. Space Command was activated 23 September 1985. USSPACECOM is responsible for integrated tactical warning and space operations. USCINCSpace, as CINCNORAD, is responsible for binational aerospace surveillance and warning and atmospheric defense of North America.

U.S. Special Operations Command was established 16 April 1987. USSOC consists of all special operations forces stationed in the United States, with the exception of naval special warfare groups. The principle function of the USSOC is to prepare special operations forces to carry out assigned missions.

U.S. Transportation Command, established in 1987, is responsible for transportation world-wide. Its component commands are the Military Airlift Command (MAC), the Military Sealift Command (MSC), and the Military Traffic Management Command (MTMC).

The specified commands (commands which have broad continuing missions and are normally composed of forces from a single military department) are:

Strategic Air Command (SAC) is responsible for worldwide strategic nuclear operations and is composed of USAF strategic bombers and missiles. The Navy ballistic missile submarines are assigned to Navy fleets but are targeted by SAC in conjunction with our nuclear operations plan.

Forces Command, established in 1987, is responsible for providing a general reserve of combat-ready forces to reinforce the unified and other specified commands. FORSCOM will also be responsible for the land defense of CONUS.

(Source: Army Command and Management, Theory and Practices, Chapter 10).

8. The Membership of the Defense Resources Board (DRB) is shown in Table I-1.

Table I-1
Defense Resources Board (DRB) Membership

- | | |
|--|--|
| o DEPUTY SECRETARY: CHAIRS | o ASSISTANT SECRETARY (RESERVE AFFAIRS) |
| o UNDER SECRETARY (POLICY) | o GENERAL COUNSEL |
| o UNDER SECRETARY (ACQUISITION) | o DIRECTOR, PROGRAM ANALYSIS AND EVALUATION** |
| o ASSISTANT SECRETARY (INTERNATIONAL SECURITY AFFAIRS) | o DIRECTOR, DEFENSE RESEARCH AND ENGINEERING |
| o ASSISTANT SECRETARY (INTERNATIONAL SECURITY POLICY) | o DIRECTOR, OPERATIONAL TEST AND EVALUATION |
| o ASSISTANT SECRETARY (PRODUCTION AND LOGISTICS) | o DIRECTOR, STRATEGIC DEFENSE INITIATIVE ORGANIZATION |
| o ASSISTANT SECRETARY (C ³ I) | o SECRETARY OF THE ARMY |
| o ASSISTANT SECRETARY (COMPTROLLER)*** | o SECRETARY OF THE NAVY |
| o ASSISTANT SECRETARY (FORCE MANAGEMENT AND PERSONNEL) | o SECRETARY OF THE AIR FORCE |
| o ASSISTANT SECRETARY (PROGRAM OPERATIONS) | o CHAIRMAN (JOINT CHIEFS OF STAFF) |
| o ASSISTANT SECRETARY (SPECIAL OPS/LIC) | o ASSOCIATE DIRECTOR FOR NATIONAL SECURITY AND INTERNATIONAL AFFAIRS (OMB) |
| o ASSISTANT SECRETARY (HEALTH AFFAIRS) | |
- (Source: AFSC Vu-graph)
- * Serves as DRB Executive Secretary in Planning Phase, ** - in Programming Phase, *** - in Budgeting Phase
-

9. Permanent membership of the Defense Acquisition Board (DAB) is shown in Table I-2.

Table I-2
Defense Acquisition Board (DAB) Membership

- o Under Secretary of Defense for Acquisition, as the Defense Acquisition Executive (DAE), (Chair);
- o Vice Chairman, Joint Chiefs of Staff (Vice Chair);
- o Service Acquisition Executive (SAE), Army;
- o SAE, Navy;
- o SAE, Air Force;
- o Assistant Secretary of Defense (Comptroller);
- o Assistant Secretary of Defense (Production and Logistics);
- o Assistant Secretary of Defense (Program Operations);
- o Director of Defense Research and Engineering;
- o Director of Program Analysis and Evaluation;
- o Chairs of Acquisition Committees, as appropriate. (See Chapter V for more details on Committees.)

(Source: DOD inst. 5000.45)

10. Footnote 27 in Chapter II provides details on the Budget Committee and other committees that interact in the congressional budget process.

11. The author owes thanks to Dr. Larry Cavaiola of the House Armed Services Committee staff for his insights in this area. See Footnotes 29 and 30 in Chapter II for details on the organization of congress.

Another reference:

National Security Strategy of the United States, the White House, January 1987.

CHAPTER 11

THE FEDERAL BUDGET SYSTEM

INTRODUCTION

What is the Federal Budget System?

How should one describe the federal budget system? Let's start with big! This system produces a budget that is read in 15 figures (about \$1,000,000,000,000.00 or one trillion dollars). Yet, as one member of congress put it, the "'budget' is not just a set of cold numbers."¹ Instead, the budget embodies the hopes and goals for our nation."

The federal budget, like all budgets is a plan for managing funds for a period of time, usually 12 months. It deals with how much the government will spend and how those expenditures will be financed. When passed by congress and signed by the president, the budget becomes law, and is legally binding on all federal agencies.

Since funds are always limited, the federal budget system becomes a political decision making process. Choices must be made among alternative expenditures and different ways of financing them. The budget document then becomes a description of national goals and priorities.

The Constitution gives congress the responsibility for budget decisions. However, by law the executive branch is charged with preparing and submitting the budget. So, in practice, the budget is an instrument of national policy, submitted by the president and approved or modified by congress.

Organization of the Chapter

The federal budget system is a complex and lengthy process. To understand how this system works, it must be described first in broad terms. Here, of course, the focus will be on defense resources. . . . the approximately \$300,000,000,000.00 of the budget that goes to national security. How defense needs fare among all competing claims for resources is a result of the interaction of executive branch agencies, the president, and congress with its system of committees and subcommittees.³ This chapter is broken down into four substantive parts in order to explain how the budget process works.

- o Concepts and Definitions necessary to understand the federal budget system are explained in the next section of this chapter.

- o The Historical Evolution of our budgeting system is then explored briefly. The purpose of this section is to explain why this seemingly unnecessarily complex

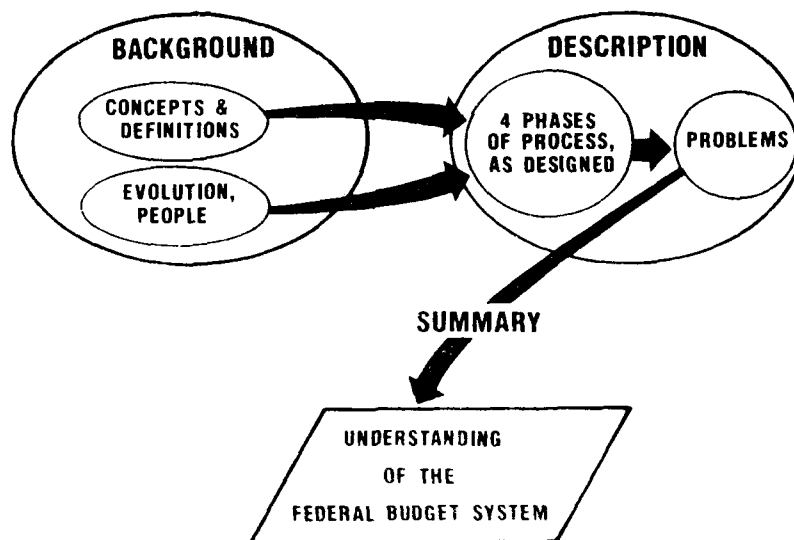
system is like it is. At the end of the evolution section, there is a review of the major players in the budget process.

o The next section is titled A Four Phased Process. The intent here is to show how the process is supposed to work. Although federal budgeting is a continuous process, it can be understood and studied in terms of four phases: (1) executive preparation and submission, or formulation, (2) congressional enactment or the congressional budget process, (3) implementation and control or execution of the enacted budget, and (4) review and audit.

o Finally, in the section called Problems, we will deal with why the process doesn't always work as designed.

Figure 11-1 depicts the structure and purpose of this chapter. It is hoped that the background material and description should help the reader to understand this complex, but very real and essential system.

Figure 11-1
Structure of Chapter 11



(Artwork by John Potter)

The novice budget reader is reminded to stay out of the footnotes. The details provided in the notes, intended to satisfy the curious, are not necessary for a general understanding of the budget process.

CONCEPTS AND DEFINITIONS

The federal budget has been habitually referred to as a "second language."⁵ Indeed, terms used in the federal budget process

are the topic of a whole text published by the General Accounting Office.⁶ In keeping with one of the principles of this paper, we shall only explain here the key terms and concepts--those that should be understood before exploring the budget system. A more complete glossary can be found in the appendix and in several of the references listed at the end of the chapter.

Authorization vs. Appropriation, Entitlements

As explained in the Guide to the Federal Budget,

Two steps usually must occur before the federal government can spend money on an activity. First, congress must pass an "authorization" (bill), allowing a program to exist. The authorization is the substantive legislation that establishes the purpose and guidelines for a given activity and usually sets a limit on the amount that can be spent. The authorization does not, however, provide the actual dollars for a program nor does it enable an agency or department to make commitments to spend funds in the future. Second, an appropriation must be passed. The appropriation enables an agency or department to (1) make spending commitments and (2) spend money.

Except in the case of entitlements (explained below), an appropriation is the key determinant of how much will be spent on a program. In almost all cases, however, an appropriation for a given activity cannot be made unless and until the authorization is passed. No money can be spent on a program unless it first has been allowed (authorized) to exist. Conversely, if a program is authorized but no money is provided (appropriated) for its implementation, that activity cannot be carried out. Therefore, both an authorization and an appropriation are necessary for an activity to be included in the budget.

A particularly confusing aspect of these two legislative requirements is that both authorizations and appropriations describe an activity in dollar terms. For example, the authorization for the administrative expenses of the United States Railway Association (USRA) for fiscal 1982 (Public Law 97-35) reads as follows:

There are authorized to be appropriated to the Association for purposes of carrying out its administrative expenses under this Act not to exceed \$13,000,000 for the fiscal year ending September 30, 1982. . .

While the fiscal 1982 appropriation (Public Law 97-102) for USRA reads like this:

For necessary administrative expenses to enable the United States Railway Association to carry out its functions under the Regional Rail Reorganization Act of 1973, as amended, \$13,000,000 to remain available until expended of which not to exceed \$1,000 may be available for official reception and representation expenses.

Despite the fact that both seem to be providing funds, only the appropriation actually is doing so. THE DOLLAR FIGURES IN THE AUTHORIZATION SERVE ONLY AS AN UPPER LIMIT ON WHAT CAN BE APPROPRIATED. An appropriation never can exceed the authorization for the same program.

An "entitlement" is a particular type of authorization. Entitlement legislation requires the federal government to pay benefits to any person or unit of government that meets the eligibility requirements it establishes. Although an entitlement requires an appropriation before funds can be spent, it differs from other authorizations because it constitutes a legally binding commitment on the federal government. In fact, eligible recipients may sue for their benefits if such benefits are denied because money is not appropriated. The authorization is the key legislation in deciding how much will be spent on an entitlement and relegates the appropriation to little more than a formality. Examples of entitlement programs are Medicaid, Medicare, and Social Security.

The spending level of any federal program is generally determined by the passing of two laws. In defense, this dual requirement is almost universal. Only military pay remains outside the scope of the recurring authorization process. Yet, because of the authorization of military end strength, pay is under indirect influence of the authorization process.

The Deficit and Federal Debt Formulas

The two main variables in any budget are receipts and outlays. A balanced budget is one in which receipts are equal to or greater than outlays. A budget surplus is the amount by which the government's budget receipts exceed its budget outlays for a given budget or fiscal year. A budget deficit is likewise the amount by which the Government's budget outlays exceed its budget receipts for a given fiscal year.

The federal debt is the cumulative amount of deficits offset by any surpluses.

Budget Authority vs. Outlays

The Concept

As puzzling as it may seem, the amount of funds a budget authorizes is intended to be a different amount than actually is spent. There is a difference between "budget authority" and "outlays". Understanding the difference is important for two reasons: First, different amounts of money can be used in discussion of the same budget. Second, the distinction often influences what programs are considered for budget cuts. As described in The Guide to the Federal Budget,

The dollar amounts listed in both authorization and appropriation bills are stated in terms of "budget authority."

Budget authority is the permission granted to an agency or department to make commitments to spend money. This includes hiring workers (committing funds for salaries) and signing contracts to procure some items (committing funds for payment upon completion of the contract). In most cases, budget authority is not the level at which a program will function but is merely the level of new spending commitments that will be or have been made. It is important to remember that although budget authority will lead to the spending of money, it is not the actual exchange of cash.

Outlays, on the other hand, are the actual dollars that either have been or will be spent on a particular activity. Outlays are the direct result of budget authority, that is, of commitments to spend money made either this year or in previous years. The level of outlays is the key number to use in determining how much has been or will be spent on a program. It is the overall level of outlays compared to the overall level of revenue that determine whether the budget is in surplus or deficit.

Figures for both budget authority and outlays are needed because many government activities cannot be completed within a single fiscal year, and it is important to know both the total cost (budget authority) and what actually will have to be spent this year (outlays). By looking beyond this year's spending requirements to the overall cost of the activity, the president and congress can know the future spending commitments they are making as well as the cash required immediately.

This is particularly important for activities that take several years to complete, for example, the procurement of an aircraft carrier. In this case outlays in the first year will be relatively small because it takes a

long time to start construction. The budget authority in the first year, however, will be large since it will reflect the full cost of the ship. In the second year there will be no new budget authority because the full cost was granted previously. Outlays for this ship, however, will begin to increase in the second year as construction continues and accelerates. This pattern of no new budget authority but increasing outlays will continue each year until the procurement is completed.

A useful analogy is the purchase of an automobile with a three-year loan. When the purchase of the car (at a total cost of \$10,000, for example) first is arranged, a contract is signed for the full amount and the "budget authority" is \$10,000. But the actual amount to be spent ("outlays") in the first year is equal only to the down payment plus the monthly payments (\$5,000). In the second year, no new budget authority is needed because the loan already has been arranged and the outlays are equal to the monthly payments (\$2,500 in this case). In the third and final year again there would be no new budget authority, but the outlays again would equal \$2,500, at which point the loan would be repaid. Table 11-1 shows how the federal budget typically depicts this situation.

TABLE 11-1			
Purchase of Automobile (in thousands of dollars)			
	Fiscal Year		
	1984	1985	1986
Budget Authority	10	0	0
Outlays	5	2.5	2.5

It would be clear from Table 11-1 that neither budget authority nor outlays is sufficient by itself to tell the full budgetary consequences of purchasing this car. By looking only at budget authority in fiscal 1984, the program might seem too expensive to undertake since the full cost of the car appears to be needed in that year. Yet by looking only at the budget authority in fiscal years 1985 or 1986, the car looks too good to pass up since it appears to cost nothing even though substantial spending will, in fact, be required. If you look only at the outlays in a particular year, you would not easily grasp the full cost of the car, since only the yearly spending requirements are shown.

Some governmental activities, notably the payment of interest and entitlements, usually "spend out" within the financial year in which the budget authority first is

provided. In these cases, however, the level of outlays appears to be greater than the level of budget authority. This is the result of budget authority provided in previous years that only now is being spent. The level of outlays for a single year is, therefore, the combination of budget authority provided this year and in previous years.

It is difficult, however, to determine simply by looking at the tables in the budget whether outlays are the result of budget authority provided this year or in previous years; usually some knowledge of the program is necessary. Take the previous example of an automobile purchased with a three-year loan. If another car is purchased in a similar manner at the same cost in fiscal 1985, the budget typically would depict the situation as shown in Table 11-2.

It would be wrong to assume that the \$7,500 in outlays in fiscal 1985 is the result of the \$10,000 in budget authority provided in fiscal 1985. In fact, only \$5,000

TABLE 11-2
Purchase of Two Automobiles (in thousands of dollars)

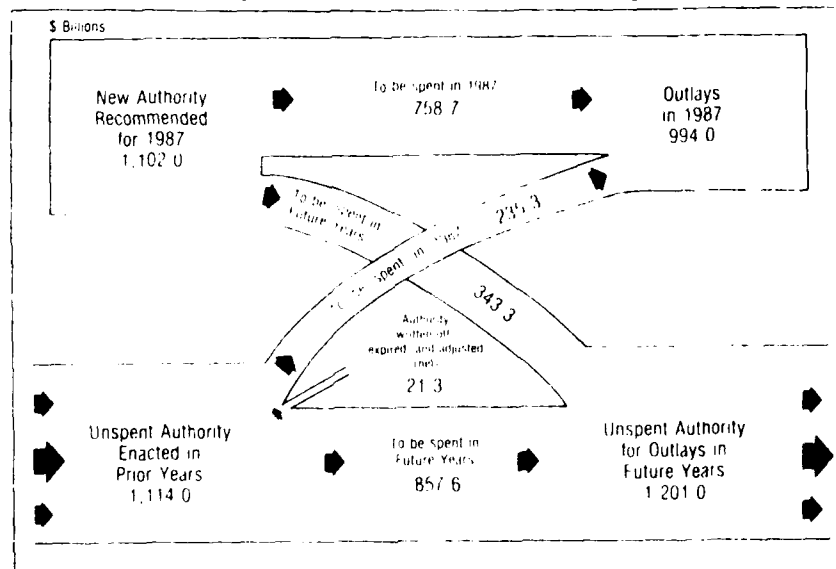
	Fiscal year		
	1984	1985	1986
Budget Authority	10	10	0
Outlays	5	7.5	5

comes from this new budget authority. The remaining \$2,500 comes from budget authority provided in fiscal 1984 that is now coming due (the monthly payments from the automobile purchased in that year). Even if the entire \$10,000 in budget authority were cut from the 1985 budget, \$2,500 still would be spent in fiscal 1985, since that is the result of previous spending decisions. Fiscal 1986 spending, however, would drop to \$2,500.

Figure 11-2 depicts the relationship between budget authority and outlays in the fiscal 1987 budget as a whole. The president proposed a budget with outlays of \$994.0 billion (upper right-hand corner). However, only 76 percent of that amount or \$758.7 billion will result from the fiscal 1987 budget authority of \$1,102.0 billion (upper left-hand corner). The remaining 24 percent or \$235.3 billion will result from unspent budget authority granted in previous years (lower left-hand corner). The \$343.3 billion in budget authority to be provided in

fiscal 1987 that does not result in fiscal 1987 outlays will be added to the \$857.6 billion in budget authority provided in prior years that will continue to remain unspent. The \$1,201.0 billion is the total amount of unspent budget authority that will result in outlays in the future (bottom right-hand corner).

Figure II-2
Relation of Budget Authority to Outlays, 1987 Budget



(Source: OMB, Budget of the U.S. Government, FY 1987)

Defense Establishment Terminology

Defense agencies often use these authorization terms with a slightly different meaning. "New obligational authority" (NOA) can mean the additional amount congress appropriates an agency over and above earlier appropriations and other funds the agency has available or expects to receive from separate sources. In the same sense, new obligational authority (NOA) contrasts with "total obligational authority" (TOA). Defense agencies often use the term TOA to mean the amount authorized a certain approved program, whereas NOA stems from the budget of the current or previous year.

Impact

Let's talk about the outlays versus authority concept in a practical sense. You may recall that the DoD deferred all non-central discretionary spending in May 1986. As explained in the next Time,

Government accounting practices and the drive to reduce the federal budget deficit prompted the Pentagon

today to stop buying office supplies, ban overtime and limit civilian hiring for at least the next six weeks.

All new contracts for research and development work also have been put on hold temporarily, as have purchases of everything from magazine and newspaper subscriptions to television sets, recreation equipment, lawn mowers and furniture.

The new restrictions, ordered by Deputy Defense Secretary William H. Taft 4th, will remain in place at least through June 30. They were prompted by the terms of a deficit-reducing compromise reached by President Reagan and congress last November.

Spending reports recieved in March and April show that the Defense Department is paying out dollars at a rate that, by the end of the fiscal year, would put actual spending \$2.5 billion above the \$277.3 billion total, Mr. Taft said.

While the spending totals for those two months might be "an aberration," meaning that spending will even out in future months, the Pentagon cannot take any chances, he said.

"So," said the Deputy Secretary "we are trying to get at discretionary spending that can be deferred for six weeks."

This is a case of altering the planned enactment of a budget. However, outlay intensive programs are also the first to be scrutinized when budgets are being formulated. It is important to realize that high outlay rate programs are typically early targets whenever budgets are cut. Outlays represent checks actually drawn on the treasury as opposed to authority which only makes funds available for obligation. OUTLAYS, NOT AUTHORITY, ARE A VARIABLE IN THE DEFICIT FORMULA.

Controllable vs. Uncontrollable Spending

again, using words from The Guide to the Federal Budget,

"Uncontrollable" spending. The \$1,201 billion in unspent budget authority in the FY 87 budget (remember Figure 11-2) is a significant part of what is classified as "relatively uncontrollable" spending. Such spending is not out of control in the literal sense. It is the outlays resulting from previous commitments by the federal government. This includes already granted budget authority, entitlements, open-ended programs on which no limit has been placed, which increase automatically as the economy changes, and budget authority provided through

permanent appropriations (interest on the national debt, for example), which require no further action by congress.

"Controllable" spending is spending that will occur only if congress passes an appropriation for it.

"Uncontrollable" is, however, a misnomer, since, if congress chooses to act, it can change any and all existing laws to alter the amount expected to be spent or to stop it entirely. In other words, controllable spending will occur only if congress takes some action to cause it. Uncontrollable spending¹² will occur only if congress takes no action to stop it.

The consequences of having so much of the budget in the "uncontrollable" category are enormous. Congress could adjourn the day it convened and three quarters of federal government spending would happen anyway. Since many federal programs are indexed to the cost of living, spending would not only continue but would increase. Finally, although in theory, "uncontrollables" can be changed to "controllables" by congress changing their basic authorization law, this seldom happens. There are serious political risks for congressmen subjecting uncontrollables to annual budget scrutiny. As a result, entitlement programs (such as Social Security, Medicare and welfare spending), spending required by contracts made in past years, borrowing authority, guaranteed loans, and other obligations are basically outside the immediate control of congress. . . and account for about 75% of all federal spending!¹³

Economic Assumptions

As Collender points out,

The federal budget is very sensitive to changes in the economy. The spending level of many programs changes as inflation and unemployment increase or decrease. Similarly, the amount of revenues collected by the government changes if the economy (usually measured by the gross national product [GNP]) is declining or growing since businesses and individuals pay taxes based on their earnings. Whenever the president and congress develop the budget they must, therefore, make certain assumptions about how well or how poorly the economy is likely to do in the future.

According to the Congressional Budget Office (CBO), the federal budget¹⁴ changes in the following ways as the economy changes:

- c A reduction in real economic growth or an increase in the unemployment rate will lead to a decrease in revenues, an increase in outlays, and an increase in the deficit.

- o An increase in inflation will lead to an increase in both revenues and outlays, but the effect on revenues will be greater than on outlays so that, on balance, an increase in inflation will lead to a smaller deficit.
- o An increase in interest rates will lead to increases in revenues and outlays. In this case, however, the revenue effect is small, and the overall effect is to increase the deficit.

Economic assumptions have been a source of constant confusion and controversy over the past few years. Since the president, the House and Senate Budget Committees, and CBO generally use different economic projections, their budgets are not always comparable. For example, the Reagan fiscal 1983 budget had a deficit of \$91.5 billion that assumed that in 1983 unemployment would be 7.6 percent, inflation would be 5.1 percent, and GNP would grow by 5.2 percent after taking inflation into account. Using its own economic assumptions that differed substantially from the president's, CBO reestimated the deficit to be \$120.6 billion or almost \$30 billion more. Both of these deficit estimates were for the same budget and¹⁵ included the same proposed spending cuts and increases.

Miscellaneous Terms and Phenomena

Government by Continuing Resolution

A Continuing Resolution is legislation enacted by congress to provide budget authority for federal agencies and/or specific activities to continue in operation until the regular appropriations are enacted. Continuing resolutions are enacted when action on appropriations is not completed by the beginning of a fiscal year. The continuing resolution usually specifies a maximum rate at which the obligations may be incurred, based on the rate of the prior year, the president's budget request, or an appropriation bill passed by either or both houses of the congress.¹⁶

The increased use of the continuing resolution is attributed, in part, to congress's inability to meet the budget process timetable and to the sharp legislative/executive branch conflicts over budget priorities. As Oleszek points out,

Members believe the process is too complex and consumes too much of congress's attention and energy. Substantive issues often are sidetracked in the interest of passing budget resolutions, appropriations and tax bills, omnibus reconciliation legislation, supplemental appropriations, and legislation raising the national debt ceiling.

With such an agenda, it is not surprising that congress often cannot enact all these measures in a timely fashion.

This development has led in recent years to "government by continuing resolution." Whenever congress cannot complete action on one or more of the 13 regular appropriations bills by the start of the fiscal year, it provides temporary emergency funding for the affected federal agencies through a continuing resolution (a joint resolution).

Traditionally, continuing resolutions were employed to keep a few government agencies in operation for short periods, typically one to three months. Continuing resolutions today are major policy-making instruments of massive size and scope. THEY AUTHORIZE AND APPROPRIATE money each year for much of the federal government and make national policy in areas as diverse as defense, employment, public works, school busing, and prayer in the schools.

Legal Terms

Because they are often confused, an understanding of the following terms will be helpful.

Apportionment is the distribution by the OMB of amounts available for obligation, including regulation of the rate at which appropriated funds can be spent. The apportionment process is intended to spread out spending so that additional appropriation will not be required.

A commitment is a firm administrative reservation of funds. The act of entering into a commitment is usually the first step in the process of spending available funds. A commitment is subject to cancellation provided it has not been obligated.

An obligation represents the amount of an order placed, contract awarded, service rendered, or other transaction which legally encumbers a specified amount of an appropriation or fund for expenditure.

Expenditures (or disbursements) result in actual payments from available funds. They are evidenced by vouchers, claims, or other documents. Expenditures result in outlays and impact directly on the deficit as discussed earlier.

Impoundments

An impoundment is any action or inaction (by an officer or other government employee) that precludes the obligation or expenditure of budget authority provided by congress. According to Collender,

Typically impoundment procedures are implemented when the president proposes either to not spend at all or to delay the spending of funds that previously were approved. In both cases, congress must be notified of the proposal and has the power to force the president to spend the money.

A "rescission" is a presidential proposal not to spend an appropriation that has been provided by congress. The reason for such a proposal can either be specific (when the objectives of the program can be achieved without spending the full amount appropriated, for example) or general (fiscal policy considerations, for example). Regardless of the reason, the president must submit a message to congress requesting the rescission and explaining the reasons for the request. If both houses of congress do not pass a bill approving the proposed rescission within forty-five legislative days, the president must spend the money as originally intended.

A "deferral" is a presidential proposal to delay the spending of congressionally approved appropriations. The delay can be for any length of time but cannot last through the end of the fiscal year. Regardless of the length of time involved, the president must submit a deferral message to congress. Unlike a rescission, however, which requires specific approval by both houses of congress, a deferral is automatically assumed to be approved unless, at any time after the president's message has been received, either the House or Senate passes legislation specifically disapproving it.²⁰

The Budget Itself

When we think about the budget itself, it may be helpful to be able to conceptualize what it looks like on paper. To do this, one has to realize that there are (at least) two kinds of budgets--the ones the president proposes and the ones that actually become law.

The President's Budget Document

The president's "budget" is published by the CMB in four documents full of tables, data, and analyses, which anyone can buy from the Government Printing office.²¹

- The Budget of the United States Government
- The United States Budget in Brief
- The Budget of the United States Government, Appendix
- Special Analyses, Budget of the United States Government

Format: By Function. By law, the budget is to display all programs according to the principal national need that they are intended to serve. As explained in The Guide to the Federal Budget,

These needs comprise general areas of federal activity (agriculture, defense, health, etc.) and are referred to as "functions." Every program is placed in the one function of the budget that best describes its most important purpose, regardless of the agency or department that administers the program.

A number of misconceptions about budget functions need to be cleared up. First, a function is not the same as the budget of a particular department. The National Defense function, for example, is different from the Department of Defense, because the function also includes some atomic energy programs administered by the Department of Energy. Second, a department's budget usually is part of a number of different functions. The Treasury Department, for instance, administers programs in eight different functions, including Commerce and Housing Credit, General Government, and International Affairs. Finally, a function does not correspond precisely to an authorization or appropriation bill, which usually deals with parts of several different functions at the same time.

Each function is separated into subfunctions, which divide the programs according to the "major mission" they fulfill. The first two digits of a subfunction are the same as the main function; only the last digit is different. For example, function 400 (Transportation), contains the following four subfunctions; 401: Ground Transportation; 402: Air Transportation; 403: ²²Water Transportation; and 407: Other Transportation.

Recently used budget functions are shown in Table 11-3. Included also are the subfunctions of National Defense.

One can see from Table 11-3 that the intent is to group national needs into "broad areas" to provide a coherent and comprehensive basis for analyzing and understanding the budget. Three additional categories--Net Interest, Allowances, and Undistributed Offsetting Receipts--do not address specific national needs, but are included to cover the entire budget. ²⁴

The president's Budget--or actually his proposed national budget--is a partisan document. It is designed to sell the president's fiscal policy by presenting it in a favorable light.

TABLE 11-3
Budget Functions and Sub Functions
of National Defense²³

<u>Function</u>	<u>Sub Function</u>
Number Title	
050 National Defense	
	051 Department of Defense-Military
	053 Atomic Energy Defense Activity
	054 Defense Related Activities
150 International Affairs	
250 General Science, Space, and Technology	
270 Energy	
300 Natural Resources and Environment	
350 Agriculture	
370 Commerce and Housing Credit	
400 Transportation	
450 Community and Regional Development	
500 Education, Training, Employment and Social Services	
550 Health	
600 Income Security	
700 Veterans benefits and Services	
750 Administration of Justice	
800 General Government	
850 General Purpose Fiscal Assistance	
900 Net Interest	
920 Allowances	
950 Undistributed Offsetting Receipts	

Congress's Budget is the Law

By contrast, the budget approved by congress is in the form of public law. The wording is typically as was that in the authorization vs. appropriation discussion on pages II-3 and II-4. There are supposed to be 13 appropriations bills, of which one is Defense and another Military Construction ("MILCON"). There is no direct, one for one, relationship between these appropriations bills (law--spending authority) and (the president's) budget functions. The defense appropriations bills organize their spending authority under the general categories of:

- MILCON (Military Construction)
- Family Housing
- RDT&E (Research, Development, Test and Evaluation)
- Procurement
- (O&M) Operations and Maintenance
- Military Personnel
- Stock Funds

Differences in budget format will become more significant when the concept of another type of budget--the "program budget"--is introduced in the chapter on PPRS.

HISTORICAL EVOLUTION

The congress shall have Power to lay and collect Taxes, Duties, Imposts and Excises, to pay the Debts and provide for the common Defence and general Welfare of the United States. . .

(U.S., Constitution, art. I, sec. 8)

This part of the Constitution has not been amended. However, the process by which the federal budget is developed has changed dramatically. In the ensuing paragraphs, the evolution of the budget process will be described from the time congress held virtually all power over the dollar, through the initiation of the executive budget, to the "systematizing" of the congressional budget process, and finally to the recent measures enacted to control the growing federal deficit.

The Executive Budget, the OMB and the GAO

Using the words of the Navy Programming Manual,

For more than a century, real federal budgetary power resided almost exclusively in congress. . . Before 1921, the president held little sway over federal budget preparation. Each fall the Secretary of the Treasury would gather appropriations estimates developed independently by executive branch departments and agencies. Then, without review or further coordination, the Secretary would merely transfer the separate estimates to congress for action. The process took place remote from presidential direction and control. . . However, rising Federal spending and inefficiency and waste, heightened by the pressures of World War I, caused increasing dissatisfaction with established arrangements. Finally, after years of political unrest and change, the Budget and Accounting Act of 1921 broke with tradition by legislating the concept of the Executive budget. Under this concept, the president presents an explicit administrative and fiscal program to be acted on by congress, and congress returns a definite enactment to be acted on by the president. To strengthen the president's capability for budget formulation, the act created a Bureau of the Budget, the forerunner of today's Office of Management and Budget. At the same time, to facilitate congressional budget oversight, the act created a General Accounting Office, an auditing arm of congress. In the years since its passage, the act has proven to be a durable reform, and subsequent changes in the Federal budget process have generally built on its foundation. These changes, however, have tended to concentrate even

more budgetary power in the Chief Executive, while fragmenting it in congress.²⁸

A Systematic Congressional Process and Schedule; The CBO--
The Congressional Budget Act of 1974

The process by which congress now considers the budget each year is based on Public Law 93-344, or the "Congressional Budget and Impoundment Control Act of 1974." According to Collender, this law was passed because congress was having six main problems with spending and tax legislation.

1. Congress did not have enough time to complete work on all budget bills before the start of the fiscal year. Congress generally convened in January; the president submitted his budget several weeks later; and the fiscal year began on July 1. Congress had only five months, therefore, to do the needed work on spending and tax legislation; and most of these bills were not passed in final form before the start of the fiscal year. This caused continual confusion in the departments and agencies whose budgets were awaiting final consideration.

2. Congress had no ability to set spending priorities. No single committee in either the House or Senate was empowered to review the entire budget, to weigh competing spending demands, or to propose an overall fiscal policy. Instead, congress debated and voted on each authorization and appropriations bill separately, without any idea of what the other spending proposals might be. The independence of the authorizing committees and appropriations subcommittees enabled each to conduct its business with little regard for the spending intentions of the others. Since each committee and subcommittee viewed its own importance as directly related to the budget increases it achieved for programs under its jurisdiction, committees had even less incentive to work cooperatively.

3. Congress had no ability to set economic policy. Closely related to its inability to establish spending priorities was congress's inability to determine or adopt an appropriate economic policy. The independence of the authorizing committees and appropriations committees was minimal compared to that of the revenue-raising committees (Ways and Means in the House, Finance in the Senate), which generally conducted their work concurrently with the authorization and appropriation process and, therefore, without considering the overall level of spending being proposed. Consequently, fiscal policies could not be planned. The deficit or surplus could not even be projected until all appropriations, all other spending bills, and tax legislation were passed in final form. Because of the short time congress had to consider these

bills, this generally came well after the fiscal year was under way.

4. Objective data on budget matters were not available to congress. The Office of Management and Budget (OMB) served as the source of detailed information for the president. Congress lacked such a resource, however, and so was at a serious disadvantage when it came to budget matters. Congress had no staff to match OMB's technical expertise, question its spending estimates, or devise budget alternatives. Without adequate information, congress could do little more than accept the president's assumptions about the economy and the cost and spending rates of individual programs.

5. Congress had no way to impose spending discipline on its committees. For a number of reasons it was difficult for Representatives or Senators to successfully oppose or change a spending bill. First, there was no way for congress to judge if a bill was too high because congress had nothing with which to compare those bills except the president's budget. Few Representatives could make such a comparison, furthermore, because the president's budget and congressional spending legislation were in radically different forms and based upon different assumptions about the economy. Second, the committee proposing legislation usually claimed specialized knowledge in its own area of expertise, thus imposing a particularly severe burden on other Representatives and Senators who wanted to prove that the committee's actions were somehow inappropriate. In addition, amendments by noncommittee members often were not looked upon favorably and sometimes were prohibited entirely. Third, astute committees could hide the real cost of a program either through the judicious use of supplemental appropriations later in the year or through other budget gimmicks. Finally, after a spending bill passed in its final form, there was no way for congress to change it later (in the economy differed from original projections, for example) if the committee with jurisdiction over that bill refused. Consequently, the only means of imposing fiscal restraint was defeating a bill entirely--an extreme action seldom considered, let alone successful.

6. Congress had no procedure for overcoming presidential impoundments. The refusal of a president to spend congressionally approved appropriations for technical reasons was a standard practice and was accepted as a proper use of presidential power. Impoundments became increasingly controversial during the Nixon administration, however, because they were used to an unprecedented extent and because they were used by the president to carry out policy preferences different from the ones expressed by congress in authorization and appropriations

bills. Congress found that it had no process for dealing with this situation other than to go to court to force the money to be spent, an alternative most Representatives and Senators found cumbersome, time-consuming, and unacceptable.

The budget process congress created in 1974 dealt directly with each of these six problems as follows:

- o The start of the fiscal year was changed from July 1 to October 1 to provide three additional months for the passage of all necessary legislation, and a timetable was established to force all participants in the budget process to produce their work on deadlines.
- o Budget Committees were created in both the House and Senate to recommend spending priorities and economic policy and to review the activities of all other committees to ensure that their bills complied with congressional budget goals.²⁹
- o The Congressional Budget Office was created to provide in-house technical expertise and to advise spending, taxing, and economic policy alternatives.³⁰
- o A "reconciliation" process was established to impose discipline on committees that exceeded desired spending levels.
- o A strict procedure was created not simply enabling congress to review and approve proposed presidential impoundments but requiring it to do so.³¹

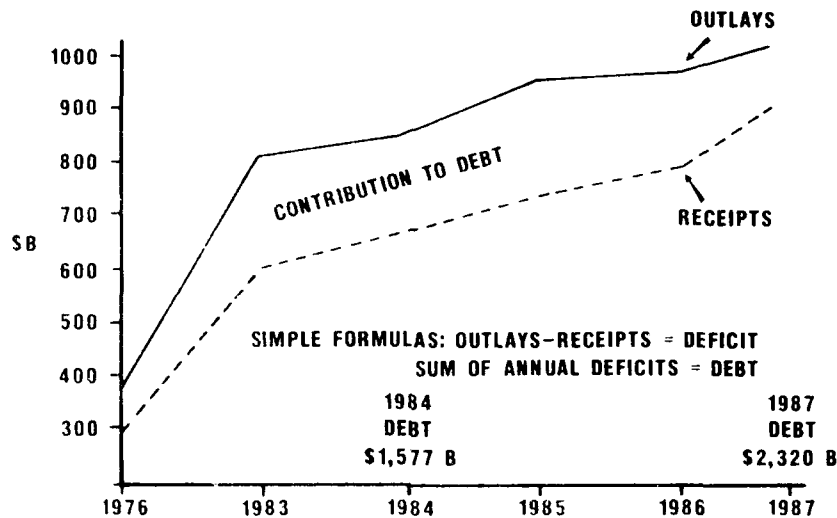
The remedial efforts of the 1974 Act were far reaching. They established a systematic process as well as an organization and schedule for congressional budgeting. However, the bill "did not decree lower spending, nor did it alter political incentives one whit."³²

Attacking the Deficit - The Gramm-Rudman-Hollings Amendment

Simple math tells us that the federal deficit should be a source of national concern. The current national debt is about two trillion dollars. Our ANNUAL DEFICIT SPENDING, as shown in Figure 11-3, IF NOT CHECKED, WILL RAISE THE DEBT TO ABOUT \$5 TRILLION BY 1996. Those who want to cause alarm about the deficit point out the cost of servicing a debt of that magnitude. At 12% simple interest, the annual payment would be \$600 billion, an amount equal to the government's total 1983 receipts. However, these figures do not reflect the changes in the value of the dollar caused by inflation. The deficit isn't so bad in constant dollar terms. Also an analysis of the size of the debt should view it in relative terms. Our federal debt--while large and growing in absolute terms--remains about the same in relation to the Gross National Product (2.5-3.5% of GNP). Nevertheless, regardless of

how one measures the significance of the debt, the consensus is that it is too large.³⁵

Figure II-3
Deficit Background

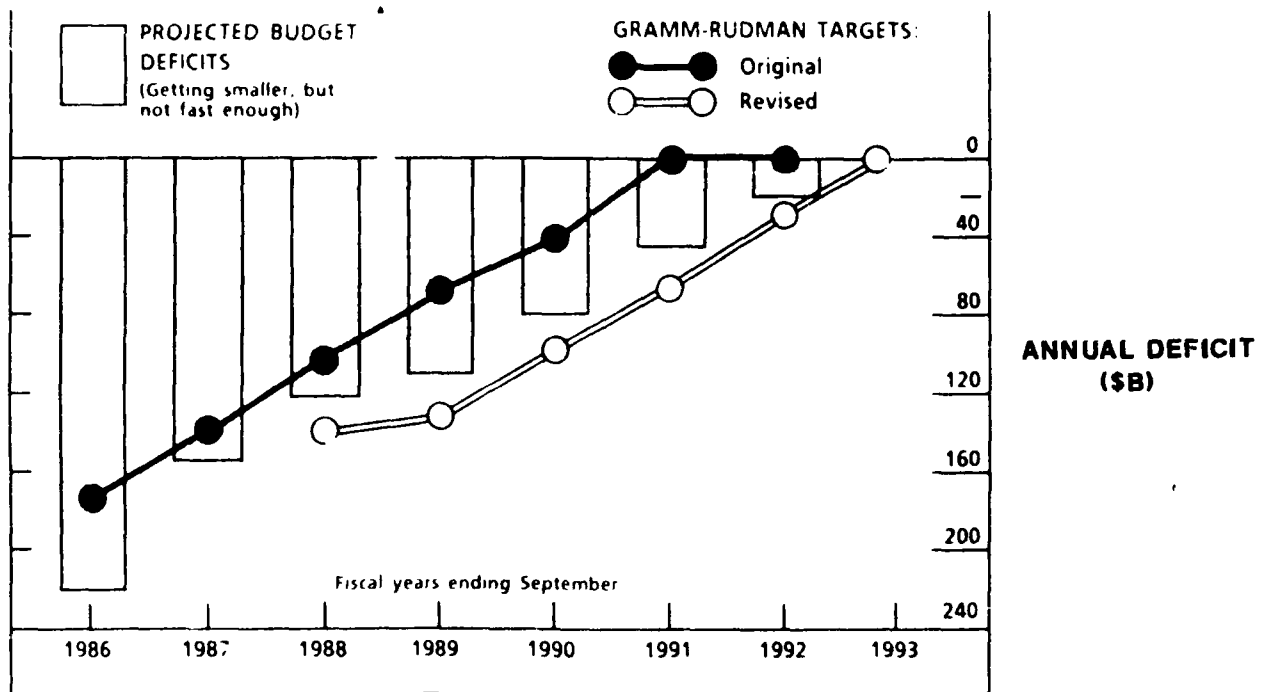


(Source: AFSC Faculty Guide)

Public Law 99-177, otherwise known as the Gramm-Rudman-Hollings amendment to the Budget Act of 1974, includes several important provisions. Three major initiatives are especially relevant for defense resource allocation.

