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THESIS

**THE FISCAL BLANK CHECK POLICY AND ITS IMPACT
ON OPERATION IRAQI FREEDOM**

by

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December 2006

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**THE FISCAL BLANK CHECK POLICY AND ITS IMPACT ON OPERATION
IRAQI FREEDOM**

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ABSTRACT

Congress passed declaration of war language for World Wars I and II that provides the military with practically unlimited resources and relaxed accountability during times of war. This “blank check policy,” while not an official policy, continued through twentieth-century wars. Toward the latter half of the twentieth century, the war powers struggle between the Legislative and Executive Branches resulted in instances of Congress under-funding war efforts and increased scrutiny of in-theater spending. In spite of the under-funding, the Defense Department continued to extend the blank check policy of spending to the combatant commander. The shortfall of funding was filled by reprogramming of annual appropriations for Vietnam, contingencies of the 1990s and the current war in Iraq.

This thesis builds on the studies of Walter Rundell, Leonard Taylor and William Rogerson who pioneered the critique of financial management in combat. Building on these works, the resource management environment of Multi-National Force-Iraq is critically analyzed. The negative consequences of excessive spending are discussed. These consequences are linked to the strategic mission and the support of the American people, which ultimately determines the funding levels of the Defense Department. Benefits gained in the blank check policy are compared to the negative consequences.

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I. INTRODUCTION

A. AREA OF RESEARCH

Congress passed declaration of war language for World Wars I and II that provides the military with practically unlimited resources and relaxed accountability during times of war. This “blank check policy,” while not an official policy, continued through twentieth-century wars. Toward the latter half of the twentieth century, the war powers struggle between the Legislative and Executive Branches resulted in instances of Congress under-funding war efforts and increased scrutiny of in-theater spending. In spite of the under-funding, the Defense Department continued to extend the blank check policy of spending to the combatant commander.

This thesis analyzes Operation Iraqi Freedom (OIF) in relation to American wars and contingencies of the twentieth century to determine how the “blank check policy” supports the objectives of Congress, the Department of Defense (DoD) and the combatant commander. The blank check policy is not an official policy per se; however, it will be argued that it is a practice started as far back as World Wars I and II. In these cases, Congress provided virtually unlimited funding to the Executive Branch during war through the language in declarations of war. Additionally, while Congressional war language of later twentieth-century wars did not as explicitly imply a “blank check” as it did during World Wars I and II, the financial actions of the Department of Defense reveal that the blank check assumption persisted. The link between Congressional intent and financial execution by DoD during war is analyzed using Congressional war language rather than the more traditional analysis of supplemental appropriations. Financial policy and procedures as well as after-action reports are analyzed to identify the interpretation of Congressional language by the executive branch.

B. RESEARCH QUESTIONS

Primary Research Question:

- Is the fiscal “blank check policy” still a valid assumption for funding wars in the twenty-first century?

Supporting Questions:

- What were the mechanics of funding wars during the twentieth century?
- What were the attitude and actions of Congress and the Department of Defense toward financial management in war of the twentieth century?
- What are the primary characteristics of the financial management environment of Operation Iraqi Freedom and does it support the mission?
- What incentives does the blank check policy suggest to U.S. commanders and requisitioners in combat?
- How can financial management contribute to the strategic goals? How might it be improved?
- What is the future of in-country resource management during combat operations?

C. DISCUSSION

Money is a key ingredient for success in war. Money allows commanders to execute their mission with increased flexibility to defeat the enemy. According to Russell Wiegley, the American way of war during the twentieth century was to fight with overwhelming force, which always comes at a high cost. Throughout the twentieth century, the U.S. Congress has often allowed the DoD to execute wars in an unconstrained financial resource environment, or simply a blank check policy. This has allowed commanders in combat virtually unlimited access to financial resources, with a couple exceptions (e.g., late Vietnam and some operations in the 1990s).

There are several possible explanations for the historical fiscal leniency of Congress during war. First, the budgetary policy of a blank check has an underlying assumption that the commanders' spending will be judicious in war and commander will uphold the high ideals of "fiduciary responsibility"—even in a fiscally unconstrained environment. Second, Congress is limited in its ability to verify legitimate needs during wartime. Finally, the threat of an enemy that desires to harm the U.S. and its interests abroad creates pressure to win at any cost, thus leading to a blank check mentality.

Nevertheless, Congressional war language and fiscal leniency is not consistent and a trend towards tighter control will be seen through the twentieth century.

Several unintended consequences of war can be observed both in the wars of the twentieth century and the current Global War on Terrorism (GWOT), specifically in Operation Iraqi Freedom (OIF). First, with financial restrictions lifted during war, in effect, the financial choke-point is freed for resources to flow. Twentieth-century wars reveal that other unintended negative side effects are realized in an unconstrained fiscal environment. For example, logistic channels become clogged with non-priority items. The combat environment of the OIF has seen significant improvements in logistics capability and response to the warfighter's needs. In spite of these improvements, there is some evidence that the "logistical snowball" and other non-financial issues is plaguing the U.S. military in Iraq.

Second, the common assumption that luxuries for troops in the combat theater will improve morale may be flawed. Recent studies by the Strategic Studies Institute and the Inspector General of MNF-I seem to contradict the common assumption that more is better in terms of troop welfare. In fact, a negative secondary effect of excessive ordering and levels of service is that it puts service members on the hazardous roads of Iraq to escort the ordered goods, resulting in more targets for Improvised Explosive Devices (IEDs).

D. SCOPE OF THESIS

This research:

1. Evaluates Congressional wartime intent compared to war-related financial management practices.
2. Identifies the practices as well as the implied assumptions of the role of resource management in long-term military contingency operations.
3. Explains the financial management history of past U.S. wars and the current method of resource management of operations and maintenance funds for OIF.
4. Evaluates the stove-piped functions of financial management, logistics and strategy.

This study identifies the trends of spending and cost drivers in periods of unconstrained resource environments. This provides insight into the research question of whether current financial management practices are supporting the strategy and the combatant commander.

Research, analysis, and explanation for Operation and Maintenance Army (OMA) funding in Operation Iraqi Freedom from primary sources are conducted. While there are many other types of fenced and special purpose funds in OMA and other appropriations that are used in Iraq, this thesis will only cover the supplemental OMA that is discretionary to the commander in Iraq (not fenced or specified for a special purpose). The OMA discussed is split between three areas: Logistic Civilian Augmentation Program (LOGCAP), Army Stock Fund, and other spending (spending that is neither non-Stock nor non-LOGCAP). The focus on OMA is due to the ability of the combatant commander to directly spend these funds on immediate battlefield requirements. OMA funds are the most discretionary of all appropriations in combat and are what in-country resource managers deal with the most. Analysis of previous wars are sometimes a mix of appropriations, but still largely focus on Army funds, as the Army has paid the bulk of land war costs.

For clarity, some terms must be exactly defined that will be used often in this paper. The term “blank check” has been used in at least two contexts in relation to twentieth-century U.S. wars. The first is relating to the use of military force by the executive branch in policy making. For example, President Johnson felt he had a “blank check” to pursue and execute the war in Vietnam when the Gulf of Tonkin Resolution was passed by Congress. This definition refers to policy and is not the definition of blank check that this thesis will use.

Instead, the term “blank check” that will be used means that the Executive Branch (and especially the military) was not given a financial ceiling to execute the wars. The use of this term follows and is in line with several authors over the last half century. Walter Rundell refers to the lack of financial ceilings in World War II as “budgetary carte blanche,” the French term for blank check.¹ Amanda Evans’ thesis concerning

¹ Walter Rundell (1980). *Military money: A Fiscal History of the U.S. Army Overseas in World War II*. College Station & London: Texas A&M University Press. p. 70.

supplemental budgeting factors in long-term contingency operations uses this term in the same manner when referring to World War II.² General Taylor used the term in this context in his official after action report published in 1974 concerning the financial environment of Army funds during the Vietnam Conflict.³ Finally, Lieutenant Colonel William Rogerson's Army War College research report concerning financial management of OMA funds in support of limited war (particularly Vietnam) uses blank check to refer to the financial freedom in the combat environment.⁴ In spite of these references to the fiscal blank check, nowhere is the term "blank check" or "carte blanche" found in official policy or doctrine. But DoD actions in supporting the combatant commander since at least World War II through lenient fiscal processes in budget formulation, execution and accountability is consistent enough to make it an unwritten policy.

Another common term that requires clarification is the term "resource management." The terms "resource management" and "financial management" are used by different services to refer to the same general staff function and are sometimes used interchangeably.⁵ According to the Army, resource management is "...the direction, guidance, and control of financial and other resources."⁶ Additionally, Joint Publication 1-06 states that:

The purpose of joint financial management (FM) is to support mission accomplishment by providing necessary FM capabilities. The comptroller is the officer responsible for providing the elements of resource management (RM) and finance operations. The RM process of the joint force comptroller is normally comprised of costing functions, and the effort to leverage appropriate fund sources. Finance operations provide the necessary funds to conduct contracting and the full range of pay support needed by members of the joint force.

² Amada B. Evans (2005), *Long-Term Contingency Operations: Identifying the Factors Affecting Budgeting in Annual or Supplemental Appropriations*, Naval Postgraduate School: Master's Thesis. p. 12.

³ Leonard B. Taylor (1974). *Financial Management of the Vietnam Conflict 1962-1972*. Department of the Army. p. 19.

⁴ William F. Rogerson (1972). *Financial Management of OMA Funds in Support of Limited War*. U.S. Army War College: Strategic Research Project. Carlisle, PA. p. 62.

⁵ Kathleen Miller (2002). *Strategic Bean-Counting: Potential Unrealized in DoD.*, U.S. Army War College: Strategic Research Project. Carlisle, PA. p. 2.

⁶ Harold Lord Jr. (2002). *How the Army Runs 2001-2002*. U.S. Army War College: Strategic Research Project. Carlisle, PA. p. 10-2.

In other words, for joint operations the function of “financial management” is composed of two subsections: resource management and finance. Joint resource management (as defined by the joint publication) will be the focus of this thesis, though a discussion on finance will be included for past wars because finance functions (e.g., manual military pay and voucher payments) was the major effort and concern of financial management prior to computers and automation.

Finally, a definition of financial controls is necessary. The Joint Logistics Review Board of 1970 frames the idea of financial controls in combat this way:

Financial controls can be interpreted a number of ways; e.g., in a narrow, restrictive sense it connotes constraining and limiting the commander’s prerogatives. Conversely, it can be considered as management information that may assist the commander in judging the efficiency of his operations within his unit with particular attention to the supply discipline being attained by the command.⁷

The spirit and pursuit of this thesis will be in the latter interpretation.

E. METHODOLOGY

The following steps were taken to define the issues:

1. Personal, telephonic and electronic mail interviews with U.S. commanders and staff officers who served in Iraq during the summer and fall of 2006.
2. Analysis of literature from the Congressional Quarterly Almanac and Congressional Research Service concerning Congressional declaration of war language and financial support of the DoD during war.
3. Analysis of internal U.S. Army documents to include Strategic Studies Institute reports, wartime after-action reports, and internal audit findings to determine the financial environment and financial lessons learned during combat operations.
4. Analysis of Army Historical Division documents to find the background and development of resource management and place the discussion in a historical context.

⁷ Joint Logistics Review Board Report (1970). Office of the Assistant Secretary of Defense: Supply, Maintenance and Services. p. 31.

5. Analysis of Government Accountability Office findings and critiques on the DoD's financial performance and resource allocation during combat operations.
6. Review and analysis of selected thesis and projects from the Naval Postgraduate School's Graduate School of Business and Public Policy as well as Army War College Individual Papers and Studies to find internal accounts and analysis of the financial environment of combat operations.
7. Review and analysis of academic journal articles both from private industry and public policy to find academic explanations for the blank check policy.
8. Analysis of Congressional supplemental and regular appropriations to identify trends in funding support.
9. Analysis of Multi-National Force-Iraq Army Operations and Maintenance (OMA) spending data.

In addition, the personal experience of the author as the Multi-National Force-Iraq Budget Officer from July 2004 to January 2005 in Baghdad, Iraq, will contribute to the analysis. During this period of time, the strategic commander in Iraq ordered a 10% reduction in spending. This was only the second time U.S. forces in combat have implemented a self-imposed budget. The author's experience will provide additional information, filling in the gaps that official reports are not able to cover.

F. BENEFITS OF THE STUDY

This study provides analysis of Congressional intent for the DoD during war through a comparative study of war language and, to a lesser degree, appropriation language. A summary of wartime in-country financial management during the twentieth century reveals if DoD's execution was in line with Congressional intent (i.e., war language). This analysis of financial management with the current war in Iraq builds on the works of Walter Rundell, William Rogerson, and Leonard Taylor, who for the first time provided the military with a critical analysis of the financial management (both resource management and finance) issues during war. This detailed accounting and analysis of the current war in Iraq continues and updates the discussion started by these

authors. With advancement in technology and shared knowledge, we are able to “see” more now than in earlier wars, possibly allowing a closer analysis of OIF. Continuing the collection and analysis of the current war will serve to help future leaders make informed financial decisions without “reinventing the financial wheel” in each contingency, as has often been the case.