6 Concrete Deficit Limits were Set. Figure II-4 shows the limits imposed on the annual deficit by The Gramm-Rudman-Hollings law. The original plan was for a \$36 billion reduction per year through 1991 when there would be zero deficit. Note that the dark targets are from the original bill. Congress has since revised the targets to that shown by the light dots, i.e., congress could not meet the \$108 billion limit for FY 86, so they raised it to \$144 billion), which if executed will also us a zero deficit in 1993.

Figure II-4
Deficit Limits



SOURCE: US OFFICE OF MANAGEMENT AND BUDGET

o The Congressional Budget Process was revised. Gramm-Rudman-Hollings changed the enactment process. Most notably:

- The budget and appropriation process is accelerated and compressed.
- New rules for budget debate include "out of order" rulings for introducing legislation that increases budget authority or the deficit, or proposing bills without new taxation or spending cuts.
- The House cannot recess more than 3 days in July unless all regular appropriation bills are passed.
- "Tag along" spending bills and pork barrel appropriations are prohibited.

o Required Automatic Spending Cuts whenever projected spending exceeds projected revenues to such a degree that established deficit limits are exceeded. This provision of Gramm-Rudman-Hollings is referred to as a "sequester order", a mechanism used to trigger automatic spending cuts. Three major points about the sequester are worthy of our attention:

- Automatic spending cuts are triggered when either appropriations cause exceeding of the deficit target, or projected revenues are reduced by economic decline.
- The idea is that the president and the congress should get together to reduce the deficit to preclude such automatic cuts. However, failing this, the amount of the cut is to be based on a joint CBO/OMB report that is to be audited by the GAO. Cuts are to be divided equally between defense and non defense programs. The amount of cuts are to be measured in outlays. Any prior year unobligated budget authority is subject to cuts.
- Certain entitlement programs are protected from sequester. These include Social Security, Medicare, Federal Retirement (but not cost of living increases which are vulnerable to cuts), VA Benefits, Food Stamps, Child Nutrition, Aid to Dependent Children. Congress has subsequently added closing/cutting military bases to the list of exceptions.

The Players

Together with the people discussed in Chapter I, our development of the history of the federal budget system has mentioned most of the key players in the process.

- The president and his main staff support for budgeting, the Office of Management and Budget.
- The congress whose key participants are the Budget Committees, Authorization Committees (House and Senate Armed Services Committee--HASC and SASC), Appropriation Committees (HAC, SAC) and the CBO.

Absent from our discussion so far are two important groups. These are the executive branch's economic policy group and the congressional staffs that support the legislative branch.

Economic policy group. The Treasury Secretary, the Chairman of the Council of Economic Advisers, and Director of the Office of Management and Budget join with officials of the Departments of Commerce, State, and Labor to form an economic policy group. Periodically the group meets to consider the economic situation in relation to the budget and government fiscal policies. When the discussions include monetary policies the group calls in a representative of the Federal Reserve Board. Supported by the staffs of the first three officials, and primarily by that of the Chairman of the Council of Economic Advisers, the economic policy group exerts an important centralizing influence on budget and fiscal decision making. For example, it develops memoranda for the president,

reviews the economic situation and recent budget trends, and, when necessary, revises budget totals. Moreover, meeting with the president from time to time, its discussions and memoranda weigh heavily on his decisions on taxation and spending.³⁴

Congressional Staffs. Equally important is the expertise found on the professional staffs of congressional committees and on the personal staffs of congressmen. Since the early 1970s, these staff positions have been increasingly filled by retiring military, CIA and foreign service officers who have chosen to become politically identified with a particular party or a particular politician. A well-known example is LTCOL Robert McFarlane, USMC (Ret.), who left the Marines in 1977 to join the Senate Armed Services Committee Staff, and subsequently rose to be the National Security Adviser for the Reagan administration. Another example is Jim McGovern, the Staff Director for the Senate Armed Services Committee between 1981-1986 (prior to his appointment as Under Secretary of the Air Force). McGovern is an Annapolis graduate, a naval aviator, and still flies as a Lieutenant Colonel in the Marine Corps Reserves.

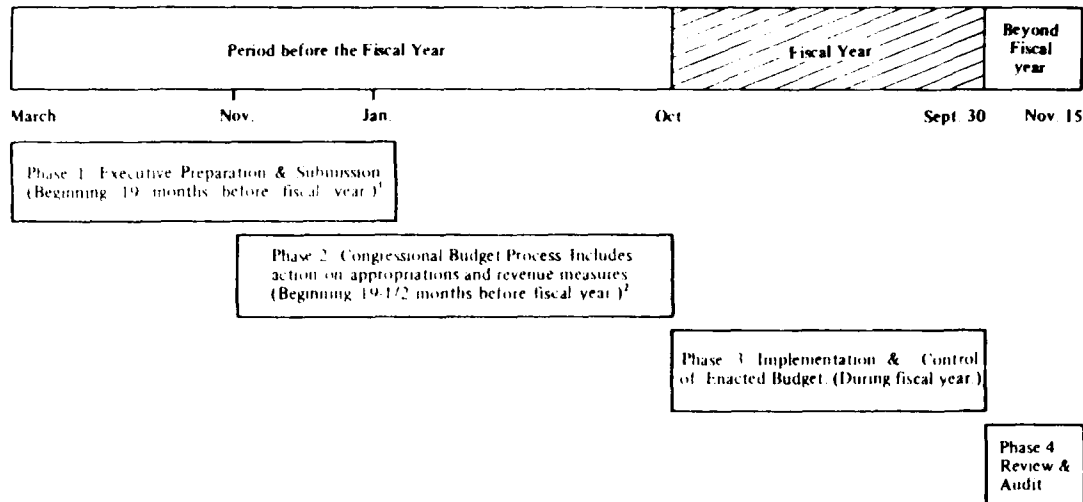
The staff expertise available to congress has increased not just because of the flow of experienced officers toward the legislative branch, however. Of equal importance has been congress' rapid expansion of the size of its staff, as it has increased its legislative output, increased constituent services, and intensified its oversight of the executive branch. During the past 25 years, the number of professional staffers working for congressional committees has increased 240%. The average committee now has about 75 employees, half of them professional analysts. In addition, the typical congressman has 26 employees on his/her personal staff, with some senators having as many as 49 staffers. Just the personal and committee staffs alone total to 14,700 employees, but this figure ignores the 5,500 employees of the General Accounting Office. . . . All of these organizations provide professional analyses and evaluations to congressmen and committees upon request and spend roughly half of their time on national security issues.³⁵

Just tallying the players in the federal budget system - and we didn't yet mention the soldiers, sailors and airmen who spend the money - gives us an idea of the complexity of the process. In the next section we shall carefully and slowly describe that process.

THE FOUR PHASED PROCESS

In order to describe the process by which the Federal Budget is supposed to work, it will be broken down into four phases. These phases are depicted in Figure 11-5 and defined as follows.

Figure 11-5
The Four Phases of the Federal Budget Process



¹ The President's budget is transmitted to Congress within 15 days after Congress convenes.

² If appropriation action is not completed by Sept. 30, Congress enacts temporary appropriation (i.e., continuing resolution.).

(Source: GAO, a Glossary of terms used in the Federal Budget Process)

- o Phase 1: Formulation. This involves building a budget proposal. It includes "preparations and submission" (the terms also used by the GAO to describe this phase) of the budget by the president to congress.
- o Phase 2: Exactment. The process of modifying and/or approving a budget proposal includes congressional action on the presidents budget proposal. We'll also refer to this phase as "The Congressional Budget Process."
- o Phase 3: Execution. This is the operation of spending funds to carry out programs approved in the budget; the execution of the budget related laws by the federal departments and agencies. The GAO terminology for this phase is "Implementation and Control."

- o Phase 4: This Phase involves audits of agency spending and will be referred to as Review and Audit.

The following pages will provide sufficient details to allow understanding of what happens in each of these phases. As will become apparent, the first and third phases are controlled primarily by the executive branch, the fourth phase is conducted largely by the GAO, and the 2nd phase is the most complex. . . . Phase 2 will receive most of our attention.

Phase 1 - Budget Formulation - Executive Preparations & Submission

This Phase is clearly described in A Glossary of Terms used in the Federal Budget Process as follows:

Preparing the president's budget starts many months before it is submitted to congress in late January. Formulation begins at the agency level, where individual organizational units review current operations, program objectives, and future plans in relation to the upcoming budget. Throughout this preparation period, there is a continuous exchange of information among the various federal agencies, OMB, and the president. Agency officials receive help in the form of revenue estimates and economic outlook projections from the Treasury Department, the Council of Economic Advisers, the Departments of Commerce and Labor, and OMB. The budget timetable in Table II-4 highlights the key steps involved in preparing the president's budget and transmitting it to congress. The months in parentheses indicate when agencies are expected to submit review materials to OMB.³⁶

As outlined above, non-defense agencies conduct internal reviews and present their budget estimates for further OMB review before the presidential decision. For the defense budget, which usually accounts for at least one quarter of all federal budget outlays, the procedure differs. Department of Defense agencies and military departments submit their estimates to the Office of the Secretary of Defense for joint OMB-OSD review. The simultaneous review by the two staffs, working together, avoids duplication of effort and allows more time⁴⁰ for agency estimate preparation than would otherwise be the case.

TABLE 11-4
Budget Formulation Timetable

<u>Timing</u>	<u>Action to be completed:</u>
April-June (March)	Conduct spring planning review to establish presidential policy for the upcoming budget. ³⁷
June	OMB sends policy letters to the agencies. ³⁸
September 1	Smaller agencies submit initial budget request materials.
September 15	Cabinet departments and major agencies submit initial budget request materials.
October 15	Legislative branch, judiciary, and certain agencies submit initial budget request materials.
September-January (September)	OMB and the president review agency budget requests and prepare the budget documents. ³⁹
January	The president transmits the budget during the first 15 days of each regular session of congress.
January-February	OMB sends allowances letters to the agencies.
April 10 (February)	The president transmits an update of the budget estimates. (Note: transmittal is often requested to be made earlier than the required date.)
July 15 (June)	The president transmits an update of the budget estimates. (Note: transmittal is often requested to be made earlier than the required date.)

(Source: OMB Circular No. A-11 of June 3, 1980)

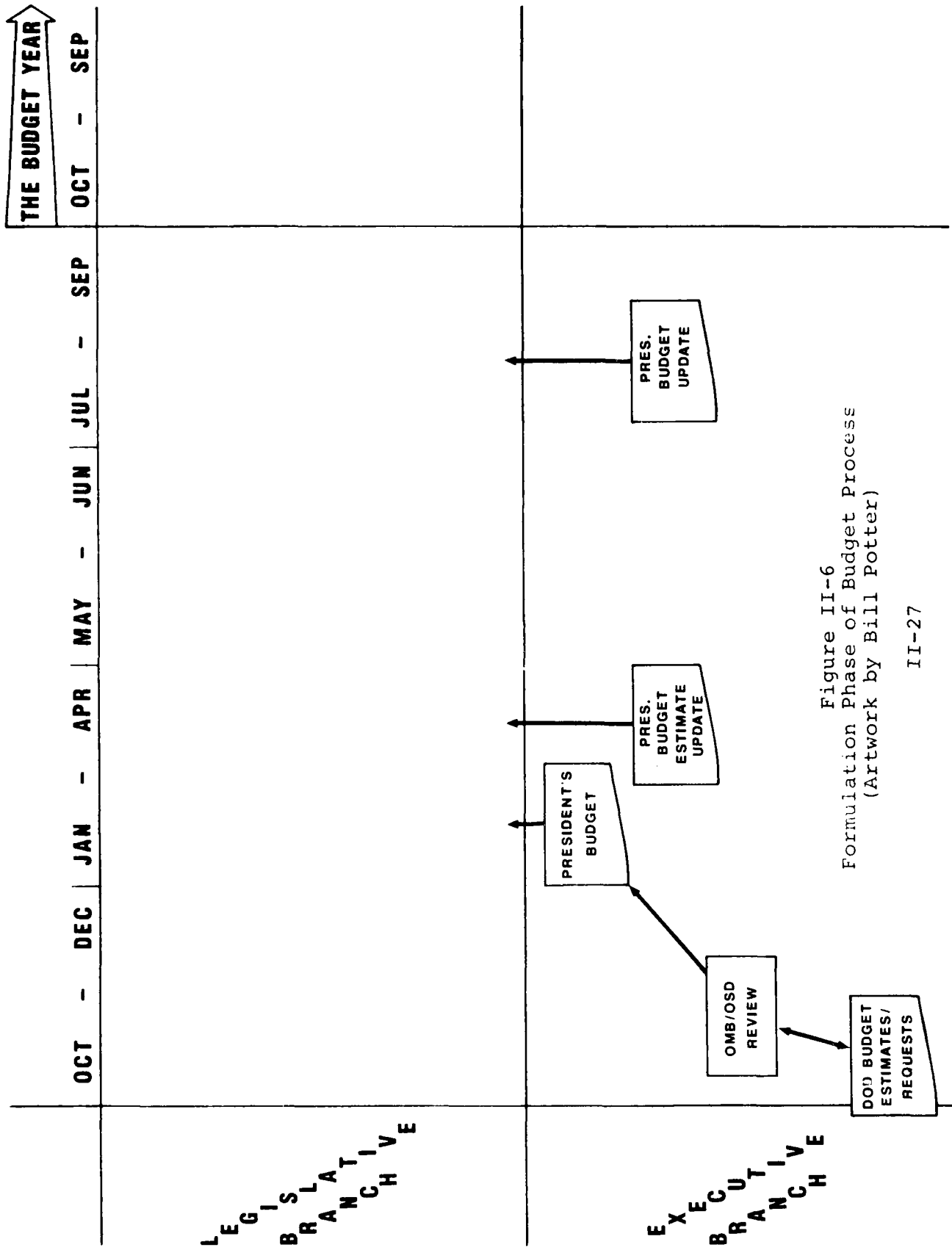


Figure II-6
Formulation Phase of Budget Process
(Artwork by Bill Potter)

Figure II-6 shows what happens in the formulation phase of budgeting.

This picture is designed to show activities as a function of both time and organization. Rather than showing all executive departments and agencies, we will only depict DOD. Note that the DOD provides its input to the president budget which, after review, is submitted to congress in January.

Phase 2 - Enactment - The Congressional Budget Process

"It is impossible to tell how many persons, opinions and influences have entered into its (Budget Legislation) composition.

- Woodrow Wilson,
Congressional Government, 1885

Congressional decisions on the budget affect the taxpaying electorate and the economy as well as all federal programs and activities. These decisions should reflect key choices among competing national priorities. It's not surprising that congress devotes a large percentage of its time to spending and tax issues. 41

With respect to the defense portion of the federal budget, we could say that congress takes three main steps in the Enactment Phase. 42

- o "First, the Senate and House Budget Committees hammer out the "Concurrent Budget Resolution." This establishes the total amount of funds which will be spent on defense, as well as every other function of government for a given fiscal year.
- o Next, the Senate and House Armed Services Committees (SASC and HASC) manage the creation, and passage before the full Senate and House, of the Defense Authorization Act. As we discussed earlier, congress must "Authorize" spending for specific military programs.
- o Finally, the Defense and Military Construction Subcommittees of the House and Senate Appropriation Committees (HAC and SAC) recommend a specific level of appropriations for each item in the Defense Appropriations Act, subsequently approved by the full committees and both houses.

Once the president signs the Authorization and Appropriation Acts they became law and the Enactment Phase, or the Congressional Budget Process, is completed.

For a complete description of the congressional budget process, we must add a few "frills" to the 3 basic steps. These frills include reconciliation, conference versions and sequestering.

"Reconciliation" is the controversial process that enables congress to enforce the spending and tax priorities and totals of the budget resolution.⁴³ Notice in figure II-7 that work on the appropriations bills by the HAC and SAC is designed to proceed from the budget resolution and in the wake of the development of the authorization bills. By the current time table, the appropriation bill should be brought in line (i.e., reconciled) with the Budget Resolution by 30 June. If not, a no recess period is imposed until the "must pass" date of 31 July. In any event, IF THE APPROPRIATION EXCEEDS THE BUDGET RESOLUTION IT IS TO BE RULED "OUT OF ORDER" AND MUST BE RECONCILED BY TRADING OFF AGAINST OTHER SPENDING PROGRAMS OR BY PROVISIONS FOR INCREASED TAX REVENUES.

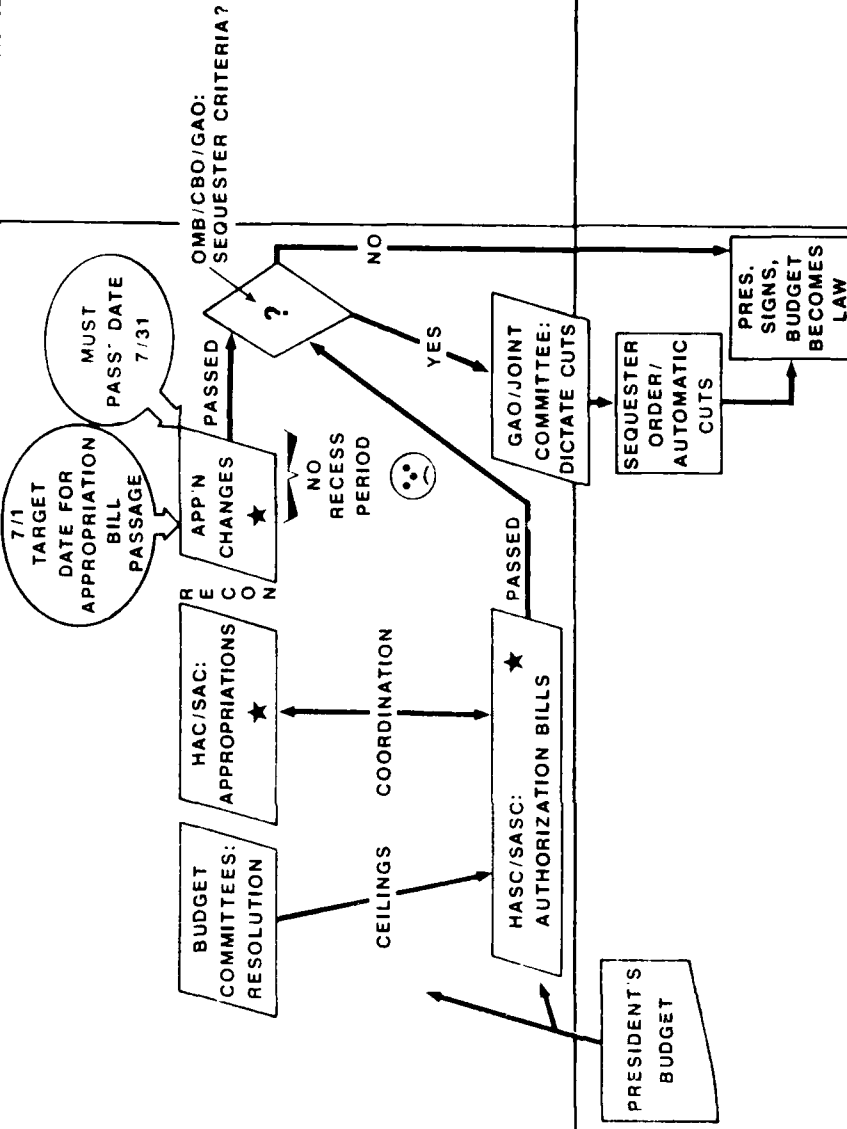
If Senate bills differ from the House versions, bills are sent to conference. Conference committees consider items of disagreement between the two houses, and make recommendations for resolution of differences in conference reports, which are submitted to each body for action.⁴⁴

What happens when the appropriation bills do not achieve the target deficit reduction? Before this question is answered, the question should be answered "how do we know we have a deficit problem?" The answer to the latter is that the CBO and the OMB file a joint report, audited by the GAO, which evaluates the appropriation bills in aggregate. If either of the variables in the deficit equation are found to be unfavorable (i.e., appropriations too high, projected revenues reduced), the SEQUESTER ORDER mechanism goes into the automatic mode. If the congress and the president cannot reconcile the problem, automatic cuts are ordered.

By glancing at the right side of Figure II-7 we can see that the direction that the enactment process takes depends on whether or not a sequester order is required. Without the sequester "trigger," the appropriation bill is sent to the president for signature. If sequester is required, budget adjustments must be made to satisfy Gramm-Rudman-Hollings requirements before the spending bill can be sent to the president⁴⁵ for signature. . . . and the beginning of the execution phase.

Phase 3 - Budget Execution - Implementation and Control

If we conceive of budget formulation as preparing a plan for a budget year, and enactment as adjusting and approving that plan, then budget execution is the accomplishment of the plan. Execution of a particular budget begins on 1 October, the first day of the fiscal year covered by the budget, although preliminary administrative actions begin much earlier. It ends when record is made of payment of the last dollar properly chargeable to the funds appropriated for the budget in question. The fact that some payments have been recorded against funds appropriated 10 years earlier is evidence that budget execution usually covers a long time span.⁴⁶



As explained in A Glossary of Budget Terms,

After the budget is approved by congress, the president is responsible for executing it. Under law, most of the budget authority granted to the agencies of the executive branch is converted into outlays through an apportionment system regulated by the Office of Management and Budget. The Director of OMB apportions (distributes) budget authority to each agency by time periods (usually quarters) or by activities over the duration of the appropriation. This ensures both the economical and effective use of funds and obviates the need for agencies having to ask for supplemental authority. However, changes in law or economic conditions during the fiscal year may necessitate the enactment of additional budget authority. When this happens, supplemental requests are sent to congress for its consideration. On the other hand, the executive branch, may establish reserves to fund contingencies or to effect savings made possible by more efficient operations or by changes in requirements.

The 1974 Budget Act permits the president to withhold appropriated funds for fiscal or other policy reasons, or because the president has determined that all or part of an appropriation is not needed to carry out a program. When these circumstances arise, the president sends a special message to congress requesting that the budget authority be rescinded. If congress does not pass a rescission bill within 45 days of continuous session, the budget authority is made available for obligation.

In order to defer--temporarily withhold--budget authority, the president must also send a special message to congress indicating the reasons for the proposed delay in spending. Either house may, at any time, pass a resolution disapproving the president's request for deferral of budget authority, thus requiring that the funds be made available for obligation. When no congressional action is taken, deferrals may remain in effect until, but not beyond, the end of the fiscal year. If continued deferral is desired into the new fiscal year, the president must transmit a new special message to congress.

The Flow of Funds

As a practical matter, the military operator is ultimately given funding through the chain of command. As explained in the Commanding Officer's Financial Management Guidebook,

After the appropriation is enacted and the apportionment is released by OMB, the

apportionment becomes SECDEF's authorized obligation plan. Following the establishment of the rate of obligation by SECDEF, the Secretary of the Navy (Comptroller of the Navy) (NAVCOMPT) further subdivides or allocates funds to responsible offices in the Department of the Navy. These allocations are usually divided into suballocations and are subsequently issued as operating budgets, allotments, suballotments or operating targets to make the funds available for ⁴⁸commitment, obligation, and expenditure.

This flow of funds is shown for the Navy, in Figure 11-8.

Another practical aspect of budget execution is that one can go to jail if he is caught in violation of the spending laws. There are two sets of laws that are of particular interest:

31 United States Code 1301(a)

This provision of law dealing with the application of monies appropriated by congress requires that these funds be used only for purposes for which the appropriation is made. The Law states:

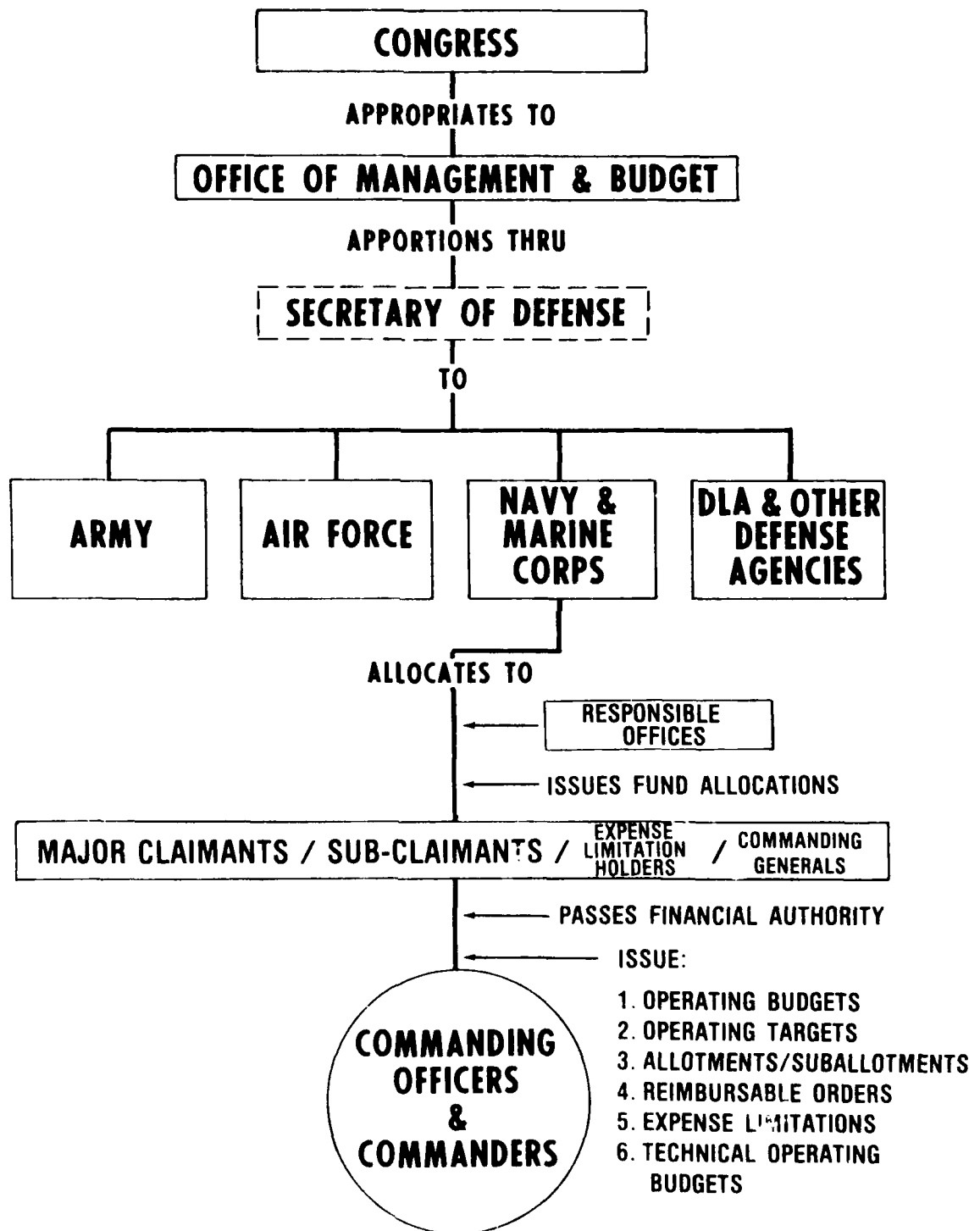
"Appropriations shall be applied only to the objects for which the ⁴⁹appropriations were made except as otherwise provided by law."

31 United States Code 1341, 49-50; 1512-14, 17-19

These provisions, often referred to collectively as the "Anti-Deficiency Act" are probably the most important legal limitations affecting the commanding officer at the activity level. Their principal provisions are as follows:

- a. Prohibits any officer or employee from making or authorizing an obligation in excess of the amount available in an appropriation or fund.
- b. Provides that the person who caused the violation may be subject to discipline which may include suspension without pay or removal from office. If action is done knowingly and willfully, that person may be subject to criminal penalties of a fine up to \$5,000 or imprisoned for not more than two years, or both.
- c. Forbids the involvement of the government in any contract or obligation to pay money in advance of an appropriation.

Figure 11-8
Budget Execution - The Flow of Funds



- d. Requires apportionment by months, quarters, other regular periods or by activities or functions, or a combination of both methods.
- e. Requires the head of each agency to issue regulations establishing an administrative control system with a dual purpose: first, to keep obligations within the amount of apportionment; and second, to enable the agency to fix responsibility⁴⁹ for making obligations in excess of the apportionment.

Phase 4 - Review and Audit

As described in The Glossary of Budget Terms,

Individual agencies are responsible--through their own review and control systems--for making sure that the obligations they incur and the resulting outlays adhere to the provisions in the authorizing and appropriations legislation, as well as to other laws and regulations governing the obligation and expenditure of funds.

OMB exercises its review responsibility by appraising program and financial reports and by keeping 'breast of agencies' efforts to attain program objectives.

In addition, the General Accounting Office, as an agency responsible to congress, regularly audits, examines, and evaluates government programs. Its findings and recommendations for corrective action are made to congress, to OMB, and to the agencies concerned. GAO also monitors the executive branch's reporting of messages on proposed rescissions and deferrals. It reports to congress any differences it may have with the classifications (i.e., rescissions or deferrals) of the president's requests for withholding funds. Should the president fail to make budget authority available in accordance with the 1974 Budget Act, GAO may bring civil action to obtain compliance.⁵⁰

Summary of the Federal Budget Process

Figure 11-8 depicts the whole budget process from the building of the president's budget to final auditing of budget performance. One can trace the different sequential and simultaneous activities of the legislative and executive bodies through the 4 Phases of budgeting.

The federal budget system is a process that consists of formulation, enactment, execution, and auditing activities. The Defense Department, along with all other governmental agencies, submits a request to the president, who with help from the OMB, makes a proposal to congress each January. In a very involved process, the legislature reviews and modifies the president's submission and

enacts the authorization and appropriation bills. These laws allow us to obligate the funds and incur the expenses that enable us to field our military forces.

As designed, the federal budget process is a systematic and rational interplay of legislation and executive players. . . . however, it usually doesn't work that way!

PROBLEMS

The main problem with the federal budget system is that it doesn't work. This evaluation is based on the premise that the purpose of this system is to provide a budget that reflects national priorities and needs, in a timely fashion. A budget system which has not reconciled available resources with perceived needs (as attested to by the growing national debt) and is virtually never enacted on time (only twice in the past eleven years has the defense₁ appropriation act been completed before the new fiscal year started₁) just hasn't met those objectives.

Whether or not the latest reforms, initiated by the Gramm-Rudman-Hollings Amendment, will correct this basic problem remains to be seen. Based on the folly of the FY 1988 budget enactment, it would seem that the prognosis, for ever having a well thought out appropriation bill on time, is grim.

Congress is about to send the president one gigantic, take-it-or-leave-it appropriations bill for fiscal 1988. It's bad enough that the bill isn't even arriving until the fiscal year is almost three months gone. Worse, it's loaded with trivia, fakery and irrelevant controversy, and forces on President Reagan a \$600 billion choice: He must accept every detail of this bill, or, if he wants to block a single one, must veto the whole₂ thing . . . it's a crazy way to govern the country.

This is not to say the fault is all within the enactment phase of the process and/or with congress. When was the last time the president, in the formulation phase, submitted a balanced budget? Not until November of 1987, were the current administration and congress able to even agree on a rough₃ cut of mutually acceptable spending cuts and revenue increases.

Is it just too hard?

There are many ways to explain why the budget system doesn't work. Most focus on the congressional process. Perhaps the answer is simply that we've created a process that's too complex, too difficult to make work. As explained by one who analyzes government behavior,

It is almost impossible to legislate a coherent security policy given the diversity of views and the diffusion of power within congress. Who can speak for the whole institution? How can party leaders exert control over individually-elected members of congress? The most common pattern of legislative outcomes is a patchwork of bills emerging from many distinct "iron triangles" of highly specialized committees, concerned lobbyists and relevant government agencies. Second, congress is often slow or unable to act because of the many hurdles to be overcome in passing a bill in the House, in the Senate, and in the Conference Committee which must resolve differences between the House and Senate versions. At every step in the legislative process--in the House and Senate subcommittee, the House and Senate committee, the House Rules Committee, on the House and Senate floor, and in conference--a bill can be delayed or defeated by a simple majority. When action requires both authorization and appropriation, the potential for delay and defeat is multiplied by two.⁵⁴

Congressmen or Program Managers?

Another factor that is often mentioned as contributing to an ineffective defense budget is micromanagement by congress. In the words of a former Chairman of the Senate Armed Services Committee,

In this year's defense authorization bills, the Senate adjusted almost 700 line items in the defense budget while the House of Representatives changed over 1,200 line items. Changes of this magnitude wreck havoc on the resource allocation process, especially since these changes are usually made without adequate consideration of their long-term consequences. The congress focuses only on the immediate budget year; what happens in the next several years receives little, if any, attention. . . .

In essence, the congress is completely consumed by an excessively detailed scrubbing of the defense budget, conducted line item by line item. Lost in this maze of financial pluses and minuses is any opportunity for real oversight. THE CONSTITUTION DID NOT ENVISION 535 MEMBERS OF CONGRESS SERVING AS PROGRAM MANAGERS, EACH WITH A GREEN EYESHADE AND A SHARP PENCIL. The congress was expected to focus on the major policy and program issues of national defense and to leave the details to experienced professionals in the executive branch. But, preoccupied by the yearlong budget process and submersed in budget trivia,⁵⁵ the congress has no time for the pivotal issues.

The Committee System

The problem of the misdirected congressional focus is exacerbated by the weakening of the committee system, which is and should be the central element of the legislative process. The orderly process of deliberation within committees has been eroded by unending floor amendments. Just 10 years ago, only 16 amendments to the defense authorization bill were considered on the Senate floor. This year, the Senate was forced to address 83 amendments. Even the conference committee process, by which differences between the Senate and House of Representatives are resolved, has bogged down in recent years. For example, in last year's defense authorization conference, the House appointed large numbers of congress who were not members of the House Armed Services Committee. The resulting chaos nearly brought the conference to a complete stalemate.

In a larger context, the overall congressional budget process is flawed by extensive duplication of activity among committees. Each of the three steps in the legislative cycle--budgeting, authorization, and appropriating--is conducted by a separate committee. The work of these committees is supposed to be complementary, but, in fact, is both highly redundant and conflicting. Each house now reviews the defense budget three times a year, debating the same issues again and again and changing earlier decisions.⁵⁶

Partisan Politics and Pork Barrel Projects

There are currently two other costly features of congressional decision-making. One is partisan politics; the other is "pork barrel" politics. . . . Defense has moved to center stage in the competition between Republicans and Democrats. In the pursuit of party interests, the national interest has suffered. . . . Equally troubling is the diversion of defense resources away from genuine security requirements to fund "pork barrel" projects. More members are now playing this game, and their patronage appetites continue to grow. Past practitioners of this art were content with \$10-million here and \$10-million there. But not today. Local political interests are pushing for unrequested and⁵⁷unneeded programs involving billions of dollars. . .

HIGHLIGHTS

What should the defense executive, or any concerned American for that matter, know about the federal budget system? To begin with it's incredibly important because the hopes and future of the nation depend on how well we do with the budget. While it's not critical to know all the nit picking details, it is relevant that the process is very complex. Understanding the historical evolution of the budget laws and rules can give one insight on "why" the system is as it is today, and the roles of the many players.

It is convenient, if not necessary, to think of the budget process in terms of four phases.

- o Formulation is the phase in which the president builds and submits his budget proposal to congress. (If you don't feel you have a good feel for exactly how the defense budget is put together - not to worry. That is the topic of the chapter on "PPBS".)
- o In Enactment, congress is supposed to modify and approve the budget. Major steps in this phase include Resolution, Authorization, and Appropriation. Often Reconciliation is necessary. Sequester may be in order.
- o Execution is the spending of the money. This phase may include impoundment by rescissions or deferrals.
- o Review and Audit is the green eyeshade drill to check that all the money spenders have behaved properly.

There are several concepts and terms that an informed participant in the defense resource allocation process should understand. In addition to those just mentioned: deficit and debt, budget authority versus outlays, controllable and uncontrollable spending, and the economic assumptions that are key to budget decisions.

According to the Constitution, congress is responsible for the budget. Yet ironically, that part of our budget system--The Congressional Budget Process--is the one that appears to work the worst.

NOTES AND REFERENCES

Notes for Chapter II

1. James Jones, Chairman, Committee on the Budget, U.S. House of Representatives in the "Forward" to Collender's, The Guide to the Federal Budget, 1984 Edition.

2. A Glossary of Terms Used in The Federal Budget Process, General Accounting Office, 1981, p. 3.

3. OPNAV 90P-1E Navy Programming Manual, p. ii-15.

4. A Glossary, p. 3.

5. The Guide, p. 1.

6. A Glossary. See 2 above.

7. The reasons for this dual requirement stems from the apparent desire to separate policy decisions (authorizations) from fiscal decision making (appropriations).

8. The Guide pp 1, 2.

9. Pitsvada, Bernard, "The Authorization Process and Congressional Control," Resource Management Journal, Winter 1982. The author also points out that retired pay also remains outside the scope of the authorization process.

10. The description of the difference between budget authority and outlays, with the helpful automobile example, is adapted from The Guide pp. 4-6.

11. "Military Puts Brakes on Routing Expenses," New York Times, 20 May 1988.

12. The Guide, pp. 6, 7.

13. Oleszek, Congressional Procedures and The Policy Process, 2nd Ed., CQ Press, Washington, DC. 1984 pp. 43-45.

14. CBO, The Economic and Budget Outlook, Washington, DC. 1982, p. 88.

15. The Guide, pp. 7, 8.

16. A Glossary, p. 44.

17. Congressional Procedures, pp. 67, 68.

18. These Definitions were derived from A Glossary and Financial Management Guidebook for Commanding Officers (NAVSOP 3582) Dept. of the Navy, Office of the Comptroller, November 1985.

19. A Glossary, p. 63.
20. The Guide, pp. 19-21.
21. The contents of the 4 volumes of the president's budget are as follows:
- o The Budget of the United States Government contains the president's budget message and an overview of the president's budget proposals. It explains spending programs in terms of national needs, agency missions, and basic programs, and it analyzes estimated receipts and discusses the president's tax program. This document also describes the budget system and presents summary tables on the budget as a whole.
 - o The United States Budget in Brief is designed for the general public. It provides a more concise, less technical overview of the budget than the full Budget. Summary and historical tables on the Federal budget and debt are provided, together with graphic displays.
 - o The Budget of the United States Government, Appendix contains information on the various appropriations and funds that compose the budget. For each agency the Appendix includes the proposed text of appropriation language, budget schedules for each account, new legislative proposals, explanations of the work to be performed and the funds needed, proposed general provisions applicable to the appropriations of entire agencies or groups of agencies, and schedules of permanent positions. Supplementals and rescission proposals for the current year are presented separately. Information is also provided on certain activities whose outlays are not part of the budget total.
 - o Special Analyses, Budget of the United States Government highlights specific program areas and other significant presentations of Federal budget data. It presents alternative views of the budget, that is, current services and national income accounts; economic and financial analysis of the budget covering Government finances and operations as a whole; and Government-wide program and financial information for Federal civil rights and research development programs. (Source: A Glossary, pp. 107,108.
22. The Guide, p. 819. Details of the budget functions and all programs according to department or agency can be found in the budget itself. (Part 5 and 8 respectively in The Budget of the U.S. Government.)
23. The Guide, pp. 8, 9 and A Glossary, p. 110. A more detailed breakdown of the National Defense Functions is shown in Table II-5.

TABLE 11-5

NATIONAL DEFENSE BUDGET FUNCTION

Pertains to programs directly related to the common defense and security of the United States. It encompasses the:

- raising, equipping, and maintaining of armed forces (including civilian supporting activities), development and utilization of weapons systems (including nuclear weapons), and related programs;
- direct compensation and benefits paid to active military and civilian personnel; contributions to their retirement, health, and life insurance funds; and cash benefits for military retirement pay;
- the conduct of defense research, development, testing, and evaluation; and
- procurement, construction, stockpiling, and other activities under taken to directly foster national security.

Excluded from national defense are

- benefits or compensation to veterans and their dependents. (Veterans benefits are generally available to personnel who served the country in national emergencies; benefits for career military personnel are generally charged as a cost to the national defense function);
- the peaceful conduct of foreign relations;
- foreign military, economic, and humanitarian assistance;
- subsidies to business by civilian agencies (such as maritime subsidies) that may be partially justified as promoting national security; and
- research and operations of agencies (such as space research) whose program missions are not directly designed to promote national defense but which could result in some significant benefits to our national security.

Sub Functions:

Code No. 051 - DEPARTMENT OF DEFENSE--MILITARY

The entire agency is included in this subfunction.

Code No. 053 - ATOMIC ENERGY DEFENSE ACTIVITIES

Programs of the Department of Energy devoted to national defense, such as naval ship reactors and nuclear weapons.

Code No. 054 - DEFENSE-RELATED ACTIVITIES

Miscellaneous defense activities, such as the expenses connected with selective service and with defense stockpiles outside of the Departments of Defense and Energy.

24. A Glossary. p. 109. Linking of the need based function code concept with accounting is done by having the functional codes also make up the last three digits of the ACCOUNT IDENTIFICATION CODE. Each account, or group of accounts, in the Federal budget is assigned an 11-digit identification code, as shown in Table II-6 below:

TABLE II-6
Budget Accounting Codes

XX-XXXX-X-X-XXX	The first two digits designate the agency code assigned by the Department of the Treasury.
xx-XXXX-X-X-XXX	The third through sixth digits designate the appropriation or fund account symbol assigned by the Treasury Department.
xx-XXXX-X-X-XXX	The seventh digit identifies the timing of estimates: 0-Regular budget schedule 1-Supplemental under existing legislation 2-Proposed for later transmittal under proposed legislation 3-Proposed for later transmittal under existing legislation 4-Supplemental or additional authorizing legislation required 5-Rescission proposal 6-Supplemental request pending
xx-XXXX-X-X-XXX	The eighth digit identifies the type of fund: 1-General 2-Special 3-Public enterprise 4-Intragovernmental 7-Trust (nonrevolving) 8-Trust revolving
xx-XXXX-X-X-XXX	The last three digits designate functional classification as used in the latest budget documents, unless noted otherwise by OMB. In cases where an account is split between two or more subfunctions: (a) if all subfunctions are in the same major function the digits indicate the major function or, (b) if two or more major functions are involved, "999" is used.

The identification code appears at the head of THE PROGRAM AND FINANCING SCHEDULE in the Appendix to the Budget of the United States Government.

Most of the details of budget data are presented in the Program and Financing Schedule in the Appendix to the Budget of the United States Government. This schedule consists of program by activities, financing, and relation of obligations to outlays.

In the program by activities section, costs, or obligations, are classified by purpose, program, type of activity, or project. This classification is developed for each appropriation or fund, and is not uniform on a government-wide basis. Where it is of significance, capital investment is shown by activity. Otherwise, the total for each year is disclosed by footnote.