II. UNITED STATES WARS AND THE DEVELOPMENT OF THE BLANK CHECK POLICY

As discussed in Chapter I, the term “blank check” has been used to refer to the freedom of wartime spending provided by Congress to the Executive Branch and DoD. This chapter will analyze Congressional language and actions concerning U.S. wars in comparison to the actions by the DoD and services.

The first section of this chapter will look at the Congressional language concerning military actions since early America to the end of the twentieth century. In the second section, the execution of the wartime funding at the DoD level and the theater of operations will be discussed to identify the attitudes and resulting actions towards funding war. When appropriate, this chapter will weave in a discussion of the professionalizing of financial management over the last 100 years to reveal that resource management as a separate military occupation is relatively new to the military.

This chapter will conclude with a brief discussion on possible theories of the development of the blank check policy. A discussion on the increased wealth of the nation and the social expectations of wealth will provide one explanation for the high cost of “unlimited aims” and the American culture on the battlefield. Additionally, an overview of the management theory of slack budget resources will provide a management perspective of the blank check.

A. THE LANGUAGE OF CONGRESS

From the Washington Administration to the present, Congress and the President have enacted eleven separate formal declarations of war against foreign nations in five different wars.

Congress has adopted eight declarations of war during the 20th century — two at the outset of U.S. involvement in World War I and six in the course of World War II.⁸

Not all combat actions are preceded by a declaration of war. In fact, only three wars prior to 1902 were preceded by a declaration and, from 1902 onward, only two

⁸ D.M. Ackerman (2003). *Declarations of War and Authorizations for the Use of Military Force: Historical Background and Legal Implications*. CRS Report for Congress. pp. 1-2.

military actions were officially declared wars. The remaining combat actions were simply authorizations for the use of military force.

The omission of a declaration of war is a subject of great debate in the struggle over war powers as defined in the Constitution for the President and Congress. (The entire legal debate will not be discussed here, but only parts of it as it pertains to and sets the stage for a discussion of funding mechanisms for war and conflicts.) In short, the Constitution provided the President the authority of Commander-in-Chief of the military (Article II, Section 2) and Congress was provided the power to declare war and raise and support the armed forces (Article I, Section 8). Congressional power over the military rests largely in financing the structure of the military through specified appropriations and special restrictions on these appropriations (e.g., fencing and authorizations). This control is difficult to apply to war funding, in part, because of the information asymmetry favoring the military. In recent times, however, the use of Congressional language to cut off funding has been effective in a couple instances, as will be discussed later.

The alternative for the declaration of war is the Congressional “authorization for the use of military force.” The use of this language by Congress has historically given a shorter leash to the President in the execution of military force. For example, the language of the authorization to use force prior to 1902 was simply the authority to hire privateers as can be seen in 1798 against the French, in 1802 against Tripoli, and in 1815 against Algeria:

That the President of the United States shall be, and he is hereby authorized to grant to the owners of private armed ships...any goods or effects which shall be found on board the same, being French [or Bey of Tripoli or Dey of Algiers] property, and which shall be captured by any private armed vessel or vessels of the United States, duly commissioned, as aforesaid, shall be forfeited, and shall accrue to the owners thereof, and the officers and crews by whom such captures shall be made; and on due condemnation had, shall be distributed according to any agreement which shall be between them....

Comparing this Congressional language above to the excerpts from declarations of war prior to 1902 points to the fact that a declaration of war authorized to the President the use of all military forces available:

...That the President of the United States is hereby authorized to use the whole land and naval force of the United States to carry the same into effect, and to issue to private armed vessels of the United States....(War of 1812, Act of Jun. 18, 1812, ch. 102, 2 Stat 755)

...President be, and he is hereby, authorized to employ the militia, naval, and military forces of the United States, and to call for and accept the services of any number of volunteers, not exceeding fifty thousand... and that the sum of ten millions of dollars,...is hereby, appropriated for the purpose of carrying the provisions of this act into effect. (War with Mexico, Act of May 13, 1846, ch. 16, 9 Stat. 9)

... That the President of the United States be, and he hereby is, directed and empowered to use the entire land and naval forces of the United States, and to call into the actual service of the United States the militia of the several States, to such extent as may be necessary to carry this Act into effect. (War with Spain 1898, Act of Apr. 25, 1898, ch. 189, 30 Stat. 364)

After 1902, the language of both the declaration of war and the authorization to use military force changed. World War I and World War II used identical language for the declaration of war against Germany and Austria-Hungary for the former, as well as Japan, Germany, Italy, Bulgaria, Hungary and Rumania for the later.

...That the President be, and he is hereby, authorized and directed to employ the entire naval and military forces of the United States and the resources of the Government to carry on war against the Imperial German Government [et al]; and to bring the conflict to a successful termination all of the resources of the country are hereby pledged by the Congress of the United States.⁹

This language marks a dramatic change in authority provided to the President. The last sentence makes available to the President *all* resources of the country, which had never been put forth by Congress in an authorization or declaration of war before. This is, effectively, a blank check to use any and all resources to bring the war to a successful conclusion.

These were to be the last of the declarations of war by Congress. Korea seems to have been a turning point for Congress and became a lightning rod of debate on the

⁹ The following acts of war used the same language with the appropriate government inserted: Act of Dec. 8, 1941, ch. 561, 55 Stat. 795; Act of Dec. 11, 1941, ch. 564, 55 Stat. 796; Act of Dec. 11, 1941, ch. 565, 55 Stat. 797; Act of Jun. 5, 1942, ch. 323, 56 Stat. 307; Act of Jun. 5, 1942, ch. 324, 56 Stat. 307; Act of Jun. 5, 1942, ch. 325, 56 Stat. 307.

subject of war powers.¹⁰ Korea was the first major military action in which the President did not make an appeal to the Congress for a declaration of war. Deploying combat troops to Korea, in fact, was ordered without even an authorization for the use of military force by Congress and preceded the UN resolution. President Truman acted under the presumption that the conflict was a “police action.”

Possible repercussions of President Truman’s acts became apparent in the very next Congressional authorization for the use of force in 1955 and 1957 (Formosa and the Middle East, respectively). The authorization acts for the first time required the President to report to Congress at regular intervals. Furthermore, the 1957 act set for only the second time in history a spending ceiling and very specific restrictions on the appropriated \$200 million (the first time a ceiling was specified by Congress was the War with Mexico).

The Gulf of Tonkin Resolution in 1964 was the next authorization for the use of military force. This resolution has the strongest language since World War II. The resolution states, “to take all necessary measures to repel any armed attack against the forces of the United States and to prevent further aggression.” The resolution continues, “The United States is, therefore, prepared, as the President determines, to take all necessary steps, including the use of armed force....”¹¹

The resolution does not specifically state that all resources of the nation are available to the President as the declarations of war for World War I and II had. But the phrasing of the resolution did seem to be interpreted as a blank check by the executive branch and especially by the DoD. This assumption is confirmed by an internal memorandum by the Secretary of Defense Robert McNamara in 1965:

Over the past two or three years, I have emphasized the importance of providing all necessary military assistance to South Vietnam, whether it be through MAP or through the application of U.S. Forces and their associated equipment. Occasionally, instances come to my attention indicating that some in the Department feel restraints are imposed by limitations of funds. I want it clearly understood that there is an unlimited

¹⁰ Further discussion concerning war powers in relation to the Korean Conflict can be found at <http://www.warandlaw.org> and <http://www.law.umkc.edu/faculty/projects/ftrials/conlaw/warandtreaty.htm>. Accessed: November 2006.

¹¹ Public Law 88-408, 78 Stat. 384, August 10, 1964 [H.J.Res. 11450].

appropriation available for the financing of aid to Vietnam. Under no circumstances is lack of money to stand in the way of aid to that nation.¹²

A significant change in the use of appropriations took place in 1965. Prior to 1964, the U.S. activities in Vietnam were funded by regular appropriations. After the passage of the Gulf of Tonkin Resolution in 1964, both regular and supplemental appropriations were used. This took place from FY1966 to FY1969. One reason provided for a move from regular to supplemental appropriations (instead of supplemental appropriations to support an unexpected war then followed by regular appropriations) was due in part to the increased costs of supporting a troop build up in Vietnam. Daggett provides an alternative explanation. He indicates that the Johnson Administration may have been using the first supplemental appropriation in FY1965 to affirm the support of Congress, even though sufficient regular appropriations existed to increase troop levels in Vietnam for the remainder of the year.

...The Johnson Administration requested supplemental appropriations for military operations in Southwest Asia. According to the Congressional Quarterly Almanac, in May 1965, the Administration requested supplemental appropriations for FY1965 for operations in Southwest Asia in part as a means of affirming congressional support for the buildup of forces in Vietnam, even though sufficient funds appeared to be available through the end of the fiscal year.¹³

In a sense, the President may also have been requesting a supplemental to test if the financial blank check policy was in effect as it was in the last three wars.

The Gulf of Tonkin Resolution did have one caveat. This caveat was the first for an “authorization for the use of military force” or a “declaration of war.” The last section and the last phrase of the resolution stated that the resolution would expire when the President determined or “*except that it may be terminated earlier by concurrent resolution of the Congress.*” This last phrase was the first Congressional language to make it the option of Congress to terminate a military operation. Congress eventually did act on this phrase in 1970 by repealing the Gulf of Tonkin Resolution. While an

¹² Leonard B. Taylor (1974). *Financial Management of the Vietnam Conflict 1962-1972*. Department of the Army. p. 19.

¹³ Stephen Daggett (2003). *Budgeting for wars in the past*. CRS Report for Congress. p. 1.

immediate withdrawal did not take place, it has been argued that it was part of a larger effort combined with restriction of appropriations (as will be discussed later) to end military operations in the region.

The desire of Congress expressed by the Tonkin Resolution to restrict the war powers of the president did not end in 1970. In 1973, Congress enacted a resolution entitled the War Powers Resolution.¹⁴ This resolution codified the reporting requirements that the President was to give to Congress prior to and during hostile engagements with U.S. Armed Forces. Additionally, a 60 day limit was put in place for the President to deploy troops to hostile areas. If Congress did not provide authorization for the use of military force or a declaration of war within 60 days, the troops would have to be removed. In 1983, the Supreme Court ruled that Congress did not have the Constitutional authority to take such actions of ending a military action with a joint resolution. In response to the court's ruling and in the same year, Congress added a new provision to the War Powers Resolution to legalize this power.

In the late 1990s, the war powers issue came to a head again. President Clinton had deployed forces for military actions against Yugoslavia without seeking the consent of Congress. This action was in violation of the War Powers Resolution. Representative Tom Campbell sued President Clinton in 1999 to require that the President obtain Congressional approval before continuing military actions against Yugoslavia. Campbell was unsuccessful in persuading the District Court, the U.S. Court of Appeals and the U.S. Supreme Court.¹⁵ In the end, the War Powers Resolution was rendered useless by the judicial branch. Nevertheless, to this day, the War Powers Resolution is still referred to in authorization for the use of military force (to include the war against Iraq and terrorism).

While the War Power Resolution was a failed attempt by Congress to control military actions, the use of appropriation language has been effectively used to deny the President the funds to continue military actions. Grimmiett identifies three instances in which Congress shaped military actions with restrictive appropriation language: Vietnam,

¹⁴ The United States Constitution, Article One, Section 8, Clause 11.

¹⁵ Richard F. Grimmiett (2001). *Congressional Use of Funding Cutoffs Since 1970 Involving U.S. Military Forces and Overseas Deployments*. CRS Report for Congress. p. 5.

Somalia and Rwanda. For Vietnam, three amendments were attached to legislation to restrict military actions, as Grimmett reports, “as part of a larger effort to compel the withdraw of military forces from the area.”¹⁶ (The “larger effort” included Congress repealing the Gulf of Tonkin Resolution, as previously discussed.) In December 1970, funds appropriated were specifically prohibited from use in Cambodia. Then, two supplemental appropriations in 1973 stated that the funds could not be used directly or indirectly for military actions in or over Cambodia, Laos, North Vietnam or South Vietnam. For Somalia and Rwanda, the Department of Defense appropriation act of FY1995 expressly prohibited the use of funds in these areas.

To summarize this section, a few trends can be identified that help to explain the development of the blank check policy:

- That prior to the world wars, Congressional language was specific in terms of provided resources for the war (a blank check was not available);

- That the idea of a “blank check” did not exist, as identified in Congressional language, until World Wars I and II, when “all resources of the country” were given to the president;

- That after the world wars, the generous Congressional language provided to the executive branch for the world wars was never repeated. Instead, the language became increasingly restrictive to the executive power. Only “authorizations to use military force” were used instead of “declarations of war”; and

- That starting with Vietnam, Congress used appropriation bills to insert language, specifically restricting the use of DoD funds to geographical areas.

The next section will look at the financial policies and practices of U.S. wars, concentrating mostly on 20th century wars. While this section served to explain the origins of the blank check policy, the next section will continue by exploring how the blank check policy was interpreted and implemented by the DoD and the combatant commander in each war. In addition, problems will be identified in later wars that were a result of a lack of fiscal controls. Also, some history will be presented to reveal that financial management is a relatively young discipline in the military.

¹⁶ Richard F. Grimmett (2001). *Congressional Use of Funding Cutoffs Since 1970 Involving U.S. Military Forces and Overseas Deployments*. CRS Report for Congress. p. 1-3.

B. EXECUTIVE AND DOD ACTION IN FUNDING WARS

In the early years of the United States, when financial resources were limited, Congress was creative in the way it provided for the defense of the nation. In order to fend off France, Tripoli and Algeria in the early 19th century, Congress provided the President the “authority” (but no funding) to commission private merchant vessels to outfit their ships for war and attack enemy ships. As payment for their service, the privateers were awarded any enemy property captured and it was to be split among the officers and crew. This creative solution provided incentives for the privateers to attack enemy ships. The United States did not have to make any financial outlays to outfit or train the privateers, thus no money was specifically appropriated for these early uses of military force.

The War with Mexico found the United States military in a less austere condition from earlier periods, yet a need for more troops existed and the use of inexpensive volunteers was part of the answer. Volunteer troops were required to provide their own uniforms and, if cavalry, their own horses. Personal weapons could also be used, but were supplied if the volunteer did not own a personal weapon. Unlike prior military actions, this time the executive branch was given the authority to buy or lease existing merchant vessels to retrofit for war. Even so, only \$10 million was appropriated for the war and was also the spending ceiling. The idea of a blank check clearly does not apply to these early creative means to conduct war.

The rest of this section will focus on the 20th century wars, mostly because more detailed financial information is available concerning these wars. But, in addition, the significant technology advancements, the U.S. economic growth, and the problems that the U.S. faced in twentieth-century wars are still relatively pertinent to the current war. Due to the unevenness of information about earlier wars, each war will not be given equal attention. The points presented are intended to provide a story line and basis of the development of financial management (i.e., finance and resource management) in the combat environment up to, but not including, the current war in Iraq.

1. World War I

It is unclear what type of process was used by Congress to fund the DoD during World War I. Unlike some wars, the entry into Europe was not sudden and had been hotly debated by Congress for several years while the European powers were fighting. There are indications that World War I was funded by a supplemental process, which is most likely.

Little information is available for World War I concerning the details of in-country financial management. But World War I has been identified as a landmark war for the military in terms of realizing the need for a separate occupational specialty to deal with the increased demands of a large deployed army as well as the financial demands of new technology. Regardless of this development, much effort and attention was put into payment of troops and vouchers and not in preparing policy and general staff officers. The following describes the monumental changes realized in the war that resulted in a separate Army finance department for the first time in the military.

Prior to and during World War I, fiscal issues were dealt with by the Quartermaster Department at the Department of the Army level. The relative small size of the service and the budget made this arrangement feasible prior to World War I. Additionally, the largest fiscal issue prior to World War I was the manual military pay process dealt with by the G1 administrative function of the general staff. The occupation of finance had not yet been established and would not be until the early 1920s, well after the war was over. (The Comptroller of the Army position would not be created until 1948.¹⁷) World War I likely strained the ability of the Quartermaster Department and G1 (administration) to effectively manage financial matters for several reasons.

¹⁷U.S Army Military Historical Institute. *U.S. Army Finance: A Working Bibliography*. p. 5. Retrieved September 2006, from www.ibiblio.org/academic/history/marshall/military/mil_hist_inst/f/finance.asc

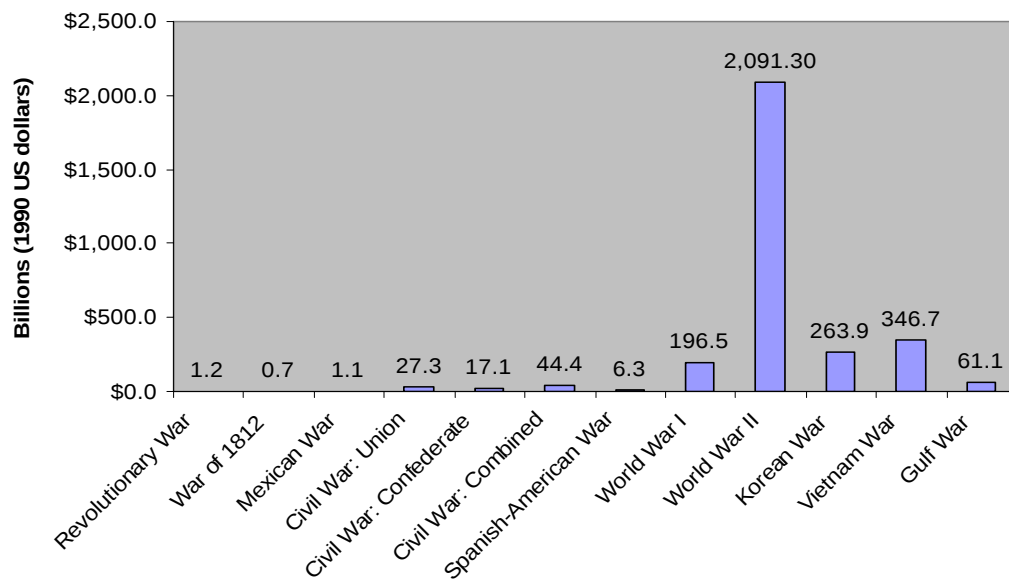
Conflict	US Population (millions)	Enrolled (thousands)	Ratio
Revolutionary War	3.5	200	5.70%
War of 1812	7.6	286	3.80%
Mexican War	21.1	78.7	0.40%
Civil War: Union	26.2	2,803.30	10.70%
Civil War: Confederate	8.1	1,064.20	13.10%
Civil War: Combined	34.3	3,867.50	11.10%
Spanish-American War	74.6	306.8	0.40%
World War I	102.8	4,743.80	4.60%
World War II	133.5	16,353.70	12.20%
Korean War	151.7	5,764.10	3.80%
Vietnam War	204.9	8,744.00	4.30%
Gulf War	260	2,750.00	1.10%

Source: <http://www.cwc.lsu.edu/cwc/other/stats/warcost.htm>. Accessed: 20 May 2006.

Table 1. Participation Ratios of United States Wars

First, the total number of troops during the war was 4.7 million—the highest enrolled for any previous war (see Table one). Because the manual military payroll was one of the most time consuming aspects of financial responsibilities, the increased deployed troop size weighed heavily on the existing staff structure. Second, the cost of war grew by an average of about 20 times over previous wars. Figure one shows the costs of each American war normalized to 1990 dollars. The average cost of the five previous wars was a mere \$10.7 billion while the cost of World War I rose to \$196.5 billion. The closest comparison up to that point was the Civil War, which the rough combined estimate for both the Union and the Confederacy was \$44.4 billion. Finally, the Army Quartermaster Corps’ traditional responsibilities grew significantly during the short period of the war. At the beginning of American involvement in the war in 1917, the Quartermaster Corps consisted of four types of units. By the end of the war less than two years later, the Quartermaster Corps had grown to 32 types of units to deal with the explosive growth of new technology (e.g., refrigeration, engine repair, fuel). More than

700 quartermaster depots had been established in France.¹⁸ In short, the size, cost and complexity of war had outgrown the ability of the Quartermaster Department to maintain the books as an additional responsibility to its traditional role of managing the details of transporting, quartering, and supplying troops in military operations.



Source: <http://www.cwc.lsu.edu/cwc/other/stats/warcost.htm>. Accessed: 20 May 2006.

Figure 1. Cost of United States Wars.

Post-World War I America was a period of innocence lost. The isolationism that America had prided itself on since its inception had been violated by involvement in the war. Suspicion and regret was harbored by Americans and fueled by revisionist historians, revelations by Congressional inquiries, and refusal of former allies to repay their war debts.¹⁹ A popular isolationist movement ensued in America and the feeling was shared by many members of Congress. During the outbreak of the Ethiopian conflict and the Spanish Civil War, Congress was quick to enact laws to prevent American involvement by the President. In addition, Congress exercised its Constitutional power by

¹⁸ Keith M. Wilkinson (1993). *The Logistics Lessons of the Gulf War: A Snowball in the Desert?* Naval War College: Report. Newport, RI. p. 3.

¹⁹ Forrest C. Pogue (1963). *George C. Marshall: Ordeal and Hope 1939-1942*. New York: Viking Press. p. 3.

drastically reducing the military, thereby preventing the President access to the tools of war. The financial environment entering World War II is summarized in a comment by the Army Chief of Staff, General George C. Marshall, in 1939 at the verge of World War II: “Yesterday we had time but no money...today we have money but no time.”²⁰

2. World War II

While World War I was the most expensive war up to that time, World War II would prove to diminish the costs and scale of the First World War. As noted previously, Table one reveals the manpower differences of World War II compared the previous wars. Not since the American Civil War had the participation rate of war been so high. (The participation rate is the number of troops in relation to the total U.S. population.) The combined participation rate of the North and the South in the Civil war was estimated at 11.1% while the participation rate of World War II was just over 12.2%.

The financial totals of each war are presented on Figure one. World War II significantly outspent the previous wars and even recent wars. A convergence of several factors may explain this high cost. First, America was fighting a multiple theater war on as many as five Continents, which has no historical comparison even with the current Global War on Terrorism (GWOT). Adding to these costs was the fact that supply lines were very long and heavily contested by submarines and aircraft. World War II had significant land, air and sea engagements requiring new and expensive technology in each area. America had never taken on such an ambitious military campaign with seemingly unlimited military aims.

In addition, the United States was in a struggle not simply for its economic interests or a distant threat as early American threats often were (Barbary pirates, for example). America was fighting an immediate threat for survival. This threat superseded any concern for financial control. “In war the budget goes out the window” was a common saying during World War II.²¹ But as former Comptroller General Warren stated concerning World War II, more than just the budget went out the window.

²⁰ Forrest C. Pogue (1963). *George C. Marshall: Ordeal and Hope 1939-1942*. New York: Viking Press. p. 193.

²¹ William F. Rogerson (1972). *Financial Management of OMA Funds in Support of Limited War*. U.S. Army War College: Strategic Research Project. Carlisle, PA. p. 30.

During the . . . war some of the instances of low moral standards in Government were shocking. We reported many of these instances. The attitude then was 'So what? We're in war.'²²

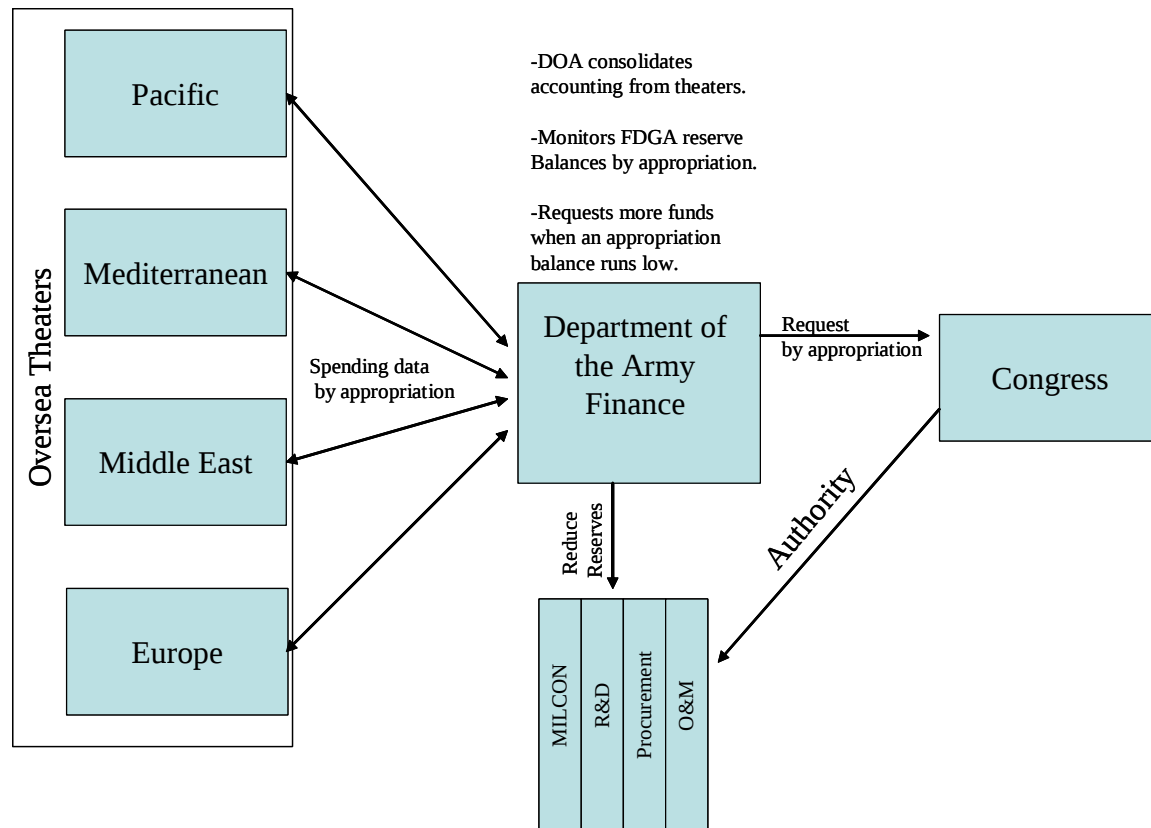
The War Department was provided an unprecedented amount of financial goodwill by Congress during World War II. The Defense Aid Supplemental Appropriation Acts were fully funded each year from 1941-1946, with the exception of 1944.²³ The interpretation of these supplemental appropriations by the executive branch developed into a unique method of funding the theaters of operation. Congress allowed spending in each theater without the normal appropriation restrictions of peacetime, and, in fact, without any funding authority. This method of funding was termed the Army's Finance Department General Allotment (FDGA). The Finance Department was the linchpin and the interface between the Congress and the combat theaters to ensure the funding continued to flow, as seen in Figure two.