The financing section shows the sources of funds, budget authority, and other means of financing the activities covered by the account and the disposition of unobligated amounts not used during the year.

The section on relation of obligations to outlays shows obligations net of offsetting collections, obligated balances at the start and end of the year, and other items that affect the relation of obligations to outlays. All program and financing schedules carry the 11-digit identification code, generally, placed at the head of the schedule.

The program and financing schedule is preceded by the appropriation language of the appropriation acts (FY 1981 in the sample shown in Table II-7 below), and is printed following the account title, that is, salaries and expenses. The language of the previous year's appropriation acts, printed in roman type, is used as a base. Brackets enclose material proposed for deletion; italic type indicates proposed new language. When an appropriation has not been enacted at the time the budget is submitted, the language relates only to the fiscal year in question and is italicized, with no brackets shown. In a few cases, the language from unenacted appropriation bills, printed in roman type, is used as a base. In such cases, the language is followed by an explanatory note.

TABLE II-7
Sample Program and Financing Schedule

Program and Financing (in thousands of dollars)			
Identification code 11-0110-0-1-8-2	1978 actual	1979 est.	1980 est.
Program by activities:			
10.00 Administration (costs--obligations)	15,816	17,163	18,210
Financing:			
25.00 Unobligated balance lapsing	599		
Budget authority	16,415	17,163	18,210
Budget authority:			
40.00 Appropriation	17,580	16,711	18,210
41.00 Transferred to other accounts	-1,165		
43.00 Appropriation (adjusted)	16,415	16,711	18,210
44.20 Supplemental for civilian pay raises		452	
Relation of obligations to outlays:			
71.00 Obligations incurred, net	15,816	17,163	18,210
72.40 Obligated balance, start of year	1,045	86	1,199
74.40 Obligated balance, end of year	-86	-1,199	-1,199
77.00 Adjustments in expired accounts	-204		
90.00 Outlays, excluding pay raise supplemental	16,571	15,625	18,182
91.20 Outlays for civilian pay supplemental		425	27
(Source: <u>The Budget of the United States Government, Appendix, Fiscal Year, 1981.</u>			

At the end of the final appropriation language paragraph, and printed in italics within parentheses, are citations to any relevant authorizing legislation and to the appropriation act from which the basic text of the language is taken. (Source of these details on Budget ID Codes and Program/Financing Schedule: A Glossary, pp. 131-134).

25. The Guide, p. 63.

26. The Thirteen Appropriation Bills are shown in Table II-8

Table II-8
Appropriation Bills

o Defense	o District of Columbia
o Military Construction	o HUD
o Commerce, Justice, State and Judiciary	o Interior
o Legislation	o Labor, HSS and Education
o Transportation	o Rural Development, Agriculture and Related Agencies
o Treasury, Postal Service and General Government	o Energy and Water Development
	o Foreign Operations, Export Fin- ancing and Related Programs

(Source: Congressional Phone Book)

27. These general appropriations categories are broken down further for each service. For example, in the Navy (less the Marine Corps).

FCN	- Shipbuilding & Conversion, Navy
APN	- Aircraft Procurement, Navy
CPN	- Other Procurement, Navy
WPN	- Weapons Procurement, Navy
EDT&E	- Research, Development, Test & Evaluation
MILCON	- Military Construction, Navy
OMN	- Operations & Maintenance, Navy
MIN	- Military Pay, Navy
OMNR	- Operations & Maintenance, Navy Reserve
MCNR	- Military Construction, Naval Reserve
RPN	- Reserve Pay Navy
FHN	- Family Housing Navy

28. Navy Programming Manual OP90-1E, p. 11-1. For those not familiar with the functions of the Office of Management and Budget (OMB):

OMB acts as the principal staff arm of the president.

(a) The Budget and Accounting Act of 1921 specified originally that the Bureau of the Budget would assist the president in preparing the annual request for appropriations. It empowered the Bureau "to assemble, correlate, revise, reduce, or increase the estimates of the several departments and establishments." Further, the act authorized the Bureau to "evaluate department activities, operations, and methods of business with the aim of recommending changes to 'achieve greater economy and efficiency.'"

(b) In the years subsequent to 1921, the bureau became one of the president's most powerful tools. Ten years after the bureau's establishment, the Hoover Commission, having first noted that Bureau procedures improved management and efficiency beyond strictly budget operations, reported that it had developed into the president's most important staff agency.

(c) In a significant development, Reorganization Plan No. 2 of 1970 expanded the Bureau's role in program evaluation and changed its name to the Office of Management and Budget (OMB). Today the Office of Management and Budget, like its predecessor, serves as a principal staff arm of the president.

(d) The Office of Management and Budget today exercises executive branch cognizance over the federal budget system. It assists the president in preparing the annual budget and in formulation the government's fiscal program, and it supervises and controls budget execution. In its economic policy formulation and forecasting role, OMB prepares fiscal, economic, and financial analyses. Also, it helps develop budget, tax, credit, and fiscal policies. In an administrative or agency-interaction role, OMB communicates presidential guidance to executive-branch departments and agencies. It examines their budget requested, their programs and operating methods, and their legislative proposals.

Oversight Organization.

There is a division of labor in OMB for interaction with executive departments and agencies. The Associate Director (of OMB) for National Security and International Affairs has management oversight responsibility for defense programs. He also has oversight responsibility for the full range of programs in the foreign policy area: State, AID, MAI, Food for Peace, and Intelligence. The suborganization concerned with the Department of Defense and its programs is the National Security Division.

National Security Division. The National Security Division has responsibility within OMB for matters encompassed by the mission and functional responsibilities of the Department of Defense. Oversight extends to the activities of the Office of the Secretary of Defense and the Departments of the Army, Navy, and Air Force. With a staff of slightly more than 40 members, the National Security Division divides its efforts between four principal subelements. One exercises cognizance over manpower, pay and policy. Each of the remaining three exercise cognizance over the program of a particular military service. In discharging its responsibility, the National Security Division examines agency programs

and operating methods and reviews budget requests and legislative proposals. Oversight includes analysis of long range programs from which OMB makes fiscal projections and it entails special analyses of selected problems. Emphasizing areas of interest common to two or more agencies, these analyses seek to improve program management and interagency coordination.

29. More details on the CONGRESSIONAL BUDGET ORGANIZATION.
(Source GP90-1E pp. ii-4, 5).

A. Congressional Committee System.

(1) Types of Committees. Congress parcels out its work to three types of committees: select and special committees, joint committees, and standing committees. Yet another classification is the Subcommittee, a functional subdivision of the other three. The system not only permits division of labor but also affords congress a measure of expertise in policy review and oversight.

(2) Relevant joint committees. None of the select and special committees and only two the joint committees bear directly on the federal budget system. One, the Joint Committee on Internal Revenue Taxation recommends revenue policy to the House Ways and Means Committee and the Senate Finance Committee. The other, the Joint Economic Committee, whose prime duty is evaluation of the president's economic policy, provides the House and Senate Budget committees with a economic evaluation of proposed budget authority and outlays.

(3) Relevant standing committees. The standing committees have, by far, the greatest relevance to the federal budget system. The standing committees of the House derive their current structure from the Legislative Reorganization Act of 1946. The standing committees of the Senate number 15 and, in the first major reorganization since 1946, derive their structure from the Committee System Reorganization Amendments of 1977. The discussion that immediately follows outlines budget duties of the standing committees but does not include the House Ways and Means Committee and the Senate Finance Committee, which consider all revenue measures. Emphasis is on specific measures for handling the defense budget.

B. Budget Committees. The budget committees of the House and Senate are charged with the broad of fiscal policy and are authorized to prepare and recommend the effect of proposed legislation on the federal budget outlays. They make continuing estimates of tax expenditures (that is, revenue losses attributable to tax law) provided by federal statute and they coordinate tax expenditures with other budget outlays. Most importantly, the

committees guide congress in the new tasks of setting levels for total spending, revenues, and the national debt. In this capacity, the committees play a central role in developing concurrent resolutions on the budget, which is set forth or revise the congressional budget for the United States Government for a fiscal year. In other words, the budget committees provide overall management to synthesize a congressional budget policy distinct from executive branch initiatives.

C. Authorizing Committees. In its appropriations procedure, instead of approving funding authority directly, congress first enacts specific authorizing legislation. This task falls to the legislative (or authorizing) committees in both houses. These committees provide substantive review of executive-branch proposals and recommend legislation that authorizes agencies to pursue particular programs and activities. The legislative committees that exercises primary cognizance of defense authorizations are the House and Senate Armed Services Committees--the HASC and SASC. During the 95th Congress, the HASC consisted of 27 majority and 13 minority members, the SASC, 11 and 7 members. During the same period, the HASC and SASC employed the functional subdivisions in Table II-9. As is often true of legislative review, there is a certain amount of jurisdictional overlap. Notably, the House International Relations Committee and the Senate Foreign Relations Committee also maintain keen interest in defense policy and proposals.

TABLE II-9
SUBCOMMITTEES OF THE ARMED SERVICES
COMMITTEES, 95th CONGRESS

<u>House</u>	<u>Senate</u>
Intelligence and Military	Intelligence
Application of Nuclear	General Procurement
Energy	Military Construction and
Research and Development	Stockpiles
Seapower and Strategic and	Arms Control
Critical Materials	Tactical Aircraft
Investigations	Research and Development
Military Installations	General Logistics
and Facilities	Manpower and Personnel
Military Personnel	
Military Compensation	

SOURCE: U.S., Congress, 1977 Official Congressional Directory, 95th Congress, 1st session, pp. 252-253, 279.

D. Appropriations Committees. Once programs are authorized, they receive their required funds through separate appropriations legislation. This process entails further review of agency proposals and performance. The task falls initially to the defense and also the military construction subcommittees, which operate as functional subdivisions of both the House and Senate Appropriations committees--the HAC and SAC. (Source: OP-90-1E p. ii-2, 3).

30. Details on the Congressional Budget Office (CBO).

(1) Duties. The Congressional Budget Office (CBO) provides congress with information on the budget and on proposed taxing and spending legislation. As a primary responsibility, the office furnishes the two budget committees with information, data, and analyses they need to discharge committee functions. The office develops comparable information on request for the appropriations committee of either house and also for the house Ways and Means Committee and Senate Finance Committee. In addition, again on request, the office provides any committee or member with information already compiled and available. In yet another function, the office tracks the spending decisions of congress and relates them to established budget authority and outlay targets.

(2) CBO-agency relationship. One feature of the Congressional Budget Act of 1974 that concerns the Director of the Congressional Budget Office also holds special interest for the Navy and Marine Corps staff. The act requires executive departments and agencies to furnish the director any available information, data, estimates, and statistics he determines necessary in performing his duties (unless disclosure would be in violation of the law). (Source: OP-90-1E pp. ii-2, 3).

31. The whole discussion of the problems and "SOLUTIONS" that led to the 1974 law are from The Guide, pp. 13-15.

32. The Guide, p. xvi.

33. See Roberts, "The Administration's Achilles Heel," Wall Street Journal, 12 January 1988. A full discussion of the pros and cons of deficit spending goes well beyond the scope of this paper. It's just too simplistic to say deficit spending is bad. Many economists argue that some deficit can be good, given that the economy grows in response. I am indebted to Dr. Mac Owens, my colleague at the Naval War College, who has helped me express the debt concept. Also, credit is due to the Defense Resource Management faculty at the Armed Forces Staff College, whose Study and Faculty Guides provided a most helpful background for my discussion of the Strategic Arms Reduction Agreement.

34. These first three officials, themselves, form an economic policy group sometimes called "Troika", which when joined by the Chairman of the Federal Reserve Board has been referred to as the "Quadriad." (Source: OP-90-1E).

35. Hall, Private and Public Participants in the National Security Process, Naval War College, March 1987.

36. A Glossary, p. 5.

37. Each year OMB inaugurates the federal budget process with a formal spring review. From the fiscal-policy aspect, the spring review examines the national economic and fiscal situation. From the departmental-budget aspect, it examines proposed agency programs and ongoing activities. An agency-by-agency undertaking, the review examines program emphasis and overall funding levels. For each agency, usually as a product of negotiation, at the highest levels, the review identifies a select number of potential issues, which in turn often leads to special analytic studies by the agency. (Source: OP-90-1E, p. ii-5).

38. On completing the spring review, the Director of OMB, in his capacity as the Budget Director, meets with the president and his advisers. On that occasion, they discuss the size of the budget for the next fiscal year, together with its program priorities and agency funding levels. The policy decisions and funding levels resulting from these deliberations are communicated to the departments and agencies by OMB. There, they govern program and budget preparation and form a major basis for subsequent discussions, including those during the fall review of agency budget requests. (Source: OP-90-1E, p. ii-5).

39. In the fall budget review, which begins 15 October, the OMB Director is provided with an update of the national economic and fiscal situation, and the OMB staff initiates formal hearings to consider the detail of agency requests and to identify issues that need to be resolved. The director considers the issues and total outlay levels that emerge and discusses them with the president. Based on these discussions, the president makes tentative decisions, which he reviews with the heads of the independent agencies and cabinet officers before reaching the final decisions that will be reflected in his budget. (Source: OP-90-1E, pp. ii-6).

40. OP-90-1E, p. ii-6.

41. Congressional Procedures, p. 44.

42. I am indebted to my colleague at the Naval War College, Dr. David Hall, for this concise description of the budget process in congress.

43. The Guide, p. 53.

44. A Glossary, p. 13. .

45. For a more complete picture of the Congressional Budget Process, see Figure 11-9.

46. Financial Management in the Navy, p. 124.

47. A Glossary, p. 17. More specifically:

The Budget and Appropriations committees in the Senate and the Appropriations Committee in the House have assumed responsibility for reviewing presidential rescission and deferral messages. But the real monitor of this part of the process is the Comptroller General, the head of the General Accounting Office (GAO), who

... must review each message and advise the congress of the facts surrounding the action and its probable effects. In accordance with existing statutory authority, the Comptroller General is also required to report to the congress reserve or deferral action which has not been reported by the president; and to report and reclassify any incorrect transmittals by the president. Such reports by the Comptroller General have the same legal effect as rescission or deferral messages from the president.

The Comptroller General also has the power to bring a civil action to force the president to spend the appropriation if he or she refuses to do so after congress has formally disapproved a proposed rescission or deferral. (Source: The Guide, p. 21).

48. Financial Management/Guidebook for Commanding Officers, (NAVSO P-5582) office of the Navy Comptroller, Nov 85, pp. 1-8, 9. If you want to refresh your memory on the meaning of commitment, obligation, etc., go back to page 11-12.

49. Ibid., p. IV-1, 2.

50. A Glossary, pp. 17, 18.

51. The track record for Enactment of the Defense Appropriation Bill is shown in Table 11-10.

TABLE II-10
Dates of Enactment

Defense Appropriation Acts
FY 1978-1988

<u>Fiscal Year</u>	<u>Enactment Date</u>
FY 1978	21 Sep 1977
FY 1979	13 Oct 1978
FY 1980	21 Dec 1979
FY 1981	15 Dec 1980
FY 1982	29 Dec 1981
FY 1983	21 Dec 1982
FY 1984	8 Dec 1983
FY 1985	12 Oct 1984
FY 1986	*19 Dec 1985
FY 1987	* 5 Oct 1986
FY 1988	**22 Dec 1987

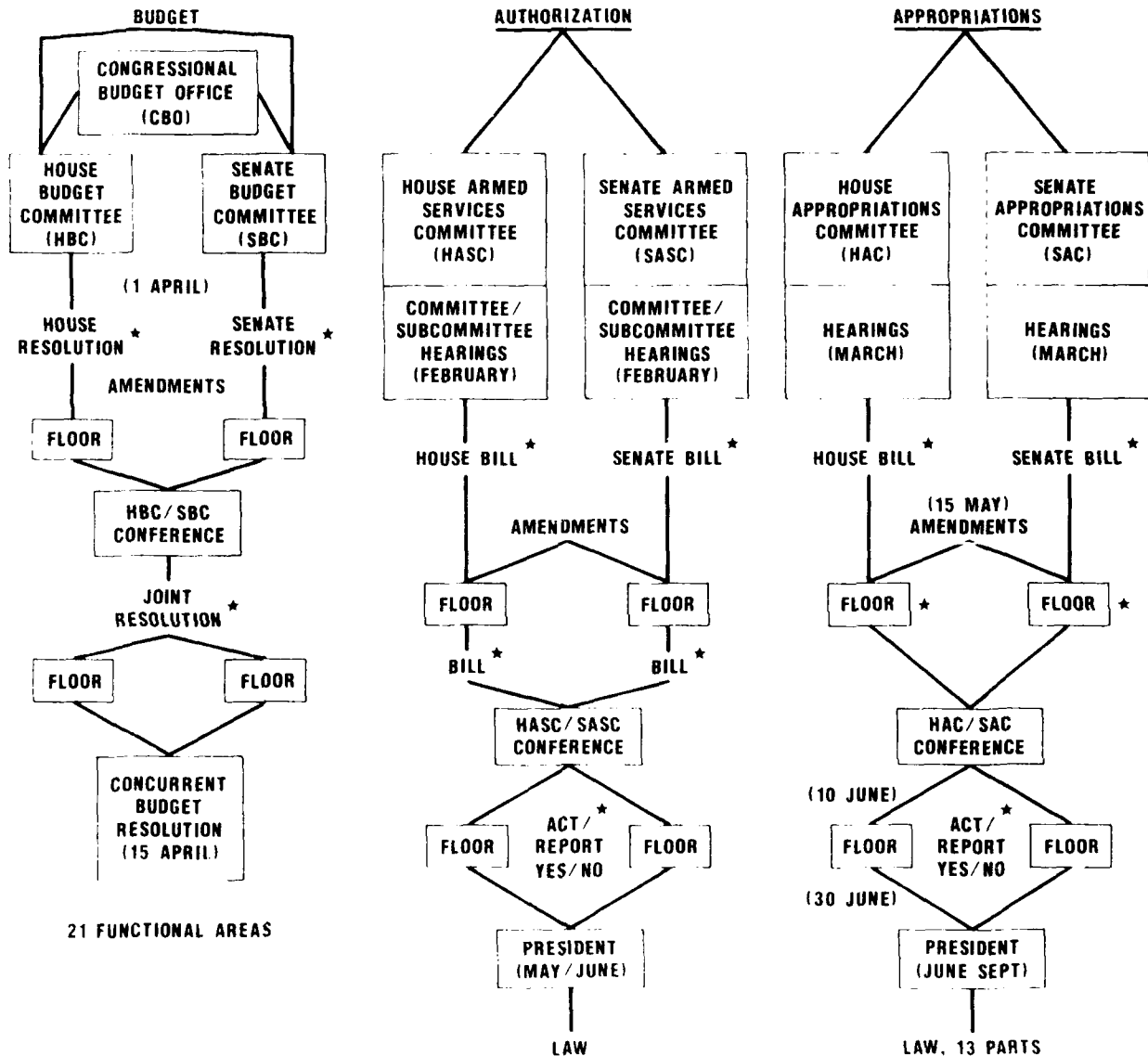
*Full Year Continuing Resolutions

**Part of Omnibus Bill funding the entire Government.

Figure 11-10
Comprehensive View of Congressional Budget Process

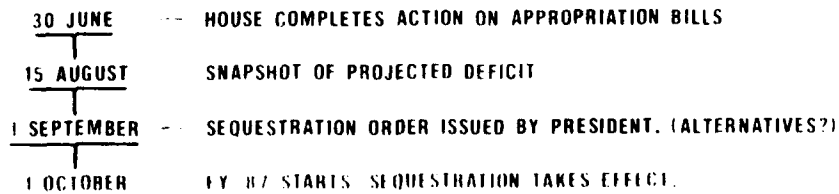
PRESIDENT'S BUDGET SUBMISSION

FEBRUARY 4



21 FUNCTIONAL AREAS

CONTINUING
RESOLUTION?



(Source: Navy Congressional Liaison Office)

52. "A Crazy Way to Govern America," New York Times, editorial, 29 Dec. 1987.

53. Hall, Public and Private Participants.

54. Ibid.

55. Goldwater, "Overdose of Oversight and Lawless Legislation," Armed Forces Journal International, February 1987. Senator Barry Goldwater retired from the Senate at the end of the 99th Congress last year. In his last two years in the Senate he served as Chairman of the Senate Armed Service Committee, where his principal efforts were directed toward gaining passage of legislation signed into law last year by President Reagan to reorganize the Pentagon and streamline national security functions.

56. Ibid.

57. Ibid.

References

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CHAPTER III

THE JOINT STRATEGIC PLANNING SYSTEM

INTRODUCTION

The Lynchpin of DOD Planning.

There are many ways that the Joint Strategic Planning System (JSPS) can be described. To a service school student who has been bombarded with all the complex organizations and procedures of the whole defense resource allocation process, JSPS might mean little more than a blob on a vu-graph that appears sandwiched between the Joint Operational Planning System (JOPS) and the PPBS. Another reasonable perception of JSPS might be as a collection of highly classified and frequently regenerated documents, designed to keep the Joint Staff's paperwork production skills razor sharp. The JSPS is directly related to all the other defense planning systems as well as being a document/paperwork intensive system. Nevertheless, the JSPS can be more positively thought of as "the lynchpin of the overall DOD planning system". Without it, the United States could not plan for the mobilization, deployment, employment, and sustainment of its forces in the near-term and could not program forces for these missions in the mid-term.¹ Indeed, THE JSPS SERVES AS THE BASIS FOR FORMULATING THE NATION'S MILITARY STRATEGY, RESOURCE NEEDS, AND OPERATIONAL PLANS.

An Evolving System

In 1952, the Joint Chiefs of Staff (JCS) established the JSPS. Since then, the system has evolved considerably. Through 16 revisions to the governing directive, the Joint Chiefs have attempted internally to refine their ability to discharge their strategic planning responsibilities and make a substantive contribution to the defense budgeting and war plan generating process.²

Change has also come from outside the Pentagon. The DOD reorganization act of 1986 significantly strengthened the position of the Chairman of the JCS (CJCS). As the principal military advisor to the president, the National Security Council (NSC), and the SECDEF, the CJCS is charged with, among other things, advising the SECDEF on the CINCs' priorities.³ Clearly, the chairman's position is central to the strategic planning system, as well as the whole process by which we make decisions about defense resources.

Structure of the Chapter

To describe how the JSPS is designed to work, this chapter examines the people and the documents that comprise the JSPS. We will begin with a quick review of the JCS and the joint planning process in general. Next, the major documents that comprise the JSPS will be discussed briefly. Details, if desired, can be

found in the footnotes. A bullet summary of each of the documents is also offered, just in case you'd like to paste them to 3 x 5 cards for quick reference. Finally, we will reflect on the related systems of JOPS and PPBS and the warfighters' perspective of the JSPS.

THE PEOPLE AND THE PROCESS IN GENERAL

People

The JCS are charged by the National Security Act of 1947 with preparing strategic plans and providing for the strategic direction of the armed forces. The JSPS provides the framework for strategic planning and strategic direction for the armed forces. Joint strategic planning begins the process which creates the forces whose structure and capabilities form the basis for theater operation plans.

Within the JCS, planning is primarily the responsibility of the Strategic Plans and Policy Directorate (J-5) and the Force Structure Resource and Assessment Directorate (J-8), who use inputs from the OJCS, OSD, and other DOD and federal agencies, unified and specified combatant commands, and the military departments to provide policy, strategy, and force planning guidance. Primary responsibility for review of operations plans resides with the Operational Plans and Interoperability Directorate (J-7).

A Cyclical Process

The JSPS process is really a continuous cycle. Each document is an outgrowth of preceding cycles and of documents formulated earlier. Also, development of several JSPS documents happens concurrently. Basically, the cycle begins by assessing military threats to national security in the Intelligence Priorities for Strategic Planning (IPSP) and the Joint Intelligence Estimate for Planning (JIEP). Ultimately resource requirements for military forces to execute the national military strategy are recorded in the Joint Strategic Planning Document (JSPD). Missions for the operating forces to execute strategy are recorded in the Joint Strategic Capabilities Plan (JSCP).

THE DOCUMENTS

The following brief synopses of the JSPS documents has been adapted from the Joint Staff Officers Guide.

JSPD

The Joint Strategic Planning Document (JSPD) provides JCS advice on the overall military strategy and force structure needed to support U.S. national security objectives. One of the key conceptual inputs provided by the JSPD is the "Planning Force." In these summary tables the JCS explicitly state what force levels would be required to execute the national military strategy with a

"reasonable assurance of success."⁵ As will be discussed later in the PPBS Chapter (IV), the JSPD is a primary source for the SECDEF's PPBS "Defense Guidance". The main aspects of the JSPD are summarized in Table III-1 below:

TABLE III-I

Joint Strategic Planning Document (JSPD)

- o Mid-range resource guidance
 - o JCS input to PPBS [for the Defense Guidance (DG)]
 - o Unconstrained advice to the president and SECDEF on:
 - oo Military strategy
 - oo Force levels considered essential to execute national strategy ("Planning Force")
 - oo Risk
 - o Information and guidance to CINCs and Service Chiefs
 - o Published biennially (Jun/Sep)⁶
-

JPAM

The Joint Program Assessment Memorandum (JPAM) provides the views of the JCS to the SECDEF on the adequacy and capabilities of the Military Departments' composite programmed force, as defined in their most recent Program Objective Memoranda (POMs). The JCS comment, in the JPAM, on the ability of the total force to execute strategy and on the allocation of scarce resources. The JPAM also assesses the risks associated with programmed force levels. The JPAM includes an analysis of selected cross-Service programs/issues which have an impact on total force capabilities and provides an opportunity for CINCs to comment on the overall balance of the composite POM force. The JPAM also serves as a reference for use in the PPBS program review cycle and as a basic source document for SECDEF in making program decisions. Table III-2 outlines the major features of the JPAM.

TABLE 111-2

Joint Program Assessment Memorandum (JPAM)

- a. Published biennially by JCS following POM submissions
 - b. Provides JCS view on adequacy and capabilities of aggregate POM forces
 - c. Compares JSPB Planning Force with POM force
 - d. Assesses risk inherent in fiscally constrained POM forces
 - e. Vehicle by which JCS recommends improvements in capabilities and alternate funding levels
-

IPSP

The Intelligence Priorities for Strategic Planning (IPSP) establishes military intelligence requirements categories and priorities for the short- and mid-range periods ("short-range" is defined as 1-2 years, "mid-range" is about 2-10 years, and "long-range" in JCS terms is about 9-20 years). As such, it provides advice to the SECDEF and the Director of Central Intelligence on the priorities required to support the national military strategy. The IPSP also provides intelligence planning guidance to the commanders of unified and specified combatant commands. It provides prioritized collection and production direction for the CIA and NSA. The IPSP is prepared by the Defense Intelligence Agency (DIA) and presented to the JCS for approval. See Table 111-3.

TABLE 111-3

Intelligence Priorities for Strategic Planning (IPSP)

- a. Developed by DIA annually
 - b. Comprises JCS advice on military intelligence targets and priorities for short- through mid-range periods (1-10 years)
 - c. Informs SECDEF of military intelligence priorities required to support military strategy
 - d. Provides tasking guidance to NSA and CIA for intelligence collection and production
-

JIEP

The Joint Intelligence Estimate for Planning (JIEP) provides the principal intelligence basis for the JSPS. It contains intelligence estimates for the short- and mid-range periods. It describes situations and developments throughout the world that could affect U.S. security interests in these periods and includes: (1) a global appraisal with an estimate of the world situation and the nature of the military threat; (2) regional appraisals, including estimates of the external and internal threats of countries of significance to the United States; and (3) estimates of Soviet, Warsaw Pact, and Asian Communist military forces and potential threats in various regions of the world including any Soviet capability to project forces into these regions. The JIEP is prepared by the DIA and submitted to the JCS for approval. The JIEP (together with the JLRSA) is often thought of as one of the two primary inputs for the JSPD. See Table III-4.

TABLE IV-4

Joint Intelligence Estimate for Planning (JIEP)

- o Developed by DIA biennially (Sep)
- o Principal JSPS intelligence base
- o Contains detailed intelligence on possible world situations and developments that could affect U.S. security interests in the short- and mid-range periods.
- o A JIEP supplement contains significant changes in intelligence occurring between publications of the JIEP and force tables for selected countries.

JLRSA

The Joint Long-Range Strategic Appraisal (JLRSA) is reviewed annually and revised every four years preceding each presidential election. It provides each new administration a recent strategic appraisal. The JLRSA consolidates intelligence estimates, strategic forecasts, broad force structure questions, and likely issues and provides supporting analysis for the JSPD. Again, the JLRSA and the JIEP are thought of as the MOST essential references for development of the JSPD. The JLRSA postulates four possible alternative future world environments and presents plausible trends and developments for selected regions and countries based upon specific environmental factors. For each world environment, significant military threats to the interests of the United States are stipulated, and an illustrative strategy to meet those threats is presented. Although the threats and strategies are clearly subject to change and improvement, the JLRSA provides a common base from

which requirements may be evaluated and specific trade-offs may be developed.¹⁰ See Table III-5.

TABLE III-5

Joint Long Range Strategic Appraisal (JLRSA)

- a. Promulgated by JCS (J5) every four years (November of presidential election year)
- b. Postulates four possible future world environments and presents trends and developments for selected regions and countries.
- c. Significant military threats to the interests of the United States are stipulated, and strategy to meet those threats is presented.
- d. Contains framework for development of a baseline to assess policies, strategies, plans, and programs having mid- to long-range implications.

JSAM

The Joint Security Assistance Memorandum (JSAM) articulates the JCS views on funding levels for U.S.-financed security assistance programs, security assistance manning levels, and key arms transfer policy matters. This military assessment is based on an analysis of U.S. military interests, security assistance objectives, and desired force levels for allied and friendly nations. It addresses security assistance objectives, programs, and priorities on a worldwide, regional, and individual country basis (including an assessment of alternate levels of funding).¹¹ See Table III-6.

TABLE III-6

Joint Security Assistance Memorandum (JSAM)

- a. Military assessment of security assistance objectives
- b. Budget year evaluation
- c. Alternative funding levels
- d. Manning level recommendations
- e. Guidance for specific defense acquisition and procurement planning

JSCP

The Joint Strategic Capabilities Plan (JSCP) is a heavy document. In fact, THE JSCP SHOULD RIVAL THE JSPD FOR IMPACT ON NATIONAL SECURITY DECISION MAKING. Classified Top Secret, the JSCP provides JCS guidance to the commanders of the unified and specified combatant commands and the chiefs of the military Services. It is a short-range plan prepared by the J-5 and the J-7 and is based on national security objectives and policy, intelligence estimates, projected forces available, and subsequent guidance from SECDEF. The JSCP is divided into two volumes: "Strategy, Planning Guidance, and Tasks" (Volume I) and "Forces" (Volume II). It also has numerous supporting annexes. The JSCP is reviewed annually and published biennially by the JCS. It is critical to the commanders of unified and specified combatant commands and to the services because the JSCP describes what major forces are available for planning purposes, assigns tasks, provides planning guidance for development of operation plans, and gives planning guidance to the services for support of the unified and specified commands in the execution of assigned tasks. The JSCP also includes sections presenting military objectives and strategy to include broad strategic policy and strategy considerations for deterrence and regional, global, and space conflict.¹² See Table III-7.

TABLE III-7

Joint Strategic Capabilities Plan (JSCP)

- o Provides short-range guidance to warfighters and service chiefs
- o Published in two volumes by JCS biennially (Mar/Apr)
- o Reviewed annually by 30 April, revised as necessary
- o Gives strategy and mission to unified and specified commanders

Document Summary

Figure III-1 is a useful matrix to summarize the JSP. Each of the seven primary documents is displayed so one can see its purpose (i.e., appraisal, intelligence, resources, operational plans); whether it serves long-, mid-, and/or short-range objectives; when it is due; and who prepares each. For example, one can see that the JSCP is used for operational planning and is prepared biennially by the J-5.

FIGURE III-1

JSPS DOCUMENTS

		SHORT RANGE PERIOD / MID RANGE PERIOD / LONG RANGE PERIOD																							
A- EXECUTION YEAR B- BUDGET YEAR C- POM YEAR		A	B	C	0	1	2	3	4	5	6	7	8	9	10	11	12	13	15	16	17	18	19	PUBLISHED (DATE DUE)	PREPARED BY
JSPS DOCUMENTS		USED FOR																					EVERY FOUR YEARS (1 NOV)	J-5	
JOINT LONG RANGE STRATEGIC APPRAISAL JOINT INTELLIGENCE ESTIMATE FOR PLANNING INTELLIGENCE PRIORITIES FOR STRATEGIC PLANNING		APPRaisal & INTELLIGENCE		JLRSA																			REVIEWED ANNUALLY		
				JIEP																			BIENNIALlY (1 SEP)	DIA	
				JPSP																			ANNUALLY (BY 15 APR)	DIA	
JOINT STRATEGIC PLANNING DOCUMENT JOINT PROGRAM ASSESSMENT MEMORANDUM JOINT SECURITY ASSISTANCE MEMORANDUM		RESOURCES (PPBS)		JSPD																			BIENNIALlY (1 JUN/1 SEP)	J-5/J-1/C3S DIA DMA J8	
				JPAM																			BIENNIALlY (POMs + 45)	J-8	
				JSAM																			ANNUALLY (1 SEP)	J-5	
JOINT STRATEGIC CAPABILITIES PLAN		PLANNING (JOPS)		JSCP																			BIENNIALlY (1 MAR-VOL I) (1 APR-VOL II)	J-5	

(Source: AFSC adapted from JCS MOP 84.)

INTEGRATION

The strategy, force structure, and mission ideas created by the Joint Strategic Planning System are essential to resource planning and warplan development. The way these important elements are included in the grand scheme of things is through the two other defense planning systems: the JOPS and the PPBS.

Relation of JOPS.

To appreciate fully what the JSPS does, a general understanding of PPBS and JOPS is required. PPBS is discussed in detail in the next chapter. Here is a bit on JOPS.

Basically, JOPS standardizes reports, coordination, and procedures for operational planning. JOPS transforms strategy, mission, and force structure into a "planned process." JOPS provides both "on the spot" and planned process "deliberate planning" process and "planned process" and "planned process" planning process.

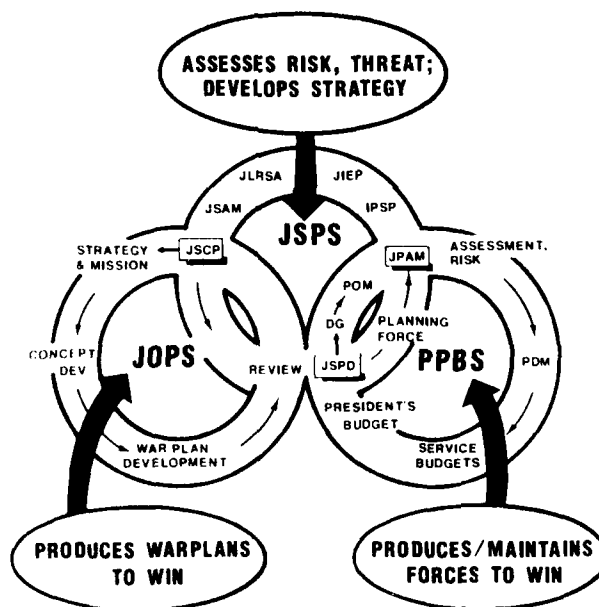
In short, JOPS provides executable plans to use forces in support of national security. Clearly, the JOPS needs strategy, mission, and resource information as provided for in the JSPS.¹³

Putting it All Together

Figure III-2 is designed to show how the JSPS fits into the big picture of defense planning. The JSPS is mutually supporting and synchronized with the PPBS. Note how the JSPD takes forces in being from the service budgets and gives risk, strategy, and planning forces with the PPBS. Similarly, the JPAM gives appraisal of POMs and risk assessment and takes programmed forces. Meanwhile, the JSCP provides the CINCs their missions and enumerates strategy so they can make their concept and operational plans. Indeed by this view, THE JSPS IS THE LYNCHPIN OF DEFENSE PLANNING--SUPPORTING ON ONE HAND LONG-TERM RESOURCE DECISION MAKING, AND ON THE OTHER, OPERATIONAL DECISION MAKING.

FIGURE III-2

DEFENSE PLANNING SYSTEMS

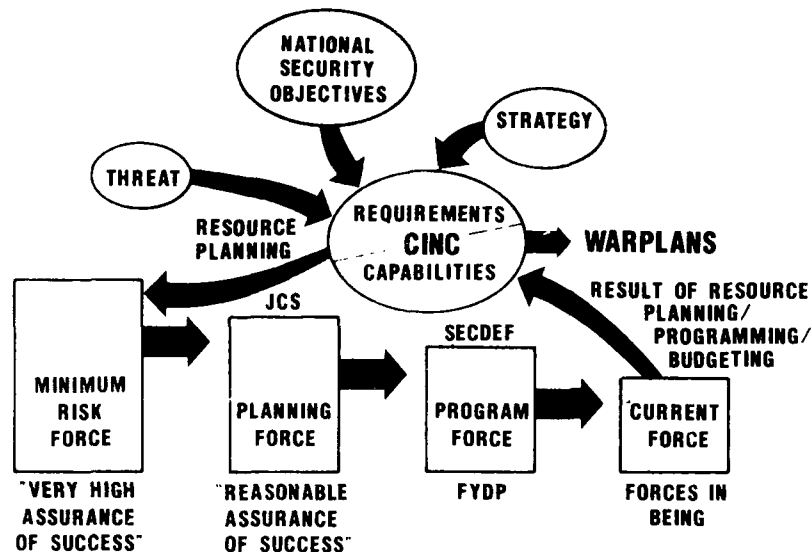


(Artwork by Brian Neff)

Objectives Exceed Means

The integrative perspective also makes clear the concept of a STRATEGY-FORCE MISMATCH. If one is able to envision the operational needs of the field and fleet commanders, given our global strategy, in the face of the real threat and with the knowledge of what our actual force levels are, one will be better able to conceptualize the risks of war.

FIGURE III-3
CAPABILITIES VS. REQUIREMENTS
THE CINCs' DILEMMA



(Adapted from AFSC "Joint Planning Overview," Vu-graph by Bill Potter)

Look at Figure III-3. The bar graph along the bottom shows the relative size and, consequently the difference, between the different conceptual force levels. The larger is on the left, the number of forces we need to win a simultaneously fought global war with virtually assured success--the "Minimum Risk Force." Moving to the right, we see what is needed to be "reasonably assured of victory--the "Planning Force." Next we have what is in the out-years of the Five-Year Defense Program--the "Program Force." Finally on the right we see what we actually have--the "current force." The Minimum Risk Force is conceived by the CINCs based on requirements derived from executing our stated strategy to achieve national security objectives in the face of the projected or perceived threat. Not surprisingly, the CINC finds inevitably that requirements exceed capabilities.

Warplans must be written based on capabilities because we have to fight with forces in being rather than forces on paper. So we wind up with WARPLANS THAT, IN AGGREGATE, CANNOT (WITHOUT SIGNIFICANT RISK OF FAILURE) EXECUTE OUR NATIONAL MILITARY STRATEGY. WE HAVE A STRATEGY-FORCE MISMATCH.

HIGHLIGHTS

Joint planning involves a myriad of activities including those often associated with three of the best known decision systems: PPBS, JSPS, and JOPS.

The JCS play a key role by developing the seven primary documents of the JSPS. Above all, the JCS, through the JSPS, provides an assessment of the threat to our national security objectives, advice on the forces needed to achieve those objectives, the strategy and mission guidance needed for the CINCs to pursue war planning, and, finally, an assessment of the risk involved in executing our national military strategy with existing means.

The main shortcoming in our overall allocation process, that the JSPS identifies, is that our objectives exceed our means. Current force levels are not sufficient to execute our published military strategy, not without significant risk.

NOTES AND REFERENCES

Footnotes

1. Army War College Core Curriculum for Course 3, "Joint Forces, Doctrine and Planning", AY 1988, p. 32.

2. Ibid., p. 33. JSPS was formally established, and still governed, by JCS Memorandum of Policy NR 84. The 16th edition was published on 14 May 86. Table III-8, outlines some details of the evolution of the JSPS.

TABLE III-8
Detailed Evolution of the JSPS

1950-1960

1952	The "Joint Program for Planning" (JPP)
1955	Mid-range Period adjusted to 3-7 Years out
1958	JSOP 62 submitted w/o force tabs
1959	CINCs asked to identify force requirements
1960	JSOP 63 submitted after FY 61 budget decisions. Mid-range adjusted to 5 years out, JSOP-66

1961-1968

1961	SECDEF McNamara establishes PFES, adding programming. JLRSE becomes JLRSS.
1962	CJCS GEN Maxwell Taylor directs Joint Staff to justify JSOP force tabs.
1964	"Situational Analysis" aids assessing force levels, but not force planning. JSOP balloons.
1966	JSOP-71/68-75 adjust midterm period to 3-8 years out. Parts 1-5 summarized as statement of national military strategy.
1967	JSOP 69-76 divided into 3 volumes: strategy, US forces, allied forces.
1968	JPP becomes JOINT STRATEGIC PLANNING SYSTEM (JSPS)

(During the McNamara period JCS fails to influence program through the JSOP.)

1969-1976

1969	JCS role in PPP changed: JSOP Vol I - DPM - VOL II - IFM - PPM: Joint Force Memorandum would recommend forces attainable within fiscal constraints and appraise the associated risk.
1976	Document cycle interrupted by ad hoc strategy and budget reviews.

1971 SECDEF Laird creates Defense Planning and Programming Guidance. DPPG intended to drive JSPS but PPGM setting fiscal levels and calendar was always late.
 1972 JLRSS becomes JLRSA published every 4 years.
 1976 DPPG and PPGM combined into Defense Guidance. JSOP Vol 1 initiates PPBS and provides JCS strategy

1977-1980

1977 SECDEF Brown creates Consolidated Guidance. CG prepared without JCS participation.
 1978 300 page CG issued.
 1978 JSPD and JPAM created to influence CG and PDM.

(Source: JCS (J-5) Vu-graph)

3. According to the Senate Armed Services Committee, the major provisions of the Goldwater-Nichols DOD reorganization act of 1986 were intended to:

- (1) enhance the value of joint military advice by designating the JCS Chairman (instead of the corporate JCS) as the principal military advisor to the president, the National Security Council, and the Secretary of Defense;
- (2) create a Vice Chairman of the JCS to assist the Chairman, to improve continuity in the performance of joint duties, and to better represent the joint military perspective;
- (3) make the Joint Staff more efficient and effective by authorizing only the JCS Chairman to manage it;
- (4) strengthen the joint war-fighting capabilities of U.S. military forces by enhancing the command and personal authority of the unified and specified commands;
- (5) improve supervision and control of the Defense Agencies (for example, the Defense Logistics Agency, the Defense Contract Audit Agency, etc.);
- (6) improve the performance of officers in joint duty positions by establishing management procedures for their selection, education, assignment, and promotion;
- (7) consolidate responsibility for certain functions of the military departments in their secretariat staffs;
- (8) decrease the size of headquarters staffs and Defense Agencies by about 16,500 personnel in order to streamline the administrative and operational chains of command; and

- (9) reduce the burden of congressional micro-management by "sunsetting" about two-thirds of the more than 400 defense reports required by the congress from the president and the Defense Department.