Each of the major theaters (Pacific, Mediterranean, Middle East, Europe, etc.) was allowed to spend without a financial ceiling; however, each was required to account for all spending by normal appropriation categories. This appropriation accounting information was submitted to the Army Finance Department at each theater headquarters. With this consolidated accounting by appropriation, the Finance Department deducted appropriation reserve accounts at the Army service level for each appropriation type (i.e., Military Construction, Operations and Maintenance, Procurement, etc). When an appropriation reserve account ran low at the Army level, the War Department contacted Congress who would then appropriate the necessary funds to replenish the accounts.²⁴ This relationship between Congress and the War Department took the burden of budgeting completely off of combatant commanders. As discussed in the last section, the language of the declaration of war for World War II stated that "all resources of the country are hereby pledged" to the President. The funding mechanism provided by Congress truly reflected Congressional intent.

²² United States Government Accountability Office Website: (http://www.gao.gov/about/history/gaohistory_1945-1954.html). Accessed: July 2006.

²³ Amada B. Evans (2005), *Long-Term Contingency Operations: Identifying the Factors Affecting Budgeting in Annual or Supplemental Appropriations*. Naval Postgraduate School: Thesis. p. 11.

²⁴ Walter Rundell (1980). *Military money: A Fiscal History of the U.S. Army Overseas in World War II*. College Station & London: Texas A&M University Press. p. 72.



Graphic created by author from description by Walter Rundell. *Military Money*, pp. 70-93.

Figure 2. FDGA flow of funds for World War II.

While no spending ceilings were implemented on the theater commanders, Congress did require that some special purpose charges stay separate from the FDGA funds. These funds included pay and travel, court-martials, and transportation.²⁵ Also, the FDGA could not be used for requirements to support other departments and agencies of the United States.

At the tactical level, Army Groups implemented a few financial limits on subordinate armies, corps and divisions in theater. Spending on intelligence as well as morale, welfare and recreation (MWR) were not to exceed specified limits, even while the war was in progress.²⁶ According to Pogue, strict accountability was maintained on

²⁵ Walter Rundell (1980). *Military money: A Fiscal History of the U.S. Army Overseas in World War II*. College Station & London: Texas A&M University Press. 72.

²⁶ Walter Rundell (1980). *Military money: A Fiscal History of the U.S. Army Overseas in World War II*. College Station & London: Texas A&M University Press, 74.

these relatively small but high visibility accounts, even as division moved rapidly and were detached and attached to different corps. Lessons learned from World War I of the low quality of life of the troops in trench warfare prompted increased spending for service members' morale during World War II.²⁷ It is reported by Pogue that the Chief of Staff of the Army, General Marshall, as well as theater commanders paid close attention to recreational accounts due to the large expenditures. When fraud was identified in theater, punishment was imposed on soldiers and the sentences were provided to the press as a gesture of good financial stewardship to the American people.²⁸ A sense of fiscal responsibility seemed to have persisted among the top military leaders even in an environment of unconstrained resources.

As discussed, the Finance Department was established immediately after World War I. These inter-war leaders of the relatively new finance department drew harsh criticism from Rundell for not preparing the Army financially for the special circumstances of combat operations and, instead, only focused on peacetime financial processes.

...The Finance Department, being unprepared for World War II,...projected domestic peacetime procedures into foreign theaters, where they often were unsuitable. More realistic planning, either before the war or after its outbreak, could have made finance service far more efficient.²⁹

In spite of some problems, the finance personnel provided many critical technical functions in the multiple theaters. While the normal peacetime requirements were lifted, the technical workload to maintain accountability of these various accounts was still overwhelming. In addition, the finance personnel in theater performed audits, disbursements, made currency conversions, and issued "invasion money" while still performing one of the most demanding tasks of manually paying millions of service members. While the activity of budgeting appeared to have no purpose in this fiscally unconstrained environment, a theater fiscal officer submitted an annual budget estimate

²⁷ Forrest C. Pogue (1973). *George C. Marshall: Organizer of victory 1943-1945*. New York: Viking Press. p. 85.

²⁸ Ibid.

²⁹ Walter Rundell (1980). *Military Money: A Fiscal History of the U.S. Army Overseas in World War II*. College Station & London: Texas A&M University Press. p. 6.

to the Finance Department. Ironically, the fiscal advice to senior commanders in theater appeared to be largely provided by the G1 (administration and personnel) and the G4 (supplies and equipment) who did not deal with the finance functions.³⁰ The function of resource management during World War II seems to have been as a technical job rather than a strategic asset.

Requests for large quantities of supplies and equipment were handled between the theater commander and the Chief of Staff of the Army. For example, Eisenhower requested needed supplies for his European theater but was sent a reply by General Marshall that to send supplies to Europe would be to take resources from other theaters.³¹ This dialogue reveals that national production capacity and logistic throughput rather than finances were the constraints. Instead of managing money as a limited resource, the Army was managing their new bottlenecks of production capacity and logistic throughput.

The end of the blank check policy for the Army in World War II came on V-J Day, even though fighting had ended much earlier in rest of the world except the Pacific. The announcement of V-J Day was followed by an immediate 60% reduction in funding by Congress and an immediate return to pre-war appropriation law.³²

3. Korea and Vietnam Conflicts

A philosophical shift took place in the world after the end of World War II; a shift that ensured the end of the general war. While World War II was a general war (fought with all assets employed and until one side surrendered), Korea and Vietnam were considered limited wars. Limited war is defined as “either the ends or means, or both, are limited in the conflict.”³³ Behind this philosophical shift was the threat of wide-scale

³⁰ U.S. Army Military Historical Institute. U.S. Army Finance: A Working Bibliography, 3. www.ibiblio.org/academic/history/marshall/military/mil_hist_inst/f/finance.asc

³¹ Forrest C. Pogue (1973). *George C. Marshall: Organizer of victory 1943-1945*. New York: Viking Press. p. 7.

³² Walter Rundell (1980). *Military Money: A Fiscal History of the U.S. Army Overseas in World War II*. College Station & London: Texas A&M University Press. p. 75.

³³ C.M. Gacek (1994). *The Logic of Force: The Dilemma of Limited War in American Foreign Policy*. New York: Columbia University Press.

destruction between the polarized world of the Warsaw Pact and NATO Alliance. The nuclear threat of mutual destruction added to the shift toward limited war.

Korea and Vietnam are both considered limited wars, but they were each treated differently by the United States. Congress supplied the Korean effort with supplemental appropriations in the first two years of the conflict but did not provide a supplemental in the last year. Even though Korea was not funded by a supplemental the last year, by the end of the Korean War, an excessive surplus of cash, weapons and supplies was identified. The Army recognized this problem of over-ordering in after action reports, but no corrective action was taken and no Congressional interest was made concerning the excess.

In contrast, the Army's financial experience with Vietnam is summed up by General Taylor, the Director of Army Budget, during the war:

At the beginning of the Vietnam situation, Congress regarded the Vietnam requirements in much the same light as those for Korea, but as the nature of the war developed into one of attrition, there was an intense feeling of frustration created in the minds of Congressmen. They wanted to assure that the American fighting man was provided everything he needed, but his needs were often in direct competition with domestic programs. This change in Congress was a subtle one, with no real turning point, but the budget hearings slowly required more and more information concerning the appropriate use of resources.³⁴

The "butter vs. guns" debate had turned into a "butter *and* guns" mandate by Congress.³⁵ Sacrificing domestic programs for the war became increasingly unpopular as the war progressed. American values had changed toward extended wars and this new found cynicism for war caught the military off guard. As previously discussed, McNamara's comment concerning the unlimited availability of funds indicates the assumption of a blank check policy to execute the war in Vietnam. As the war progressed, this fiscal assumption was increasingly out of line with Congress, yet the DoD continued to act with this assumption until 1970.

³⁴ Leonard B. Taylor (1974). *Financial Management of the Vietnam Conflict 1962-1972*. Department of the Army. p. 12.

³⁵ William F. Rogerson (1972). *Financial Management of OMA Funds in Support of Limited War*. U.S. Army War College: Strategic Research Project. Carlisle, PA. p. 15.

Furthermore, the Army seemed to assume the World War II financial management process was appropriate (e.g., simply supplying top level financial data to Congress). Army leaders believed they were supplying better financial data and visibility with new automated accounting and logistics systems than ever before. Taylor stated as much before a cynical Congress:

I examined the financing of the Korean War and I examined the financing of World War II and the manner in which we are submitting the budget to you is vastly more precise than that employed by the Defense Department in either of those two previous occasions. I completely disagree with your conclusion that Congress has lost control of the war.³⁶

But the Army's systems were faulty at best and it was admitted by Taylor that no one knew how to budget for the war. Because the Army Chief of Staff (COS) had exempted the Army in Vietnam from any accounting requirement early in the conflict, no historical data were available to project the future costs for the later stages of the war when Congressional interest on spending was greatest.³⁷

Furthermore, many of the same symptoms were appearing in Vietnam that had been experienced in past wars. Massive stockpiles had built up across the country. The problem was of such a magnitude early on that in November 1965, 122 ships were either waiting or in the process of off-loading off the coast of Vietnam. The average wait time for a ship to offload during this time was 20.5 days.³⁸ Needed supplies were mixed with unnecessary supplies with no way to identify one from the other. No organization had a consolidated view of new requisitions, existing inventory or inbound orders. Duplicate ordering was a common practice by the unknown number of in-country requisitioners. The duplicate ordering was under the assumption that this would speed delivery. Without any fiscal constraints, the requisitioner had no incentive not to order more.

Early attempts to fix the problem only compounded it. RED BALL was one of several systems developed for in-country Army units to quickly obtain high priority items. The high priority status, however, was commonly ignored by units, further

³⁶ Leonard B. Taylor (1974). *Financial Management of the Vietnam Conflict 1962-1972*. Department of the Army. p. 28.

³⁷ William F. Rogerson (1972). *Financial Management of OMA Funds in Support of Limited War*. U.S. Army War College: Strategic Research Project. Carlisle, PA. p. 23.

³⁸ Ibid.

muddying the logistic and financial picture. Another well intended initiative was the pushing of supplies to Vietnam (“push” in contrast to the usual “pull” system where a requisitioner must initiate the order). The Army attempted to predict the needs of the units and ship the supplies before they were needed. While a good concept, the in-country units did not know what was coming and ordered the items already on the way across the Pacific Ocean or stockpiled in Vietnam.³⁹

Rogerson recommended the implementation of budget ceilings as the one tool that could have naturally fixed the problem. In other words, funding ceilings would force requisitioners to order only once and only the mission essential items. But since neither a resource management system nor comptroller personnel had been deployed to Vietnam, this type of control was not possible without a major concerted effort from the top.

In March 1967, the Army took the drastic measure of cancelling all outstanding orders, which amounted to \$100 million, as well as redistributing the stockpiles they could identify. By the end of the year and after an intense effort to account for the supply system, it was reported by GAO that the Army still did not have a handle on the problem. While this sounds like a gloomy report, it must be remembered that this was the first attempt ever by the Army to keep account of a supply system in a theater of operation.⁴⁰

Although the legislative scrutiny of the financial and supply systems during Vietnam seemed like a revelation, a directly related issue has been identified a few years earlier. In 1965, Admiral Henry Eccles coined the term the “logistic snowball” effect in his book *Military Concepts and Philosophies*.⁴¹ He identified a trend of unchecked growth of the logistics and supply in both World Wars and Korea. Eccles stated that “unnecessary supplies and personnel block the flow of the necessary resources. Thus it directly damages combat effectiveness.” Eccles did not specifically trace this logistics problem to a lack of budget controls as Rogerson did. Yet, both an unconstrained fiscal environment and the Snowball Effect existed in World Wars I and II, Korea, and Vietnam.

³⁹ William F. Rogerson (1972). *Financial Management of OMA Funds in Support of Limited War*. U.S. Army War College: Strategic Research Project. Carlisle, PA.

⁴⁰ Leonard B. Taylor (1974). *Financial Management of the Vietnam Conflict 1962-1972*. Department of the Army. p. 35.

⁴¹ Henry Eccles (1965). *Military concepts and philosophy*. New Brunswick: Rutgers University Press.

It could be argued that the bill payers for the World Wars and the Korea conflict were domestic programs and investments. On the other hand, Vietnam was much different in terms of the bill payer with the DoD and the Army absorbing much of the cost. Rogerson explains that Vietnam costs were covered from two sources: the war reserve stocks (which were expenditures made before the start of the war) and annual appropriation reprogramming. The use of war reserves allowed the Army to stretch the war appropriations for Vietnam and mask the true cost of the Vietnam Conflict. Rogerson explains:

These actions resulted in reduced overall expenditures and also in the reduced readiness of the other active and reserve units. They had an adverse long-range impact on the modernization of facilities, performance of scheduled maintenance programs, and the procurement of certain weapon systems...Unknown to many at the time, the Army had paid for a large part of the war out of hide.⁴²

By the early 1970s, funding was tight and the relationship between Congress and DoD strained. This resulted in the Army implementing budgets in theater. This was the first time in American history that funding controls were implemented by the military commander on a theater of operations while the war was still in progress. In 1970, a Chief of Staff action memo was sent to the all commanders in Vietnam, which stated in part:

During fiscal year 1970 there has been increasing pressure to reduce spending within DoD. This has been evidenced by the receipt of actual funding authorizations which are far below previously budgeted requirements. From all indications to date, the austere funding limitations will continue for the next several years. Accordingly, efforts must be initiated now to effect substantial reductions in all elements of cost and to initiate a program that will insure the conservation not just of funds, but all other MACV [Military Assistance Command, Vietnam] resources as well.⁴³

⁴² William F. Rogerson (1972). *Financial Management of OMA Funds in Support of Limited War*. U.S. Army War College: Strategic Research Project. Carlisle, PA. p. 14.

⁴³ Leonard B. Taylor (1974). *Financial Management of the Vietnam Conflict 1962-1972*. Department of the Army. p. 37.

4. Contingencies in the 1990s

During the 1990s, funding for contingencies consistently followed the deployment of military forces to military operations, with the exception of Bosnia.⁴⁴ Banus indicates that the trend of funding contingency operations out-of-hide continued in some cases in the 1990s. He highlights operations in Somalia, Bangladesh and Bosnia as instances when the military absorbed the cost of contingencies by curtailing normal funding in areas such as ammunition, training, per diem and fuel.⁴⁵ In the case of Somalia, the DoD was hit particularly hard as the Maritime Preposition Forces acquisitions slipped into future years, ammunition shortages for training occurred, and base infrastructure projects were delayed and base services were reduced or cancelled.

C. PROPOSED EXPLANATIONS FOR THE EMERGENCE OF THE BLANK CHECK IN U.S. WARS

An explanation of the blank check has been indirectly referred to by historians, the private business sector and public policy. The following sections will present and analyze these explanations in the context of wartime to determine the applicability of each. These explanations will be reintroduced and developed further in later chapters as well. The first explanation discusses the impact of societal wealth on war spending. The second considers the deliberate creation of slack budget resources.

1. Wealth, Power and Strategy

They have an abundance of gold and silver, and these make war, like other things, go smoothly. Hermocrates, 415 B.C.

As indicated by this quote concerning the wealthy city of Athens, the relationship between money and successful military campaigns has changed little over the centuries. An abundance of money still help to ensure military victory. Money, as a concept, is one of a commander's most important resources because it can be turned into virtually anything.⁴⁶ The successful campaign of Alexander the Great was based, in part, on his

⁴⁴ Jeffrey Chamberlain (2003). *Funding for Military and Peacekeeping Operations: Recent History and Precedents*. CRS Report of Congress. p. 2.

⁴⁵ Stephen P. Banus (1997). *Financing Contingency Operations in the New Strategic Environment*. Naval Postgraduate School: Thesis. Monterey, CA. pp. 39-48.

⁴⁶ Robert R. Donoho (1997). *The Tactics of Money: A Strategic Perspective*. U.S. Army War College: Strategic Research Project. p. 1.

ability to maintain flexibility. An ample supply of money bought him information and supplies in hostile regions and maintained his long logistical tail through Asia. Money provides flexibility, but it also can provide the ability to execute war with unlimited objectives. Had not Alexander secured Greece prior to his Asian conquest, he would not have had the financial resource base to conquer the known world. In the same way, the economic strength of the United States in the twentieth century allowed wars to be fought with seemingly unlimited aims. The remainder of this section will look at the impact of access to financial resources on strategy.

According to the military historian, Russell Weigley, the American way of war during most of the twentieth century was to physically destroy or force the surrender of the enemy forces. He labeled this the “strategy of annihilation.” Hallmarks of the strategy of annihilation include large standing armies and navies, robust logistical tails, a reliance on technology and overwhelming firepower.⁴⁷ This strategy required a great amount of money to execute, which, in turn, requires a robust national economy.

The opposite of the strategy of annihilation is the “strategy of attrition.” Attrition strategists look for the small incremental victories against their enemy. They often attack the enemy’s willingness to fight rather than directly attacking the enemy. The attrition strategist uses time and creativity as resources of war rather than simply outspending or out-resourcing the enemy. Historically, those who have practiced the strategy of attrition do so out of necessity rather than choice.

In America’s early wars, the strategy of annihilation was not practiced for one simple reason: it was not financially feasible. America did not have the financial resources to sustain a standing conventional army and navy for extended periods of time. This trend was observed in Congressional language in the nineteenth century, as discussed earlier in this chapter. Furthermore, early American commanders could not replace the personnel and equipment quickly (or at all) after a high casualty engagement, which is characteristic of the strategy of annihilation. In short, the financial resources

⁴⁷ Colin S. Gray (2005). *The American Way of War*. An essay in *Rethinking the Principle of War*. McIvor, Anthony (Ed.). Annapolis: U.S. Naval Institute. p. 27.

available in relation to the enemy determined the early American commanders' choice of strategy. Weigley succinctly summarizes the influence of the wealth of the United States on American strategy:

At the beginning, when American military resources were still slight, America made a promising beginning in the nurture of strategists of attrition; but the wealth of the country and its adoption of unlimited aims in war cut that development short, until the strategy of annihilation became characteristically the American way of war.⁴⁸

Wealthy democratic nations are historically less tolerant of protracted wars. This phenomenon can be observed as early as the Peloponnesian War. The people of the rich port city-state of Athens often lost their will to fight the prolonged war against the less wealthy agrarian-based Spartans. Passionate speeches by Athenian generals (as reported by Thucydides) were required to maintain the Athenians' interest in the prolonged war.

While it is not common, the strategy of attrition is sometimes practiced by wealthy nations. History contains several examples of American strategists who consciously selected attrition even in recent history, when the United States was a super power. For example, in early Vietnam, a plan for small Marine units to live with the villagers successfully denied the enemy guerrilla forces their power base without having to directly engage and physically destroy the enemy. This strategy of attrition was short-lived as General Westmoreland opted for the strategy of annihilation; that is, large troop concentrations, carpet bombing and overwhelming firepower. But in spite of the few exceptions, a strong association exists between the increasing wealth of America and the increasing use of the annihilation strategy.

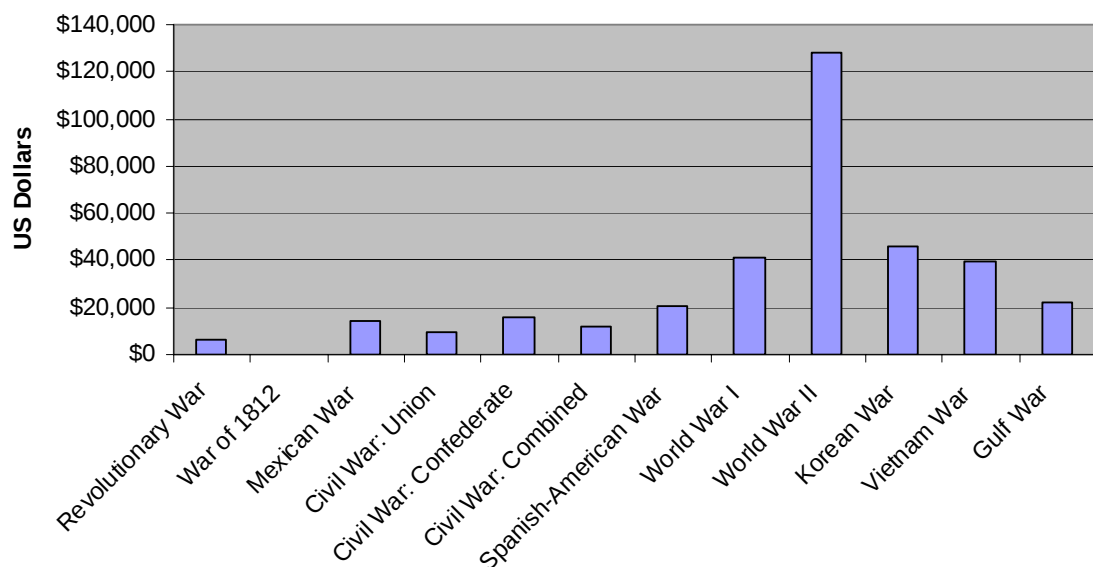
According to Colin Gray, this is not a problem to solve, but a condition to accept. He further states, "Culture is inescapable. Military theorists [warfighters] cannot function beyond their culture."⁴⁹ Samuel Huntington is quoted by Gray, in Huntington's blunt but effective language:

⁴⁸ Russell F. Weigley (1973). *The American Way of War: A History of United States Military Strategy and Policy*. New York: MacMillan. p. xxii.

⁴⁹ Colin S. Gray (2005). *The American Way of War. An essay in Rethinking the Principle of War*. McIvor, Anthony (Ed.). Annapolis: U.S. Naval Institute. p. 24.

The United States is a big, lumbering, pluralistic, affluent, liberal, democratic, individualistic, materialistic (if not hedonistic), technologically supremely sophisticated society. Our military strategy should and, indeed, must be built upon these facts. The way we fight necessarily will reflect the way we live.⁵⁰

Two major points emerge from this discussion of American military strategy and financial resources. First, as America has increased in wealth, especially in the twentieth century, the preferred method of war has been to rely on unlimited resources to defeat the enemy rather than “time” or “creativity.” Access to unlimited funding allowed the commander to solve issues with an increasing reliance on more people, more rounds and more equipment. The over-abundance of financial resources has resulted in throwing money at problems. Ultimately, this has increased the cost of war since the means have become available to execute a strategy of annihilation.



Source: <http://www.cwc.lsu.edu/cwc/other/stats/warcost.htm>. Accessed: 20 May 2006.

Figure 3. United States Wars: Cost per Enrollee.

⁵⁰Colin S. Gray (2005). *The American Way of War. An essay in Rethinking the Principle of War*. McIvor, Anthony (Ed.). Annapolis: U.S. Naval Institute. p. 25.

The second point that emerges is that America brings its culture to the battlefield. Gray points out that since the American Civil War, foreign observers have often commented on the “material generosity that American troops have been supplied and equipped.”⁵¹ Figure three provides a rough comparative look at spending per enrollee of American wars. During World Wars I and II, cost per enrollee increased significantly. This was during periods when Congress allowed a financial blank check because the national economy could sustain it. The average cost per enrollee for all wars from the Revolutionary War to the Gulf War is \$32,897. The average cost of all wars prior to World War II is \$15,573. In comparison, the cost of World War II per enrollee is \$127,879.

2. Slack Budget Resources

Another possible explanation for the emergence of the blank check policy is the study of slack budget resources. Slack budget resource is a term used both in private industry and public policy. In general, it is a term dealing with the less efficient use of resources, to include money. A literature review of the subject reveals that the definition changes based on the situation and perspective as well as between public and private institutions.

a. Budget Slack in Private Industry

Management accounting defines budget slack as “padding of the budget” by either overestimating expenses or underestimating revenue. Slack provides to the local manager excess funds unknown to headquarters. The local manager holds the upper hand with the true knowledge of needs or requirements. This is known as information asymmetry. Headquarters cannot verify all of the local manager’s requirements as valid in advance. This allows the manager to hold excess fund to cover an unexpected cost or to ensure that a target is met that was set by headquarters. From an economic point of view, the manager’s inefficient use of the funds costs the company the opportunity to receive a higher return on another investment. If all local managers in a company create budget slack, the company will suffer significantly as a result of everyone looking out for own self-interests (or the interests of the function they manage).

⁵¹ Colin S. Gray (2005). *The American Way of War*. An essay in *Rethinking the Principle of War*. McIvor, Anthony (Ed.). Annapolis: U.S. Naval Institute.

Alan Webb frames budget slack in private industry as a negative force and proposes organizational behavior and cost control measures as ways that can mitigate budget slack. Webb defines budget slack as, “The intentional biasing of performance targets below their expected levels.”⁵² In this definition, the local manager works backwards to create budget slack. Instead of attempting to get a bigger budget number, the manager strives for lower performance goals with the same budget. In the end, this approach has the same net effect as asking for a bigger budget with the same performance goals, since productivity per dollar would be relatively the same in either case.

Tony Davilla and Marc Wouters take an opposite viewpoint concerning budget slack in private industry. Instead of viewing budget slack as a game played by local managers, they view it as a tool for headquarters to give incentives to the local manager. For example, if a company is concerned with maintaining service quality in the face of increased volume, headquarters may weight local manager’s evaluations to account equally for customer service quality and maintaining the budget.⁵³ The local manager may be allowed to exceed the budget ceiling in some cases if another equally or more important objective is met. This is clearly communicated to the local manager and the local manager’s performance evaluation would account for both goals. In this case, the local manager is provided a system of incentives to act in the best interest of himself and the company. Organizational behavior theory refers to this ideal situation as goal congruency.

Both Davilla and Wouters and Webb point out the need of a cost accounting system to manage and measure budget slack. Research conducted by Webb finds the use of variance analysis in the company to be a deterrent for local managers who attempt to set low goals. The local manager knows that he would eventually be caught with lower productivity levels by the cost accounting system in he pursues budget slack in the near term. In short, the local manager’s behavior is influenced by

⁵² R. Alan Webb (2002). *The Impact of Reputation and Variance Investigation on the Creation of Budget Slack*. Accounting, Organization and Society. 27: 361.