A summary of the major provisions of the Law can be found in the U.S. Senate, Committee on Armed Services, press release of 11 Sep 1986. Details are available in the Public Law 99-433.

4. This discussion on people in the JSPS is extracted from Army Command and Management, Theory and Practice 1987-1988, U.S. Army War College, Carlisle Barracks, PA, 19 Aug 87, p. 10-1.

5. The JSPD is actually an executive summary of another document, not addressed in this text, called the Joint Strategic Planning Document Supporting Analysis (JSPDSA). The JSPDSA is an internal OJCS document, the principal supporting analysis for development of the JSPD. It analyzes the "minimum risk force" (what the CINCs say they need to assuredly win i.e. execute the military strategy with "very high assurance of success") and develops the "planning force" that is presented in the JSPD. The JSPDSA is published biennially and consists of three parts: Part I, Strategy and Force Planning Guidance; Part II, Analysis and Force Requirements--Minimum Risk Force; and Part III, Analysis and Force Requirements--Planning Force.

The functional annexes supplementing the JSPD are:

1. Annex A (Intelligence)
2. Annex B (Nuclear)
3. Annex C (C³ Systems)
4. Annex D (Research and Development)
5. Annex E (Mapping, Charting, and Geodesy)
6. Annex F (Manpower and Personnel)

JSPD cost estimates are published as an appendix. (Source AFSC Pub 1, pp. 6,7.

6. AFSC Pub 1, Joint Staff Officers Guide 1986, p. 10-2. The JSPD, like the DG, has traditionally been produced annually. However, beginning in FY 86 the JSPD and DG have become biennial documents. To accommodate the two-part processing of the DG, the JSPD is to be published biennially in two phases. Sections I through IV (Introduction, Recommended Military Objectives, Policy Appraisal and Recommendations, and Recommended Strategy) and the Threat Appendix, will be published by 1 June. Sections V through VII (Force Development Assessments, Force Planning Guidance Recommendations, and Resource Constraints), cost and manpower data, and force table appendices, will be published by 1 September. A note to holders may be published in off years to provide significant changes. (Source: AFSC Pub 1.)

7. Army Command and Management, p. 10-5.

8. Ibid., p. 10-2.

9. Ibid., p. 10-2. A Joint Intelligence Estimate for Planning Supplement provides additional intelligence, consisting of: (1) significant changes in intelligence occurring between publications of the JIEP; and (2) force tables for selected countries. The JIEP Supplement is prepared and maintained by DIA and is continuously updated. The JIEP Supplement is not an approved JCS document. It is approved by the U.S. Military Intelligence Board and is circulated by the JCS for information.

10. Ibid., p. 10-2.

11. Ibid., p. 10-5.

12. Ibid., p. 10-5.

13. I am grateful to Colonel Joe Kline, USMC, my colleague on the NWC Faculty, for this concise description of JOPS. For a more detailed description of JOPS, the related JDS (Joint Deployment System) and the emerging Joint Operational Planning and Execution System (JOPES), see Chapter 5 of the Armed Forces Staff College Joint Staff Officer's Guide, U.S. Army War College's Warfighting: Its Planning and Conduct, Carlisle Barracks, 1987: or the four JOPS documents themselves:

a. JOPS Volume I (Deliberate Planning Procedures) is unclassified. It gives guidance and administrative procedures for developing, coordinating, disseminating, reviewing, and approving joint operation plans during peacetime. In addition, Volume I prescribes standard formats and minimum content of operation plans, annexes, appendices, tabs, and exhibits.

b. JOPS Volume II (Supplementary Planning Guidance) is classified. It is functionally oriented and gives directions, procedures, and planning guidance keyed to certain plan annexes, as well as formats for classified subjects.

c. JOPS Volume III (ADP Support) is unclassified. It describes the WWMCCS standard computer-based system that supports JOPS. JOPS ADP application software gives automated assistance specifically in the plan development phase for development of the plan Time-phased Force and Deployment Data. JOPS Volume III contains:

- (1) a description of standard reference files that are a source of basic planning information;
- (2) a description of the JOPS standard ADP application programs that assist the planner in developing and time-phasing a force list, computing required resupply and replacement personnel for the forces,

determining medical and civil engineering support, and simulating the strategic deployment of all movement requirements; and,

- (3) instructions for the reporting and exchange of data associated with the standard reference files and ABP programs.

d. JOPS Volume IV (Crisis Action System) is unclassified. It sets forth guidance and procedures for joint planning during emergency or time-sensitive situations. The procedures are intended to give the Joint Chiefs of Staff, the services, the commanders of unified and specified commands, and Defense Agencies guidance to assist in developing timely recommendations to aid the National Command Authority in making decisions involving U.S. military force in the execution of military courses of action. (Source: AFSC Pub 1, p. 5-13.)

References

1. Armed Forces Staff College Pub 1: Joint Staff Officer's Guide 1986. Norfolk, VA: National Defense University, 1 July 1986.

2. Coggins and Neiger, "Funding the Sinews of War: The CINCs", Armed Forces Journal International, Oct 1987.

3. JCS Memorandum of Policy 84 (MOP 84). The Joint Strategic Planning System (JSPS). Washington, Revision 16, 14 May 1986.

4. JCS Pub 2. Unified Action Armed Forces (UNAAF). Washington: 1 December 1986.

5. JCS SM 362.84, Joint Operations Planning System (JOPS), Volume 1: Deliberate Planning Process. Washington: 28 June 1984, (under revision).

6. U.S. Department of the Army. Army Regulation 1-1: Planning, Programming, and Budgeting System. The Department of the Army. Washington: 1 July 1986, (under revision).

7. U.S. Department of the Army. Army Regulation 1-1: Planning, Programming, Budgeting, and Execution. Washington: 1 August 1986.

8. U.S. Department of the Army. Army Regulation 1-1: Planning, Programming, Budgeting, and Execution. Washington: 1 August 1986, (under revision).

9. U.S. Army War College. The Joint Strategic Planning System: Theory and Practice, 1987. Carlisle, PA: War College, 1987.

10. U.S. Army War College. The Joint Strategic Planning System: Theory and Practice, 1987. Carlisle, PA: War College, 1987.

CHAPTER IV

THE PPBS

INTRODUCTION

Purpose

The role of the defense decision makers in developing national security policy involves strategy and resource allocation decisions. Strategy decisions pertain to the use of forces, the size and readiness of forces, the strategic positioning of forces, and their operational command and control. These decisions are largely executive ones, involving the president in close consultation with the National Security Council. Resource allocation decisions, on the other hand, pertain to the more precise determination of requirements for resources and their allocations to permit the forces to carry out their responsibilities. The decision making system which DOD uses to determine its requirements and then program, budget, and allocate resources over time to satisfy these requirements is the Planning, Programming, and Budgeting System (PPBS).¹

Since PPBS was instituted in the early 1960s, its purpose has always been "to produce a plan, a program, and, finally, a budget for the Department of Defense. The budget is forwarded to the president for his approval. The president's budget then is submitted to congress for authorization and appropriation."²

While this purpose of PPBS has been constant over the years, the process itself has evolved. The PPBS continues to be a dynamic and changing decision system.

History and Characteristics of PPBS³

President John Kennedy's Secretary of Defense (SECDEF) Robert McNamara introduced PPBS to the DOD. The notion of a "program budget", which was developed at the Rand Corporation during the previous decade, was at that time a foreign concept to the military services. Budgeting previously had focused on such things as salaries, overhead, and capital expenditures; rather than on the objectives or results to be achieved with those resources. PPBS was introduced in DOD so that resources for national defense could be allocated in a more RATIONAL, SYSTEMATIC way that RELATED more DIRECTLY TO THE MISSION and role of the department. Before Secretary McNamara, each service had prepared its budget following its own interests with very little guidance from the Office of the SECDEF (OSD). Previous SECDEF involvement had for the most part been limited to dividing the DOD's budget ceiling among the services. If the services exceeded their share of the pie, the SECDEF would reduce their budget usually by a percentage cut across the appropriations. Before PPBS, the OSD rarely attempted to review the programmatic aspects of the services' budget submissions.

One of the most dramatic and enduring aspects of the PPBS was McNamara's creation of the "Five Year Defense Plan" or "Five Year Defense Program" (the FYDP). The FYDP was created to provide a programmatic and multiyear focus, which is the heart of PPBS. The FYDP remains the central data base underlying PPBS. Later in this chapter, we will get more involved with the FYDP.

President Jimmy Carter and his Secretary of Defense Harold Brown added several initiatives to the PPBS. In 1976, Carter introduced Zero Based Budgeting (ZBB) to the Federal Budget Process. In 1979 as a result of a Rand Corporation study, the "Rice Study," SECDEF Brown formed the Defense Resources Board (DRB) to better manage the PPBS process. The DRB consisted of various Under and Assistant Secretaries of Defense and the Chairman of the JCS. The DRB REMAINS TODAY AN ACTIVE AND INFLUENTIAL DECISION MAKING BODY in the PPBS. They are often referred to as the SECDEF's BOARD OF DIRECTORS FOR RESOURCE ALLOCATION.

During the Reagan era, PPBS has undergone numerous changes. President Reagan took office and his administration pledged to revitalize American military strength in the most effective and economical manner. This objective led to significant changes to the PPBS known as the "WEINBERGER-CARLUCCI INITIATIVES" (Frank Carlucci was then DEPSECDEF and Chairman of the DRB). In addition to eliminating most ZBB paperwork, greater emphasis was placed on long-range planning, more authority was decentralized and returned to the services, and there was closer attention to cost savings and efficiencies. Additionally, the DRB was restructured. Membership was changed to include the service secretaries as full members. DRB review was changed to include only major issues. The DRB would also review and approve policy and strategy in the planning phase, adding more power to the first "P" (Planning in PPBS). Finally, the Commanders-in-Chief (CINCs) of Unified and Specified Commands were invited to participate in the DRB deliberations of the planning and programming phases. In general, Weinberger and Carlucci moved to "STREAMLINE" the PPBS.

In 1984, based on recommendations from the Defense Resources Board (DRB) and the CINCs, the DEPSECDEF directed an ENHANCEMENT OF THE CINCS' ROLE IN PPBS. The CINCs were to submit clearly identified requirements for new or changed programs through their service components. In addition, higher priority needs ("war stoppers") in the areas of readiness and sustainability were to be submitted directly to DEPSECDEF and to the Chairman of the Joint Chiefs of Staff.

Defense resource allocation and the acquisition system were changed dramatically in 1986. The BOD Reorganization Act of 1986 (the GOLDWATER-NICHOLS bill) directed a major overhaul of the BOD acquisition structure and strengthened the joint elements of the BOD. The greatest impact on PPBS was the law's strengthening of the position of the CHAIRMAN OF THE JCS (CJCS) AS THE PRINCIPAL

MILITARY ADVISOR to the president, the NSC and SECDEF. By Goldwater-Nichols, the CJCS:

- o advises the SECDEF on the priorities of the requirements identified by CINCs.
- o advises the SECDEF on the extent to which departmental program and budget proposals meet the requirements of CINCs.
- o submits alternative program and budget proposals to achieve greater conformance with CINCs priorities.
- o recommends budget proposals for the activities of the CINCs.

The PACKARD COMMISSION REPORT was published in 1986 and several changes to PPBS followed in its wake. VIRTUALLY ALL OF THE RECOMMENDATIONS OF THE BLUE RIBBON PANEL THAT ARE UNDER EXECUTIVE BRANCH CONTROL HAVE BEEN IMPLEMENTED. The biggest impact on PPBS has been biennial programming and budgeting. Congress, on the other hand has not responded to the Packard Commission report. In addition to the recommended two year defense budget, congress was urged among other things to streamline the defense budget committees, stabilize defense budget forecasts in the budget resolution process, and adhere to deadlines in the budget enactment process. Congress has not made any of these changes.

The notion of a two-year budget is not new. It has seemed like a good idea to some for many years. A more deliberate planning schedule, increased attention to major issues, a more stable resource allocation and conservation of planning resources are all possible benefits of the two-year idea. The congress has in fact, directed that beginning with the fiscal years '88 and '89, the defense budget submission would cover a two-year period." The DOD of course complied; however, the congress only appropriated funds for one year in the FY88 spending bill. BIENNIAL BUDGETING FOR DEFENSE IS PRACTICED AT PRESENT ONLY BY THE EXECUTIVE BRANCH.

PPBS is not strictly a DOD phenomenon. The program-budget has become institutionalized throughout the executive branch of the federal government. PPBS is used as well in many local and state governments and can also be found in other democratic countries.

Structure of this Chapter

The challenge, when trying to describe the PPBS, is to be comprehensive yet basic. The PPBS is a complex process. Yet enumerating every detail would certainly make this chapter unreadable. On the other hand, being anything but thorough could

detract from the objective of having the reader understand the process.

To solve this dilemma, the PPBS process will be described in several stages. First the objective of the system will be articulated. Then, the three phases (P, P, & B) will be described in very general terms. The discussion will then turn to the most basic of the PPBS documents as the basic PPBS cycle will be developed. Then more complex parts of the process will be introduced and the PPBS schedule will be explained.

PPBS should be taken in small doses. If you have no experience with PPBS, read only the basic text. The footnotes are intended to be used by those readers with prior knowledge/experience in PPBS. Delve into the details of the notes at your own discretion. You should be able to come away with a general understanding of PPBS without looking at the notes.

THE PPBS PROCESS

The Objective

As is the case with all rational and systematic processes, PPBS can be described conceptually in terms of inputs, purpose, activity, objective, and output. As was stated earlier,

The purpose of the PPBS is to produce a plan, a program, and finally, a budget for the Department of Defense. The budget is forwarded to the president for his approval. The president's budget is then submitted to congress for authorization and appropriations.

Budgets, however, don't win wars; armies, navies, and air forces win wars. A more practical statement is then...the OBJECTIVE OF THE PLANNING, PROGRAMMING AND BUDGETING SYSTEM IS TO PROVIDE THE COMMANDERS-IN-CHIEF OF THE UNIFIED AND SPECIFIED COMMANDS (CINCS) THE BEST MIX OF FORCES, EQUIPMENT, AND SUPPORT ATTAINABLE WITHIN RESOURCE CONSTRAINTS.¹² So while many think of the defense budget as the output of the PPBS, the budget is just a means to the end. THE PURPOSE OF THE PPBS IS TO MAKE A PROPOSAL THAT WILL FIELD FORCES. This notion is depicted in figure IV-1.

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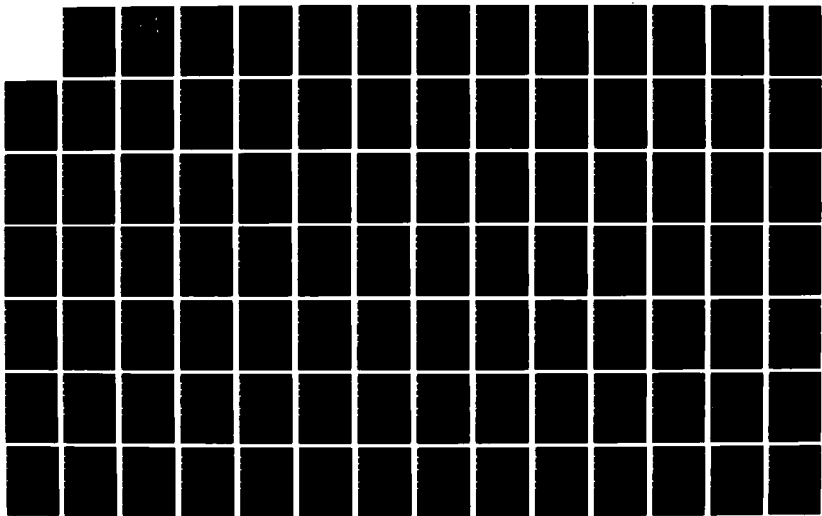
THE DEFENSE RESOURCE ALLOCATION PROCESS REVISION
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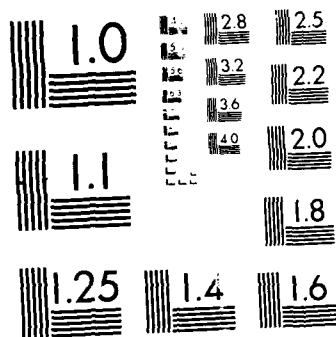
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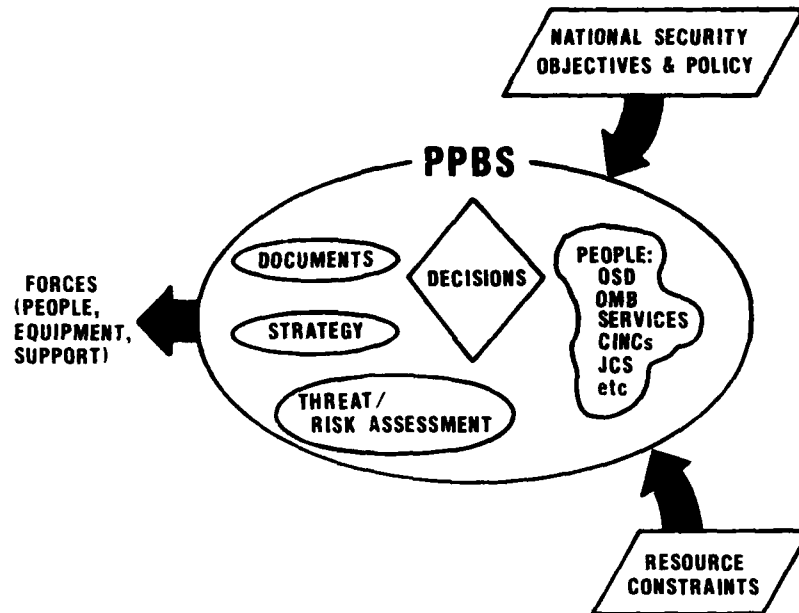
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FIGURE IV-1
THE PPBS - A BASIC SYSTEM



(Artwork by Brian Neff)

If you get bogged down in the ensuing discussion, come back to look at Figure-IV-1. The PPBS is nothing more than a decision system. PPBS takes national security objectives and, using available resources (\$), produces forces. The activities in the process include strategy development, risk and threat assessment and a lot of paperwork. There are many players.

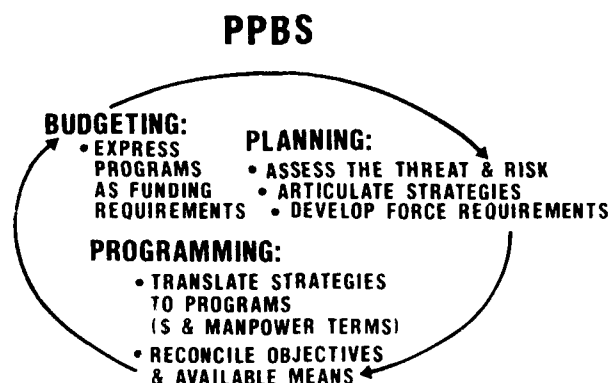
A Three Phased Process

The three phases of the PPBS have been concisely described by two Air Force majors:

Each of the three phases contributes to our ultimate objective - providing operational commanders with the best mix of forces and support attainable within fiscal constraints. Each phase overlaps the next. During the Planning Phase, DOD identifies the threat facing our nation during the next 5-20 years, assesses our capability to counter it, and recommends the forces necessary to defeat it. Planning highlights critical needs and examines risks in order to guide resource decisions if recommended goals are not attained. In the Programming Phase, the Services match available dollars against the most critical needs and develop a 5-year resource proposal. This proposal becomes the basis for budgeting action. The Budgeting Phase refines the detailed costs and develops the Service estimates required to accomplish the approved program. Following review and approval,¹³ the proposal serves as the input to the president's budget.

Figure IV-2 is offered to emphasize the main activities of each phase of the process. This picture also shows the cyclical nature of the PPBS with subsequent planning being based on a view of the threat, given budgeted forces.

Figure IV-2 - The Phases of Planning,
Programming and Budgeting

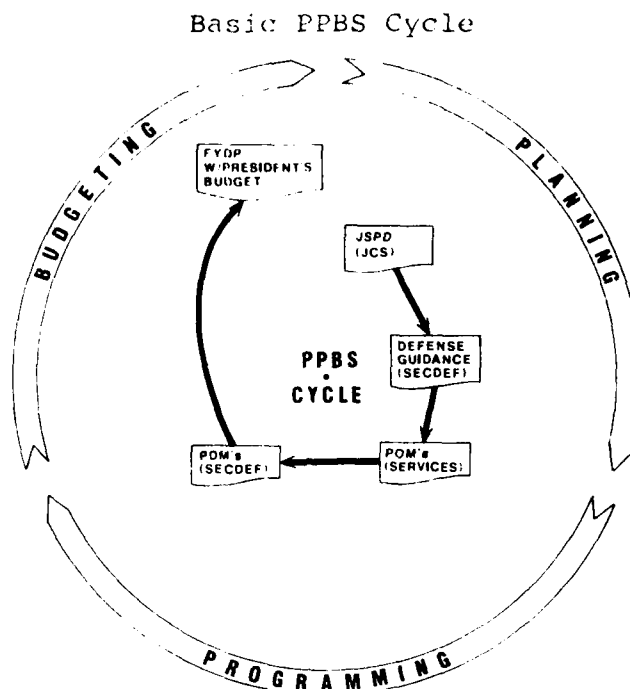


(Artwork by Gerry Lemothe)

Basic Documents

The intent is to develop the PPBS slowly. At first, we will cover only the most basic of the PPBS documents. A basic PPBS cycle may be thought of as one with five documents: The JCS's Joint Strategic Planning Document (JSPD) and SECDEF's Defense Guidance (DG) during the Planning Phase; Service Program Objective Memoranda (POMs) and SECDEF's Program Decision Memoranda (PDMs) during programming; and the Five Year Defense Program (FYDP), which is the basis for the DoD budget. It may be helpful for the reader to refer to the basic cycle shown in Figure IV-3 as these documents are discussed.

Figure IV-3 - The Five Key Documents of the



(Artwork by Bill Potter)

The Joint Strategic Planning Document (JSPD)

Recall that the JSPD was discussed as part of the Joint Strategic Planning System (JSPS) in Chapter III. We'll talk about the JSPD again, now as a part of the PPBS. The JSPD is forwarded by the Joint Chiefs of Staff (JCS) to the SECDEF early in the Planning Phase. The JSPD deals with strategy, force structure and risk.

Strategy to execute national defense policy is detailed in the JSPD; and the forces required to carry out that strategy, in view of the current threat, are recommended. These recommended forces are called the "PLANNING FORCE." Since we have nowhere near the number of divisions, wings, carrier battle groups, etc. called for by the Planning Force, there is considerable risk involved with global conflict. So the JSPD also assesses the risk that exists because of the difference between the "planning force," the "programmed force" and the "current force."

The JSPD force structure recommendations are in two forms. The "Planning Force" as noted before, is an unconstrained statement of what is needed to be "reasonably assured of success." Additionally, as a result of the Packard Commission's criticism of unrealistically large planning force levels, the JSPD now includes a fiscally constrained annex.

Defense Guidance (DG)

The DG is the final document in the planning phase. In the DG, the SECDEF promulgates defense policy, strategy, force planning, resource planning and fiscal guidance. This guidance reflects economic constraints and the Secretary of Defense's management priorities. A "smooth" DG is issued after a draft is commented on by all those concerned.

It may be helpful to think of the DG as the OUTPUT OF THE PLANNING PROCESS that represents a PACKAGE OF ALL THE PLANNING PIECES. The DG includes national security policy, priorities and areas to be emphasized in the services' programs, and resource constraints. The PURPOSE OF THE DG is to GUIDE RESOURCE ALLOCATION DECISIONS: it serves to guide the services in program development and JCS and CDD in their program review.¹⁵

Program Objective Memoranda (POMs)

Please glance at Figure IV-3 again - we're now in the programming phase. Each Service develops a Program Objective Memorandum (POM) which lists its objectives for forces, weapon systems, and logistic support within the fiscal limits set by the Defense Guidance.¹⁶ POMs depict the MATCHING OF MONEY AND MANPOWER TO PROGRAMS OVER EACH OF THE NEXT FIVE YEARS.

The POMs represent the result of the services' analyses of alternative ways to meet their needs. Hence, THE POMs ARTICULATE THE DECISIONS THAT THE SERVICES MAKE IN THE RESOURCE ALLOCATION PROCESS. POMs also show the impact of reduced resources, propose new initiatives, and provide additional options "over guidance" (i.e., alternative uses of additional funds should any be available).

What are these "Programs"? The term Program is beat about and used in several different ways. It's time to define Program in PPBS terms. Programs are designed to express the accomplishment of a definitive objective. Recall that at the heart of PPBS is the concept of a "program budget". Each program is time-phased as to what is to be done and the means proposed for its accomplishment. The DoD deals with eleven major force programs or "MFPs":

1-Strategic Forces, 2-General Purpose Forces, 3-Intelligence and Communications, 4-Airlift and Sealift, 5-Guard and Reserve Forces, 6-Research and Development, 7-Central Supply/Maintenance, 8-Training, Medical, Other General Personnel Activities, 9-Administration and Associated Activities, 10-Support of Other Nations, 11-Special Operations.

These major force programs are mission oriented aggregates of program elements (PEs). PEs are the building blocks of programs and of the whole defense plan. For example, the major force program of Strategic Forces would comprise the PEs of USAF B-52s (PE #11111F), Navy Trident (11228N), etc. Other examples of PEs would

be Aircraft Carriers of the General Purpose Forces (24112N) and the R&D for Cruise Missiles (63362N).

The Program Decision Memoranda (PDMs)

Think of each Service submitting requests for what they want to do (i.e., the POMs) and SECDEF approving or at least modifying part of their proposals. PDMs mark the end of the programming phase as the SECDEF analyzes and responds to the service POMs. A PDM is transmitted to each service and APPROVES THE POM AS MODIFIED THEREIN.

The Five Year Defense Program (FYDP)

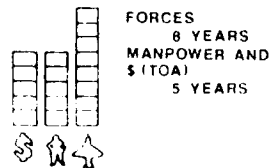
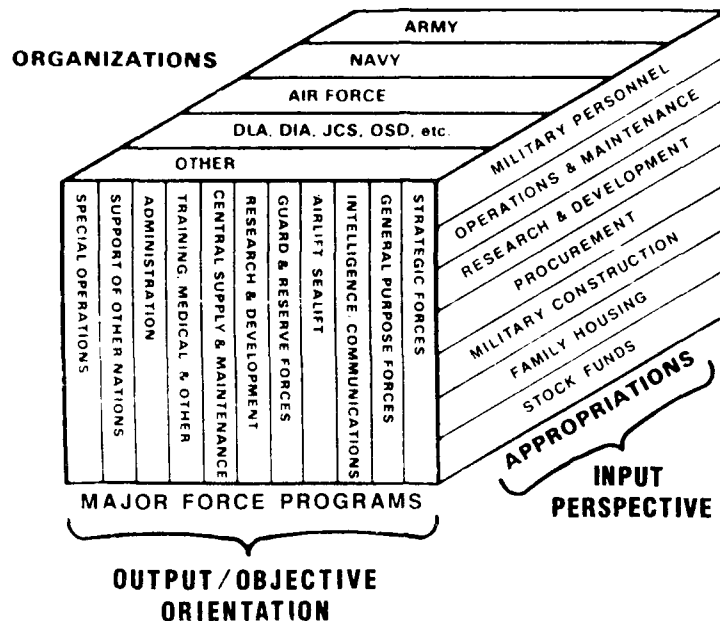
Because the FYDP is the final result of the programming and budgeting, it is thought of as the output of the PPBS. More formally, the FYDP is the official document which summarizes the SECDEF's approved programs for the DOD. The FYDP is a huge data base that serves as a detailed compilation of the total resources (forces, manpower, and dollars) for procurement, construction, research and development. There are some important characteristics of the FYDP that you need to know if you're really going to understand the PPBS:

- o The FYDP projects five years of data for manpower and dollars, but eight years for force tables. In layman's terms, the FYDP is very specific about people and dollars for only 5 years; it tells the general force level plan for eight years.
- o The FYDP is structured to display data in two different languages - programs and appropriations. This may seem like an unnecessary detail. However, recall from Chapter II, that congress authorizes payments from the treasury in seven general categories:
 - Military Construction (MILCON)
 - Family Housing
 - Research and Development (R&D)
 - Procurement
 - Operations and Maintenance (O&M)
 - Military Personnel
 - Stock Funds

Meanwhile, the program budget concept at the heart of PPBS is based on the major force programs and the thousands of program elements that make up these programs. The FYDP of necessity must be able to identify resources using either language. Figure IV-4 depicts the dual structure of the FYDP that allows for this bilingual characteristic.

FIGURE IV-4

FIVE YEAR DEFENSE PROGRAM STRUCTURE



(Source: Adapted from an Army War College Vu-graph)

The FYDP is structured this way to keep both the DOD and the congress happy. DOD needs output oriented expressions to satisfy the rational and systematic PPBS process, Congress feels they need an input oriented format.

A final characteristic of the FYDP that needs to be explained is that this dynamic document is updated at least three times each cycle. When you think about it, it makes sense to take a picture of the total defense program after each key decision point in the process. These decision points are:

- When the Services submit their POMs (referred to as The "POM FYDP" or "May FYDP")
- After the services revise their programs in the wake of the PDAR (called the "September FYDP" or "Budget Estimate FYDP")
- Coincident to the submission of the President's Budget ("The January FYDP")

Basic Cycle Summary.

We have briefly described the skeleton PPBS cycle. It is illustrated in Figure IV-3, from its formal beginning with the JSPD to its culmination with publication of the January FYDP attendant to the president's budget.

The JCS review the programmed force, the threat and the policy; and in the JSPD recommend the force to plan for while addressing the risk associated with the existing structure. In Defense Guidance, the SECDEF summarizes planning considerations and applies fiscal constraints with priorities and areas to emphasize. In their POMs, the Services articulate their decisions and propose matching dollars to programs. SECDEF assesses the POMs and publishes his final decision on programs in the PDMs. Services modify their POM's accordingly and go through a budgeting drill, which results in the FYDP--which in turn is reflected in the president's budget to congress.

Fleshing Out the Process

If you think that you understand the basic PPBS cycle, you should now feel comfortable with the documents called the "JSPD", "DG", "PDM", "POM", and "FYDP" as well as the concepts of Planning, Programming and Budgeting. If these terms don't make any sense, reread the Overview (Chapter I) and the first part of this Chapter on PPBS before continuing further.

Our next step is to describe the PPBS Process in more detail. As you shall see in the following pages, this involves more people (The CINCs, the Defense Resource Board, and the OMB in particular) and more documents (Acronyms such as JIEP, JLRSA, JPAM, IPL, BES and PBD will soon enter or revisit your vocabulary). We will describe these additional inputs, processes, and documents by the phase of the PPBS that they generally fall into.

Planning

In our earlier development of the basic PPBS cycle, the JSPD and DG were discussed. There are some additional relevant points about the development of these two documents that should be brought out.

The JCS are charged with providing the SECDEF with "intelligence estimates and priorities; long-range trends, developments, and alternatives; threat and capability assessments; and other views, recommendations, and appraisals applicable to strategic planning".¹⁸ The two primary vehicles used by the JCS to do this are the "JIEP" and the "JLRSA". While these documents were discussed in Chapter III (JSPS), they are mentioned again here because they are also essential to the PPBS planning process.

The Joint Intelligence Estimate for Planning (JIEP), recently changed from an annual to a biennial JCS document, directly

influences the PPBS cycle. It uses inputs from the Defense Intelligence Agency (DIA), the National Intelligence Community, and the CINCs. The JIEP contains detailed intelligence on possible worldwide situations and developments that could affect U.S. security interests in the short- and mid-range periods.

The Joint Long-Range Strategic Appraisal (JLRSA) is published every four years and contains long-range intelligence estimates for 20 years into the future. Its purpose is to furnish a framework for broad force structure implications and assessments.¹⁹

Intelligence from these publications, along with national objectives and policies received in National Security Decision Directives from the National Command Authorities (NCA) is used to develop the Joint Strategic Planning Document (JSPD) and its Supporting Analyses.²⁰ Recall that the JSPD is a summary that:

gives military planners the JCS positions on national military objectives, national military strategy, and planning guidance. It shows the minimum-risk force levels required to achieve national military objectives with virtual assurance of success, furnishes the military assessment of the Joint Chiefs of Staff on selected allied and friendly nations' force objectives, and develops planning force levels that the Joint Chiefs of Staff consider necessary to give reasonable assurance of success in executing national strategy. Furthermore, the JSPD summarizes the manpower requirements and costs associated with the most recent FYDP force.²¹

The JSPD is sent to the SECDEF every two years, by the current schedule, to arrive in two phases. (Part I, Policy and Strategy, is issued every other June. Part II, Forces and Resource, is issued every other September).

Draft DG. Let us now turn our attention to the development of the Defense Guidance. Recall from the earlier discussion that the DG, as the book with all the planning pieces, is a monumental document. The DG is the link between planning and programming; it gives the official planning guidance to the military departments for developing their POMs. It is important to know that the DG is not written overnight or in a vacuum. Rather, the DG is developed, over time, with participation of virtually every organization within the DOD. Additionally the Department of State, the NSC staff and the OMB are provided with draft copies for comment.

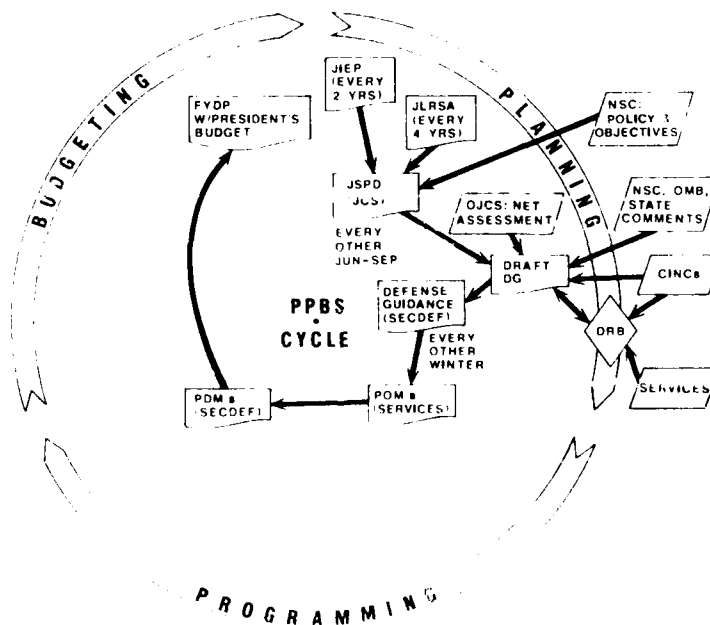
In the OSD, the Under Secretary of Defense for Policy (DUSD(P)) takes the lead in drafting the DG. The previous DG, EDMs, and budget are considered along with the JSPD. The Net Assessment, another input, is a compilation of threat and capability assessments from the Joint Chiefs of Staff and the Services. The DG Steering Group, chaired by the Deputy Under Secretary of Defense for Policy (DUSD(P)), helps develop and

coordinate the DG. THE DEVELOPMENT OF THE DG RELIES ON EXTENSIVE DIALOG BETWEEN OSD, THE JOINT CHIEFS OF STAFF, CINCs AND THE SERVICES.

As drafts of chapters of the DG are produced, they are circulated to the military departments and others for review and comment. At that time, the services use the draft DG as guidance to begin development of their programs. The draft DG is reviewed, and commented on, by the Joint Chiefs of Staff and the CINCs and by the Defense Resources Board (DRB) before the final DG is issued.²²

Before our minds get too bogged down, let's summarize the complete Planning Phase. Look at Figure IV-5 below. We have augmented our basic PPBS cycle with more details. The JSPD is conceived with inputs on the threat (JIEP), national policy and objectives (from the NSC) and long-range strategy (JLRSA). In addition to the information summarized in the JSPD, the OSD takes many other factors and advice into account as the Defense Guidance is developed. The drafting of the DG is itself a dynamic and iterative process involving dialogue with the CINCs, the services, and the DRB as well as the other executive agencies and departments.

Figure IV-5
Fleshed out Planning Phase



(Artwork by Bill Potter)

Programming

In our basic PPBS discussion, we briefly described the POM and the PDM documents used in the programming phase of PPBS. Now let's examine the rest of what happens in programming. To review, with words from the Staff Officer's Guide,

POMs are based on the strategic concepts and guidance stated in the DG and include an assessment of the risks associated with the current and proposed forces and support programs. POMs express total program requirements for the years covered in the DG and describe the rationale for proposed changes from the approved Five-Year Defense Program (FYDP). Dollar totals must be within the fiscal guidance for Total Obligation Authority (TOA) issued by the Secretary of Defense. Recently the services have been required to include special annexes that show how their POMs respond to the needs of the CINCs.²³

CINCS' IPLs. The CINCS' long term resource needs are to be taken care of by the services. To get their requirements considered in the programming phase, CINCS first submit Integrated Priority Lists (IPLs) to the services. POMs, including these CINC inputs, are (by the current schedule) submitted every other year in April.

The Summer Review Process. Once the POMs have been submitted, the JCS must determine how well the services "answered the call." Three vehicles help the SECDEF determine compliance with the DG and surface alternatives to proposed programs. They are, the Joint Program Assessment Memorandum (JPAM), issue books, and the deliberations of the Defense Resources Board (DRB). They are all part of what is referred to as the "program review" or "summer review" process.

1. The JPAM: The JPAM is primarily a risk assessment of the composite of the POM force recommendations. It includes JCS views on the balance and capabilities of the overall POM force and support levels to execute the approved national military strategy. The CINCS furnish information to the Joint Chiefs of Staff for development of the JPAM. When appropriate, the Joint Chiefs of Staff use the JPAM to recommend alternatives to achieve improved and integrated defense capabilities within the total funding levels.

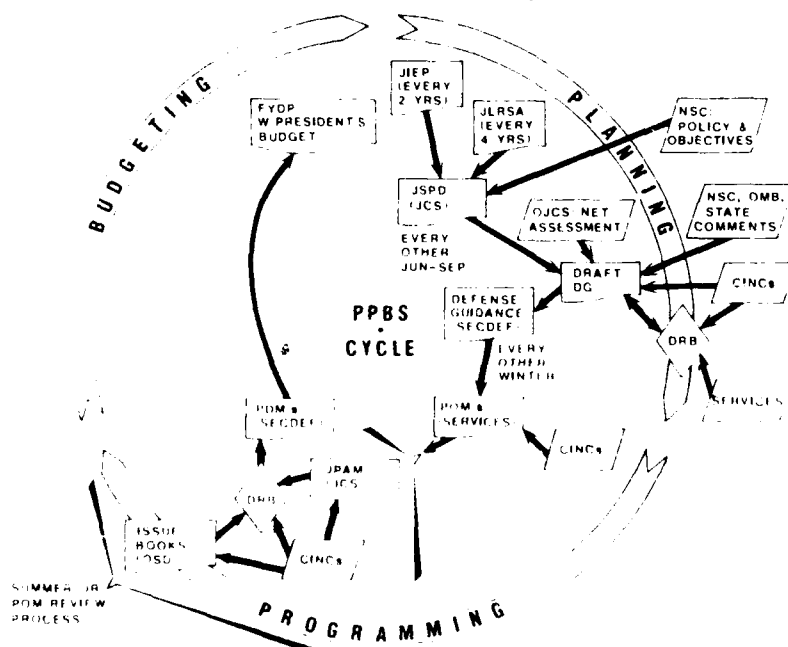
2. Issue books. Meanwhile, the DPM staff prepares a list of potential issues. "Issues" can be areas of possible noncompliance with the DG or proposed alternatives for some of the programs included in the POM. Other issues are prepared by the CINCS, DPM, and the defense community. All potential issues are examined by the Program Review Group, a branch of the DPM which analyzes a list of candidate issues to be considered by the DRB. The DRB makes the final selection from the list of candidates, and the DRB staff begins to

prepare individual papers summarizing each selected issue. The Services and OMB help to formulate the issue papers, and the Joint Chiefs of Staff and CINCs also supply inputs. Each issue paper consists of a discussion section followed by alternatives. The individual issues are combined into "issue books" (sometimes called program review books). These books are later considered by the DRB. Before the DRB meetings, the issue books are circulated to other OSD staff members, the JCS, the CINCs, and the Services for review and comment. Their comments are attached to the issue book "package" considered by the DRB.²⁵

3. The DRB (The DOD's "Board of Directors" for resources) meets in the summer, every other year, to discuss the major issues. In addition to the JPAM and the Issue Books, the DRB gets input direct from the CINCs, who meet with the SECDEF and the DRB to provide their views on the strategy and adequacy of the POMs to meet that strategy. The DRB has multiple meetings over a two-to-three week period to resolve the issues. The CINCs are invited when their issues are under consideration. Each issue book is the subject of one two-to-three hour meeting, after which the Deputy Secretary of Defense (DEPSECDEF) makes decisions "after consultation with the Secretary".²⁶

As noted in our basic process discussion, the SECDEF's final "Summer Review" decisions are announced in the PDM. The PDMs are the last document of the Programming Phase.

Figure IV-6
Fleshed out Planning and Programming Phases



(Artwork by Bill Potter)

Let's pause again to catch our breath. Look at Figure IV-6. It is offered to summarize the complete PPBS process through the programming phase. Note that the CINCs participate in POM, Issue Book and JPAM development, as well as in the DRB deliberations. During the Summer Review Process, the DRB is the key decision body. It reviews the aggregate of the Service POMs with the help of issue book alternatives, the CINCs' views, and the JCS risk assessment. The end of the programming phase is marked by the PDMs which approve the POMs or tell the services how to change their POMs.