⁵³ Tony Davila and Marc Wouters (2005). *Managing Budget Emphasis Through the Explicit Design of Conditional Budgetary Slack*. Accounting, Organizations and Society. 30: 588.

consequences that may be realized beyond the immediate period.⁵⁴ In contrast, Davilla and Wouters give empirical evidence that the use of cost accounting supports the use of budget slack and facilitates local managers to achieve multiple goals set by headquarters.

Webb provides another behavioral prevention against local managers who attempt to create budget slack: reputation concerns. But for reputation concerns to be a deterrent, once again, a good system of accounting is needed to give solid evidence that the local manager did not perform well based on variance analysis or in relation to their peers. In short, headquarters cannot manage the manager's behavior if both budgets and output is not measurable.

The approaches of these authors differ, but some commonalities are important to emphasize. First, both studies reveal the necessity to measure performance with an accounting system. Second, the goals and policies of the accounting system must have the incentives in place that drive the local manager to the correct actions (i.e., goal congruence). Whether the private company is in a normal period of sales or in a period of uncertainty and risk, the cost accounting system must measure and provide incentives for the correct actions. The only difference is that a second non-financial objective must be identified and measured during times of budget slack.

b. Budget Slack in Government

Some similarities exist between the private and public sector concerning slack budget resources. For example, military leaders, in both peacetime and war, may seek to "pad the budget" just as private industry managers have been observed to do. This allows the military leader more flexibility (especially in war) but overall it still can create an inefficient use of resources at the service or department level. Zero-base budgeting has been touted as the solution for this problem in peacetime, while no solution has been proposed during times of war. This is probably due to the commonly held belief that budget slack during wartime is an unavoidable and acceptable cost of war.

Budget slack in the public sector quickly diverges from the private sector. First, the creation and termination of budget slack in government is not driven by the

⁵⁴ R. Alan Webb (2002). *The Impact of Reputation and Vaiance Investigation on the Creation of Budget Slack*. Accounting, Organization and Society. 27: 361.

same factors as private industry. In the private sector, budget slack is to ensure the financial health and longevity of the company. In the government, it is largely political at the Congressional and even DoD level. Philip Candreva and L. Jones hypothesize that the level of Congressional control through funding changed significantly as incentives and the political environment changed toward the War on Terror.

The incentive for Congress to support the president's request was greater than the incentive to intrusively manage DoD budget execution. In fact, the incentive for members was to appear to be as patriotic or more so than political opponents, particularly explaining why, when the president requested a \$20 billion supplemental appropriation, Congress quickly appropriated \$40 billion...However, once the political environment changed and with it the shift in the incentive structure, Congress shifted from delegation to activism, returning to familiar patterns of behavior...using traditional tools: hearings and testimony, earmarked funds, reviews and investigations by legislative entities, and fencing funds.⁵⁵

This explanation, while directed at the current Global War on Terror, is generally applicable to wars since Vietnam, as indicated by Taylor and Banus earlier in this chapter. Ironically, the Department of Defense (DoD) has created and maintained budget slack for its combatant commanders since Vietnam, regardless of Congressional support through appropriations.

A second point of divergence between the public and private sectors use of budget slack is the ability to measure performance and link it with incentives. Private industry has the measurable indicators of efficiency such as warrantee returns, variable cost, customer satisfaction surveys, and rework costs. Managerial accountants can measure these other aspects of productivity. This measuring ability allows for the proper implementation of budget slack, when necessary. Headquarters can view a local manager's compliance to the budget ceiling as well as the performance in other areas. The wartime environment prevents alternative measurements due largely to information asymmetry and the independent will of the enemy, not to mention political concerns (e.g., publishing enemy body counts are not considered in good taste today).

⁵⁵ Philip J Candreva, and L.R. Jones (2005). *Congressional Control over Defense and Delegation of Authority in the Case of the Defense Emergency Response Fund*. Armed Forces and Society. 32: 118-119.

No research literature on slack budget resource (per se) during war was found. Research that may contribute to this discussion was conducted by Rebecca Hendrick.⁵⁶ This study focused on local government finances in Chicago, seeking to determine the role of budget slack in government. While the scope of this study is at the local government level, some of the observed human or organizational behavior patterns are applicable. Hendrick found that (as expected) municipalities accumulate excess resources when faced with uncertainty and risk. But it was discovered that the municipalities did not consider it risky to depend on intergovernmental revenue to support other under-funded programs. Hendrick stated that municipalities fail to see this type of funding as detrimental in the long run.

The similarities of this study are striking with the DoD at war. When the requirements of combat have exceeded the supplemental appropriations due to tightened Congressional oversight and decreased funding levels, the DoD has gone to inter-DoD transfers to fund the war. This practice, as was discussed earlier in this chapter, has become the norm since Vietnam and continues today, as will be discussed in later chapters. Empirical evidence is not available concerning the DoD's attitude and opinion toward supporting under-funded wars with transfers. However, if it is assumed that human and organizational behavior is universal, comparing Hendrick's research with DoD may not be such a great leap of faith.

D. CONCLUSION

Congressional language for the "authorization for the use of military force" and "declarations of war" prior to World War I was bounded by the realities of the economic wealth of the United States. In short, there was not enough money to annihilate the enemy. Congress could not allow combatant commanders unfettered access to cash. In place of a blank check, Congress and the Executive Branch found other means of defending the country such as privateers and self-equipped volunteers, which limited commander's options to that of the strategy of attrition. As Weigley points out in his classic book *The American Way of War*, early America fought with creativity and by

⁵⁶ Rebecca Hendrick (2006). *The Role of Slack in Local Government Finances*. Public Budgeting and Finance.

“attrition” when the national resources were low. This observable trend in Congressional language prior to World War I seems to support Weigley’s assertion of Congressional choice (or lack of choice) of the strategy of attrition due to a lack of resources.

The Industrial Revolution provided America with greater ability to fund war as well as produce war materiel. The noticeable change of language for the declarations of war for World Wars I and II coincides with increasing wealth of the nation. Instead of the Congress limiting war costs and resources to combatant commanders as was done previously, the president was provided a financial blank check in the declarations of war for World Wars I and II. In turn, combatant commanders were given no financial ceilings to engage in the world wars, which (according to Wiegley and Huntington) spawned the campaign style of American fighting with the “annihilation” of the enemy as the objective. This was a costly endeavor, but made possible by the resources of the country and the blank check authorized by Congress. Once again, Weigley’s assertion holds true: Congress provided the means (blank check) to support wars of annihilation when the economy could sustain it.

The unwritten rules seemed to have changed after World War II. While the nation continued to increase in wealth, Congressional language for military actions became more restrictive after the Korean Conflict, much like they were prior to World War I. The change of heart with Congress may have been the president’s failure to seek consent from Congress prior to engaging the communist North Korea, as was the historical precedence. In addition to this war power struggle, the decreased moral imperative of later wars (such as Vietnam) made the tightening of the purse strings attainable with less negative repercussions from constituents.

At this point, the Weigley theory begins to fall apart. Congressional war language up to Korea was indeed pegged to the economic wealth of the nation which, in turn, influenced the combatant commander’s choice (or ability) of strategy. After Korea, however, Congress attempted to cut off war power authority of the executive branch with

restrictive language. The clause in the Gulf of Tonkin Resolution stating the use of military force could be “terminated earlier by concurrent resolution of the Congress” is the landmark example.

But even with this change in language, Congress continued to use the supplemental appropriation process to fund the conflicts after Korea. Supplemental funding was not sufficient to cover all obligations, especially in Vietnam and some contingencies of the 1990s. This makes it unclear if the supplemental process can be used to infer a blank check policy, as is commonly assumed. The increased Congressional scrutiny over DoD wartime supplemental spending starting with Vietnam further casts doubt if the supplemental process should be viewed as a blank check. Evans makes an excellent point in asking if spending would be less for the current war in Iraq if there was uncertainty of the passage of wartime supplementals. She states, “Current operations resemble the spend-spend mentality whereas baselining [sic] war costs might deem otherwise.”⁵⁷ The DoD’s willingness to cover shortfalls in wartime funding during Vietnam and in the 1990s to support the combatant commander indicates that the blank check mentality would persist in DoD even without a supplemental. It seems that the DoD does not necessarily look to the passage of the supplemental as the authorization to implement a blank check in-theater.

The consequences of unfettered spending in Vietnam are well documented by William Rogerson, Leonard Taylor, and the Joint Logistics Review Board of 1970. They associated the lack of in-country financial controls with the persistence of clogged logistics system, stockpiles throughout the theater and the reduction in future readiness of the DoD. These are the unintended consequences of the well intended blank check policy; a policy that, in fact, did not fully support the combatant commanders as it is commonly assumed to do.

Literature on slack budget resources added to the discussion as a possible explanation of why the blank check policy exists. It provides an organizational behavior and incentive perspective on what is happening. The wars presented in this chapter were

⁵⁷ Amada B. Evans (2005), *Long-Term Contingency Operations: Identifying the Factors Affecting Budgeting in Annual or Supplemental Appropriations*, Naval Postgraduate School: Thesis. Monterey, CA. p. 17.

provided a slack budget from Congress in World Wars I and II. In later wars, slack budgets were increasingly sought by the “local managers” or the DoD and combatant commanders while Congress sometimes sought to eliminate the budget slack due to political concerns.

This chapter presented the history surrounding the development of the blank check policy and possible explanations for the existence of the blank check policy. In addition, this chapter covered some theories of why American wars are so costly in relation to past wars. The remainder of this thesis will focus on the impact of the blank check policy in the GWOT and especially Operation Iraqi Freedom (OIF).

III. FINANCIAL ENVIRONMENT OF OPERATION IRAQI FREEDOM

The purpose of this chapter is to continue the discussion of the blank check policy during wartime (as introduced in Chapters I and II) to current operations in Iraq. This chapter will lay out the financial operations and procedures in Iraq and present a history of mechanisms including the financial problems associated with them.

The chapter will generally follow the same format as the last chapter, starting at Congress and working down to the theater of operations. In the first section, Congressional appropriations for the Global War or Terror (GWOT) will be discussed. Since there have been many types of GWOT funds appropriated by Congress since September 11, 2001, it is necessary to narrow the scope of the discussion to only those that are discretionary to the commanders on the ground in Iraq and, therefore, are the focus of this thesis. Once the discretionary appropriations are narrowed, the in-country subdivisions of these funds will be identified. Policies, initiatives and mechanisms to control the spending of U.S. forces in Iraq will be presented. Because the cost control initiatives in Iraq were evolutionary (as well as reactionary), it is necessary to discuss the surrounding details. The point of view will be from the MNF-I RM (Multi-National Force-Iraq Resource Management office), in which the author was the budget officer.

A. CONGRESSIONAL LANGUAGE AND APPROPRIATIONS TO FUND THE WAR IN IRAQ

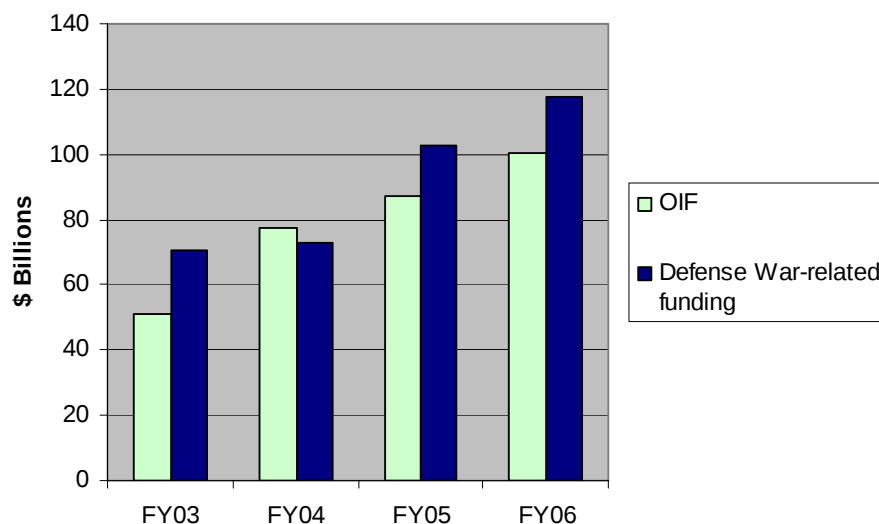
As was observed in previous military actions since the Korean Conflict, the “authorization of the use of military force” was used by Congress against Iraq. This resolution against Iraq passed in 2002 had all the trimmings of the War Powers Resolution as seen in the Gulf of Tonkin Resolution. In comparison with the Gulf of Tonkin Resolution, the resolution for Iraq appears to be even more specific.

The President is authorized to use the Armed Forces of the United States as he determines to be necessary and appropriate in order to—

(1) defend the national security of the United States against the continuing threat posed by Iraq; and

(2) enforce all relevant United Nations Security Council resolutions regarding Iraq.

Figure 4 compares the total DoD war related appropriations with Iraq spending for the same year. The figure reveals that Iraq is the major cost driver of current DoD wartime spending. In fact, the Congressional Research Service estimates that Iraq spending far exceeds the spending of Operation Noble Eagle and Operation Enduring Freedom coming in currently at 73% of the total wartime spending.⁵⁸ The percentage change in spending for Iraq has increased from year to year by 52% from FY03 to FY04, 13% from FY04 to FY05, and by 15% from FY05 to FY06. In comparison, the military actions in Afghanistan have increased in FY2005 and FY2006 by 10% and 20%, respectively, over the pervious years. The spending on the Afghanistan operation, however, is much lower at only one-fifth of the cost of the war in Iraq.

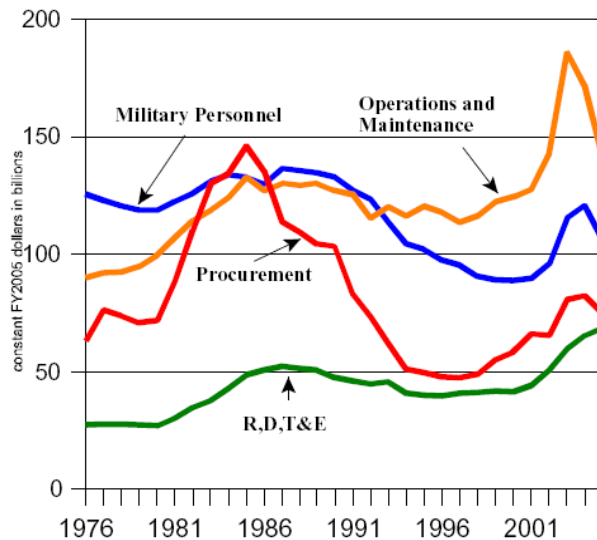


From: Amy Belasco (2006). *The Cost of Iraq, Afghanistan, and Other Global War on Terror Operations Since 9/11*, CRS Report for Congress.

Figure 4. Comparison of Total War-related Congressional Authority and Operation Iraqi Freedom Spending.

⁵⁸ Amy Belasco (2006). *The Cost of Iraq, Afghanistan, and Other Global War on Terror Operations Since 9/11*, CRS Report for Congress. p. 8.

The major categories of military appropriations are operations and maintenance (O&M); procurement; research, development, test and evaluation (RDT&E); and military personnel. Figure five from the Congressional Research Service shows the change in budget authority from 1976 to 2005. Both supplemental and annual appropriations are included in these numbers. While 2001 initiated an upward trend in spending, it is not until 2003 that a sharp rise in authority is recognizable in all appropriations.



Source: Office of Management and Budget, *Historical Tables: Budget of the United States Government, Fiscal Year 2005*, February 2004, pp. 82-85, [<http://www.whitehouse.gov/omb/budget/fy2005/pdf/hist.pdf>]; FY2005 deflators from DOD Comptroller.

Figure 5. Budget Authority by Appropriation from 1976 to 2005.

Table 2 further details the DoD war budget authority by title from FY2003 to FY2006. These numbers reveal that Congress primarily used supplemental appropriations to fund the increases in O&M and military personnel. On the other hand, the RDT&E and procurement increases seen in Figure five were largely made with annual appropriations. Supplemental appropriations did increase in later years for the investment accounts.⁵⁹ For example, procurement almost tripled from FY2004 to FY2005. The percentage of procurement and RDT&E is only 21% of the total DoD war budget authority for both FY2005 and FY2006. Procurement and RDT&E are

⁵⁹ Jeffrey Chamberlain (2003). *Funding for Military and Peacekeeping Operations: Recent History and Precedents*. CRS Report of Congress. p. 7.

appropriated and fenced for specific purposes, making this appropriation non-discretionary for the theater commander even if it is brought in-country on a Resource Allocation Document (RAD).

Title	FY2003 ^a	FY2004	FY2005	FY2006 Bridge and Supp. Conf. ^a	Cumul. Total ^a
Military Personnel	15.9	17.9	17.7 ^b	16.5	68.0
Operation & Maintenance/Health/Other ^c	42.9 to 46.5	42.7	49.3	60.9	195.8 to 199.4
Afghan Sec. Forces Training	0.0	0.0	1.3	1.9	3.2
Iraq Security Forces Training ^d	0.0	[5.100]	5.7	3.0	8.7
Natural Resources Remediation Fund (NRRF) ^e	0.8	0.0	0.0	0.0	0.8
Joint Improvised Explosive Device Defeat Fund ^b	0.0	0.0	0.0	2.0	2.0
Working Capital Fund/National Sealift Fund ^f	0.8 to 1.1	1.6	2.1	3.0	7.5 to 7.8
Procurement	7.7 to 9.5	7.2	20.9	22.9	58.7 to 60.5
Research, Dev., Testing & Evaluation	1.1 to 2.4	0.4	0.7	0.8	3.0 to 4.3
Military Construction	0.2 to 0.9	0.5	1.1	0.2	2.1 to 2.8
Iraqi Freedom Fund (IFF) ^g	[15.7]	2.0	3.8	4.6	10.3
Enhanced security in FY2006 base budget (estimate)	NA	NA	NA	1.9	1.9
Total	70.1 to 77.2	72.3	102.5	117.7	360.7 to 367.8

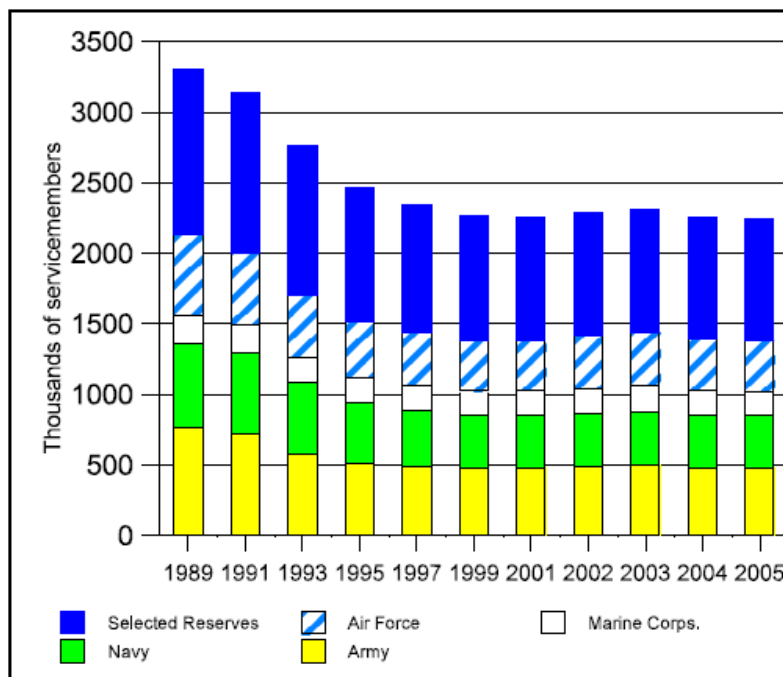
Notes and Sources:

- Range for FY2003 shows funds from DOD FY2003 appropriations bill that may not have been tracked in DOD's war cost finance system. Cumulative total includes \$7.1 billion. CRS allocated the \$15.7 billion provided in the Iraqi Freedom Fund, by title based on notifications to Congressional defense committees; includes a \$3.5 billion rescission enacted the following year. Includes funds provided in supplemental and regular appropriations acts plus transfers of DOD funds from baseline funds to GWOT after enactment; excludes the \$30 billion appropriated in FY2001 and FY2002 primarily in the Defense Emergency Response Fund (DERF) rather than regular accounts. Includes both FY2006 Title IX bridge funds and the FY2006 Supplemental request. Includes estimate of \$1.9 billion in DOD's baseline budget for ONE, which was formerly funded in supplementals.
- Congressional report language permitted DOD to use \$2.1 billion of military personnel funds and \$802 million in O&M funds in the FY2005 supplemental funds to 'restore' funds transferred from DOD's baseline accounts earlier in the year (H.Rept. 109-72, p.100); CRS reduced transfers to reflect restorals.
- "Other" includes counterdrug and Office of Inspector General funds.
- Funding for training that was provided to the State Department is shown in brackets, and not included in DOD totals.
- NRRF was set up in the FY2003 Supplemental (P.L. 108-11) to fund anticipated damage to Iraq's oil facilities.
- Working capital funds finance unanticipated increases in support costs such as fuel.
- In some years, Congress included national intelligence funds in the IFF, as well as smaller amounts, which DOD could transfer to where it was needed.

Source: Amy Belasco (2006). The Cost of Iraq, Afghanistan, and Other Global War on Terror Operations Since 9/11, CRS Report for Congress. p. 7.

Table 2. DoD War Budget Authority by Title FY2003 to FY2006.

Military personnel budget authority increased significantly during FY2003 when the Iraq War was started, as indicated in Figure five, but military manpower did not increase as substantially as indicated by the increase of authority (see Figure six). The primary cause for this spike is the special payments made to service members such as family separation, hazardous duty, and combat payments as well as the cost of activating guard and reservists. Since the military pay is now centrally managed by the Defense Financial Accounting Service (DFAS), this money is not in the control of modern day combatant commanders as it was in most twentieth-century wars. This has taken the burden of paying troops off of the commander and has allowed a decrease in finance personnel in the combat zone.



From: CRS Report dated 12 July 2004, p. 21

Figure 6. Active Duty and Selected Reserve End-Strength: FY1989-FY2005.

The other appropriations of Table two such as Iraqi Freedom Fund, Iraq and Afghan Security Force Training, and Working Capital Fund are outside of the scope of this thesis. While MNF-I does manage the Iraqi Freedom Fund and Iraq Security Force Training funds, they are of high Congressional interest and closely monitored. These funds are outside of the scope of this discussion since they are not discretionary to the combatant commander.

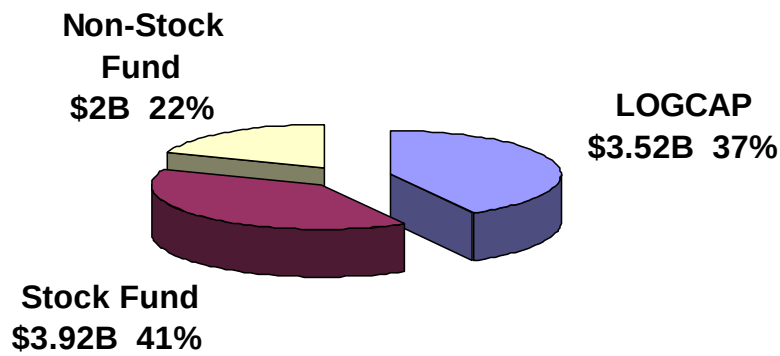
In the end, O&M funds are the only discretionary and “non-automatic” funds for the combatant commander in Iraq. Most of the O&M used in Iraq is Army O&M (OMA) for two reasons. First, the Army, as the executive agent, is responsible for common services such as logistic and life support services for the majority of the coalition forces in Iraq. The greatest bulk of this mission is provided by the LOGCAP contract with KBR, as will be discussed later in this chapter. Second, the Army has the largest representation of the approximately 150,000 troops in Iraq as well as the most air and ground vehicle of any service in country. Geographically speaking, the Army covers four of the six MNF-I divided sectors in Iraq (the remaining two are covered by a coalition country and a Marine Expeditionary Force). In addition, Detainee Operations, Security Transition Command, MNC-I headquarters (HQ) and MNF-I HQ are funded mostly by OMA.

With OMA funds, combatant commanders in Iraq can make purchasing decisions at the local tactical level to fulfill immediate requirements. The OMA funds can be used for small contracts and to employ locals for services on the base. Also, OMA funds are used by commands to make orders on the internet through official government websites as well as commercial vendors worldwide. At the strategic country level, OMA funds are used for large country-wide service contracts to include Logistic Civilian Augmentation Program (LOGCAP).

B. TYPE OF OMA FUNDS IN IRAQ

Now that OMA has been identified as the only truly discretionary funds available to commanders in Iraq, the subdivisions of OMA in Iraq will be identified. There are three major OMA subdivisions at the department and theater level as indicated in Figure seven. These three areas are the Logistics Civilian Augmentation Program (LOGCAP)

contract currently with Kellogg, Brown and Root (KBR); the Stock Fund; and what is commonly referred to as the Non-Stock Fund. The later is simply other OMA spending that is not for the LOGCAP contract or Stock Fund purchases.



Source: Multi-National Force-Iraq Resource Management Office

Figure 7. Execution Breakdown of OMA Funds for MNF-I in FY2004.

1. Logistic Civilian Augmentation Program

Today, the Army is ultimately responsible for the life support and common support of all U.S. troops and most coalition troops. General Taylor points out in his Vietnam after action report that this relationship between services did not exist in Vietnam, causing a great deal of duplicated effort.⁶⁰ The CRS provides an explanation of the origins of LOGCAP in the post-Vietnam era.

The United States Army's Logistics Civil Augmentation Program (LOGCAP) is an initiative to manage the use of civilian contractors who perform services in support of DoD missions during times of war and other military mobilizations. It was established on December 6, 1985, with the publication of Army Regulation 700-137.

⁶⁰ Leonard B. Taylor (1974). *Financial Management of the Vietnam Conflict 1962-1972*. Department of the Army. p. 5.