Budgeting

Budgeting is the final phase to be described as we flesh out the whole PPBS Process. Basically what happens in the budgeting phase is that the PDM decisions of programming are transformed into the DOD portion of the President's budget. The two main vehicles used to do this are "BESS" and "PBDs." Using the words of the Staff Officer's Guide,

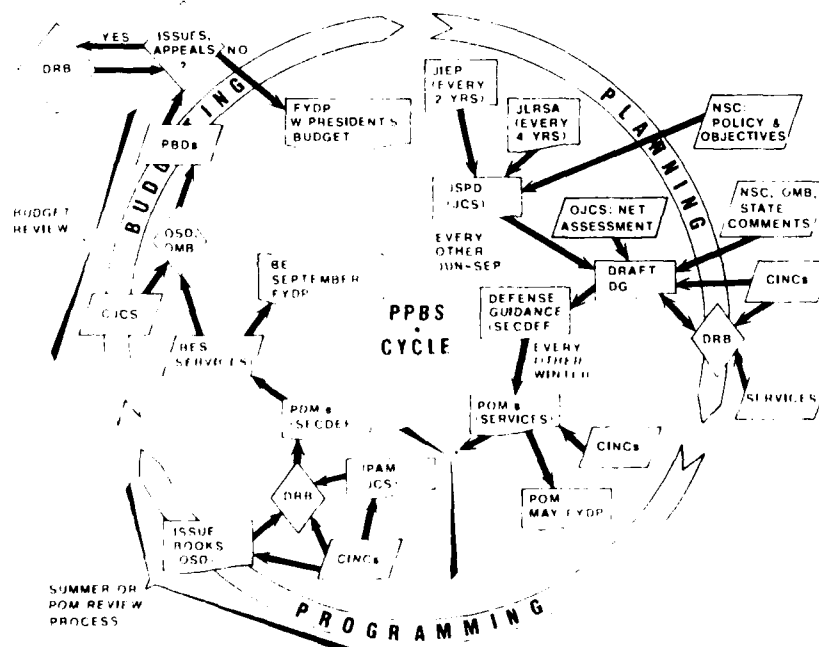
Budget Estimate Submissions (BESS). Each of the military departments and the defense agencies forwards its budget submission to the Office of the Assistant Secretary of Defense (Comptroller) (ASD (C)). This submission is traditionally due in September. The budget estimates include the prior year, current year, and budget year (budget year plus one for authorized programs). Budget estimates are prepared and submitted based on the approved program as well as current economic assumptions. On receipt of the submission, the Comptroller's program and budget office begins the joint OSD and OMB hearings to review the submission. These hearings, jointly conducted by OSD and OMB representatives, are attended by appropriate members of the ODCS and OSD staffs. The military departments make presentation concerning their submissions and respond to questions.

Program Budget Decisions (PBDs). The hearings are conducted to obtain additional information necessary to draft Program Budget Decisions (PBDs). The entire budget is reviewed to ensure that the requests are properly priced, program schedules are appropriate, and estimates are consistent with the objectives of the Secretary of Defense. Approval of the estimates for inclusion in the President's Budget is documented by the PBDs. These decisions will evaluate, adjust, and approve all resources in the budget request. When each individual PBD is written, it is coordinated with OMB and the Under Secretary and Assistant Secretaries of Defense. Each PBD consists of a discussion of the area, issues, and a series of alternatives. PBDs are sent to the JCS/DPDEF with a covering memorandum that identifies any interrelated issues. The Deputy Secretary reviews one of the alternatives or directs a new one, and the approved PBD goes to the military department.

If the services appeal a PBD, the reclama is processed through the same channels as was the PBD. The DEPSECDEF makes the final decision after the issue is deliberated by the DRB. An opportunity is offered as near the end of the review cycle for the military department secretaries and service chiefs to discuss with the Secretary of Defense those major budget issues that merit his personal review. During this final phase of PPBS, the Joint Chiefs of Staff and CINCs assess the impact of PBDs on warfighting capabilities. The concerns of the Joint Chiefs of Staff, and CINCs are presented to the Chairman, Joint Chiefs of Staff, who discusses them with the Secretary of Defense. If at the end of the DOD process OMB feels that unresolved differences remain between itself and the DOD, these issues are raised when the Secretary meets with the president. Once all the final budget decisions are made, the DOD budget then becomes a part of the President's Budget that will be considered by the congress.

It may seem that decisions made in the Programming Phase are being revisited in budgeting. This is not so in a "pure" PPBS cycle where program decisions (those finalized in the PDMs) are not normally reversed. Budgeting Phase decisions usually concern expressing programs as funding requirements. However, consider the case of the "off years"--those years when there is no POM, but there is to be a President's Budget before congress the following January. (Recall that DOD does biennial P,P, & B; congress budgets annually.) During these off years, big decisions involving programs may have to be made. Consider the budget the president sent to congress early in 1988. It cut about \$33 billion from the FYDP that was "approved" just the year before. In "off years" like this, budgeting decisions will almost certainly affect, if not radically modify, some previous programming decisions.

FIGURE IV-7
COMPLETE PPBS CYCLE



(Artwork by Bill Potter)
IV-17

To review what happens in the budget phase, let us look at figure IV-7. The main points in PPBS budgeting can be seen in the upper left hand corner.

- The BESS represent the services estimates of the cost of the approved program (the cost of the POM as adjusted by the PDM).
- The budget review process is conducted by the Assistant Secretary of Defense (Comptroller) with OMB. Its purpose is to review service estimates of program costs and record final decisions through a series of Program Budget Decisions (PBDs)
- The DRB resolves budget issues.
- The completion of this activity culminates in the DOD input to the President's Budget.²⁸

Complete PPBS Cycle Review.

Let us now review the whole PPBS cycle. Figure IV-7 portrays a more complete (albeit complex) view of the PPBS Cycle. Look at Figure IV-7 as we go over how PPBS is supposed to work.

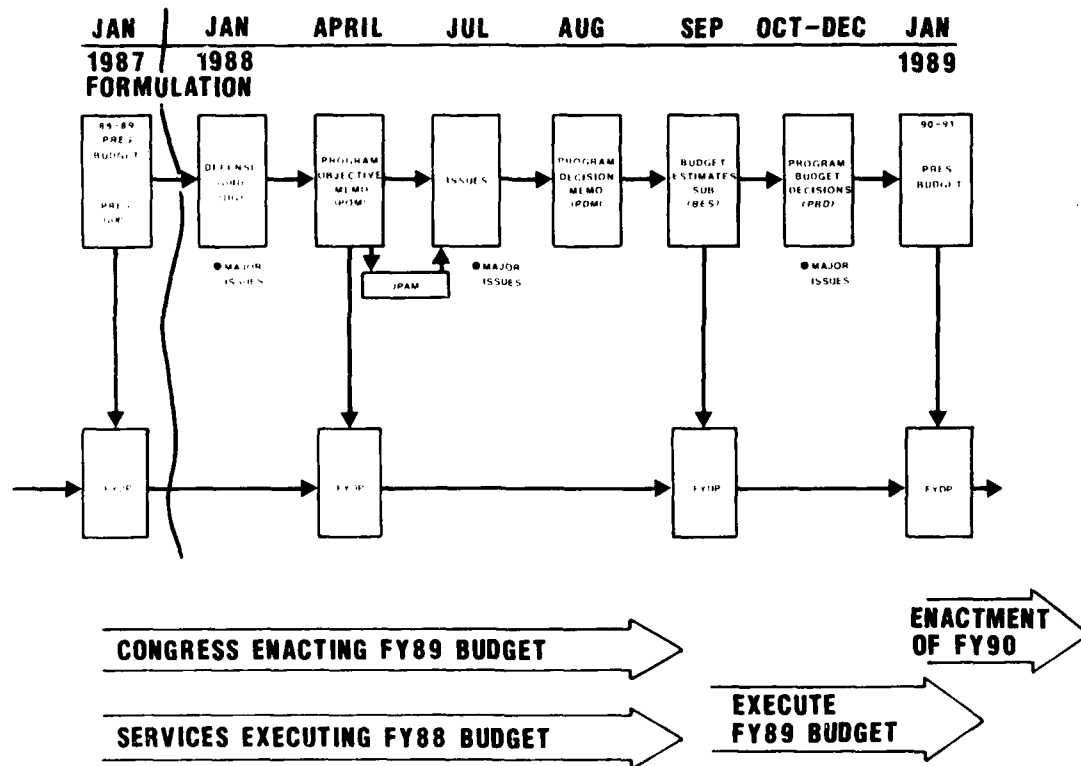
- o The JCS review the threat, consider national objectives and policy, in light of existing and programmed forces. In the JSPD, strategy and the "Planning Force" required to meet the threat is articulated. The risk of employing the programmed forces is also addressed.
- o After considering the last President's Budget; the JSPD; and inputs from the services, CINCs and DRB; SECDEF publishes the DG. This resource allocation guidance includes all the planning pieces, plus fiscal constraints, priorities and areas for the services to emphasize.
- o Using the DG, and the needs of the CINCs, the services make their resource allocation decisions, prepare and submit their POMs.
- o After considering the JPAM, Issue Books, and CINC inputs via the DRB deliberations, SECDEF issues his final programming decisions in the PDMs.
- o The services develop BESS that aggregate, after OMB/OSD review (and perhaps, appeal), to the FYDP--the DoD portion of the President's Budget.
- o Meanwhile the FYDP is updated with the POMs, after Service Budget Estimate Submissions, and with the President's Budget.

Timing - The PPBS Schedule.

Timing is of concern in part because everybody wants their paperwork submitted on time. So the schedule of PPBS happenings should be discussed.

The executive secretary of the DRB is charged with promulgating the schedule of significant PPBS events and document submission due dates.²⁹ Key events for the FY90 cycle are shown in the upper part of Figure IV-8. The DG was due early in calendar year 88, the POMs in April, etc., etc.,³⁰ culminating with the president's budget in January 1989.

Figure IV-8
The PPBS Schedule



(Adapted from Army War College Vu-graph)

COMPLICATIONS

We already briefly discussed the problem that comes up in the "off year" if the budget is reduced. In those instances the budgeting phase of PPBS must happen without the benefit (or "hastle," depending on one's view) of a full planning and programming effort.

To explore some of the other complications inherent in our PPBS, look again at Figure IV-8. At the bottom of the picture, the enactment and execution phases of the Federal Budget System are shown. In addition to the activity associated with the FY90/91 cycle, the PPBS process is affected "externally" by events related to other fiscal years. Note what is happening in February 1988, and how this can impact on the PPBS cycle.

- o The Services are executing the FY88 budget. Any program stretchouts or reprogramming actions during the year will necessitate FY 90/91 program adjustments.
- o Congress just completed action on the FY88 Budget, and is about to begin enacting the FY89 budget. These both will cause changes in the FYDP funding levels for not only FY89 but for the rest of the other years of the FYDP.

Fiscal Years '88, '89 and '90/'91 and beyond are all being dealt with at the same time. If you also consider that long-range planning is going on, we are simultaneously involved with four interdependent fiscal cycles.

PPBS HIGHLIGHTS

The resource allocation process used by the Department of Defense is unique, complex, and very sensitive to external factors.

PPBS relies upon a structured program budget. The chief feature of this budget is its output orientation. It focuses on mission objectives. The program budget allows the activities of several agencies to be assembled in terms of specific packages, i.e., programs and sub-programs (program elements) of various convenient levels of aggregation. For example, one of the objectives of DOD is to achieve counterforce capability against the Soviet Union: i.e., destroy Soviet military targets, especially their ICBM silos. To achieve this broad goal, allocation decisions must be made. Counterforce can be achieved through ICBMs, SLBMs or some combination thereof. These two program elements compete with each other for defense funds in the strategic program. Each of these in turn is made up of alternative sub-programs, which compete with each other for resources, as inputs for achieving the counterforce capability. Thus, MX and Trident can be viewed as alternative counterforce systems and are more competitive with each other than they are with general purpose weapons, such as the Navy's DDG-51.

Another important aspect of PPBS is its extended time horizon. This facilitates rational choices because the decision maker must know something about the future expenditure implications of decisions he makes today. In DOD, the Five Year Defense Program (FYDP) provides this extended time horizon. It is a series of force tables giving an eight year projection of forces and a five year projection of dollar costs and manpower; all displayed in terms of both the mission-oriented programs and congressional budget appropriations.

The lack of synchronization between PPBS and the Federal Budget system is a very real problem. The output oriented PPBS cycle is completed every 2 years; yet, funding authorization comes in annual, input oriented, increments from congress. No matter how well the DOD executes the PPBS, it remains an unstable process because of the external influence of the federal budget system.

NOTES AND REFERENCES

Footnotes

1. Credit for this comprehensive yet concise view of PPBS goes to the faculty in the Department of Military Strategy, Planning and Operations at the Army War College who use these words in their course directive.

2. This definition of purpose is from the horse's mouth, DOD instruction 7045.14, The PPBS, 14 September 1984 and DOD Instruction 7045.2, Implementation of the PPBS, 23 September 1984.

3. Credit for this historical view of PPBS goes to the Army War College faculty, Department of Military Strategy, Planning and Operations. Their faculty guide was the source of structure for this portion of the paper.

4. See two articles by Vince Puritano "Streamlining PPBS", Defense 81, August 1981; and "The Weinberger-Carlucci Initiatives, How Are We Doing" Defense 82, June 1982.

5. DRB Memorandum of 84-50 refers.

6. These bullets on the 1986 Reorganization Act are from the Army War College Faculty Guide for the PPBS seminar. See footnote 3 in Chapter III for details on other provisions of Goldwater-Nichols.

7. See National Security Directive 219 of April 1986; A Quest for Excellence, A Report to the President by the Blue Ribbon Commission on Defense Management, June 1986; and Center for Strategic and International Studies, U.S. Defense Acquisition, A Process in Trouble, 1987. The Packard Report recommended a defense resource allocation process in which:

(1) The National Security Council develops and directs a national security planning process for the president that revises current national security decision directives and that provides to the Secretary of Defense presidential guidance that includes:

- o Statements of prioritized security objectives and major defense policies
- o Provisional five-year defense budget levels, with the advice and assistance of the Office of Management and Budget, to give focus to the development of a fiscally constrained national military strategy. Such budget levels would reflect competing demands on the federal budget as well as projections of gross national product revenues; and

- o Direction to construct a proposed national military strategy and strategy options for presidential decision:

(2) The Secretary of Defense, following receipt of the presidential guidance, directs the Chairman of the Joint Chiefs of Staff, with the advice of other members of the JCS and the Commanders-in-Chief (CINCs) of the Unified and Specified Commands, to:

- o Appraise the worldwide military threats to U.S. interests and objectives;
- o Provide the Secretary of Defense a recommended national military strategy that:

Best attains national security objectives provided by the president, in accordance with his policies and priorities;

Identifies the forces and capabilities necessary to execute the strategy during the five-year planning period; and

Meets fiscal and other resource constraints directed by the president during the five-year planning period.

(3) The Chairman also develops strategy options to achieve the national security objectives. Such strategy options would

- o Address trade-offs among the Armed Forces;
- o Reflect major defense policies and different operational concepts, in terms of different mixes of forces or different degrees of emphasis on modernization, readiness, or sustainability;
- o Respond to each provisional budget level provided by the president;
- o Explore variations within a particular provisional budget level; and
- o Highlight differences in capability between the recommended national military strategy, on the one hand, and feasible alternatives, on the other.

(4) The Chairman of the JCS, with the assistance of the other members of the JCS and the CINCs, and in consultation with the Director of Central Intelligence, also prepare a military net assessment that would:

- o Provide comparisons of the capabilities and effectiveness of U.S. military forces with those of forces of potential adversaries for the Chairman's recommended national military strategy and other strategy options;
- o Reflect the military contributions of Allied Forces where appropriate;
- o Evaluate the risks of the Chairman's recommended national military strategy and any strategy options that he develops for the Secretary of Defense and the president; and
- o Cover the entire five-year period.

(5) The Secretary of Defense provides to the president:

- o Recommended national military strategy and its corresponding five-year defense budget level;
- o Appropriate strategy options and corresponding five-year defense budget levels sufficient to provide the president a wide range of alternatives in choosing a national defense program; and
- o A military net assessment of the recommended national military strategy and strategy options.

(6) The president approves a particular national defense program and its associated budget level. This budget level would then be provided to the Secretary of Defense as five-year fiscal guidance for the development of biennial defense budgets such that:

- o The five-year defense budget level would be binding on all elements of the Administration;
- o The new national security planning process would be fully implemented to determine the course of the defense budget for fiscal years 1990 to 1994.

(7) The Secretary of Defense:

- o Institutes a biennial programming process to complement the new biennial planning and two-year budget processes.
- o Develops the Department of Defense (DOD) budget for fiscal years 1988-89 and future defense budgets in a new, operationally oriented structure on a biennial basis. He should work with the appropriate committees of congress to jointly establish the necessary mechanisms and procedures to ensure that

the biennial process works smoothly and that congress authorizes and appropriates DOD funds every two years henceforth beginning in fiscal years 1988-89.

- o Develop a formal program review process with the services to ensure that, where appropriate, major programs receive a complete evaluation during the off-year of the biennial budget process.

(8) Congress institutes biennial budgeting for defense beginning with the next presidential budget proposal for fiscal years 1988-89 by authorizing and appropriating defense funding for those two years.

- o Congressional review of the defense budget should be based on operational concepts and major defense issues rather than on line-item detail, and should include an in-depth review of national security objectives, priorities, strategy, and force capabilities.
- o Congress should adopt milestone authorization for major weapon systems. In addition, using major system baseline techniques, congress should extend multi-year funding for such approved major programs as much as possible.
- o The appropriate defense budget review committees should work jointly with Defense Department staffs during the remainder of 1986 on the details and procedures for instituting the above in 1987.

(Source: pp 27-30, National Security Planning and Budgeting, A Report to the President, June 86.)

8. The enactment of the biennial budget for the Department of Defense has been described by its proponents as an essential element in the reform of the U.S. acquisition process. This claim has merit, but it is important to consider the practical disadvantages and limitations of biennial budgeting.

First, a two-year defense budget would give the Pentagon a special status in comparison with other federal departments. That may be difficult to justify. In case of sudden fiscal urgency (or plenty) or need elsewhere, the DOD budget could not be quickly cut (or increased). This objection may be especially important at a time when enormous efforts to reduce the federal budget deficit are being taken. One possible solution, converting the entire federal budget to a two-year cycle, would be an enormous undertaking and does not appear politically possible (or desirable).

A second difficulty is that while a two-year DOD budget would reduce the opportunities for congressional micromanagement, it would also limit the DOD's flexibility in planning for unforeseen

military or fiscal contingencies. The DOD would also have to plan force levels, budget requirements, and inflation factors further ahead than it does now. One partial solution to these limitations would be a provision for a supplemental DOD appropriation during the second year. It must be recognized that this provision would allow additional congressional review (and micromanagement) of the defense budget, especially of controversial weapons programs such as the MX missile, the Stealth Bomber, and others. Another solution to the problem of DOD inflexibility during the second year would be to ease restrictions on DOD reprogramming and transfer authority.

A third potential disadvantage is that the biennial budget would require congress to surrender much of the leverage it currently exercises over the executive branch through its annual review of the provision for supplemental authorization described above. During the second-year review, congress would be free to add those programs and restrictions it desired.

The last set of problems relate to the timing of a biennial budget. If the two-year DOD authorization and appropriation bills are passed in an even year (say 1988 for FY 1989-1990), the new president taking office in January 1989 would be saddled with the previous president's defense budget (with which the new president may disagree) and would have to wait 20 months (the beginning of the next two-year cycle) to reshape it. On the other hand, if the budget cycle begins in an odd year, congress (the entire House, and selected senators) would be running for reelection on a defense budget passed 14 months before, which may not reflect current needs and conditions. Since it is unlikely that congress would willingly place itself in this position, it may be necessary to begin the cycle in an even year. In those even years when a new president is elected, the new president could rely on use of a supplemental DOD appropriation bill the following year to influence the direction and pace of defense spending during initial years of office.

Finally one additional way to streamline the congressional budget process during the transition to a biennial budget would be for congress to abandon the dual authorization and appropriation process and adopt a one-step appropriation process for defense. (Source: Center for Strategic and International Studies, U.S. Defense Acquisition A Process in Trouble, 1984) pp. 83-84.

9. The FY86 DOD Authorization Act (PL99-145) directed that the DOD budget become a biennial process.

10. Some of the recent literature discussing the use of PPBS in Federal agencies other than the DOD, as well as application in local, state and foreign governments:

- Babunakis, Budget Reform for Government, Greenwood Press, Westport 1982.

- Sallack and Allen, "From Input to Output: Pennsylvania's PPBS in Transition" Public Budgeting and Finance, Spring 1982.
- "PPBS in Academic Libraries," Library Quarterly April 1978.
- Ashford, Pennsylvania: a Summary of Budget Procedures," School Library Journal, October 1981.
- Wittman, "DAS Planning-Programming-Budgeting System (PPBS)" Wirtwiss Stadium, April '75 (in German)
- Reid, "The Failure of PPBS (in Canadian Government): real incentives for the 1980s," Optimum 10:23-35, November 4, 1979.
- Casarosa, "Il Simesta di pianificam, one, programmazione, e bilancio (PPBS)" Revista di Politica Economica.

11. LODINST 7045.7

12. This objective is present, if not obscured, in DOD Inst. 7045.7, enclosure (8).

13. Wilson and Lewis, "PPBS and MAC," Airlift Winter 1986. A more specific tally of the procedures in each phase is quoted below from the governing directive (DOD Inst. 7045.14):

Planning. In the Planning Phase, the military role and posture of the United States and the Department of Defense in the world environment shall be examined, considering enduring national security objectives and the need for efficient management of resources. The focus shall be on the following major objectives: defining the national military strategy necessary to help maintain national security and support U.S. foreign policy 2 to 7 years in the future; planning the integrated and balanced military forces necessary to accomplish that strategy; ensuring the necessary framework (including priorities) to manage DOD resources effectively for successful mission accomplishment consistent with national resource limitations; and providing decision options to the Secretary of Defense to help him assess the role of national defense in the formulation of national security policy and related decisions. This review shall culminate in the issuance of the Defense Guidance.

Programming. In the Programming Phase, the DOD Components shall develop proposed programs consistent with the Defense Guidance. These programs shall reflect systematic analysis of missions and objectives to be achieved, alternative methods of accomplishing them, and the effective allocation of the resources. The JCS shall analyze the programs and provide a risk assessment based on the capability of the

composite force level and support program for the U.S. Armed Forces to execute the strategy approved during the Planning Phase. A program review is conducted; the results are issued in Program Decision Memoranda (PDMs).

Budgeting. In the Budgeting Phase, the DOD Components shall develop detailed budget estimates for the budget years of the programs approved during the Programming Phase. A joint Office of Management and Budget (OMB)/DOD budget review is conducted; the results are issued in Program Budget Decisions (PBDs).

Five-Year Defense Program (FYDP). The decisions associated with the three phases of the PPBS shall be reflected in the FYDP. Since the FYDP outyear programs reflect internal planning assumptions, FYDP data beyond the budget year may not be released outside the executive branch of the government without the expressed written consent of the Assistant Secretary of Defense (Comptroller).

14. More details on the JSPD and the Joint Strategic Planning System from whence it comes can be found in Chapter III of this paper.

15. The most recent DG was divided into five sections:

Section I. Policy Guidance sets general goals for the DOD. It provides direction for development of national military strategy, force planning, and DOD participation in national policy formulation. It is not constrained by the availability of resources.

Section II. Strategy Guidance outlines national military strategy to counter the threat. It addresses the employment of the armed forces in execution of assigned missions and is based on the recommendations of the JCS.

Section III. Force Planning Guidance specifies the tasks to be carried out by DOD components in developing the major combat and support forces needed to execute the strategy. It provides a comparison of the current major forces, those expected to be programmed, and the JCS planning force recommended.

Section IV. Resources Planning Guidance provides programming criteria and priorities for the allocation of defense resources in the area of readiness, sustainability, modernization, and industrial base.

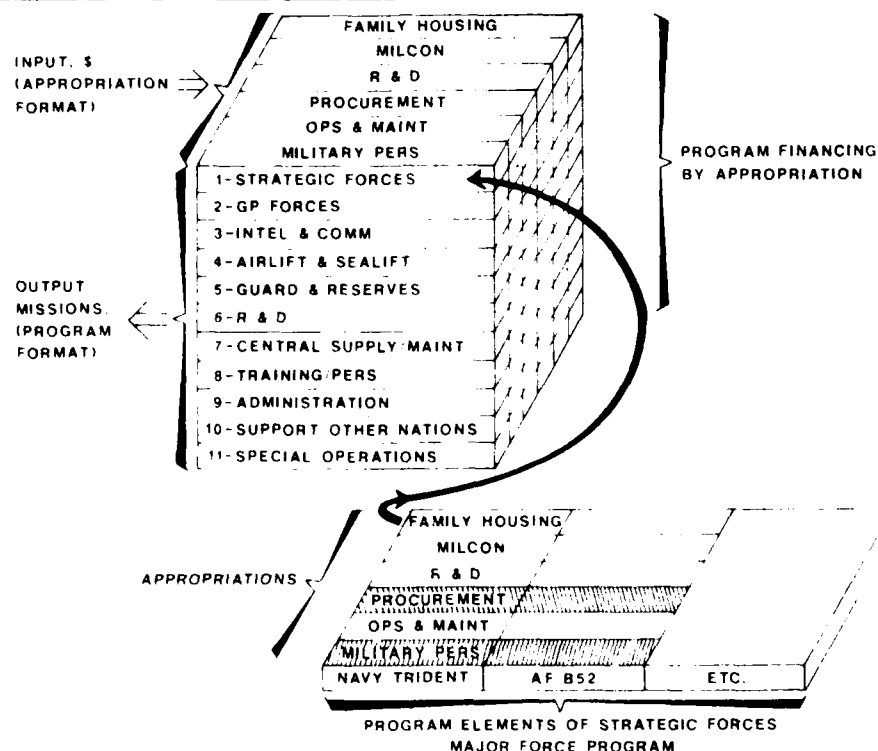
Section V. Major Issues states those problems affecting the Defense Guidance which require study or top management attention.

16. AFSC PDR 1, Joint Staff Officers Guide 1986, Armed Forces Staff College 1 July 1986, p. 5-8.

17. The activity of cross referencing resources to/from the appropriations/program format is call "crosswalking." Figure IV-9 illustrates not only that we have two ways of looking at defense resources: output-oriented defense programs and the input view of the congressional appropriations, it shows how the "crosswalk" is done to interface these two perspectives.

Figure IV-9 "Crosswalking" DOD Programs and Congressional Appropriations

CROSSWALKING - DOD PROGRAMMING AND CONGRESSIONAL APPROPRIATIONS



(Artwork by Bill Potter)

18. As this paper went to print, the FYDP updates had not yet "caught up" with the biennial PPBS Cycle. As of February '88, the last FYDP printed was in January 1987, with the president's budget following the last complete PPBS Cycle. There was no FYDP printed with the president's January 1988 Budget. Indeed the DOD's FYDP data base has not yet been updated (except for the budget year (FY 89)) to reflect all decisions made while formulating the president's FY89 budget (Source: discussion with OP 901).

The following description of the FYDP comes from the governing directive DOD Inst. 7045.14. See enclosure (5) of that instruction for even more details on the FYDP concept and structure.)

A. General

(1) The FYDP is the official document which summarizes forces and resources associated with the programs approved by the Secretary of Defense (prescribed in PDMs, budget decisions, and other Secretary of Defense decision documents, for the Department of Defense. The FYDP, which contains prior year (PY), current year (CY), budget year (BY) and BY + 1 through BY + 4 (BY + 7 for forces), is published 3 times a year and reflects the total resources programmed by the Department of Defense, by fiscal year. A historical FYDP is published annually, following the POM update of the FYDP, and contains prior year resource data consistent with the official accounting records for fiscal years 1962 through the prior year.

(2) In its first dimension, the FYDP is composed of eleven major defense programs (6 combat force oriented programs and 5 centrally managed support programs) used as a basis for internal DOD program review, and in its second dimension, by the intent-oriented appropriations structure used by the congress in reviewing budget requests and enacting appropriations. Hence, it serves a purpose of cross-walking the internal review structure with the congressional review structure. This two-dimensional structure and attendant review methodology provide a comprehensive approach to accounting for, estimating, identifying, and allocating resources to individual or logical groups of organizational entities: major combat force or support programs referred to as program elements. (For description of program elements, see below).

(3) These program elements are designed and quantified in such a way as to be both comprehensive and mutually exclusive, and are continually scrutinized to maintain proper visibility of defense programs. This scrutiny includes vigilance over the resources necessary to equip, man, operate, maintain, and manage a class of combat unit or type of support activity. The elements are frequently rearranged and reaggregated in ways to provide summary categories and FYDP dimensions different from the ten major force and support programs. Since there are varying criteria for mission categories, the Department of Defense has not restricted such analytical schemes to a single display format, favoring instead a more dynamic approach to analytical tools.

(4) The approval of the ASD (C), or his designee, must be obtained prior to making any changes to the FYDP structure.

B. Programs

(1) A program is an aggregation of program elements that reflects a force or a support function of the Department of Defense and contains the resources allocated to achieve an objective or plan. It reflects fiscal year time-phasing of mission objectives to be accomplished, and the means proposed for their accomplishment.

(2) The FYDP is comprised of eleven major defense programs as follows:

- Program 1 - Strategic Forces
- Program 2 - General Purpose Forces
- Program 3 - Intelligence and Communications
- Program 4 - Airlift and Sealift Forces
- Program 5 - Guard and Reserve Forces
- Program 6 - Research and Development
- Program 7 - Central Supply and Maintenance
- Program 8 - Training, Medical, and Other General Personnel Activities
- Program 9 - Administration and Associated Activities
- Program 10 - Support of Other Nations
- Program 11 - Special Operations

C. Program Elements

(1) A program element is a primary data element in the FYDP and generally represents aggregations of organizational entities and resources related thereto. Program elements represent descriptions of the various missions of the Department of Defense. They are the building blocks of the programming and budgeting system and may be aggregated and reaggregated in a variety of ways:

- (a) To display total resources assigned to a specific program;
- (b) To display weapon systems and support systems within a program;
- (c) To select specified resources;
- (d) To display logical groupings for analytical purposes;
- (e) To identify selected functional groupings of resources.

(2) The program element concept allows the operating manager to participate in the programming decision process since both the inputs and outputs shall be quantified in program element terms. Each program element may contain forces, manpower, or dollars, or any combination thereof, depending on the definition of the element.

D. Resource Identification Codes (RICs)

(1) RICs are used to identify the types of resources assigned to each program element. An explanation of the types of RICs follows:

(a) Force Codes. The force resource identification code is a four-digit code used to identify specific hardware items or weapon systems, by type and model, such as aircraft, missiles, ships, and specific force organizations such as divisions, brigades, battalions, and wings.

(b) Manpower Codes. The manpower resource identification code is a four-digit code used to identify officer, enlisted, and civilian manpower both in the active and the Guard and Reserve establishments. Separate codes permit the recognition of students, trainees, cadets and ROTC enrollees, and identify civilians as either U.S. direct hire, foreign direct hire, or foreign indirect hire.

(c) Appropriation Codes. The appropriation resource identification code is a four-digit code used to identify all appropriation accounts contained in the president's budget as well as those of a historical nature applicable to the FYDP prior-years period. These codes in most cases relate to Treasury-assigned appropriation symbols.

(2) Each DOD Component submitting data to the DOD FYDP has been assigned codes for use in reporting such data in response to guidance for updating the FYDP. The visibility of these resource identification codes by program element allows selection of specific data for analysis and management summary purposes.

E. Practical Application

Figure IV-10 is a hypothetical Program Element Summary Data Sheet. Its one of two sheets in the Program Book of the FYDP (the other being a description narrative) for each PE looking at this Data Sheet can illustrate many of the features of the FYDP.

Figure IV-10 Hypothetical FYDP
Program Element (PE) Data Sheet

PROGRAM ELEMENT SUMMARY DATA				DEPT OF THE NAVY		15 JAN 1986					
PROGRAM ELEMENT PHOTON POWERED STAR SHIP (HYPOTHETICAL)				CODE 2411AM							
APPROVED PROGRAM BY FISCAL YEAR											
FORCES		FY86	FY87	FY88	FY89	FY90	FY91	FY92	FY93	FY94	FY95
UNITS (MUL. VE)					1	2	4	6	6	6	6
				← NUMBER FLYOUTS/STY				← 3 FMS FORCES			
TOTAL OBLIGATIONAL AUTHORITY (IN MILLIONS OF DOLLARS)											
RESEARCH AND DEVELOPMENT											
RDT & E		200	100	50							
MILITARY CONSTRUCTION		20									
TOTAL RES. & DEV.		220	100	50							
INVESTMENT											
AIRCRAFT PROC.		200	500	750	900	800	300	100			
MISSILE PROC.		15	20	25	25	25	10	5			
OTHER PROC.		5	10	15	15	15	10	5			
MILITARY CONSTRUCTION		30	30	15							
TOTAL INVESTMENTS		250	560	820	940	840	320	110			
OPERATING											
O & M		-	-	10	20	45	90	100			
MILITARY PERSONNEL		-	-	5	15	25	50	50			
TOTAL OPERATING		-	-	15	35	70	140	150			
TOTAL OBLIGATIONAL AUTHORITY		470	660	885	975	910	460	260			
* LESS THAN 1											
MANPOWER											
MILITARY											
ARMY		10	25	100	300	600	1,000	1,200			
NAVY		5	10	400	600	3,200	6,400	6,400			
AIR FORCE		10	25	500	900	3,800	7,600	7,600			
MARINE CORPS											
ARMY											
NAVY											
AIR FORCE											
MARINE CORPS											
FOREIGN NATIONAL											
ARMY											
NAVY											
AIR FORCE											
MARINE CORPS											
FOREIGN NATIONAL											

(Source: AFSC Faculty Guide)

Notice that forces (total number of Starships) are projected for 8 years while dollars (in TOA terms) and manpower is projected for 5 years. The PE number reflects the program format- i.e., 2 = general purpose forces, etc., M = Marine Corps: On the left side of the sheet is the appropriation format (i.e. Procurement and O&M categories), showing how the FYDP displays resources in both languages. The Data Sheets are up dated regularly with the BOM, The Budget Estimate Submission, and the presidents budget.

(Source: AFSC Defense Resource Management Faculty.)

19. AFSC PUB 1, p. 5-10.
20. Ibid.
21. Ibid.
22. Ibid., p. 5-10. In the words of the DOD directive:

After consideration of the military advice of the JCS, as expressed in the JLRSA and JSPD, a draft of the DG is issued to solicit comments of all DOD Components, including

the CINCs, on the major issues, problems, and resource constraints in developing and programming forces to execute the policy, strategy, and management direction. The draft DG is also provided to the Department of State, the Staff of the National Security Council, and the Office of Management and Budget for comment. The final version of the DG, which is an output of the planning phase, serves as an authoritative statement directing defense policy, strategy, force and resource planning, and fiscal guidance for development of the POMs. The DG will consist of the following elements: near and long-term threat assessment and opportunities; policy and strategy guidance; force planning guidance; resource planning guidance; fiscal guidance; and unresolved issues requiring further study. (Enclosure 2, DOD Inst. 7045.7)

The CINCs shall be invited to provide, at the beginning of the Defense Guidance (DG) drafting process, their personal recommendations to the Secretary of Defense for major changes to the existing DG. These comments, along with those of Defense Resources Board (DRB) members, shall be considered during the drafting process. Successive drafts of the DG shall be forwarded to the CINCs for comment. The DRB shall meet with the CINCs before the final draft is provided for the Secretary's signature in order to consider their views on the adequacy of the DG's treatment of policy, strategy, forces, and resource planning guidance. (Enclosure 8, DOD Inst. 7045.7)

23. AFSC Pub 1, pp. 5-11.

"The primary interaction between the CINCs and the Military Departments shall be through component commanders. At a time specified by the Military Departments, each CINC shall identify his requirements to the service commands responsible for providing programming support. The components shall be afforded every opportunity to resolve the CINC concerns. In addition, direct communications between the CINCs and the Military Departments may be used to resolve CINC problems and concerns during Program Objective Memorandum (POM) development." (Source: Enclosure 8, DOD Inst. 7045.8)

24. AFSC Pub 1, p. 5-11.

25. Ibid. P. 5-11. Current policy requires development of eight issue books and Issue Memos from the CINCs and defense agencies. The eight issue books are:

The Policy and Risk Assessment book (#1) is intended to focus attention on broad defense-wide policy, strategy and resource allocation issues, and to estimate the risk associated with the proposed programs submitted by the DoD Components. This book will contain two major sections. The first will be a broad overview of the effectiveness of the proposed programs in carrying out the force planning priorities stated in the Defense Guidance. The second

will be an evaluation of how well the POMs carry out the strategy. This second section will draw heavily from the material presented in the JPAM, but may include other views as will. Risks and shortcomings affecting the success of the strategy will be identified. The information that will be provided in this book is intended to establish the overall context within which subsequent, more detailed, force and program decisions will be made. USD (P) and the JCS shall be the main contributors to Section I and DPA&E and the JCS to Section II. USD(P) shall be responsible for assembling the book as called for by the schedule.

The Nuclear Forces book (2) will include both Strategic and Theater Nuclear Force issues. USDR&E, Assistant Secretary of Defense (International Security Policy) (ASD(ISP)), and DPA&E shall be the main contributors with DPA&E responsible for assembling the book as called for by the schedule.

The Conventional Forces book (3) will include General Purpose Forces issues. USDR&E, Assistant Secretary of Defense (International Security Affairs) (ASD(ISA)), and DPA&E shall be the main contributors with DPA&E responsible for assembling the book as called for by the schedule.

The Modernization and Investment book (4) will include all issues which are predominantly of a modernization and investment nature that are not appropriate to include in the Nuclear and Conventional Forces Books. USDR&E, ASD(MI&L) and DPA&E shall be the main contributors and USDR&E will be responsible for assembling the book as called for by the schedule.

The Readiness and Other Logistics book (5) will include readiness and logistics related issues. ASD(MI&L) shall be the main contributor and responsible for assembling the book as called for by the schedule.

The Manpower book (6) will include manpower related issues. ASD(MI&L) and Assistant Secretary of Defense (Health Affairs) (ASD(HA)) shall be the principal contributors with ASD(MI&L) responsible for assessing the book as called for by the schedule.

The Intelligence book (7) will be confined to Defense elements of the National Foreign Intelligence Program (NFIP), the Defense Reconnaissance Support Program (DRSP), and other compartmented Tactical Intelligence and Related Activities (TIARA). Other issues concerning TIARA will be addressed in the Modernization and Investment Book. The Deputy Under Secretary of Defense for Policy (DUSD(P)) and Assistant Secretary of Defense for Command, Control, Communications, and Intelligence (ASD(C3I)) jointly shall prepare the Intelligence Book, and USDR&E shall have overall responsibility for assembling the book as called for by the schedule. Due to the classifications this book will be reviewed by selected members of the DRB in executive session.

The Management Initiatives book (8) will review the application in the POMs of the principles enunciated in the acquisition management initiatives and review and summarize the economies and efficiencies submissions. In addition to any specific issues raised in accordance with paragraph F of enclosure 2, the Management Initiatives book will include a review of Mission Need Statements (MNS - see Chapter V) proposals; pose alternatives approving, modifying or disapproving such proposals; conduct a similar review for multi-year contracts; and propose decision alternatives or provide increased economies and efficiencies. USDR&E, ASD(MI&L), and ASD(C) shall be the principal contributors to the book and USDR&E will be responsible for assembling the book as called for by the schedule. (Source: Enclosure (3), DOD Inst. 7045.7)

The CINCs shall review the POMs and submit to the Executive Secretary of the DRB outlines of major issues ("Issue Memos" by current terminology) each would like to have discussed during the program review. In addition, CINCs shall be afforded the opportunity to participate on program review issue teams and in "out-of-court" settlements. The CINCs shall meet, at the beginning of the program review, with the Secretary of Defense and the DRB to present their views on the national military strategy and the adequacy of the POMs to meet that strategy. Finally, the CINCs shall attend such other sessions of the DRB as the Deputy Secretary deems necessary. The CJCS shall serve as the spokesman for the CINCs in their absence." (Sources: Enclosure (8) DOD Inst. 7045.7 and DRB Memo 88-2 of 11 JAN 88)

26. DOD Inst. 7045.7, Enclosure (2).

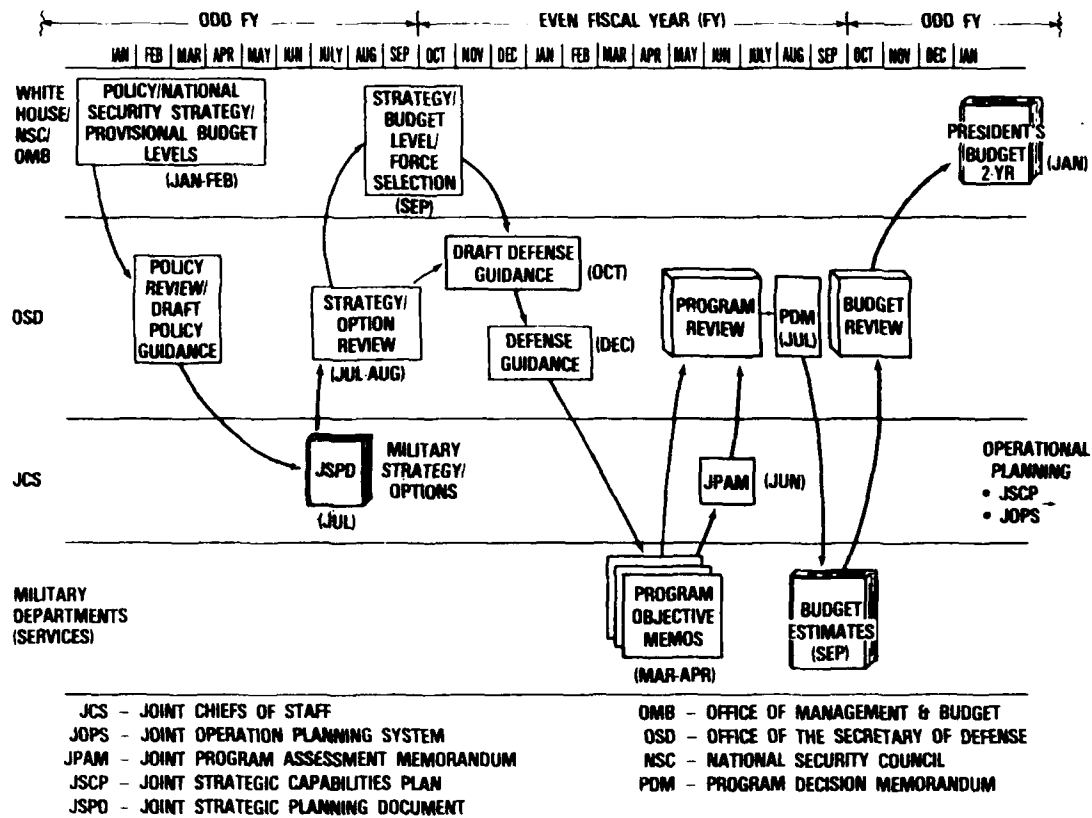
27. AFSC Pub 1. p. 5-11.

28. Credit is due to the USAF Directorate of Programs and Evaluation for this concise view of budgeting as found on P. 38 of A Primer (Interim Edition) on PPBS, January 1987.

29. DOD Inst. 7045.14, p. 2. The DRB Executive Secretary Job rotates depending upon which phase of the PPBS we are in (Planning--USD(P), Programming--DPA&E, Budgeting--ASD(C)). Source: Army War College Faculty Guide)

30. Another way to look pictorially at the PPBS schedule is by time, organization and activities. Often referred to as the bouncing ball pictures, they are helpful to some. Figure IV-11 shows a recent generic bouncing ball PPBS picture that assumes the practice of biennial PPBS will continue.

Figure IV-11
Generic Biennial PPB
The Bouncing Ball



(Source: Army Command and Management: Theory and Practice)

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CHAPTER V

THE ACQUISITION SYSTEM

INTRODUCTION

It's much more than "Acquisition!"

The DoD's view of "acquisition" is much grander than that found in the dictionary. Our DoD's acquisition system is defined as a process "whereby all equipment, facilities and services are planned and designed within the Department of Defense. The system entails acquisitions, determining and prioritizing resource requirements, directing and¹controlling the process, contracting, and reporting to congress."

In broad terms, we're talking in this chapter about a process that includes the means by which our government determines and justifies its military hardware and funds for those purpose; processes and contracts for weapons, forces, and services; and maintains management and oversight on behalf of the U.S. public.² This is a very big system! As noted by the Center for Strategic and International Studies:

DoD employs more than 165,000 people, both civilian and military, to manage this vast array of R&D, procurement, and logistics programs. Nearly all of these people work for the Services, which directly manage these programs subject to the oversight of a relatively small staff in the Office of the Secretary of Defense (OSD). Further oversight is provided by the Executive Office of the president, including the Office of Management and Budget, particularly in connection with the president's defense budget. And the congress, in exercising its constitutional responsibility to provide for our Armed Forces, authorizes and appropriates funds for each of more than 2,600 specified procurement and R&D line items, and plays a major role in overseeing acquisition programs. (Defense activities are monitored totally by 55 subcommittees of 29 congressional committees assisted by more than 20,000 staff and supporting agency members.)³

Defense acquisition is the largest business enterprise in the world. Annual purchases by the Department of Defense (DoD) total almost \$170 Billion--more than the combined purchases of General Motors, EXXON, and IBM. DoD's research and development (R&D) expenditures are more than fifteen times those of Japan. Defense acquisition involves almost 15 million separate contract actions per year--or, an average of 56,000 contract actions every working day.⁴

This combination of vastness and complexity tends to limit and distort understanding of how the acquisition process should and actually does work.⁵ Nevertheless, a defense executive cannot hope to contribute to resource allocation decisions without a general understanding of this process which we call "acquisition." From now on, when the term "ACQUISITION" is used, it MEANS TO PLAN, DESIGN, DEVELOP, ACQUIRE, MAINTAIN AND DISPOSE OF.

Definitions, Concepts and the Organization.

Terms

In order to explain the process of weapon system acquisition, general knowledge of certain terms and concepts is helpful. The following terms, many organizational,⁶ should be taken aboard before continuing into the chapter.

Defense Acquisition Executive. The "DAE" is the principal advisor to the Secretary of Defense on all matters pertaining to the Department of Defense Acquisition System. The Under Secretary of Defense for Acquisition (USD(A)) is the DAE.

Service Acquisition Executive. The "SAE" is the senior acquisition executive within each Military Department.

Program Executive Officers. "PEOs" are officials responsible for administering a defined number of major and/or non-major acquisition programs who report to and receive direction from an SAE.

Program Managers. "PMs" are officials responsible for managing a specific acquisition program who report to and receive direction from either a PEO or a SAE.

Major Defense Acquisition Program is a DoD acquisition program that is not a highly sensitive classified program (as determined by the Secretary of Defense) and:

a. That is designated by the Secretary of Defense as a major defense acquisition program because of urgency of need, development risk, joint funding, significant congressional interest, or other considerations, or

b. That is estimated by the Secretary of Defense to require an eventual total expenditure for research, development, test, and evaluation of more than \$200 million or an eventual total expenditure for procurement of more than \$1 billion.

Major Defense Acquisition Program Milestone Decision Categories. A major defense acquisition program will be designated as either a Defense Acquisition Board (DAB) or Component program. Designations will be recommended by the DAE and approved by the Secretary of Defense.

- o A DAB program requires a Secretary of Defense decision at each milestone review point, unless delegated to the cognizant DoD Component Head by the Secretary of Defense.
- o A Component program designation means that the authority to make milestone decisions has been delegated to the cognizant DoD Component Head.

Acquisition Decision Memorandum. An "ADM" is a memorandum to a Component Head signed by the DAE that documents the decisions of the Secretary of Defense regarding a DAB program.

Program Baseline. A formal agreement between a PM and a PEO, SAE, or the DAE that briefly summarizes factors critical to the success of a program, such as functional specifications, cost, and schedule objectives and requirements, AGAINST WHICH THE PROGRAM WILL SUBSEQUENTLY BE EVALUATED.

Defense Acquisition Board(DAB). The DAB, chaired by the DAE and vice-chaired by the Vice Chairman, Joint Chiefs of Staff (VCJCS), is the primary forum used by DoD Components to resolve issues, provide and obtain guidance, and make recommendations to the Secretary of Defense through the DAE on matters pertaining to the DoD Acquisition System.

Acquisition Strategy Elements. Certain factors are to be considered repeatedly for every program in the acquisition process. These elements, which have become some of the key "buzz words" in developing an "acquisition strategy," are listed below. They are:

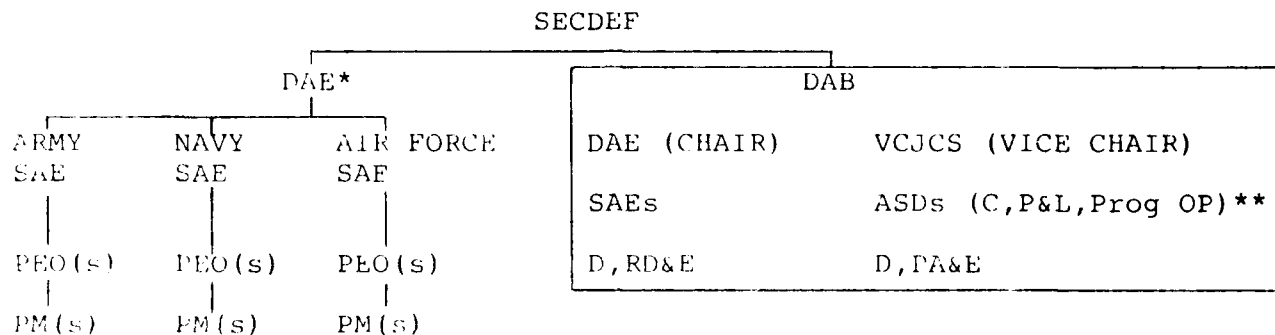
- o Trade-offs between cost and performance
- o Technology risk
- o Reliability
- o Competition
- o Logistical support requisitions
- o Use of "off the shelf" commercial procedures
- o Contract type
- o Industrial base consolidation and government industry relationships
- o Standardization and interoperability

These factors are universal, and apply to almost all programs in the acquisition decision process.

Organization

For the purpose of keeping the acquisition structure streamlined, DAB programs are to have no more than two management tiers (PEO and SAE) between the PM and the DAE. Program management direction and guidance for these programs shall only be issued by and flow through this streamlined management structure. Component programs are to have no more than one management tier (PEO) between PM and the SAE. Program management direction and guidance for these programs shall only be issued by and flow through this streamlined management structure. The organization shown in figure V-1 is derived from these requirements.

Figure V-1
ACQUISITION ORGANIZATION



*DAE is Under SECDEF for Acquisition.

**Assistant SECDEFs: Controller, Production and Logistics,
Program Operations.

Structure of this Chapter

Having defined the acquisition system and some of its terms, it is time to describe how it works. First, the evolution of system acquisition will be discussed to show where the process came from. Next, the process, as it is supposed to work, will be described. Because nothing this complex ever functions as designed, there will be a review of acquisition games and problems before the chapter wraps up by exploring interfaces with budgeting and the PPBS.

EVOLUTION OF THE ACQUISITION PROCESS

The first acquisition of a major weapon system for the U.S. Government started with the authorization for the procurement of six large irrigators by the U.S. War Depart-

ment in 1794. Seventeen months later six keels were laid but only three of the frigates were built due to schedule slippage and cost overruns.

The acquisition system has been the topic of dissatisfaction for decades. The Rockefeller Report of 1953, the Symington Plan of 1961, the Blue Ribbon Report of 1970, the Commission of Government Procurement of 1973 all indicate (just like the latest Packard Commission Report) that we've studied the heck out of our acquisition procedures. No matter who makes the report, however, the results always express dissatisfaction with the management effectiveness and economy of the weapon system acquisition process. To help us determine the causes of this apparent malaise, let us reflect on the changes that have been made over the last few decades.

During the 1950s, the Service Secretaries exercised most of the control over the acquisition process. The SECDEF's involvement was basically limited to a single go/no go decision as authority for the commencement of a major program. Thus, the OSD controlled the START of new programs, but was not involved significantly with building and fielding weaponry.

Need for Change

Several things contributed to the need to change the system. The 1960s brought an increasing public hostility toward the military. There was increased attention toward social programs, F-111 engines cost 3/4 of a million dollars instead of the originally estimated \$300,000 (Navy ship and Army tank costs were likewise "skyrocketing"). The Kennedy administration's "whiz kids" had some revolutionary ideas about government decision making and resource management.

Economic Analysis and Program Evaluation

The concepts of, and requirements to use, economic analysis and program evaluation evolved during the McNamara Era. As pointed out in the DoD directive on these concepts:

Economic analysis and program evaluation have different purposes. The former concept is designed to assist . . . in identifying the best new programs and projects to be adopted. The latter focuses on approved programs and projects to insure that established goals and objectives are being attained in the most cost-effective manner.

Economic analysis is a systematic approach to the problem of choosing how to employ scarce resources and an investigation of the full implications of achieving a given objective in the most efficient and effective manner. The determination of efficiency and effectiveness is implicit in the assessment of the cost-effectiveness of alternative approaches and is accomplished by:

- o Systematically identifying the benefits and other outputs and costs associated with alternative programs, missions, and functions and/or of alternative ways for accomplishing a given program (usually referred to as projects and activities).
- o Highlighting the sensitivity of a decision to the values of the key variables and assumptions on which decisions are based including technical, operational, schedule and other performance considerations.
- o Evaluating alternative methods of financing investments, such as lease or buy; and
- o Using benefits and costs to compare the relative merits of alternatives as an aid in:
 - oo Making trade-offs between alternatives;
 - oo Recommending the cost-effectiveness alternative; and
 - oo In establishing or changing priorities.

Program Evaluation is a economic analysis of on-going actions to determine how best to improve an approved program/project based on actual performance. Program evaluation studies entail a comparison of actual performance with the approved program/project.

Economic analysis/program evaluation studies are supposed to be initiated as early in the acquisition process as practical and be updated as significant developments occur which could invalidate or significantly alter the cost-benefit relationships upon which previous decisions were made.

Packard Memos

During the period 1969-1971, Deputy SECDEF Packard (does that name sound familiar?) initiated changes to the acquisition process with three memoranda:

- o The first memo established what we today call the DAB (it was then referred to as the DSARC or Defense Systems Acquisition Review Council). The DSARC's function was to review the progress of programs at three decision points--over the life of a weapon system not just at the go/no go milestone.
- o Memo #2 stressed the need to address the risks involved in program development. This was to be achieved by demonstrating performance before committing to production. The rationale was that spending relatively more money on development and prototypes (i.e., "fly before buy") would reap

benefits by reducing subsequent, and more costly, production cycle changes.

- o Packard's third memo addressed the need for giving Program Managers more authority and keeping them on the job long enough to establish accountability.

Early 1980s--The Weinberger and Carlucci Initiatives

The new Reagan administration knew right off that "The way we build and buy new weapons takes too long, costs too much, and is not very efficient. . . ."

" . . . if Weinberger and I do nothing else in these next four years except to straighten out the weapons acquisition system, we will have had a successful tour." (Then Deputy SECDEF Frank Carlucci in Early 1981.)

The new Reagan administration had chosen Carlucci and Secretary of Defense Caspar Weinberger with the intent, among other things, of improving the problem-riddled DoD process whereby major systems are acquired. . . .¹²

Within three months after taking over the Defense Department, Secretary Weinberger had conducted a participative review of the acquisition process. In April 1981, he announced a charter of acquisition management principles and made decisions on 31 recommendations and issues. As summarized by one DoD official:

One major thrust of the recommendations was to stress long-range planning so that the services, the congress, and contractors can know as far in advance as possible the full scope of each program. Another was the placing of emphasis on delegating greater responsibility and accountability to program managers in an effort to reverse the tendency towards micro-management by central staffs. The recommendations also focused on the efforts required to achieve more program stability and economical production rates. A fourth theme was the need to make doing business with the Defense Department more predictable and attractive. (If we discourage innovative and efficient contractors from bidding for and participating in defense business, we will not restore a healthy, strong industrial base for military orders.) A fifth group of proposed actions encouraged the use of realistic cost, budget, and funding figures so that both we and the congress understand early what the total cost of full programs will be.¹³

The Packard Commission Report

The president's most recent Blue Ribbon Panel completed an almost universally applauded report in early 1986. To summarize their conclusions:

All of our analysis leads us unequivocally to the conclusion that the defense acquisition system has basic problems that must be corrected. These problems are deeply entrenched and have developed over several decades from an increasingly bureaucratic and overregulated process. As a result, all too many of our weapon systems cost too much, take too long to develop, and by the time they are needed, incorporate obsolete technology.

The positive outcome of the commission's work was the statement that it is possible to make major improvements in defense acquisition by evaluating the model of the most successful industrial companies. In fact, the commission felt it possible to cut the 10-12 year acquisition cycle in half . . . BUT RADICAL REFORM OF THE EXISTING ORGANIZATION AND PROCEDURES IS REQUIRED.

The "Formula for Action" proposed by the Packard Commission recommended seven general changes:

- c Streamline acquisition organization and procedures
- c Use technology to reduce cost
- c Balance cost and performance
- c Stabilize programs
- c Expand the use of commercial products
- c Increase the use of competition
- c Enhance the quality of acquisition personnel¹⁵

Virtually all the specific recommend actions that are controlled by the executive branch, have been implemented. These include:

- c Create the new position of Under Secretary of Defense (Acquisition); designate this Under Secretary as the Defense Acquisition Executive; and invest him with full authority over all offices and agencies within the Office of the Secretary of Defense necessary for that purpose.
- c Designate Service Acquisition Executives within each Military Department; and retain within the Services the traditional responsibility for managing acquisition programs.
- c Assign to the Defense Advanced Research Projects Agency a specific mission in the context of prototype programs; and direct the Services to increase their emphasis on prototyping.
- c Restructure the Joint Requirements and Management Board (JRMBS--now called the Joint Defense Acquisition Board) by directing that it be chaired by the Under Secretary of Defense (Acquisition) and be Vice Chairman of the Joint Chiefs of Staff; and require that the restructured JRMBS be responsible for managing and funding the development and high-rate production of all joint programs and in major service programs; and direct the JRMBS to:

1. require the testing of prototype systems and subsystems before the authorization of full-scale development;
 2. require the use of baselining all major new programs;
 3. require that operational test data be available before the authorization of high-rate production; and
 4. significantly increase the use of nondevelopmental items as an alternative to new development programs.
- o Instruct the Defense Acquisition Executive to take steps necessary to amend the DoD Supplement to the Federal Acquisition Regulation so as to:
1. effect a major increase in the acquisition of available commercial components and systems by requiring program managers to obtain waivers for use of products made to military specifications when commercial alternatives are available; and
 2. establish commercial-style competitive procurement practices to the full extent permitted by law.

On the other hand, the changes recommended by the commission, that require congressional action, have not been enacted to date. They include:

- o Recodify federal laws governing acquisition in a single, consistent, and greatly simplified procurement statute; and remove those features of current law and regulation that are at variance with the expanded acquisition of commercial products and the establishment of effective commercial-style procurement competition.
- o Simplify and clarify financial disclosure reporting forms; amend tax laws to permit presidential appointees to delay the impact of capital gains taxes they incur in divesting assets to comply with conflict of interest laws; and take other legislative actions necessary to implement fully the recommendations of the National Academy of Public Administration's Presidential Appointee Project.
- o Amend civil service laws to permit flexible personnel management policies for acquisition professionals and to expand opportunities for the education and training of all acquisition personnel.
- o Implement and expand milestone authorization, baselining and multi-year procurement. This recommendation was intended to complement the biennial budget that the commission so strongly recommended. In the words of the Commission:

Milestone authorization would allow the Armed Services Committees to focus their review of major acquisition programs on two key program milestones, the beginning of full-scale engineering development and the start of high-rate production. Programs advancing through these milestones in either the first or second year of a particular biennial authorization request would be identified to congress by DoD, which would provide a program baseline for each identified program. A program baseline would describe the cost, schedule, and operational performance of the systems to be acquired during the production lifetime of the program, would be certified at the highest level of responsible officials within DoD, and would establish a contract between the executive and legislative branches based on mutual expectations for the program.

If such a process were in place, the Armed Services Committees would not need to subject defense programs performing well, relative to an approved baseline previously established at a key milestone, to the same level of scrutiny as programs arriving at key milestones. In fact, to the maximum possible extent, programs that proceed successfully through congressional authorization at the high-rate production milestone should be executed through multi-year procurement. Once multi-year procurement is initiated, changes to a program baseline, either through DoD action or through later congressional authorization or appropriation action, should be avoided because of the financial penalties involved. In the Commission's view, milestone authorization, baselining, and multi-year procurement would promote the kind of stability and proven cost savings in budgeting for national defense that are central objectives of our recommendations.

Additional 1987 Innovations--Two New Milestones

The latest DoD directives on acquisition not only fully implemented the Packard Commission Formula, they reflect an additional initiative. The latest change to the DoD acquisition directive adds two more decision points to the acquisition process. The impact is that program decisions will be made by the DAB not only at:

- o Program Initiative
- o Demonstration and Validation
- o Full scale engineering development
- o Production and deployment

but also after:

- o Two years of system deployment to check "logistics readiness and support."

- o Five to ten years of service, to identify needs for upgrade, replacement (or scrapping).

These additions to the acquisition procedure are in line with the good management theory concept of verification, i.e., let's not field'em and forget'em.

Now that we have an idea of how and why the acquisition process evolved to where it is today. It's time to describe the process as designed.

THE ACQUISITION PROCESS-AS DESIGNED

The basic Acquisition Process is simple. The need for weapon systems emerge and then a series of decisions are made. The kinds of questions this decision process asks are, "do we really need, and can we afford, this new capability? What kind of gizmo should we invent to get the job done? Is the gizmo we've developed good enough and cheap enough to produce? Etc." These kinds of questions are asked until the decision is made to scrap (rather than upgrade or replace) a system. The buzz word used for the decisions is "milestones". The activity between milestones is called "phases."

The Basic Acquisition Cycle

Figure V-2 depicts the basic acquisition process for major programs. Normally, there are five phases in the process:¹⁸

- o Concept exploration/definition;
- o Demonstration/validation;
- o Full scale development, and if appropriate, low-rate initial production;
- o Full rate production and initial deployment;
- o Operations support.¹⁸

The milestones that precede each of these phases are discussed below. Who makes the decision at each milestone is a function of the type of program. (The DAE decides for "DAB programs," the Service Chiefs decide for "Component programs.") Of particular interest are the decision criteria and considerations:¹⁹

o Milestone Zero--Program Initiation/Mission-Need Decision

- The Milestone 0 (zero) decision determines mission-need and approves program initiation and authority to budget for a new major program. Normally, a concept exploration/definition phase follows this approval.

- Primary considerations during this milestone include: (1) mission area analysis; (2) affordability and life-cycle costs; (3) the ability of a modification to an existing U.S. or allied system to provide needed capability; and (4) operational utility assessment.

★ REPETITIVE ACTIVITY

- CONTINUOUS ANALYSIS OF MISSION AREAS
- PROGRAM EVALUATION
- ANNOUNCE BREACHES OF BASELINE THRESHOLDS

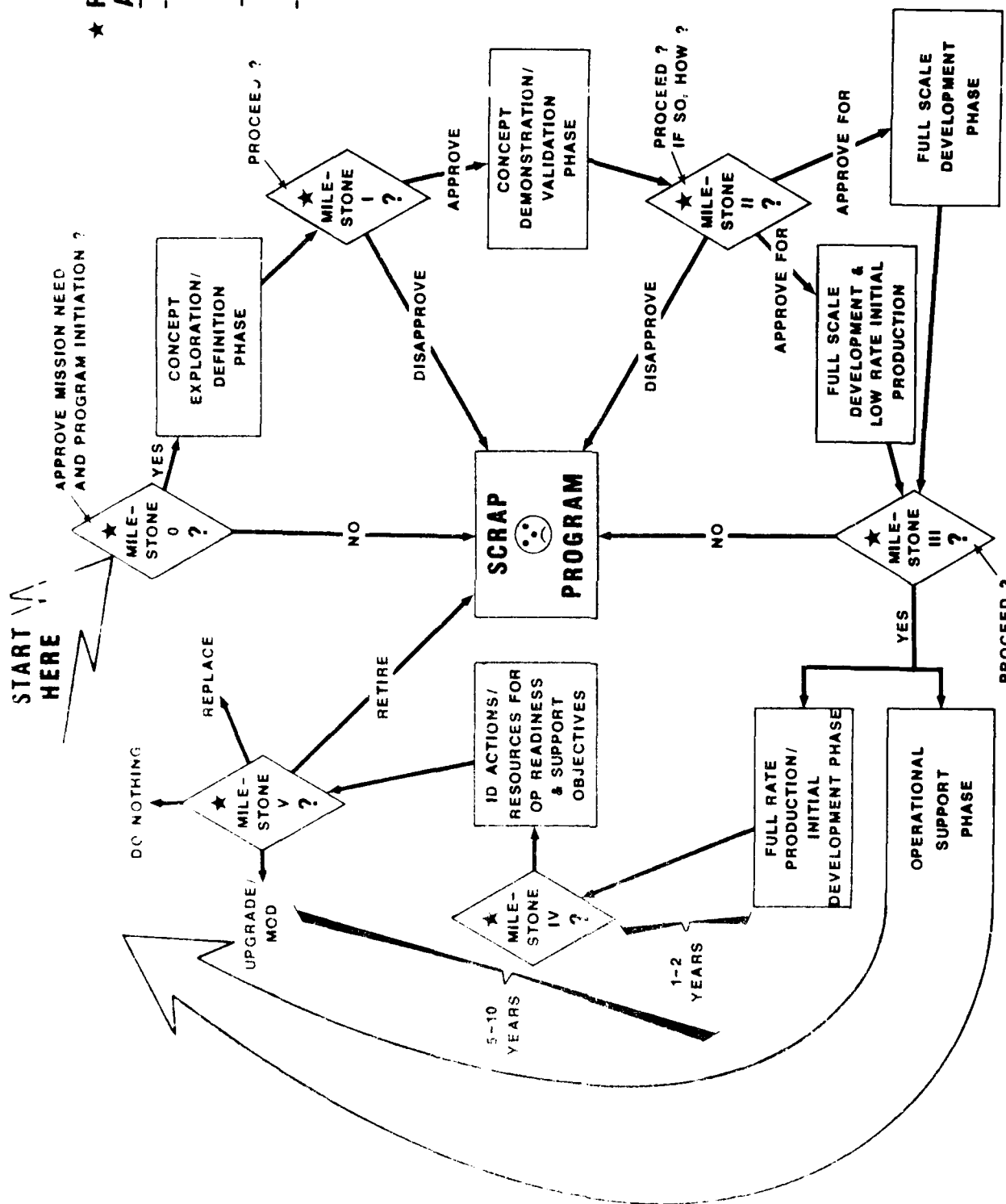


Figure V-2

THE ACQUISITION PROCESS

(Artwork by Billi Potter)

o Milestone I--Concept Demonstration/Validation Decision

- The Milestone I decision approves proceeding with the concept demonstration/validation phase.

- Primary considerations during this decision include: (1) program alternative trade-offs; (2) performance/cost and schedule trade-offs, including the need for a new development program versus buying or adapting existing U.S. or Allied military or commercial systems; (3) appropriateness of the acquisition strategy; (4) prototyping of the system or selected system components; (5) affordability and life-cycle costs; (6) potential common-use solutions; and (7) cooperative development opportunities.

- The Milestone I decision establishes broad program cost, schedule, and operational effectiveness and suitability goals and thresholds, allowing the program manager maximum flexibility to develop innovative and cost-effective solutions.

o Milestone II--Full-Scale Development Decision

- The Milestone II decision approves proceeding with the full-scale development (FSD) phase. As appropriate, low-rate initial production (LRIP) of selected components and quantities may be approved to verify production capability and to provide test resources needed to conduct interoperability, live fire, or operational testing.

- Primary considerations in the DAB's deliberations are: (1) affordability in terms of program cost versus the military value of the new or improved system and its operational suitability and effectiveness; (2) program risk versus benefit of added military capability; (3) planning for the transition from development to production, which will include independent producibility assessments (hardware/software/data bases); (4) realistic industry surge and mobilization capacity; (5) factors that impact program stability; (6) potential common-use solutions; (7) results from prototyping and demonstration/validation; (8) milestone authorization; (9) manpower, personnel, training and safety assessments; (10) procurement strategy appropriate to program cost and risk assessments; (11) plans for integrated logistics support; (12) affordability and life-cycle costs; and (13) associated command, control, communications, and intelligence requirements, including communications security.

- The Milestone II decision establishes more specific cost, schedule and operational effectiveness and suitability goals and thresholds, including approval of the program baseline agreement between the DAE, the Service Acquisition Executive (SAE), the Program Executive Officer (PEO), and the Program Manager (PM).

o Milestone III--Full Rate Production Decision

- The Milestone III decision approves proceeding with the affordable full-rate production and initial deployment phase.²⁰ Initial deployment also marks the beginning of the operations support phase.

- Primary considerations in the DAB's deliberations are: (1) results of completed operational test and evaluation; (2) threat validation; (3) production or construction cost verification; (4) affordability and life-cycle costs; (5) the production and deployment schedule; (6) reliability, maintainability and plans for integrated logistics support; (7) producibility as verified by an independent assessment; (8) realistic industry surge and mobilization capacity; (9) multiyear procurement or milestone authorization; (10) manpower, personnel, training and safety requirements; (11) cost-effectiveness or plans for competition or dual sourcing; and (12) associated command, control, communications, and intelligence requirements, including communications security.

o Milestone IV--Logistics Readiness and Support Review

- The Milestone IV decision identifies actions and resources needed to ensure that operational readiness and support objectives are achieved and maintained for the first several years of the operational support phase. The Milestone IV review will normally occur 1 to 2 years after initial deployment.

- Primary considerations in the DAB's deliberations are: (1) logistics readiness and sustainability (peacetime and wartime); (2) weapon support objectives; (3) the implementation of integrated logistics support plans; (4) the capability of logistics activities (i.e., supply, transportation, etc.), facilities and training and manpower to provide support efficiently and cost-effectively; (5) disposition of displaced equipment; and (6) affordability and life-cycle costs.

o Milestone V--Major Upgrade or System Replacement Decision

- The Milestone V decision encompasses a review of a system's or facility's current state or operational effectiveness, suitability, and readiness to determine whether major upgrades are necessary or deficiencies warrant consideration of replacement. This milestone decision normally will occur 5 to 10 years after initial deployment.

- Primary considerations in the DAB's deliberations are: (1) capability of the system or facility to continue to meet its original or evolved mission requirements; (2) the potential necessity of modifications and upgrades to ensure that mission requirements are met and that the useful life is extended; (3) changes in threat that require increased capability or utility; and (4) changes in technology that present the opportunity for a significant breakthrough in system worth; and (5) disposition of displaced equipment.

A significant question to be decided at this point is whether deficiencies are critical enough to warrant major modification, retirement, and/or new start considerations.²¹

Repetitive Activity

The Acquisition Process has been described as a sequential cycle. Nevertheless, there are several activities in the process that are intended to be repetitive or continuous.

Continuing Analyses of Mission Areas

The Services are to conduct continuing analyses of their assigned areas of responsibility to identify deficiencies and to determine more effective means of performing assigned tasks. These analyses may result in recommendations to initiate new acquisition programs to reduce or eliminate operational deficiencies, to establish new capabilities in response to a technologically feasible opportunity, to reduce the DoD cost of ownership significantly, or to respond to a change in national defense policy.²²

Program Evaluation

Just as systematic analysis is in order for new requirements, economic analysis of ongoing programs is to be conducted to determine how best to improve existing programs or project based on actual performance.²³

Breaches of Baseline Thresholds

The program baseline is a formal agreement between the DAF, SAE, PEO and IM that briefly summarizes the program's functional specifications, cost, schedule, operational effectiveness and suitability requirements.²⁴ If any of the established thresholds is exceeded, the PM is to blow the whistle (file a "deviation report") which could trigger an unschedule DAB review.

Process Summary

The Acquisition Process parallels the life cycle of the weapon systems it creates and supports. Decisions are made--based on deliberations of the DAB or the Services--before each phase, as the systems mature. Decisions, if favorable, continue the life of the system into the next phase. Throughout the process, evaluations are conducted to investigate alternative (cheaper and/or more timely) means, check to see that the mission needs still exist, and that the systems are achieving the desired objectives for the expected cost. Given that mission needs continue to exist, and no other alternative proves to be better, cost, schedule and performance are the three factors that receive continuous scrutiny.

PROBLEMS AND GAMES

Reality

What really happens in the acquisition system is not so neat, tidy and rational as one might expect from the foregoing description. The following extract from the 1986 Packard Commission Report illustrates some of the hard spots experienced by many, if not most, defense programs:

Problems with the present defense acquisition system begin with the establishment of approved "military requirements" for a new weapon, a step that occurs before development starts. Two common methods exist for establishing the need for a new system--"user pull" and "technology push." Both methods are unsatisfactory.

User pull defines the institutional process by which users (notably the Services) assess the adequacy of existing weapons to meet military needs, and state the characteristics of the next generation of equipment desired to overcome identified inadequacies. In general, this process does not adequately involve participants with a sophisticated knowledge of the cost and schedule implications of technical improvements required to satisfy these characteristics. Consequently, user pull often leads to goldplating--that is, the inclusion of features that are desirable but whose cost far exceeds their real value. If users understood the likely impact of their requirements on the schedule, quantity, and maintainability of the weapons they eventually received, they would have strong motivation for compromise. Generally, however, that compromise--a conscious trade-off between performance and cost--does not take place to an adequate degree. Implicitly, it is assumed that military requirements should be "pure" and that any necessary trade-offs will take place later in the process.

Alternatively, requirements often are established by technology push. A government or industry team conceives of a new or advanced technology. It then tries to persuade users to state requirements that will exploit the new technology. Most of the really significant improvements in military technology--radar, jet engines, and the atomic bomb, for example--have occurred by technology push rather than by an abstract statement of requirements. Because participants in this process tend to push technology for its own sake, however, this method is no less prone to result in goldplating than user pull.

Once military requirements are defined, the next step is to assemble a small team whose job is to define a weapon system to meet these requirements, and "market" the system within the government, in order to get funding

authorized for its development. Such marketing takes place in a highly competitive environment, which is desirable because we want only the best ideas to survive and be funded. It is quite clear, however, that this competitive environment for program approval does not encourage realistic estimates of cost and schedule. So, all too often, when a program finally receives budget approval, it embodies not only overstated requirements but also understated costs.

Funding having been approved, the DoD program team is then enlarged and given the task of preparing detailed specifications. Weapon system specifications for a major program typically run to thousands of pages, not counting generic military specifications included by reference. System specifications effectively become a surrogate for overstated military requirements, which tend to fade from view.

DoD then invites industry to bid on the program. The overly detailed system specifications serve as a basis for defense contractors to prepare competitive proposals describing how they would meet the specifications, and at what cost to them and price to the government. The preparation of competitive proposals may very well expose technical problems with the specifications, or reveal modifications that would be cost effective. The environment in which program competition typically takes place, however, encourages improvements within specifications, but discourages modifications that deviate from specifications. This effectively forecloses one principal factor--trade-offs between performance and cost--on which the competition should be based. The resulting competition, based instead principally on cost, all too often goes to the contractor whose bid is the most optimistic.

In underbidding, contractors assume there will be an opportunity later in a program to negotiate performance trade-offs that make a low bid achievable, or to recover understated costs through engineering change orders. Today, however, most production and many development contracts are negotiated on a firm, fixed-priced basis. For the government, the advantages of a fixed-price arrangement, particularly the incentives it creates for realistic bidding, are nevertheless of real concern. Fixed-price contracts effectively can enshrine overstated requirements and understated costs in a legal arrangement that allows little or no flexibility for needed trade-offs between cost and performance. The contractual arrangement, intended to protect the government, may cause both sides to lose.

In the face of these daunting problems, DoD selects a successful bidder and launches the program. The DoD program manager sets out to accomplish the improbable task of managing his overspecified and underfunded program to a successful conclusion.

But what was merely improbable soon becomes impossible. The program manager finds that, far from being the manager of the program, he is merely one of the participants who can influence it. An army of advocates for special interests descends on the program to ensure that it complies with various standards for military specifications, reliability, maintainability, operability, small and minority business utilization, and competition, to name a few. Each of these advocates can demand that the program manager take or refrain from taking some action, but none of them has any responsibility for the ultimate cost, schedule, or performance of the program.

None of the purposes they advocate is undesirable in itself. In the aggregate, however, they leave the program manager no room to balance their many demands, some of which are in conflict with each other, and most of which are in conflict with the programs' cost and schedule objectives. Even more importantly, they produce a diffusion of management responsibility, in which everyone is responsible, and no one is responsible.

Meanwhile, throughout this process, various committees of congress are involved. During the marketing phase, it is not enough for the program manager to sell the program to his Service leaders and the various staffs in the Office of the Secretary of Defense. He also must sell the program to at least four committees and to numerous subcommittees of congress, and then resell it for each fiscal year it is considered. In so doing, the program manager is either assisted or opposed by a variety of contractors, each advocating its own views of the program on Capitol Hill. While congressmen have an abstract interest in greater program effectiveness, they also have an intense pragmatic interest in their own constituencies. These two interests are frequently in conflict, as they exert pressure on specific programs through legislative oversight.

All of these pressures, both internal and external to DoD, cause the program manager to spend most of his time briefing his program. In effect, he is reduced to being a supplicant for, rather than a manager of, his program. The resulting huckster psychology does not condition the program manager to search for possible inconsistencies between performance and schedule, on the one hand, and authorized funding, on the other. Predictably, there is

a high incidence of cost overruns on major weapon systems programs.

But a much more serious result of this management environment is an unreasonably long acquisition cycle--ten to fifteen years for our major weapon systems. This is a central problem from which most other acquisition problems stem:

- o It leads to unnecessarily high costs of development. Time is money, and experience argues that a ten-year acquisition cycle is clearly more expensive than a five-year cycle.
- o It leads to obsolete technology in our fielded equipment. We forfeit our five-year technological lead by the time it takes us to get our technology from the laboratory into the field.
- o And it aggravates the very goldplating that is one of its causes. Users, knowing that the equipment to meet their requirements is fifteen years away, make extremely conservative threat estimates. Because long-term forecasts are uncertain at best, users tend to err on the side of overstating the threat.²⁵

Congress's Role

It seems that many of the causes of the problems with acquisition stem from congress. As discussed earlier, the micromanagement that takes place in the review and mark up of the program and projects by congressional committees, subcommittees, and staffs is considered a significant problem by the executive branch, and to some congressmen as well.²⁶

Congress also has a hand in discouraging top notch executives from playing a part in the Acquisition Process.

A serious impediment. . . . is the inability to bring bright, experienced industry people into senior acquisition positions in the Pentagon, which are in crying need of in-depth management experience. Acquisition management in the Pentagon requires the talent of a substantial number of senior industrial executives who have been through the rigors of contracting and managing programs, know firsthand the problems, difficulties and complexity of achieving success in those programs. Unfortunately, through a series of draconian statutes on ethics in government, beginning in 1978, congress has created an atmosphere of disenchantment for any defense industry executive who wishes to serve his country but to be irrevocably cut-off from his private sector roots. Congress thus has ensured that the key positions will

not be sought out by the best and the brightest middle and senior executives. . . .In today's environment, David Packard probably would not have accepted the Deputy Secretary of Defense position in 1979, since it would have precluded him from returning to Hewlett Packard.

Cost Growth in Perspective

Almost everybody feels that the cost of defense systems grows "too much." But, let's put this in perspective by looking at two studies. Rand Corporation and the Analytic Sciences Corporation (TASC) separately analyzed the cost growth experienced by major DoD weapon system programs and comparably large, complex civil programs. The civil programs included numerous public and private sector projects that typically required many years to develop, involved substantial technical risks, and depended on the performance of many contractors. Both studies lead to the conclusion that average cost growth in major DoD weapon system programs is lower than cost growth in many large scale civil programs. That may seem like good news, but Defense Program growth averages just over 50%.²⁸

Rapid Prototyping Is Too Slow Coming On-Line

Rapid prototyping is a concept that can in many--but unfortunately not all--instances "solve" the two big acquisition problems. Rapid prototyping offers "tremendous cost savings . . . but also increases our warfighting capability much more rapidly than existing heavily institutionalized development procedures."

The economy of utilizing this approach over conventional methodology is accomplished essentially by:

- a. Utilizing off-the-shelf technology (i.e., private sector R&D investment vice government funded R&D), and
- b. Developing and installing the operational system within one year vice the traditional 5-10 years²⁹ necessary for government-sponsored programs.

Cutting red tape in acquisition is nothing new. In the Vietnam War, for example, Navy weaponry and electronic countermeasures were developed very quickly. There have been other major systems brought on-line within years instead of decades, but they are few and far between.³⁰

Vicious Cycle

Factors hindering the acquisition process include goldplating, micro-management, unqualified executives, program managers not being in charge, overspecified yet underfunded programs, buying in, peak barrel pressure, and our inability to get off-the-shelf

high tech system into operation quickly. They all contribute to a vicious cycle of games and problems. The result is inefficient system acquisition--life cycles are drawn out, costs grow, and the ratio of bang-to-buck continues to be disappointing.

INTERFACES

The defense acquisition system exists for the purpose of producing and maintaining the hardware needed by the warfighters. The program management activity that we have developed thus far is closely related to the Federal Budget and PPB System discussed in previous chapters. Formally, the only "official" interface is the designated membership of the DAB and DRB.³¹ We should, however, look more deeply into some of the inter-relationships if we are to completely understand acquisition in the context of defense resource allocation.

Planning and Programming

The articulation of the need for new weapons (or the obsolescence of old programs) should theoretically be a result of the planning process. It is, after all, during the first P ("Planning") in PPBS that threat, strategy and force structure ideas are synthesized.

Since the programming phase of PPBS is where, in theory, objectives are reconciled with available resources, the fate of acquisition programs is initially determined by the second P ("Programming") in PPBS. A major defense acquisition program shall not be started unless sufficient resources, including manpower, are or can be programmed to support projected development, testing, production, fielding, and support requirements.³² New major acquisitions are to be considered concurrent with the OSD POM Summer Review process.³³

While major program decisions are made in context with both the PPBS and the acquisition process, there are notable differences and at times apparent conflicts between these two systems. The acquisition process proceeds in phases, each of which may require only a part of a budget cycle or several full cycles. Gearing the phases to the particular business and technical aspects of the program ensures that adequate in-depth reviews are conducted prior to significant commitment of resources. The PPBS, rather than being oriented to the needs of a specific program, is keyed to the larger problem of balancing all programs within service, DoD, OMB, and/or congressional financial limits established for a particular fiscal year or the Five-Year Defense Plan. Decisions made through the DAB process need to be reflected in the FYDP. This is accomplished during the Program Objective Memorandum/Issue Book/Program Decision Memorandum process of the PPBS. Successfully passing a DAB is, however, no guarantee of full funding, and in the POM/PDM process the programs' funding may be cut.

Top level DoD review of the PPBS process is the responsibility of the Defense Resources Board (DRB), whose makeup is somewhat similar to that of the DAB (See Table V-1), although the purposes of the two groups are different. The DAB deals with a single system at a time, basing decisions on the technical progress, acquisition strategy, implementation plans, and accuracy of cost projections. By contrast, the DRB's responsibility is to advise the SECDEF on the overall DoD budget. The DRB review can severely impact the budgeting of major systems acquisition. Each program must compete with all other programs (including those of other services) for dollars.³⁴

USD (Acquisition)	Chairman, JCS is DRB Member
ASD (Controller)	Vice Chief is on DAB
ASD (Program Operations)	
DIR (R&D)	Service Secretaries are Members
DIR (PA&E)	of DRB and can attend DAB

Table V-I

MEMBERS SERVING ON BOTH THE DAB AND THE DRB³⁵

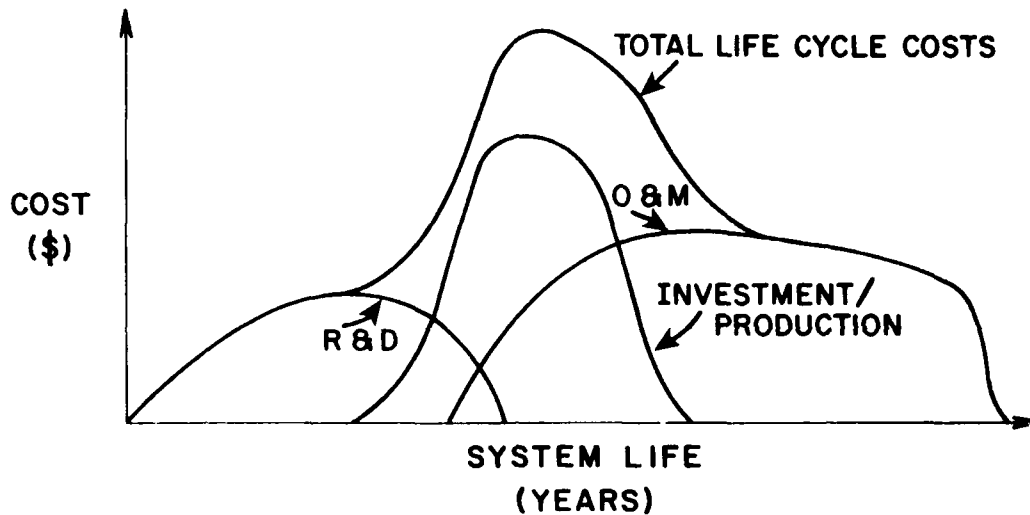
There are times when a POM or budget submittal to OSD deviates significantly from a previously approved DAB decision. This fact and the cost, schedule and performance impact on the program, should to be noted in the POM or budget submittal and explained. In such instances, the DAB choice is a decision alternative in the POM or Issue Paper.³⁶

Budgeting

PPBS may be the means of requesting program dollars, but programs get their resources from the federal budget system.

Look at Figure V-3, which depicts the COMPONENTS OF THE LIFE CYCLE COSTS OF A WEAPON SYSTEM. It is important to realize that these components have a ONE FOR ONE RELATIONSHIP WITH THE CONGRESSIONAL APPROPRIATION CATEGORIES of R&D, Procurement and O&M. While the DoD prepares its budget using the program format, and the president's budget is submitted in functional format, the bottom line is written in the language of the congressional budget. System acquisitions are funded by the federal budget System.

Figure V-3
LIFE CYCLE COSTS



HIGHLIGHTS

The "Acquisition System" represents a decision process that buys weaponry and then supports it over the course of its life. While the basic process is designed to be simple, acquisition is complicated by, and intertwined with, the PPBS and the federal budget system. Many changes have been made to the process over the years, especially in the last few years. All the changes are intended to keep costs reasonable and deliver weapon systems before they are obsolete. However, more changes appear to be necessary if our acquisition system is to be truly effective . . . and efficient.

NOTES AND REFERENCES

Footnotes

1. DoD Directive 5000.1. "Major and Non-Major Defense Acquisition Programs," (USD(A)) 1 Sep 1987, pp. 1-2.
2. U.S. Defense Acquisition: A Process in Trouble. The Center for Strategic and International Studies, Georgetown University. March 87. p. 11.
3. Ibid., p.3.
4. A Formula for Action; A Report to the President on Defense Acquisition by the President's Blue Ribbon Commission on Defense Management, April 1986, p. 3.
5. A Process in Trouble. p. 3.
6. Unless otherwise noted, these definition came from DODINST 5000.1
7. Nitty gritty details on the Defense Acquisition Board (DAB) maybe found in DODINST 5000.49 of 1 Sep 87. Current DAB membership is as shown in Table I-2 and Figure V-1. The DAB is supported by 10 Acquisition Committees that provide assistance in program review and policy formulation. These committees hold pre-DAB meetings to provide advice, assistance, and recommendations to the DAB and to reach consensus on acquisition issues. See Figure V-4. Particularly interesting is that some committees are chaired by members of the DAB while others are not.
8. Insley, Patricia P., et al, "Shortening the Acquisition Cycle: Research on Concurrency," report, Management Consulting and Research, Inc., Falls Church, Va., SEP 30, 1982.
9. The author is indebted to the Defense Resource Management Faculty at the Armed Forces Staff College for this synthesis of studies made of the acquisition process.
10. DODINST 7041.3. Economic Analysis and Program Evaluation for Resource Management, 18 Oct 1972. This directive is still in effect and provides more details on the content and methodology of these analysis methods.
11. Source: AFSC DRM Faculty Guide.
12. Puritano, "Getting Ourselves Together on Systems Acquisition," Defense 81, Oct 1981.
13. Puritano, "The Weinberger-Carlucci Initiatives, How are we doing?" Defense 82, June 82. The details of the initiative can be found in both Puritano articles.

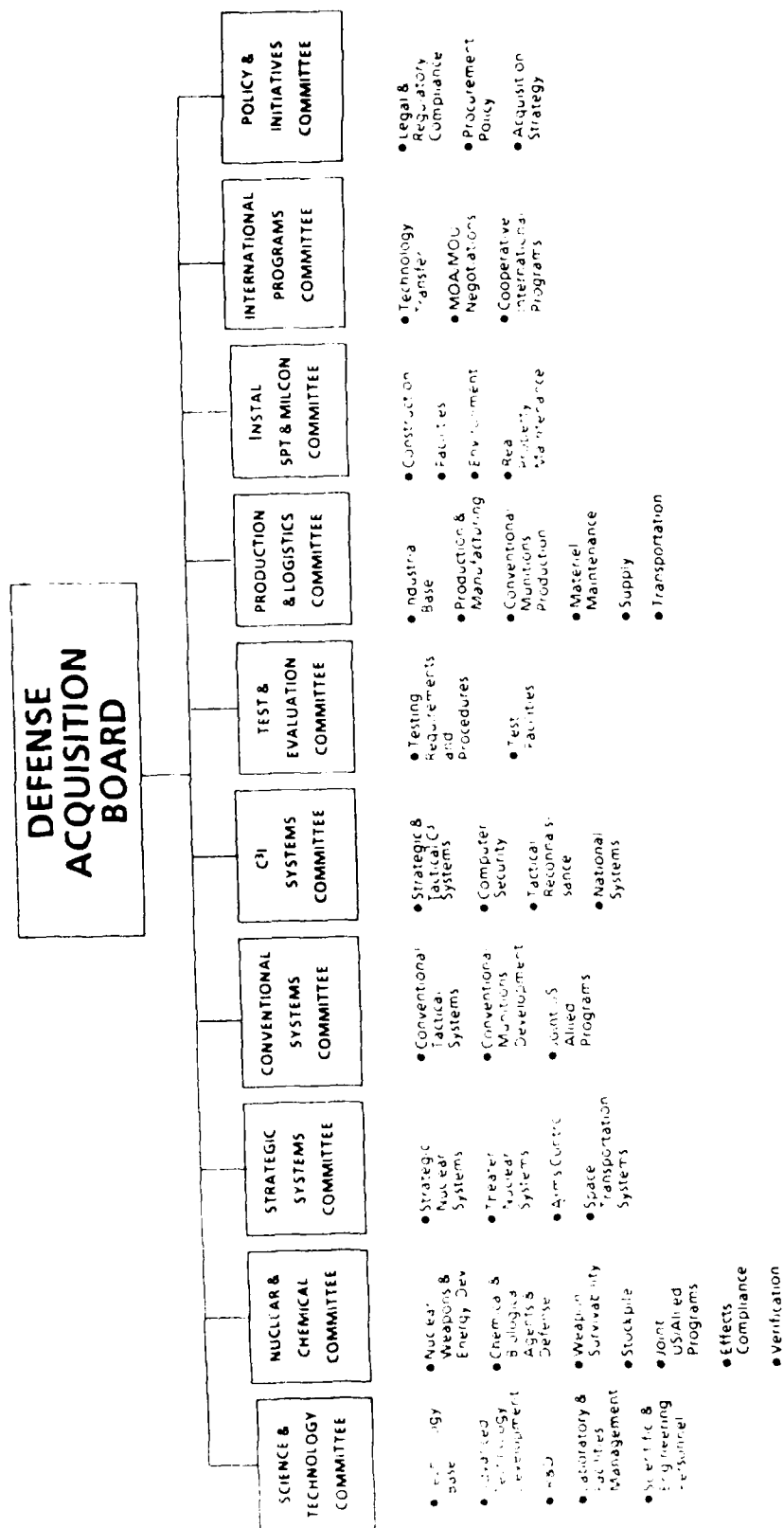


Figure V-4

DEFENSE ACQUISITION BOARD (DAB) ACQUISITION COMMITTEES (Source DODINST 5000.2)

14. Formula for Action, p. 5.
15. See p. 15-22 of the Packard Commission Report for details.
16. Ibid., p. 26, 27, 31-33, and A Process in Trouble, pp. 75-77.
17. Chapter IV of this paper (PPBS) discusses biennial budgeting in detail.
18. DODINST 5000.1 and 5000.2.
19. DODINST 5000.1, pp. 3-4. Where practicable, the milestones decision points, and phases, are to be used for non-major programs too.
20. Criteria and considerations are taken verbatim from DODINST 5000.2.
21. If the magnitude of the program is sufficiently large and/or the time between the beginning of low-rate initial production and full rate production is significantly long, there may be a need for a Program Review (a Milestone III-A) before the Milestone III decision point. (Source DODINST 5000.2)
22. If you are interested in the details of paperwork, documentation required for DAB programs include the following: (Details and formats can be found in DODINST 5000.2.)
 1. Milestone 0--Mission-Need Statement (MNS).
 2. Milestones 0 Through V--Cooperative Opportunities Document.
 3. Milestone I--System Concept Paper (SCP)/Test and Evaluation Master Plan (TEMP).
 4. Milestone 1--Competitive Prototyping Strategy (CPS).
 5. Milestones I and II--Cost and Operational Effectiveness Analysis (COEA) Report.
 6. Milestone 1 and II--Common-Use Alternative Statement.
 7. Milestones I and II--Common-Use Alternative Statement.
 8. Milestones 0 through V--Independent Cost Estimates (Component and OSD Cost Analysis Improvement Group).
 9. Milestone II--Decision Coordinating Paper (DCP) updated TEMP.
 10. Milestone II and III--Manpower Estimate Report.
 11. Milestones II and III--Acquisition Strategy Report (Competitive Alternative Sources).

12. Milestone III--Beyond-Low Rate Initial Production (LRIP) Report.
13. Milestone III--Updated Decision Coordinating Paper (DCP)/Updated TEMP.
14. Milestones IV and V--Updated Decision Coordinating Paper (DCP)/Updated TEMP/Updated Production Baseline.
22. DODINST 5000.1, p. 4.
23. DODINST 7041.3.
24. DODINST 5000.2, p. 8, Definitions of some of the terms used in the baseline concept.
 - Operational Effectiveness. The overall degree of mission accomplishment of a system when used by representative personnel in the environment planned or expected for operational employment of the system considering organization, doctrine, tactics, survivability, vulnerability, and threat (including countermeasures, nuclear, and chemical and/or biological threats).
 - Operational Suitability. The degree to which a system can be placed satisfactorily in field use with consideration given to availability, compatibility, transportability, interoperability, reliability, wartime usage rates, maintainability, safety, human factors, manpower supportability, logistics supportability, documentation, and training requirements. (Source of Definitions: DODINST 5000.1)
25. A Formula for Action, pp. 6-9.
26. See the discussion "Congressmen or Program Managers" on p. 1-37 in Chapter II (The Federal Budget System).
27. Skantye, "Packard Report Remains the Best Blueprint for Acquisition Reforms," Aviation Week and Space Technology, 8 Feb 88.
28. Formula for Action p. 37. The results of these studies are shown in Figure V-5 and V-6.
29. Naval Reserve Association President's Comments on "Hi Tech for an Old Ship . . .," Keller and Pastore, Naval Reserve Association News, Oct 1984.
30. Smith, "Rapid Prototyping and Streamlining Acquisition--Partial Answers, At Least, to a Coming Age of Austerity," Naval Reserve Association News, May 1987.

31. DoD Instruction 7045.14.

32. DODINST 5000.1, pp. 4-5.

33. DODINST 5000.2, pp. 6-7. Once the mission need is approved, the DAE authorizes the issuance of a PE number for the new program . . . and the weapon system's existence is established in the FYDP. See Chapter IV (PPBS) for details on the Summer Review Process.

34. Handler, G.S., Navy Program Manager's Guide, Naval Material Command, Washington, D.C., December 1980, pp. 2-26.

35. See Tables I-1 and I-2 for DRB and DAB Membership.

36. Navy Programming Manual, p. III-14.

Additional References

Acker, "Defense Systems Acquisition Review Process A History and Evaluation," Program Manager, Jan-Feb 84.

Owens, "Congress' Role in Defense Mismanagement," Armed Forces Journal International, April 1985.

Figure V-5

COST GROWTH IN MAJOR PROJECTS (RAND)

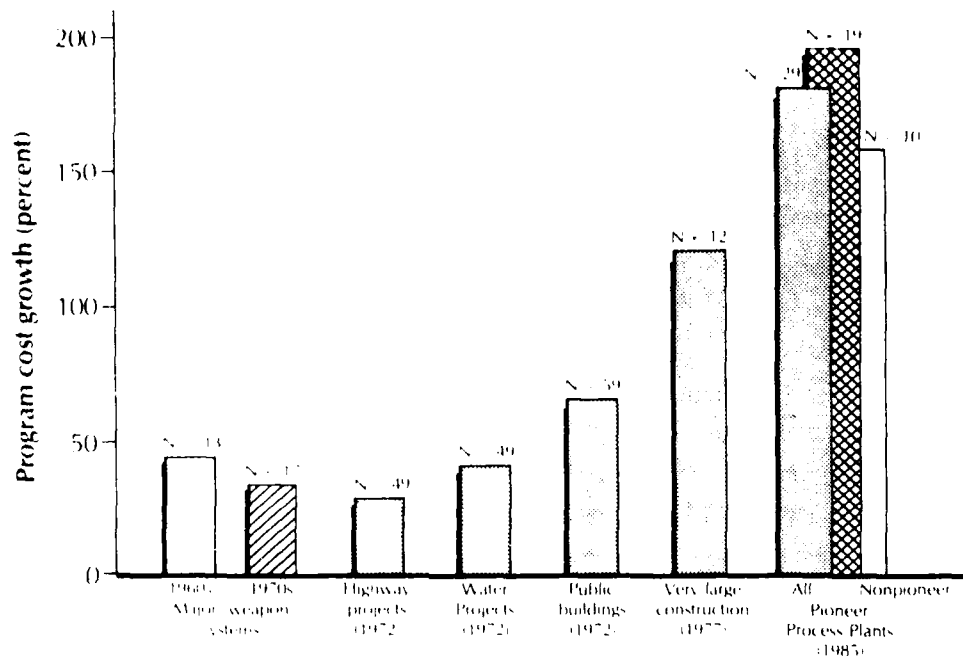
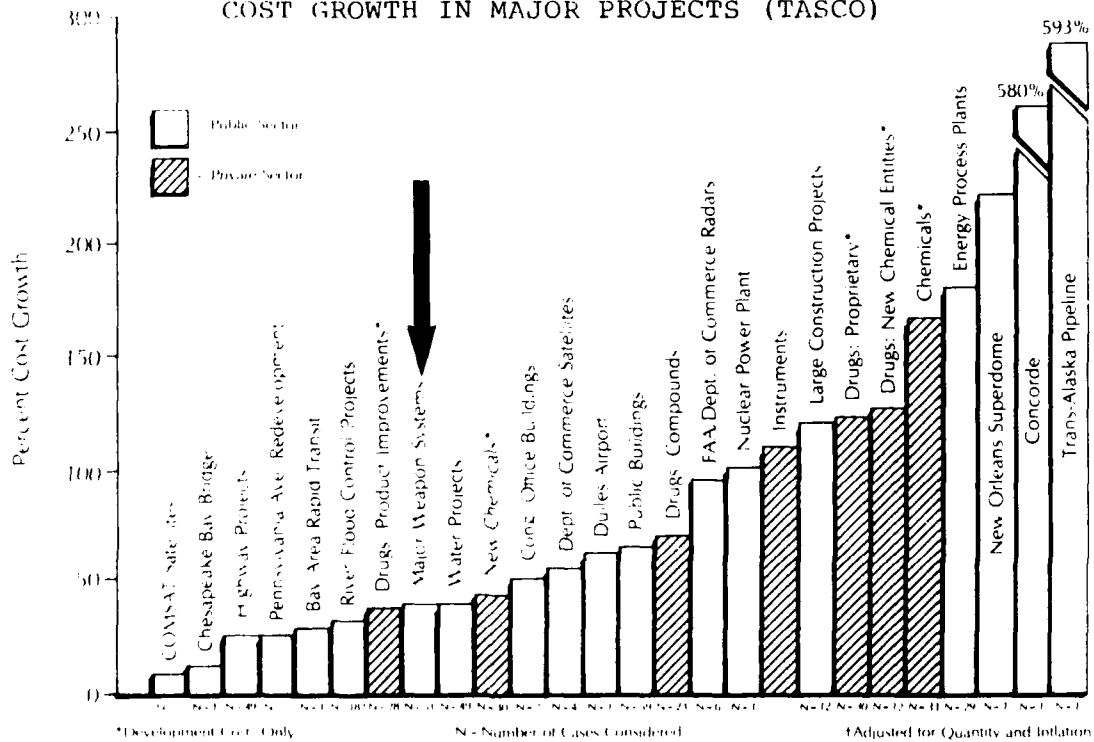


Figure V-6

COST GROWTH IN MAJOR PROJECTS (TASCO)



CHAPTER VI

INTEGRATION AND CONCLUSIONS

PUTTING IT ALL TOGETHER

The purpose of this final chapter is to synthesize the various parts of the resource allocation process; and to explore how the whole system might be made to work better.

Reviewing the Process

Table VI-1, at the end of the chapter, provides a summary of the systems described earlier. In this summary, each system--the Federal Budget, JSPS, PPBS and Acquisition--is broken down into phases, players, activities, and finally, what each of the systems is supposed to produce.

Integrating the Pieces

It may be hard to imagine that all these systems fit together to serve some grand purpose. Indeed, there never was a formalized scheme to develop a PPBS, an acquisition system, the JSPS, and the federal budget system together in such a manner that they would complement and support each other. To the contrary, these systems have all evolved separately, but not without influence from each other. These systems therefore co-exist, although not always in total harmony.

It is possible to conceptualize an overall defense resource allocation system, even if it doesn't "officially" exist or cannot be found anywhere else on paper. Figure VI-1 offers such a systems view of the whole process of defense resource allocation. We can see that the systems that we have described separately are actually "subsystems" in the overall process.

The JSPS produces strategy, resource needs and mission tasks; the PPBS proposes a five year plan to field the best mix of forces given resource constraints, the acquisition system produces and maintains weapon systems; the federal budget system provides the funds. Without all of these subsystems interacting, we cannot achieve the objective: FORCES IN THE FIELD AND AT SEA, PROPERLY EQUIPPED AND SUPPORTED.

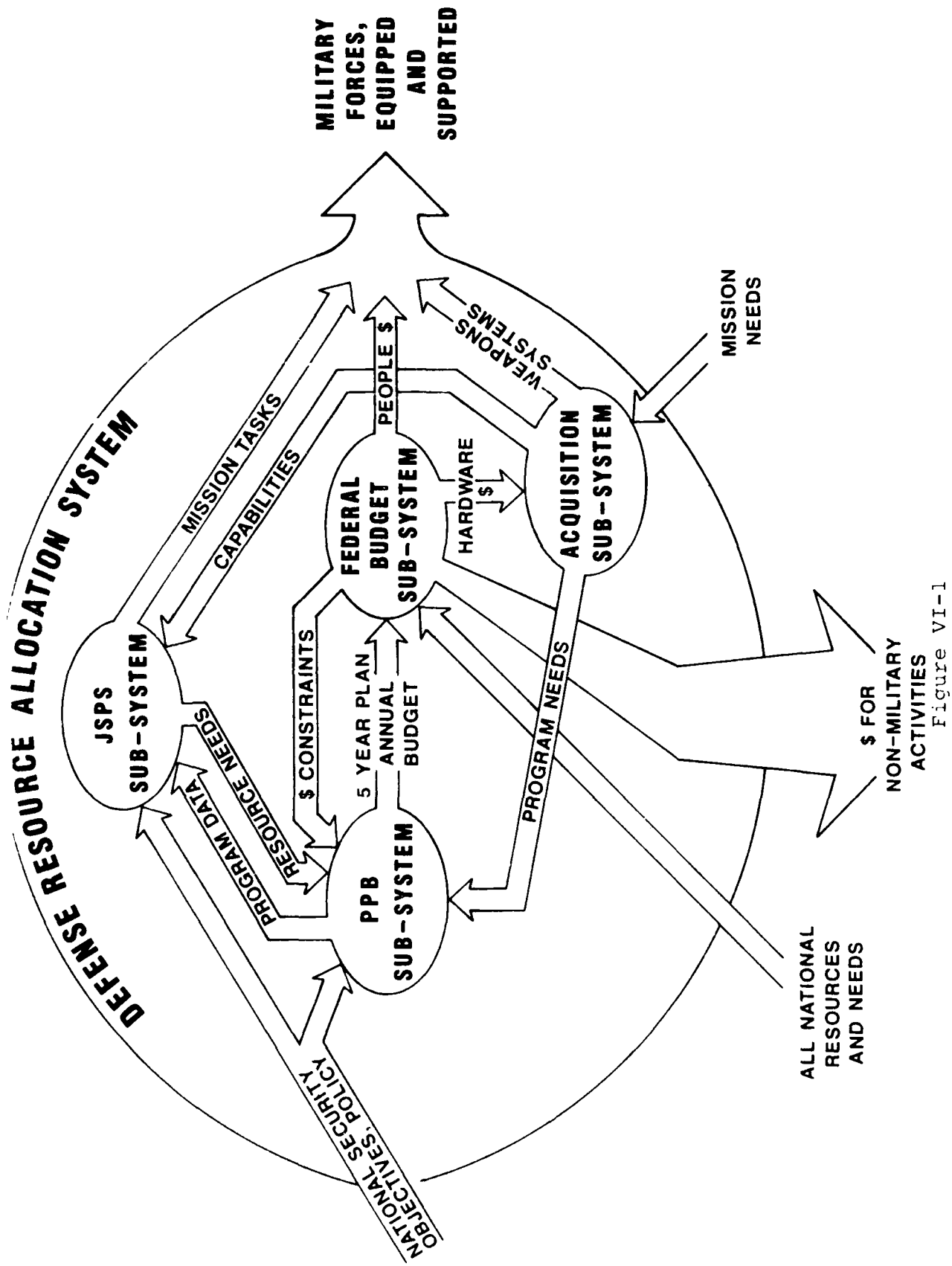


Figure VI-1

CONCEPTUALIZATION OF THE DEFENSE RESOURCE ALLOCATION SYSTEM

(Artwork by Bill Potter)

CAN IT BE MADE TO WORK?

In the preceding chapters, many of the problems experienced within the various subsystems of resource allocation were discussed in detail. The troubles might be summarized as follows:

- o Appropriation bills are virtually never enacted into law on time.
- o Continued deficit spending has raised the federal debt to a potentially dangerous level.
- o Acquisition of weapons systems takes too long and costs grow about 50% above projections.
- o The PPBS is cranking out a biennial budget while congress is only acting on annual spending bills.
- o Our strategic planning system is faced with a strategy-force mismatch. Our forces in the field and at sea cannot, without considerable risk, execute our declared military strategy.

The overall effect of these problems is, that in spite of mortgaging the future by increasing debt, national security objectives exceed our military means.

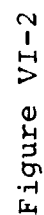
How to Fix it?

The purpose of this paper has been to describe the process we use to allocate resources for defense, not to propose an alternative way of doing things. However, since one of the conclusions is that the system doesn't work as well as it should, it is appropriate that some comments be made on how the process could be made to work better. My conclusions are that we need to complete the reform that is in progress; execute the process as designed; make good resource decisions; and all else failing, to give consideration to totally restructuring the way we do our allocation business.

Complete the Reform

Over the decades, many changes have been made to the resource allocation process. Indeed, the system is still evolving. The latest stimulus for reforms--the Packard Commission recommendations, were especially far-reaching. The Commission's proposal for a defense resource allocation process is shown in Figure VI-2.¹

From the discussions in the earlier chapters, it should be apparent that the executive branch has instituted essentially all of the recommended changes to the process that is under its control. Congress, however, has not changed. As pointed out by the Center for Strategic and International Studies,



PACKARD COMMISSION
PROPOSED DEFENSE RESOURCE ALLOCATION PROCESS

(Source--A Quest for Excellence, Appendix.)

Actions for reform have not yet extended to congress. Congress can be affected only by its own choice and by the electorate. Congress should carefully consider how its role and responsibilities could be improved. Without changes in congress, it may prove impossible to continue to improve the . . . process.

Well received and applauded as the Packard proposal was, it cannot succeed without the support and participation of all the players.

We must Execute!

Another point to consider is that reorganization itself hardly ever solves a problem. Execution is the key to success. The congressional portion of the process was restructured radically in 1974, but we have not been able to execute the process as designed. The bottom line is performance by the players. NO MATTER HOW WE ORGANIZE OR RESTRUCTURE THE PROCESS, IT WILL NOT WORK UNLESS EFFECTIVELY EXECUTED.

Make Good Decisions

Day in, day out decisions about how to allocate the scarce resources of our nation must be good ones if we are to hope to realize our national objectives. Commanders in the field, program managers, other acquisition people, budget czars, programmers, planners, analysts, and congressional folks all have one thing in common . . . they contribute to long term decisions about the means to be employed to defend our national interests. They arrive at decisions at different ways indeed; but, for our overall collective interests to be served, their individual decisions must be sound.

Complex issues are only solved responsibly if certain proven decision making concepts are employed. These include being explicit about the problem, objectives and how alternatives are compared. Cost and effectiveness, as well as professional subjective judgement, must be evaluated. The decision method should also include consideration of the environment with it's uncertainties. Good resource decisions include due regard for implementation and verification of the selected alternative. It is also important that the rationale of decisions be well communicated. What this all boils down to is that we must use a systematic, rational framework for defense resource decisions.

Should we Restructure the Process?

Even if congress embraced the proposed process changes, and enacted budget legislation on time, and we optimized our individual decisions, would that be enough to solve our defense resource problems? Perhaps not. If our two major problems are the strategy-force mismatch and rising debt, perhaps we need to consider a total reorientation of the process. Consider the following possible sequence of events:

- o Congress, considering national security interests and objectives along with all other national interests, needs and objectives, allocates funds to the executive branch.
- o The DoD, using these projected budget allocations, recommends to the president a national military strategy and the supporting force structure.
- o If the strategy will not achieve the national security objectives, the president and congress must agree to either:
 - oo increase defense spending; or
 - oo lower the objectives.
- o The two rules in the process should be:
 - oo federal budget must be balanced.
 - oo military strategy must not exceed capabilities.

The current defense resource allocation process generally starts with objectives and creates strategy first, then deals with resource constraints. If this process has, in spite of reform, failed us over the past decades, why not turn the process around? Let's start with constraints and build strategy and force levels from a realistic estimate of the means that will be available. Instead of proceeding from strategy to reality, perhaps we should start with reality. . . .

TABLE VI-1

SUMMARY OF DEFENSE RESOURCE ALLOCATION PROCESS

<u>SYSTEM</u>	<u>PHASE</u>	<u>PLAYERS</u>	<u>ACTIVITY</u>	<u>OUTPUT</u>
Federal Budget System	Formulation or "Executive Preparation and Submission"	o Executive Agencies and Departments	o Review of current operations, programs objectives, future plans.	o President's budget proposed to congress.
		o OMB		
		o President	o Exchange info on trade and economic projections.	
			o Budget requests built.	
		o Senate and House Budget Committees	o National needs considered, concurrent Budget Resolution.	
	Enactment or the Congressional Budget Process	o Senate and House Armed Services Committees (SASC/ HASC)	o Create defense authori- zation bill, with con- ference action if necessary.	o Defense Authorization and Appropriation Acts signed by President.
		o Senate and House Appropriation Committees (SAC/HAC)	o Create defense appropri- ation bill, with recon- ciliation and/or con- ference action if necessary.	
		o OMB/CBO/GAO/Joint Committee	o Analysis of tax and spending legislation for sequester criteria.	
		o Full Senate and House	o Pass bills.	
				o Spending cuts if required.

TABLE VI-1 (Continued)

SUMMARY OF DEFENSE RESOURCE ALLOCATION PROCESS

<u>SYSTEM</u>	<u>PHASE</u>	<u>PLAYERS</u>	<u>ACTIVITY/DOCUMENTS</u>	<u>OUTPUT</u>
Federal Budget System	Execution or "Implementation and Control"	o OMB	o Apportionment of funds to be spent.	o Development, building, modernizing, maintaining, and supporting of military forces.
		o Agencies and Services	o Commitment, obligation, and expenditure of funds.	
		o President	o Submits impoundment requests (recission and/or deferral).	
		o Congress	o Takes action on impoundment requests.	
Federal Budget System	Review and Audit	o Agencies Services	o Review and control.	o Assurance that obli- gations incurred and cutlays comply with authorizing and appropriation laws and/or civil action for non-compliance.
		o OMB/GAO	o Audit Agencies and Departments; Take civil action as required.	

TABLE VI-1 (Continued)

SUMMARY OF DEFENSE RESOURCE ALLOCATION PROCESS

<u>SYSTEM</u>	<u>PHASE</u>	<u>PLAYERS</u>	<u>ACTIVITY</u>	<u>OUTPUT</u>
JSPS	-	o JCS (J-5, J-8)	o Create JSPD, JPAM, IPSP, JIEP, JLRSA, JSAM, JSCP.	o Military strategy/resource needs/mission tasks.
		o DIA	o Provide advice on intelligence priorities, appraisals of situations and threats.	
		o CINCs	o Make inputs on force level requirements, strategy, risk and priorities.	
PPSS	o Planning	o JCS	o Provide strategy, force structure, threat and risk assessments (JSPD/JIEP/JLRSA).	o Policy, strategy, force/resource planning and fiscal guidance.
		o NSC	o Provide national policy and objectives.	
		o NSC/OMD/OJCS State/OSD/CINCs/ Services/DRB	o Participate in development of DG.	
		o SECDEF	o Promulgate Defense Guidance.	

TABLE VI-1 (Continued)

SUMMARY OF DEFENSE RESOURCE ALLOCATION PROCESS

<u>SYSTEM</u>	<u>PHASE</u>	<u>PLAYERS</u>	<u>ACTIVITY</u>	<u>OUTPUT</u>
PFBS	Programming	o Services	o Make 5 year resource plan to match money and manpower to programs (POMs). Participate in program review.	o 5 Year Program or Plan.
		o CINCs	o Provide inputs to POMs (IPLs), summer review.	
		o JCS	o Assess appropriateness of POMs (JPAM).	
		o OSD	o Develop issue for alternatives.	
		o DRB	o Debate issues in Summer Review Process.	
		o Deputy SECDEF	o Decide issues	
		o SECDEF	o Modify/Approve Service Programs (PDMS).	

TABLE VI-1 (Continued)

SUMMARY OF DEFENSE RESOURCE ALLOCATION PROCESS

<u>SYSTEM</u>	<u>PHASE</u>	<u>PLAYERS</u>	<u>ACTIVITY</u>	<u>OUTPUT</u>
PPBS	Budgeting	o Services	o Submit budget estimates (BEs), Appeals.	o Defense portion of President's Budget: Proposal for 5 years of manpower and \$, 8 years for forces.
		o OSD/OMB/OJCS	o Budget review/decide (PBD's).	
		o JCS/CINCs	o Assess impact on warfighting.	
		o DRB	o Debate appeals/issues.	
		o Deputy SECDEF	o Decide on appeals/issues.	
		o SECDEF/OMB	o Final Defense Budget (JAN FYDP).	
		o Services/DAB	o Milestone Zero decision on mission need/program initiation.	o Program "Exists" in POM/FYDP.
		o PM/Service	o Develop acquisition strategy.	
			o Evaluate alternatives for system.	
			o Decide whether to proceed to concept demonstration/validation phase (Milestone I).	o Decision (ADM).
Acquisition System	-			
	Concept Exploration/Definition			

TABLE VI-1 (Continued)

SUMMARY OF DEFENSE RESOURCE ALLOCATION PROCESS

<u>SYSTEM</u>	<u>PHASE</u>	<u>PLAYERS</u>	<u>ACTIVITY</u>	<u>OUTPUT</u>
Acquisition/ System	Demonstration/ Validation	o PM	o See if system works, is affordable, and can be built in time.	
		o Services/OSD	o Recommend funding in POM/FYDP.	
		o Congress	o Authorize and appropriate funds.	
		o DAB/Service	o Decide if to proceed to Full Scale Development (Milestone II).	o Decision (ADM)
Development/Low Rate Initial Production		o Services/OSD/ Congress	o Fund program in POM/ FYDP/budget legislation.	
		o PM	o Build System.	
		o DAB/Service	o Decide whether to proceed to full rate production and operational support (Milestone III).	o Decision (ADM)

TABLE VI-1 (Continued)

SUMMARY OF DEFENSE RESOURCE ALLOCATION PROCESS

<u>SYSTEM</u>	<u>PHASE</u>	<u>PLAYERS</u>	<u>ACTIVITY</u>	<u>OUTPUT</u>
Acquisition System	Full Rate Production/Initial Deployment	o Services/OSD/ Congress	o Fund program in POM/FYDP/budget legislation.	o Weapons (ADM) system produced and maintained.
	and	o PM	o Build more/install and Maintain Support Infra-Structure.	
	Operations Support	o DAB/Service	o ID actions and resources for operation readiness and support objectives, (Milestone IV).	o Decision (ADM) on support.
		o DAB/Service	o 5-10 years after deployment decide to upgrade, modify, replace, retire, or carry on with status quo (Milestone V).	o Decision (ADM) on system's future.

NOTES

1. The Packard Commission termed its proposal a "National Security Planning and Defense Budget Process." Details of the report from the President's Blue Ribbon Commission on Defense Management (and Acquisition) can be found in Chapters IV and V. The Picture of the Overall Process Recommendations comes from A Quest for Excellence--from Report by the President's Blue Ribbon Commission on Defense Management, Appendix, June 1986, p. 55.

2. U.S. Defense Acquisition: A Process in Trouble, The Center for Strategic and International Studies, Georgetown University, March 1987, p. 48.

APPENDIX A

GLOSSARY OF TERMS, ABBREVIATIONS

AND ACRONYMS

The purpose of this appendix is to provide a handy reference. In the interest of accuracy and good fun, the author is willing to reimburse those readers who can find fault with or improve on these terms, abbreviations and/or acronyms. In fact, errors or "better definitions" that are submitted to the author will be rewarded by a beer or soda (depending on the submittee's preference).

TERMS

Sources of these definitions, if they were not invented by the author, are cited in the footnotes.

Accounting. The process of recording and summarizing financial transactions and analyzing, verifying, and reporting the results.

Accrual Accounting. An expenditure-based accounting system in which revenues are accounted for when earned and operating costs are accounted for as resources are used or consumed.

Accrued Expenditures. Charges during a given period that reflect liabilities incurred and the need to pay for: (a) services performed by employees, contractors, other Government accounts, vendors, carriers, grantees, lessors, and other payees; (b) goods and other tangible property received; and (c) amounts becoming owed under programs for which no current service or performance is required (such as annuities, insurance claims, other benefit payments, and some cash grants, but excluding the repayment of debt, which is considered neither an obligation nor an expenditure). Expenditures accrue regardless of when cash payments are made, whether invoices have been rendered, or, in some cases, whether goods or other tangible property have been physically delivered.

Agency. This term is used very loosely by many people. Properly, it refers to a department, commission, board, or other independent office in the executive branch of the government. However, budget personnel use it when talking about subordinate organizations that have the responsibility for actual operations and the administration of funds. They speak of this as an "operating" agency.

Allocation. In budgeting, an official piece of paper issued by Service headquarters to a major command or other operating agency. It is a funding document and represents cash that you can commit and obligate. In JOPS, the resources given to

the commander of a unified or specified command by the Joint Chiefs of Staff for execution planning or actual execution.²

Allotment. In budgeting, this is similar to an allocation except that it is issued by a major command or operating agency to its subordinate units.¹

Apportionment. This term has different meanings depending on the context in which used.

In budgeting, apportionment is the regulation of the Rate at which appropriated funds can be spent. The apportionment process is intended to spread out spending so that additional appropriation will not be required. Apportionment is the distribution by the OMB of amounts available for obligation. Apportionments are legally binding . . . spending above the amount apportioned is cause for legal charges being pressed.

In JOPS, the apportionment is resources made available to the commander of a unified or specified command for deliberate planning. Apportioned resources are used in the development of operation plans and may be more or less than those allocated for execution planning or actual execution.²

Appropriated Funds. This is obligational authority made available by an Act of Congress (appropriation) and distributed to you for use through the "apportionment-allocation" procedure.¹

Appropriation Act. An Act of Congress that permits a department or other governmental agency to obligate the U.S. government to pay money for goods or services. By itself, the appropriation does not cost the taxpayer a cent. Actually, the appropriation constitutes a hunting license for the department to obtain an apportionment (see definition above), i.e., the administrative authority for the department to enter into contracts or otherwise obligate the government. The Treasury raises the money to meet expenditures, and expenditures take place only after there has been performance against an obligation. These are important distinctions. Appropriations may last for different periods of time.

Currently, there are 13 regular appropriation acts shown in Table II-8.⁴

Appropriation Language. The published text of an appropriation act (Public Law) in which congress spells out the dollar amounts authorized and the purposes for which those funds can be used.

Appropriation Limitation. This is what congress says you either must do or cannot do with an appropriation. Such directives are contained in appropriation language or in General Provisions.

Approved Program. Resources (Forces, Manpower, Obligational Authority, and Material) for individual program elements reflected in the FYDP, as modified by Secretary of Defense decisions.¹

Authorization Act. An act of congress that establishes or continues a federal program or agency either for a specified period of time or indefinitely; specifies its general goals and conduct; and usually sets a ceiling on the amount of budget authority that can be provided in an appropriation. An authorization for an agency or program usually is required before an appropriation for that same agency or program can be passed.⁶

Authorization Committee. A standing committee of the House or Senate with legislative jurisdiction over the subject matter of those laws that establish or continue the operations of federal programs or agencies. An authorization committee also has jurisdiction in those instances when spending authority is provided in the Substantive legislation.

Backdoor Authority or Backdoor Spending. Budget authority provided without the passage of an appropriation. The most common forms of backdoor authority are borrowing authority, contract authority, and entitlements. Permanent appropriations that continue without any current congressional action also are considered to be backdoor spending.⁶

Balanced Budget. A budget in which receipts are equal to or greater than outlays. (See also Budget Deficit; Budget Surplus.)⁴

Benefit Analysis. The systematic identification and, when possible, quantification of the returns or outputs of alternative courses of action.

Bogey. In PPBS, a budget reduction.³

Borrowing Authority. A form of budget authority that permits a federal agency (other than the Treasury and Federal Financing Bank) to borrow funds from the public or another federal fund or account and to incur obligations and make payments of specified purposes out of that borrowed money. Borrowing authority differs from an appropriation, which permits a federal agency to incur obligations and make payments directly from the Treasury. Borrowing authority is a type of backdoor spending. (See Backdoor authority or backdoor spending.)⁶

Budget. A planned program for a fiscal period of estimated costs, obligations, and expenditures.

Budgeting. The process of translating manpower and technical resource requirements into time-phased financial resources.¹

Budget Activity. A function or activity funded under an appropriation category.

Budget Authority. Authority provided by law to enter into obligations that will result in immediate or future outlays involving Federal Government funds, except that budget authority does not include authority to insure or guarantee the repayment of indebtedness incurred by another person or government. The basic forms of budget authority are appropriations, authority to borrow, and contract authority. Budget authority may be classified by the period of availability (1 year, multiple-year, no-year), by the timing of congressional action (current or permanent), or by the manner of determining the amount available (definite or indefinite).

Budget Authorization. A document, referred to as a BA, representing an approved annual financial plan. This paper shows the amount of funds you may plan on using to accomplish your job. It does not authorize you to commit or obligate the government unless it is accompanied by an allocation.

Budget Costs. Costing used in budget submissions as distinguished from costing used in programming documents, hereinafter referred to as programming costs. Budget costs represent the specific TOA requirements for funds in a particular fiscal period, and generally represent a refinement of programming costs.

Budget Cycle. That period of time necessary to formulate, review, present, and secure approval of the Fiscal Program for a specific ensuing period of time.

Budget Deficit. The amount by which the Government's budget outlays exceed its budget receipts for a given fiscal year. (See also Balanced Budget; Budget Surplus.)

Budget Estimating. The process of determining the amounts, kinds, and costs of resources needed for accomplishing a mission.

Budget Surplus. The amount by which the Government's budget receipts exceed its budget outlays for a given budget/fiscal year. (See also Balanced Budget; Budget Deficit.)

Budget Year. This is the fiscal year covered by the budget estimate you are submitting. (By the way, fiscal year is defined further down.) The term "fiscal year" refers to that 12-month period, beginning on October 1 and ending 20 September of the following calendar year, in which the Federal Government is conducting its operations. It is frequently referred to by the letter "FY." For example, the current fiscal year is FY-1980.

Fiscal Year. The period of time covered by the budget estimate you are submitting. (By the way, fiscal year is defined further down.) The term "fiscal year" refers to that 12-month period, beginning on October 1 and ending 20 September of the following calendar year, in which the Federal Government is conducting its operations. It is frequently referred to by the letter "FY." For example, the current fiscal year is FY-1980.

direct mission impact and which the Joint Chiefs of Staff and/or supported CINC have identified as requiring intensified tracking and management. Also, items in short supply or expected to be in short supply for an extended period.

Citation of Funds. A letter, teletype, or formal document by which you, in one agency, tell another agency that it can commit and oblige your money.

Commitment. An accounting procedure in which funds are administratively earmarked for something to be bought in the near future. This procedure precedes obligation action and is normally based on firm procurement directives, requisitions, or orders.

Concurrent Resolution on the Budget. A resolution passed by both Houses of congress, but not requiring the signature of the president, setting forth, reaffirming, or revising the congressional budget for the United States Government for a fiscal year.

Conference Action. Function of members of both the House of Representatives and the Senate in joint session, to reconcile their differences so that a single bill can be recommended that will gain the approval of both Houses of congress.

Congressional Budget. The budget as set forth by congress in a concurrent resolution on the budget. By law the resolution includes:

- The appropriate level of total budget outlays and of total new budget authority;
- An estimate of budget outlays and new budget authority for each major functional category, for undistributed intergovernmental transactions, and for such other matters relating to the budget as may be appropriate to carry out the purposes of the 1974 Congressional Budget and Impoundment Control Act;
- the amount, if any, of the surplus or deficit in the budget;
- the recommended level of Federal receipts; and
- the appropriate level of the public debt.⁴

Appropriated Working Fund. This is a kitty made up of advance payments received from other agencies. These payments finance services performed for the agencies that sweetened the pot.

Constant Dollars. The dollar value of goods and services adjusted for inflation. Constant dollars are determined by dividing

current dollars by an appropriate price index, a process generally known as "deflating." Constant dollars are used to discount increases or decreases in prices when comparing transactions over a period of time. (See Current Dollars)

Continuing Resolution. Legislation enacted by congress to provide budget authority for Federal agencies and/or specific activities to continue in operation until the regular appropriations are enacted. Continuing resolutions are enacted when action on appropriations is not completed by the beginning of a fiscal year. The continuing resolution usually specifies a maximum rate at which the obligations may be incurred, based on the rate of the prior year, the president's budget request, or an appropriation bill passed by either or both Houses of the congress.

Contract Authority. A type of budget authority that permits a federal agency to incur obligations before appropriations have been passed or in excess of the amount of money in a revolving fund. Contract authority must be funded subsequently by an appropriation so that commitments entered into can be paid.

Cost Analysis. The systematic examination of the cost of inter-related activities and equipment to determine the relative costs of alternative courses of action.

Cost/Benefit Analysis. An analytical technique that compares the social costs and benefits of proposed programs or policy actions. All losses and gains experienced by society are included and measured in dollar terms. The net benefits created by an action are calculated by subtracting the losses incurred by some sectors of society from the gains that accrue to other. Alternative actions are compared to choose one or more that yield the greatest net benefits, or ratio of benefits to costs.

The inclusion of all gains and losses to society in cost-benefit analysis distinguishes it from cost-effectiveness analysis, which is a more limited view of costs and benefits. (See Cost Effectiveness.)

Cost Category. One of three types of costs into which the total cost of a program element is divided: (1) research and development, (2) investment, and (3) operations.

Cost Center. Any organizational element or function designated as an entity for the purpose of determining costs.

Cost-Effectiveness Analysis. An analytical technique used to choose the most efficient method for achieving a program or policy goal. The costs of alternatives are measured by their requisite estimated dollar expenditures. Effectiveness is defined by the degree of goal attainment, and may also (but

not necessarily) be measured in dollars. Either the net effectiveness (effectiveness minus costs) or the cost-effectiveness ratios of alternatives are compared. The most cost-effective method chosen may involve one or more alternatives.

The limited view of costs and effectiveness distinguishes this technique from cost-benefit analysis, which encompasses society-wide impacts of alternatives. See Economic Analysis.

Crisis Action System (CAS). A system specified in JOPS Volume IV that gives guidance and procedures for joint operation planning by military forces during emergency or time-sensitive situations. The procedures are designed to give the Joint Chiefs of Staff information to develop timely recommendations to the National Command Authorities for decisions involving the use of U.S. military forces in crisis situations.

Crosswalk. Any procedure for expressing the relationship between budgetary data from one set of classifications to another. Typical crosswalks are (1) between appropriation accounts and authorizing legislation, (2) between the budget functional structure and the congressional committee spending jurisdictions, and (3) between DOD programs and congressional appropriations.

Current Dollar. The dollar value of a good or service in terms of prices current at the time the good or service was sold. This is in contrast to the value of the good or service in constant dollars.

Debt, Federal. There are three basic tabulations of Federal debt: gross Federal debt, debt held by the public, and debts subject to statutory limit.

Gross Federal Debt

Consists of public debt and agency debt and includes all public and agency debt issues outstanding.

Public Debt. That portion of the Federal debt incurred when the Treasury or the Federal Financing Bank (FFB) borrows funds directly from the public or another fund or account. To avoid double counting, FFB borrowing from the Treasury is not included in the public debt. (The Treasury borrowing required to obtain the money to lend to the FFB is already part of the public debt.)

Agency Debt. That portion of the Federal debt incurred when a Federal agency, other than the Treasury or the Federal Financing Bank, is authorized by law to borrow funds directly from the public or another fund or account. To avoid double counting, agency borrowing from Treasury or the FFB and Federal fund advances to trust funds are not

included in the Federal debt. (The Treasury of FFB borrowing required to obtain the money to lend to the agency is already part of the public debt.) Agency debt may be incurred by agencies within the Federal Budget (such as the Tennessee Valley Authority) or by off-budget Federal entities (such as the Postal Service). Debt of Government-sponsored, privately owned enterprises (such as the Federal National Mortgage Association) is not included in the Federal debt.

Debt Held by the Public

Part of the gross Federal debt held by the public. (The Federal Reserve System is included in "the public" for this purpose.) Debt held by Government trust funds (e.g., Social Security Trust Fund), revolving funds, and off-budget Federal entities is excluded from debt held by the public.

Debt Subject to Statutory Limit

As defined by the Second Liberty Bond Act of 1917, as amended, it currently includes virtually all public debt. However, only a small portion of agency debts is included in this tabulation of Federal debt.

Defense Guidance (DG). A key Planning Document of PPBS issued by the SECDEF after consulting with the services and the unified/- specified commanders. Provides threat assessment, policy, strategy, force planning, and fiscal guidance to all DOD organizations. The DG is the "big picture" for military planners.³

Deferral. A type of impoundment, a deferral is an action of the president that temporarily withholds, delays, or precludes the obligation or expenditure of budget authority. A deferral must be reported by the president to congress in a deferral message. The deferral can be overturned if either house passes a resolution disapproving it. A deferral may not extend beyond the end of the fiscal year in which the message reporting it is transmitted to congress.⁶

Deflation. A decrease in the general price level, usually accompanied by declining levels of output, increasing unemployment, and a contraction of the supply of money and credit. A price level decline during the contraction phase of the business cycle has not occurred in the United States since the end of World War II. Some attribute this to institutional barriers that prevent downward adjustments in wages and prices. Declines in output with increases in unemployment, however,⁴ are themselves sometimes referred to as deflationary changes.

Deliberate Planning. Operation planning as a result of JSCP or other tasking directive using JOPS Volumes I, II, and III procedures.²

Discount Rate. The interest rate that a commercial bank pays when it borrows from a Federal Reserve Bank. The discount rate is one of the tools of monetary policy used by the Federal Reserve System. The Federal Reserve customarily raises or lowers the discount rate to signal a shift toward restraining or easing its money and credit policy.

In economic analysis a "Discount Rate" is used to determine the "present value" of future costs.

Disposable Personal Income. Personal income less personal taxes and nontax payments to the Federal Government.

Economic Analysis. A systematic approach to the problem of choosing how to employ scarce resources and an investigation of the full implications of achieving a given objective in the most efficient and effective manner. The determination of efficiency and effectiveness is implicit in the assessment of the cost effectiveness of alternative approaches.

Economic Assumption. Estimates of how the national economy will behave. The three main economic assumptions that affect the budget are unemployment, inflation, and growth in the gross national product.

Enrolled Bill. The appropriations bill after both Houses of Congress have passed it and before the president has signed it into law.

Entitlement. Legislation that requires the payment of benefits to all persons or governments that meet the eligibility requirements established in the law. Examples of entitlement programs are Social Security, Medicare, and veterans pensions.

Expenditure. Another accounting term, but when you have actually paid out your money for services or items received you have made one.

Fiscal Guidance. Annual guidance issued by the Secretary of Defense that outlines the fiscal constraints that must be observed by the Joint Chiefs of Staff, the military departments, and defense agencies, in the formulation of force structures and Five-Year Defense Programs, and by the Secretary of Defense staff in reviewing proposed programs.

Fiscal Year. The 12-month period that, for the Federal Government begins on 1 October of one year and ends on 30 September of the next.

Five-Year Defense Program (FYDP). The official program that summarizes the Secretary of Defense-approved plans and programs for the Department of Defense. The FYDP is published at least once annually. The FYDP is also represented by a computer database that is updated regularly to reflect decisions.

Gross National Product. The market value of all final goods and services produced by labor and property supplied by residents of the United States in a given period of time. Depreciation charges and other allowances for business and institutional consumption of fixed capital goods are subtracted for GNP to derive net national product. GNP comprises the purchases of final goods and services by persons and governments, gross private domestic investment (including the change in business inventories), and net exports (exports less imports).⁴ The GNP can be expressed in current or constant dollars.

Implicit Price Deflator (GNP Deflator). A price index for all final goods and services produced in the economy, derived by calculating the ratio of the gross national product in current prices to the gross national product in constant prices. It is a weighted average of the price indexes used to deflate the components of current-dollar GNP, the⁴ implicit weights being expenditures in the current period.

Impoundment. An action by the president that prevents the obligation or expenditure of budget authority. Deferrals and rescissions are the two types of presidential impoundments.⁶

Industrial Fund. A type of kitty established (with congressional authorization) by an agency as a source of funds for business-type activities, such as printing, transportation, and maintenance services. The proceeds from sales are retained in the fund to finance continuous operations; there, it is classed as a revolving fund.

Inflation. A persistent rise in the general price level that results in a decline in the purchasing power of money.⁴

Intelligence Priorities for Strategic Planning (IPSP). The IPSP contains a comprehensive statement of substantive military intelligence priorities to support the tasking of Department of Defense intelligence production, collection,² and support activities in the short- and mid-range periods.

Joint Deployment Agency (JDA). The agency that, before 1987, supported the Joint Chiefs of Staff and supported commanders in planning for and executing deployments. As directed by the Joint Chiefs of Staff, the JDA is responsible for coordinating deployment planning and execution and will act as the focal point for coordinating TPFDD refinement and maintenance of the current, accurate database in the JDS. During execution, JDA will monitor and analyze deployments using common-user lift assets, monitor the movement of forces deploying by organic lift, and advise the JDC on deployment matters.² In 1987, the JDA was disestablished and its functions assumed by the Deployment Directorate, U.S. Transportation Command.

Joint Deployment Community JDC. Those headquarters, commands, and agencies involved in training, preparation, movement, recep-

tion, employment, support, and sustainment of military forces assigned or committed to a theater of operations or objective area. The JDC usually consists of the OJCS, Services, certain Service major commands (including the Service wholesale logistic commands), unified and specified commands (and their Service component commands), DLA, TOAs, joint task forces (as applicable), and the Defense agencies (e.g., DIA) as may be appropriate to a given scenario.

Joint Deployment System (JDS). Personnel, procedures, directives, communications systems, and electronic data processing systems to directly support time-sensitive planning and execution and to assist peacetime deliberate planning by disseminating, documenting and recording deployment information.

Joint Intelligence Estimate for Planning (JIEP). The JIEP contains estimative intelligence for the short- and mid-range periods and gives the principal intelligence basis for development of the JSPD, JPAM, and JSCP.

Joint Long-Range Strategic Appraisal (JLRSA). The JLRSA consolidates estimative intelligence and strategic forecasts, and identified broad force structuring implications and issues for the long-range (10-20 years) period.

Joint Operation Planning and Execution System (JOPEX). A total system planned to be the successor to JOPS/JDS. It will support integrated planning command and control of mobilization, deployment, employment, and sustainment activities using an improved information system.

Joint Operation Planning System (JOPS). The DOD-directed, JCS-specified system used in planning global and regional joint military operations, except SIOP.

Joint Planning Process (JPP). A coordinated joint staff procedure used by a commander to determine the best method of accomplishing assigned tasks, and to direct the action necessary to accomplish the mission.

Joint Program Assessment Memorandum (JPAM). The JPAM gives Joint Chiefs of Staff views on the adequacy and capabilities of the total forces contained in the Service Program Objective Memorandums (POMs) to execute the national military strategy and the risks inherent in those force capabilities.

Joint Resolution. A joint resolution requires the approval of both Houses of Congress and the signature of the president, just as a bill does, and has the force of law if approved. There is no real difference between a bill and a joint resolution. The latter is generally used in dealing with limited matters, such as a single appropriation for a specific purpose.

Joint resolutions, also are used to propose amendments to the U.S. Constitution. These do not require presidential signature, but become a part of the Constitution when three-fourths of the States have ratified them.

Joint Security Assistance Memorandum (JSAM). The JSAM contains military views on alternate funding levels projected for the U.S.-financed Security Assistance Program, security assistance manning levels, development of Special Defense Acquisition Fund procurements and priorities, and key arms transfer policy matters.

Joint Security Assistance Memorandum Supporting Analysis (JSAMSA). The JSAMSA contains the supporting analysis of individual country security assistance funding levels proposed for inclusion in the JSAM, is based primarily on the Annual Integrated Assessment of Security Assistance submitted by the Country Teams, and incorporates the views and priorities of the area military commander, the Joint Staff, and the Services.

Joint Servicing. That function performed by a jointly staffed and financed activity in support of two or more military Services.

Joint Staff. 1. The staff of a commander of a unified or specified command or of a joint task force, which includes members from the several Services comprising the force.

2. The staff of the Joint Chiefs of Staff as provided for under the National Security Act of 1947, as amended. The staff, limited by law to 1,647 officers, performs duties as prescribed by the Joint Chiefs of Staff or Chairman, Joint Chiefs of Staff. It is managed by the Director, Joint Staff, and is organized along conventional lines to support the Joint Chiefs of Staff in discharging their responsibilities. The staff also functions as the military staff supporting the Secretary of Defense.

Joint Strategic Capabilities Plan (JSCP). The JSCP contains the strategic concept to support the national security objective and military objectives derived therefrom and gives guidance to the CINCs and the Chiefs of the Services for accomplishment of military tasks, based on projected military capabilities and conditions during the short-range period. It apportions combat forces and lift assets available for planning.

Joint Strategic Planning Document (JSPD). The JSPD contains the advice of the Joint Chiefs of Staff on the military strategy and force structure required to attain U.S. national security objectives.

Joint Strategic Planning Document Supporting Analysis (JSPDSA). The JSPDSA is a JSPS document internal to the Organization of the Joint Chiefs of Staff that² contains the principal supporting analysis for the JSPD.

Joint Strategic Planning System (JSPS). The JSPS is the primary means by which the Joint Chiefs of Staff discharge their strategic planning responsibilities. It includes the following:

Letters of Allowance. Initiated by the OMB to the DOD containing the president's¹ determinations of what the Defense Budget should contain.

Macroeconomics. The branch economics concerned with aggregate economic analysis in contrast to microeconomics, which is the analysis of individual economic units, markets, or industries. For example, macroeconomics includes the study of the general price level, national output or income, and total employment, rather than the prices of individual commodities⁴ or particular incomes and the employment of individual firms.

Management Fund. A kitty made up of funds transferred from two or more DOD appropriations. ¹In this case one of the Services is designated as the manager.

Mark-ups. Budget estimates approved by the OSD after a joint review of Service, OSD, and OMB personnel. Like all committees, the House and Senate Appropriations Committees also have mark-ups of their bills.

Microeconomics. The branch of economics concerned with analysis of individual economic units, markets, or industries as opposed to aggregates. For example, microeconomics deals with the division of total output among industries, products, and firms; with the allocation of resources among competing uses; and with⁴ the determination of relative prices of particular goods.

MIPR. Usually referred to as a "mipper" in order to avoid getting tangled up with Military Interdepartmental Purchase Request, it is a requisition with which one military department can order services, supplies, or equipment from another military department.

Mission Budgeting. A budget approach that focuses on output rather than input and directs attention to how well an agency is meeting its responsibilities. By grouping programs and activities according to an agency's mission or end purposes, mission budgeting makes it easier to identify similar programs. Missions at the highest level in the budget structure represent basic end-purpose responsibilities assigned to an agency. Descending levels in the budget structure then focus more sharply on the specific components of the mission and

the programs needed to satisfy them. At the lowest levels are line items--that is--⁴the supporting activities necessary to satisfy the missions.

Monetary Policy. Policies, which affect the money supply, interest rates, and credit availability, that are intended to promote national macroeconomic goals--particularly with respect to employment, gross national product, price level stability, and equilibrium in balance of payments. Monetary policy is directed primarily by the Board of Governors of the Federal Reserve System and the Federal Open Market Committee. Monetary policy works by influencing the cost and availability of bank reserves. This is accomplished through open-market operations (the purchase and sale of securities, primarily Government securities), changes in the ratio of reserves to deposits that commercial banks⁴are required to maintain, and changes in the discount rate.

Mutual Security Program. A program that authorizes the Services to furnish military assistance to certain eligible foreign governments under both Grant Aid and Military Sales Procedures.

National Command Authorities (NCA). The president and the Secretary of Defense or their duly deputized alternates or successors.²

New Obligational Authority (NOA). A letter abbreviation for "new obligational authority." It represents the additional amount congress appropriates for an agency, over and above earlier appropriations and other funds the agency has kicking around or expects to receive from other sources. You may also hear the term obligational authority when referring to an authorization by congress¹in connection with something other than a new appropriation.

Obligation. The estimate or actual amount of the cost of an authorized service or article you have ordered. This estimate is carried in official accounting records, and reserves funds pending completion of the contract. This reservation is required by public law.

Obligational Authority. The total available to an agency in a given fiscal year. Obligational authority is the sum of the budget authority newly provided in a fiscal year, the balance of budget authority from prior years that has not yet been obligated, and amounts authorized to be credited to a specific fund or account during that year, including transfers between accounts.

Outlays. Obligations are generally liquidated when checks are issued or cash disbursed. Such payments are called outlays. In lieu of issuing checks, obligations may also be liquidated (and outlays occur) by the maturing of interest coupons in

the case of some bonds, or by the issuance of bonds or notes (or increases in the redemption value of bonds outstanding).

Outlays during a fiscal year may be for payment of obligations incurred in prior years (prior-year outlays) or in the same year. Outlays, therefore, flow in part from unexpended balances of prior-year budget authority and in part from budget authority provided for the year in which the money is spent.

Total budget outlays are stated net of offsetting collections, and exclude outlays of off-budget Federal entities.

The terms expenditure and net disbursements⁴ are frequently used interchangeably with the term outlays. IT IS THE LEVEL OF OUTLAYS COMPARED TO THE LEVEL ON REVENUES THAT DETERMINES IF A BUDGET IS IN SURPLUS OR DEFICIT.⁶

Overobligation. When this happens you are in a bind. Do it just once and you could earn the privilege of receiving visitors in one of those Federally-operated resorts at Atlanta or Heavenworth. The bind occurs when the aggregate of the funds you reserve exceeds the amount of funds you are authorized to spend.

Planning, Programming, and Budgeting System (PPBS). An integrated system for the establishment, maintenance, and revision of the FYDP and the DOD budget. Through this system, an attempt is made to combine policy formulation with budgetary allocation and to furnish a mechanism for analysis.

President's Budget. The proposal sent by the president to Congress each year as required by the Budget and Accounting Act of 1921, as amended. The president's budget consists of five documents: Budget of the United States Government; Budget of the United States Government, Appendix; Special Analysis, Budget of the United States Government; The United States Budget in Brief; and Major Themes and Additional Budget Details.

Program. Generally defined as an organized set of activities directed toward a common purpose, or goal, undertaken or proposed by an agency in order to carry out its responsibilities. In practice, however, the term program has many uses and does not have a well-defined, standard meaning. Program is used to describe an agency's mission, programs, functions, activities, projects, and processes.

In pure PPBS terms, a program is an aggregation of program elements that reflects a force mission or a support function of the Department of Defense and contains the resources allocated to achieve an objective or plan. It reflects fiscal year time-phasing of mission objectives to be accomplished, and the means proposed for their accomplishment.

The FYDP is comprised of eleven major defense programs as follows:

- Program 1 - Strategic Forces
- Program 2 - General Purpose Forces
- Program 3 - Intelligence and Communications
- Program 4 - Airlift and Sealift Forces
- Program 5 - Guard and Reserve Forces
- Program 6 - Research and Development
- Program 7 - Central Supply and Maintenance
- Program 8 - Training, Medical, and Other General Personnel Activities
- Program 9 - Administration and Associated Activities
- Program 10 - Support of Other Nations
- Program 11 - Special Operations

The major programs of the FYDP fall within the general organizational areas of responsibility within the Office of the Secretary of Defense. However, since resources in these programs may overlap areas of management and functional responsibility, the programs are not considered to be the exclusive responsibility of any one particular organizational element of the Office of the Secretary of Defense.⁵ See Program Element.

Program/Budget Decision (PBD). A Secretary of Defense decision in prescribed format authorizing changes to a submitted budget estimate and the FYDP.

Program Change Decision (PCD). A Secretary of Defense decision, in prescribing format, authorizing changes to the Five-Year Defense Program.

Program Change Request (PCR). A Secretary of Defense decision, in prescribing format, authorizing changes to the Five-Year Defense Program.

Program Decision Memorandum (PDM). A document that contains decisions of the Secretary of Defense on POMs.¹

Program Element. A description of a mission by the identification of the organizational entities and resources needed to perform the assigned mission. Resources consist of forces, manpower, material quantities and cost, as applicable. The program element is the basic building block of the FYDP.¹ See Program.

Program Evaluation. In general, the process of assessing program alternatives, including research and results, and the options for meeting program objectives and future expectations. Specifically, program evaluation is the process of appraising the manner and extent to which programs

- achieve their stated objectives,
- meet the performance perceptions and expectations of responsible Federal officials and other interested groups,
- produce other significant effects of either a desirable or undesirable character.

Programming Cost. Cost data for making program decisions. Programming costs are based on sets of factors that will give consistent cost data under the same or similar circumstances, and that are directly related to the explicit elements of the program decision.

Program Objective Memorandum (POM). A memorandum in prescribed format submitted to the Secretary of Defense by the Secretary of a military department or the director of a defense agency that recommends the total resource requirements within the parameters of the published Secretary of Defense fiscal guidance. A complex document key to the programming phase as well as the cornerstone of the budgeting phase of PPBS. The POM funds current (ongoing) programs as well as new requirements for the future.

Program Year. A fiscal year in the Five-Year Defense Program that ends not earlier than the second year beyond the current calendar year. Thus, during calendar year 1974 the first program year is 1976.

Progress Payments. These are payments to a contractor, under a fixed-price contract, for a specific percentage of actual costs for work in process. The idea is to keep the contractor reasonably solvent until final delivery of the finished item. Most big things, such as ships or aircraft, have to be paid for this way.

Reapportionment. A revision by the Office of Management and Budget or a previous apportionment of budgetary resources for an appropriation or fund account. Agency requests for reapportionment are usually submitted to OMB as soon as a change in previous apportionment becomes necessary due to changes in amounts available, program requirements, or cost factors. (For exceptions, see OMB Circular A-34, sec. 44.4.) A reapportionment would ordinarily cover the same period, project, or activity covered in the original apportionment.

Reclama. This occurs when (the Services) explain how badly they have been "stabbed" by OSD, OMB, and sometimes, the House of Representatives or the Senate. It is actually a formal restatement and presentation of budget requirements to OSD, OMB, or the congress in further justification of that portion of the Services' requirements that the reviewing authorities have refused to buy.

Reconciliation Bill. A bill, requiring enactment by both Houses of congress and approval by the president, making changes to legislation that has been enacted or enrolled.

Reconciliation Process. A process used by congress to reconcile amounts determined by tax, spending, and debt legislation for a given fiscal year with the ceilings enacted in the concurrent resolution on the budget for that year.

Reconciliation Resolution. A concurrent resolution, requiring passage by both Houses of congress but not the approval of the president, directing the Clerk of the House or the Secretary of the Senate to make specified changes in bills or resolutions that have not yet reached the stage of enrollment.

Recoupment. Obligations or programs that didn't quite stick. This term refers to funds that become excess to current or prior year programs and are transferred to finance approved requirements in another program year.

Reprogramming. Utilization of funds in an appropriation account for purposes other than those contemplated at the time of appropriation.

Reprogramming is generally preceded by consultation between the Federal agencies and the appropriate congressional committees. It involves formal notification and, in some instances, opportunity for disapproval by congressional committees.

Rescission. An action of the president that cancels budget authority previously appropriated but not yet obligated or spent. A proposed rescission must be reported to congress by the president in a rescission message. If both houses do not approve of the proposed rescission within forty-five days, the president must obligate the budget authority as it was intended by congress.

Research and Development (R&D). Research is systematic, intensive study directed toward fuller scientific knowledge or understanding of the subject studied. Development is the systematic use of the knowledge and understanding gained from research, directed toward the production of useful materials, devices, systems or methods, including the design and development of prototypes and processes.

Research and development is a broad term that embraces the work performed by Federal Government agencies and private individuals or organizations under contractual or grant arrangements with the Government. It includes all fields-- education and the social sciences, as well as the physical sciences and engineering.

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THE DEFENSE RESOURCE ALLOCATION PROCESS REVISION
SELECTED READING IN NATIONAL SECURITY DECISION MAKING
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Research and development excludes routine product testing, quality control, mapping, collection of general purpose statistics, experimental production, routine evaluation of an operational program, and the training of scientific and technical personnel.

Revolving Fund. This is a fund authorized by law to finance a continuing cycle of operations. In this kind of situation, any proceeds from the operations are available for use by the fund. Examples are stock funds, working capital funds, and industrial funds.¹

Stock Fund. This is our chain store operation. It is a revolving fund with which we buy inventories of goods to be sold to Service activities. The collections from sales have been made available by law to replenish the inventory so that this sort of thing can continue ad infinitum.

Total Obligational Authority (TOA). The total financial requirements of the Five Year Defense Program or any component of it required to support the approved program of a given fiscal year; i.e., a dollar value level of overall fiscal constraint, or ceiling,³ within which any program (service or agency) must remain.

Spending Authority. As defined by the Congressional Budget and Impoundment Control Act of 1974 (P.L. 93-344, 31 U.S.C. 1323), a collective designation for appropriations, borrowing authority, contract authority, and entitlement authority for which the budget authority is not provided in advance by appropriation acts. The latter three are also commonly referred to as backdoor authority.⁴

Supplemental Appropriations. Acts with appropriating funds as an addition to the regular annual appropriation. Supplemental appropriations generally are enacted when the need for additional funds is too urgent to be postponed until the next regular appropriation is considered.⁶

Unexpended Balance. The sum of the unobligated balance and the unliquidated obligations. (See below.)¹

Unliquidated Obligation. An obligation for which payment has not been made.

Unobligated Balance. That portion of your available fund that has not been obligated.¹

Footnotes for the Glossary

1. Armed Forces Staff College Defense Resource Management Course, Student Guidance.

2. Joint Staff Officer's Guide 1986, Armed Forces Staff College, National Defense University, 1 July 1986, Appendix II.

3. Wilson and Lewis, "PPBS and MAC," Airlift, Winter 1986, pp. 17, 18.

4. GAO, A Glossary of Terms Used in the Federal Budget Process, March 1981.

5. DODINST 7045.7

6. Collender, The Guide to the Federal Budget, Urban Institute Press, Washington, 1984.

7. DODINST 7041.3

ABBREVIATIONS AND ACRONYMS

The following list of alphabet soup has been collected from various sources including The Navy's PPBS Course and AFSC Pub 1 (The Staff Officer's Guide).

AAW	Anti-Air Warfare
A/C	Aircraft
ACAT	Acquisition Category
ACP	Area Coordinating Paper
ADP	Automated Data Processing
ADO	Advanced Development Objective
AFPC	Armed Forces Policy Council
APDM	Amended Program Decision Memorandum
APN	Aircraft Procurement, Navy
APPN	Appropriation
ARC	Acquisition Review Committee
ARG	Annual Real Growth
ASD()	Assistant Secretary of Defense (C) Comptroller (CJ) Communications, Command, Control & Intelligence (DTACCS) Dir, Telecommunications, Command & Control Systems (HA) Health Affairs (PA&E) Program Analysis and Evaluation (I) Intelligence (ISA) International Security Affairs (LA) Legislative Affairs (M,RA&L) Manpower, Reserve Affairs & Logistics (PA) Public Affairs
ASN()	Assistant Secretary of the Navy (FM) Financial Management (M,RA) Manpower, Reserve Affairs (R,E&S) Research, Engineering & Systems (S&L) Shipbuilding and Logistics
ASMD	Anti-Ship Missile Defense
ASU	Approval for Service Use
ASW	Anti-Submarine Warfare
AUTODIN	Automatic Digital Network
AUTOVON	Automatic Voice Network
BA	Budget Activity or Budget Authority
BAA	Backup Aircraft Authorization
BAI	Backup Aircraft Inventory
BAM	Baseline Assessment Memorandum
BCC	Budget Classification Code
BES	Budget Estimate Submission
"BLUE \$"	Navy Appropriations (CNO-Sponsored)
BOS	Base Operating Support
BP	Budget Project
BUMED	Bureau of Medicine and Surgery
BUPERS	Bureau of Naval Personnel
BY	Budget Year

C ³	Command, Control & Communications
CAO	Collateral Action Office
CBO	Congressional Budget Office
CCP	Consolidated Cryptologic Program
CD	Two meanings: Contract Definition
	Claims, Defense
CDIP	Consolidated Defense Intelligence Program
CDPS	Consolidated Decision Package Set
CEB	CNO Executive Board
CEP	CNO Executive Panel
CF	Concept Formulation
CG	Consolidated Guidance
CHMN	Chairman
CHNAVMAT	Chief of Naval Material
CHNAVPER	Chief of Naval Personnel
CHOP	Synonymous with agree
CINCLANTFLT	Commander-in-Chief, U.S. Atlantic Fleet
CINCPACFLT	Commander-in-Chief, U.S. Pacific Fleet
CINCS	Commanders-in-Chief
CINCUSNAVEUR	Commander-in-Chief, U.S. Naval Forces, Europe
CMC	Commandant of the Marine Corps
CMCPPPG	CMC Program Policy & Planning Guidance
CMD	Command
CNA	Center for Naval Analyses
CNAVRES	Chief of Naval Reserve
CND	Chief of Naval Development
CNET	Chief of Naval Education & Training
CNM	Chief of Naval Material
CNMPC	Commander, Naval Military Personnel Command
CNO	Chief of Naval Operations
CNP	Chief of Naval Personnel
CNR	Chief of Naval Research
COEO	Cost and Operational Effectiveness Analysis
COMM	Communications
COMOPTEVFOR	Commander, Operational Test & Evaluation Force
CONG	Congress
CPAM	CNO Program Analysis Memorandum
CPFG	CNO Planning & Fiscal Guidance
CPPG	CNO Planning & Policy Guidance
CPPPG	Commandant of the Marine Corps Policy, Planning & Programming Guidance
CRS	Congressional Research Service
CSP	Competitive Prototyping Strategy
CTOL	Conventional Take Off Landing
CVW	Carrier Wing
CY	Two meanings: Calendar Year Current Year
DAB	Defense Acquisition Board
DAE	Defense Acquisition Executive
DAIP	Defense Acquisition Improvement Programs
DCA	Defense Communications Agency
DCNO	Deputy Chief of Naval Operations

DCP	Decision Coordinating Paper
DC/S for R&P	Deputy Chief of Staff for Requirements & Programs
DC/S for RD&S	Deputy Chief of Staff for Research, Development & Surveys
DEPSECDEF	Deputy Secretary of Defense
DG	Defense Guidance
DIA	Defense Intelligence Agency
DIPP	Defense Intelligence Projections for Planning
DJS	Director, Joint Staff
DMA	Defense Mapping Agency
DMSO	Dir, Major Staff Office
DN	Department of the Navy
DNA	Defense Nuclear Agency
DNFYP	Department of the Navy Five-Year Program
DNSARC	Department of the Navy Systems Acquisition Review Council
DOD	Department of Defense
DODINST	Department of Defense Instruction
DON	Department of the Navy
DONPIC	Department of the Navy Program Information Center
DNPPG	Department of the Navy Planning & Programming Guidance
DP	Development Proposal
DG	Defense Guidance
DPPC	Defense Planning & Programming Category
DPO	Defense Planning Questionnaire
DPRC	Defense Program Review Committee
DPS	Decision Package Set
DRB	Defense Resources Board
DSARC	Defense Systems Acquisition Review Council
DT&E	Development Test & Evaluation
EDG	Exploratory Development Goals
EDM	Engineering Development Model
EOP	Executive Office of the President
EPA	Extended Planning Annex
FAD	Fleet Air Defense
FGC	Fiscal Guidance Category
FGM	Fiscal Guidance Memorandum
FLAIL	Force Level Analysis Interactive Language
FLTICINCS	Fleet Commanders-in-Chief
FM	Financial Management
FMP	Fleet Modernization Program
FY	Fiscal Year
FYDP	Five-Year Defense Program
GAO	General Accounting Office
GNP	Gross National Product
GOR	General Operating Requirement
"GREEN \$"	Marine Corps Appropriations (CMC-Sponsored)
HAC	House Appropriations Committee
HASC	House Armed Services Committee
HOMC	Headquarters, Marine Corps
IAI	Inactive Aircraft Inventory

IBOP	International Balance of Payments
IF	Industrial Fund
I&L	Installations & Logistics
ILS	Integrated Logistics Support
INTELCOM	Intelligence Command
INTEL & SEC	Intelligence & Security
IOC	Initial Operating Capability
IOT&E	Initial Operational Test & Evaluation
IP	Issue Paper or Initial Production
IPS	Integrated Program Summary
IPSP	Intelligence Priorities for Strategic Planning
IRA	Intelligence Related Activities
IR&D	Independent Research & Development
ISA	International Security Affairs
JAG	Judge Advocate General
JCS	Joint Chiefs of Staff
JIEP	Joint Intelligence Estimate for Planning
JLREID	Joint Long-Range Estimative Intelligence Document
JLRSS	Joint Long-Range Strategic Study
JLRSA	Joint Long-Range Strategic Appraisal
JPAM	Joint Program Assessment Memorandum
JSCP	Joint Strategic Capabilities Plan
JSPD	Joint Strategic Planning Document
JSPDSA	JSPD Supporting Analysis
JSPS	Joint Strategic Planning System
LCC	Life Cycle Costing
LMI	Logistics Management Institute
LOG	Logistics
LRIP	Low Rate Initial Production
LRO	Long-Range Objectives
LTDP	Long-Term Defense Program
LTM	Less Than Major
MAAG	Military Assistance & Advisory Group
MAPMIS	Manpower and Personnel Management Information System
MARCORPS	Marine Corps
MARP	Manpower Requirements Plan
MAW	Marine Air Wing
MBI	Major Budget Issue
MCN	Military Construction
MCNR	Military Construction Naval Reserve
MCON	Military Construction
MCON(R)	Military Construction (Reserve)
MCP	Marine Corps Capabilities Plan
MEDSPT	Medical Support
MEI	Major Force Issue
MFP	Major Force Programs
MILCON	Military Construction
MILPERS	Military Personnel
MINIMIPS	Mini Management Information Pages (RDT&E Programs Summary)
MINIMIP	Mini Management Information Paper
MLRP	Marine Corps Long-Range Plan

M-MARP	Mobilization-Manpower Requirements Plan
MM&SC	Major Mission & Support Category
MMROP	Marine Corps Mid-Range Objectives Plan
MNS	Mission-Need Statement
MOBCON	Mobilization Construction Plan
MOP	JCS Memorandum of Policy
MP	Major Program
MPCR	Memorandum Program Change Request
MPMC	Military Personnel, Marine Corps
MPN	Military Personnel, Navy
MPT	Manpower, Personnel and Training
MSC	Military Sealift Command
MSFG	Material Support Planning Guidance
NADEC	Navy Decision Center
NAMMOS	Navy Manpower Mobilization System
NAMPS	Navy Manpower Programming System
NAP	Naval Air Plan
NAFM	Navy Resource Model
NAVAIR	Naval Air Systems Command
NAVCOMPT	Comptroller of the Navy
NAVELEX	Naval Electronics Systems Command
NAVFAC	Naval Facilities Engineering Command
NAVMAT	Naval Material Command
NAVMEDRSCHDEV	Naval Medical Research Development Committee
NAVSEA	Naval Sea Systems Command
NAVSECGRUCOM	Naval Security Group Command
NAVSUP	Naval Supply Systems Command
NCB	Director of Budget & Reports, NAVCOMPT
NCD	Deputy Comptroller of the Navy
NCIS	Navy Cost Information System
NCP	Navy Capabilities Plan
NCPC	Navy Civilian Personnel Command
NDCP	Navy Decisions Coordinating Paper
NDES	NARM Data Entry Sheet
NFC	Navy Finance Center
NIF	Navy Industrial Fund
NLRG	Navy Long-Range Guidance
NMC	Naval Material Command
NMPC	Naval Military Personnel Command
NMRG	Navy Mid-Range Guidance
NOA	New Obligational Authority
NPR	Naval Petroleum Reserve
NSA	National Security Agency
NS&MP	Navy Support & Mobilization Plan
NSC	National Security Council
NSDD	National Security Decision Directive
NSF	Navy Stock Fund
NSS	Navy Strategic Study
NTP	Navy Technological Projections
OASD	Office, Assistant Secretary of Defense
O&M	Operations & Maintenance
O&MMC	Operations & Maintenance, Marine Corps
O&MMCR	Operations & Maintenance, Marine Corps, Reserve
O&MN	Operations & Maintenance, Navy

O&MNR	Operations & Maintenance, Navy, Reserve
OJCS	Office of the Joint Chiefs of Staff
OMB	Office of Management & Budget
OMCR	Organized Marine Corps Reserve
ONR	Office of Naval Research
OPA	Office of Program Appraisal
OPDEP	Operations Deputy
OPN	Other Procurement, Navy
OPNAV	Office of the Chief of Naval Operations
OPS	Operations
OPTEVFOR	Operational Test & Evaluation Force
OR	Operational Requirement
OSD	Office of the Secretary of Defense
OT&E	Operational Test & Evaluation
OUSD&E	Office of the Under Secretary of Defense for Research & Engineering
PAA	Primary Aircraft Authorization
PA&E	Program Analysis & Evaluation
PAI	Primary Aircraft Inventory
PAO	Public Action Officer
PASU	Provisional Approval for Service Use
P&P	Plans & Programs
PBD	Program Budget Decision
PC	Program Coordinator
PCD	Program Change Decision
PCP	Program Change Proposal
PCR	Program Change Request
PD	Presidential Decision
PDA	Principal Development Activity
PDM	Program Decision Memorandum
PDRC	Program Development Review Committee
PDC	Program Decision Summary
PE	Program Element
PEC	Program Evaluation Center
PEDD	Program Element Descriptive Data Sheet
PEDS	Program Evaluation and Decision Summary
PEO	Program Executive Officer
PERSSPT	Personnel Support
PESD	Program Element Summary Data Sheet
PL	Public Law
PM	Program Manager
PM-1	Strategic Systems Project Office (SSPO)
PM-2	Trident Project
PM-3	Joint Cruise Missile Project
PM-4	Anti-Submarine Warfare Systems Project
PM-5	Saudi Naval Expansion Program (SNEP)
PMA	Program/Project Manager at NAVAIR
PMC	Procurement, Marine Corps
PMF	Program/Project Manager at NAVEX
PMI	Proposed Military Improvement
PMS	Program/Project Manager at NAVSEA
POA&M	Plan of Actions & Milestones
POM	Program Objectives Memorandum
PEBS	Planning, Programming & Budgeting System

PPI	POM Preparation Instructions
PRM	Presidential Review Memorandum
PWRMS	Prepositioned War Reserve Material Stocks
PY	Prior Year
QPR	Quarterly Progress Report
RAD	Resource Allocation Display
R&D	Research & Development
R&M	Reliability & Maintainability
RCC	Resource Category Code
RDT&E, (N)	Research, Development, Test & Evaluation, (Navy)
RET. PAY-DEF	Retired Pay, Defense
RFP	Request for Proposal
RIC	Resource Identification Code
RMS	Resource Management System
ROC/POE	Required Operational Capability/Projected Operational Environment
RPD	Retired Pay, Defense
RPMC	Reserve Personnel, Marine Corps
RPN	Reserve Personnel, Navy
RPV	Real Program Value
RSI	(NATO) Rationalization/Standardization Interoperability
SAC	Senate Appropriations Committee
SAE	Service Acquisition Executive
SAIP	Ship Acquisition Improvement Panel
S&T	Science & Technology
SAR	Selected Acquisition Report
SASC	Senate Armed Services Committee
SASDT	Ships & Aircraft Supplemental Data Tables
SCN	Shipbuilding & Conversion, Navy
SCP	System Concept Paper
SDDM	Secretary of Defense Decision Memorandum
SECDEF	Secretary of Defense
SECNAV	Secretary of the Navy
SECNAVINST	Secretary of the Navy Instruction
SF	Stock Fund
SIOP	Single Integrated Operational Plan
SMIS	Ships Management Information System
SNAP	Summary Department of the Navy Approved Program
SNEP	Saudi Naval Expansion Program (PM-5)
SPP	Sponsor Program Proposal
SSPO	Strategic Systems Project Office (PM-1)
STO	Scientific and Technical Objectives
SWP	Surface Warfare Plan
SYS	Systems
SYSCOM	Systems Command (AIR, SEA, ELEX, FAC, SUP)
TAAA	Total Active Aircraft Authorization
TAAI	Total Active Aircraft Inventory
T&E	Test & Evaluation
TACAIR	Tactical Air Forces
TCP	Tactical Cryptologic Program
TCP	Technology Coordinating Paper
T&CCP	Telecommunications & Command and Control Program

TELECOMCOM	Telecommunications Command
TEMP	Test & Evaluation Master Plan
TERAC	Training and Education Requirements Advisory Committee
TFDC	Total Force Development Committee
TIARA	Tactical Intelligence and Related Activities (Compartmented)
TOA	Total Obligational Authority
TOAI	Total Overall Aircraft Inventory
TPOM	Tentative Program Objectives Memorandum
TRM	Training Resource Model
TRNG	Training
UIC	Unit Identification Code
UNSECNAV	Under Secretary of the Navy
USC	United States Code
USD(A)	Under Secretary of Defense for Acquisition
USD(P)	Under Secretary of Defense for Policy
USD(R&E)	Under Secretary of Defense for Research and Engineering
USMC	U.S. Marine Corps
VCNO	Vice Chief of Naval Operations
VSTOL	Vertical/Short Take Off Landing
WPN	Weapons Procurement, Navy
WRM	War Reserve Material
WSC	Weapons System Code
WWMCCS	World Wide Military Command & Control System
ZBB	Zero Based Budgeting

USA ADDENDUM TO APPENDIX A

Unique Army Acronyms

PDIP	Program Development Increment Packages
POC	Point of Contact
DPS	Decision Package Sets
MACOM	Major Command
PAKR	Program Analysis and Resource Reviews
COB	Command Operating Budget
PABE	Program and Budget Estimate
OMA	Operations & Maintenance Army
OPA	Other Procurement Army
MPA	Military Personnel Army
DPS	Decision Package Sets
POMCUS	Prepositioned Overseas Material Configured to Unit Sets
PBS	Program and Budget Committee

USAF ADDENDUM TO APPENDIX B

Unique Air Force Acronyms

PEM	Program Element Monitor
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MAA
PDP
MFP
PRC
MAJCOM

Mission Area Analysis
Program Decision Package
Major Force Program
Program Review Committee
Major Command

USMC ADDENDUM TO APPENDIX B

Unique Marine Corps Acronyms

MCP
MLRP
MMROP

Marine Corps Capabilities Plan
Marine Corps Long Range Plan
Marine Corps Mid-Range Objectives Plan

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