LOGCAP contracts have been previously awarded for work in Rwanda, Haiti, Saudi Arabia, Kosovo, Ecuador, Qatar, Italy, southeastern Europe, Bosnia, South Korea, and Kuwait.⁶¹

A few examples of the services provided by Kellogg, Brown and Root (KBR) in Iraq are camp construction, camp operations and maintenance, HAZMAT, class III (fuel) operations, laundry services, MWR operations, food services, transportation, logistic hub operations, and air terminal services. In short, KBR supplies every service except those inherently the domain of the military (e.g., combat forces, intelligence) or that have a conflict of interest (e.g., resource management, and contracting officers).

The current LOGCAP contract is called LOGCAP III and started in 2002. It is a maximum ten year option contract (first year base with nine option years) set up as a cost-plus award fee contract. KBR provides on-call provider service, with actual costs dependent on services provided. The LOGCAP contract is managed by a complex web of checks and balances as mandated by the Federal Acquisitions Regulations.

The contract was awarded by Army Field Support Command, U.S. Army Materiel Command (AMC) in Rock Island, Illinois. AMC centrally manages the contract. The Defense Contract Management Agency has Administrative Contracting Officers (ACO) in Iraq with the legal authority to direct KBR for all new work outside the original set contract for the period. Area Support Group (ASG) on each Forward Operating Bases (FOB) is responsible for requesting the levels of service within the LOGCAP contract. The ASG works through the ACO as the interface to KBR. The Army has over 100 FOBs in Iraq during 2004 and the number of FOBs in Iraq prior to 2004 was over 200.

The levels of LOGCAP service are inconsistent across Iraq, even this far into the conflict. The reasons vary and will be discussed further in the next chapter. Examples of the inconsistent levels of service are highlighted below:

FOBs have evolved from the DoD's official definition of "an airfield used to support tactical operations without establishing full support facilities" to the centerpiece of the U.S. presence in Iraq. Instead of merely serving as a staging area for tactical operations, the FOB has become the "home away from home" for the American soldier.

⁶¹ Valerie Bailey Grasso (2005). *Iraq: Frequently Asked Questions About Contracting*. CRS Report for Congress. pp. 6-7.

With over 100 FOBs in Iraq, conditions at each can vary greatly. On one extreme are the huge FOBs located near Baghdad International Airport that boast air conditioned sleeping and work trailers, cavernous dining facilities, spacious PXs, cappuccino bars, well-stocked gyms, and Internet cafes. On the other end of the scale, some FOBs are located in old Iraqi Army bases or abandoned factories with soldiers still living in tents, food ferried from other FOBs, and more austere conditions. Overall, however, most soldiers in Iraq live on FOBs somewhere in the middle range....⁶²

A resource management officer at the MNF-I RM worked in coordination with the ACO to determine the amount of funding needed by CFLLC (Coalition Forces Land Component Command) to fund the LOGCAP contract. This drill was done on a monthly basis. While the request for LOGCAP funds originated in Iraq and a Resource Allocation Document from CFLCC to MNF-I included these funds, the payment and accounting for LOGCAP was done by AMC in Rock Island, Illinois.

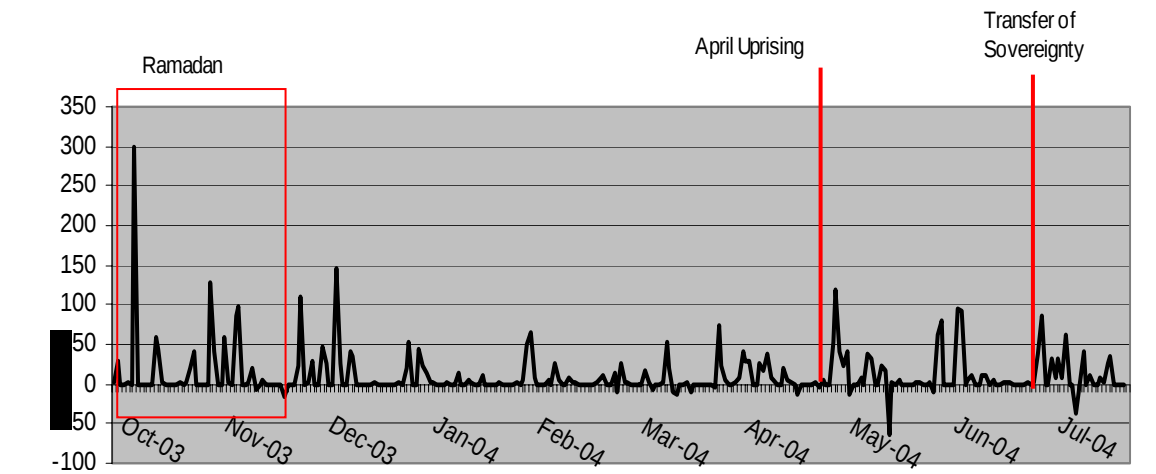
2. Stock Fund

Stock funds are working capital funds established to finance inventories in the DoD as authorized in Section 405 of the National Security Act Amendments of 1949 (10 USC 2208).⁶³ The stock fund is not a new concept in OIF as it was used extensively in the Vietnam Conflict. In essence, it allows the horizontal integration of ordering repair parts by units in combat. The system is, of course, electronically automated now and is the primary system for filling the needs of units, both in combat and at the home station.

Analysis conducted in theater by the author found that a strong relationship existed between the rise in stock fund spending and the increased number of improvised explosive device (IED) attacks as seen in the Figure eight. During Ramadan, the April Uprising and the Transfer of Sovereignty, a dramatic increase in enemy activity was seen, especially in Improvised Explosive Devices. Spikes in Stock Fund spending can be seen just after these periods of increased IED attacks. This relationship passes the common sense test, since road vehicles damaged by IEDs will require stock fund obligations to order repair parts.

⁶² Leonard Wong and Stephen Gerras (March 2006). *CU @ the FOB: How the Forward Operating Base is Changing the Life of Combat Soldiers*. Strategic Studies Institute. U.S. Army War College. p. 1. Available on the World Wide Web: www/StrategicStudiesInstitute.army.mil

⁶³ Joint Logistics Review Board Report (1970). Office of the Assistant Secretary of Defense: Supply, Maintenance and Services. p. 49.



Sources: Multi-National Force-Iraq Resource Management Office

Figure 8. Stock Fund Obligations Mirror IED Attacks with a Small Lag.

While the Stock Fund was the largest of the three OMA accounts, it was the least manageable OMA account by resource managers in country. The Army Stock Fund system was not visible to the MNF-I RM office. The MNF-I DCS Sustain (logistics office) admitted that they did not pay close attention to the items ordered due to a shortage of office personnel. Reportedly, CLFCC to some extent managed the Stock Fund from Atlanta, Georgia, by tracking trends of what was ordered.

Some issues of the Stock Fund in Iraq were similar to the issues in Vietnam. Units would order extra parts and create stockpiles. Also, the ordering of gear just prior to redeployment to the U.S. and shipping this gear back to the U.S. was a way for units to refit the vehicles at the home station at no cost to their normal annual budget. A situation unique to Iraq was the Army Budget Office (ABO) failure to return “turn-in credits” for carcass returns to MNF-I. The lack of returned credits back to MNF-I by depot level maintenance did not provide the correct offset for the MNF-I expenses, causing the MNF-I Army Stock Fund obligations to look larger, and thus the cost for the war in Iraq to look larger. When MNF-I confronted ABO with this issue, ABO refused to respond, except to say that ABO was keeping the credits at the Army level.

3. Non-Stock Fund

The last category, non-stock funds, is essentially all the OMA purchases and services that are not neither Army Stock Fund purchases nor fall under the LOGCAP

contract. This could be thought of as the most liquid funding available to commanders and the authority that the commander most commonly associates with daily operating funds. Obligations generally could be made in the same manner as they are in peacetime. For example, with this spending authority, commands could draw cash from the finance office for an appointed Field Ordering Officer in the unit to hold for local purchases from Iraqi vendors. Also, the funds could be obligated with a line of accounting without the cash being seen. The line of accounting could be used in many ways to include contracts with vendors through the contracting office, over the internet, or the funds could be sent to another organization on a Military Interdepartmental Purchase Request (MIPR).⁶⁴

The non-stock fund is essentially a catch-all accounting measure. For example, most items that are in the Army Stock Fund inventory can also be purchased in the open market. If the item is purchased in the open market, the purchase would be classified under the non-stock fund. In the same manner, a service that should ideally be under the LOGCAP contract can also be contracted outside of the LOGCAP contract, thus falling under the non-stock fund purchases. This problem will be discussed further in another section.

C. THE OMA FUNDING MECHANISM AND ITS PROBLEMS

While a traditional budget system did not originally exist in Iraq, a fairly elaborate budget-like system did evolve over time. Each initiative was an attempt to realize the benefits that a normal peace-time budget accomplishes naturally—namely, fiscal responsibility and cost control. The aversion to use the word “budget” or “cost controls” on combatant commanders is deeply ingrained in the military. This can be seen from the top in the dialogue between the Government Accountability Office (GAO) and DoD. In September 2005, the GAO released an audit report that recommended the DoD establish guideline and cost controls for commanders in combat theater.

While DoD policy emphasizes commanders’ fiduciary responsibility to spend funds prudently, it has not directed any systematic effort for the services and combatant commands to seek opportunities to reduce costs or provided guidelines for doing so.

⁶⁴ A MIPR is a form used to request work or services from another government entity. When the MIPR accepted by the performing activity, the money is considered obligated.

While certain individual commands have taken steps to control costs and DoD policy generally advises its officials of their financial management responsibilities with regard to the prudent use of contingency funding, the Office of the Under Secretary of Defense (Comptroller) has not systematically called for all commands involved in GWOT to take steps to control costs and to keep the office informed of those steps and their success. With the growth in GWOT costs, there is a need to ensure that all commands seek to control costs.⁶⁵

The DoD responded to the GAO in an official letter stating, “The Department does not concur with the recommendation regarding the establishment of guidelines and cost controls for commanders in a theater...Combatant Commanders are the correct echelon to adopt and emphasis cost controls during a contingency operation.”

With this official statement as a backdrop for the attitude of DoD towards controlling spending in theater, this section will now look at how OMA requirements Iraq is funded. This section will go into historical details of the development of the ad hoc financial mechanisms to reveal the problems associated with it. The OMA funding mechanisms that were implemented in Iraq from 2003 to 2005 include:

- The Spend Plan (an itemized request for funds),
- Joint Acquisition Review Board (JARB) (a weekly board to approve spending),
- Chief of Staff Stewardship Council (a strategic level financial policy board),
- Task Force 10% (an initiative directed by General Casey to cut spending in Iraq),
- and
- The Monthly Phased Obligation Plan (MPOP) (an unofficial annually budget or target).

1. The Spend Plan

The spend plan was a budget process implemented by MNF-I’s higher commands in the United States, namely Coalition Forces Land Component Command (CFLCC) headquartered in Atlanta, Georgia. On the surface, the spend plan process seemed to be a straight forward and easy process. The idea was for CFLCC to collect all of the projected

⁶⁵ United States Government Accountability Office. *Global War on Terrorism: DoD Needs to Improve the Reliability of Cost Data and Provide Additional Guidance to Control Costs* GAO-05-882. pp. 37-38.

“mission requirements”⁶⁶ from all theaters (Horn of Africa, Afghanistan, Iraq, Kuwait, Qatar, etc.) to ensure enough supplemental authority was available before issuing authority. While MNF-I was by far CFLCC’s largest subordinate command, it was not the only command.

In reality, the spend plan was not an easy process for commanders in-country. The spend plan process required all units in Iraq to make a two week “guess” about specific goods and services and put it on a Microsoft Excel spreadsheet. Additional information required in this list included the cost, the quantity, a descriptive justification, a point of contact, and a couple of other columns were necessary depending on the item and cost level. The spreadsheet would be submitted through the chain of command and finally arrive at the MNF-I RM office for consolidation of all of the MNF-I requirements (approximately 150,000 troops plus contractors) for the following two weeks. This process originally took place every two weeks and was later changed to every month at the request of MNF-I RM in August 2004. The request to change it to a monthly process was due to the enormous time and effort required to prepare the spreadsheet. Some indications that shortcuts were being made included the observed practice of “cut-and-paste” spreadsheets from one period to the next resulting in identical lists of requirements. The MSCs simply did not have the time to produce a good spreadsheet in the limited amount of time, nor was it possible to know the requirements even two weeks out due to extremely fluid and uncertainty of combat.

Figure nine details the flow of the spend plan requests. The MNC-I C8 (comptroller of MNC-I, responsible for approximately 90% of the troops in MNF-I) is responsible for authority distribution and execution. MNF-I RM is responsible for strategic fiscal guidance and oversight of all MSC in Iraq. Spend plans are submitted once a month to MNF-I. MNF-I reviews spend plans and submits a consolidated spend plan to CFLCC. Once CFLCC reviews the spend plan and eliminates non-approved or unjustified items, a Resource Allocation Document (RAD) is sent to MNC-I. At the

⁶⁶ The term requirements should not be confused with the DoD initiative for “requirement-based budgeting.” The term “mission requirements” and “requirements” for the purpose of this paper is only to mean what the commander needs to purchase for operations and maintenance purposes in Iraq.

same time, MNC-I is provided instructions from MNF-I RM on how to distribute the funds to MSCs on Resource Distribution Documents (RDDs).

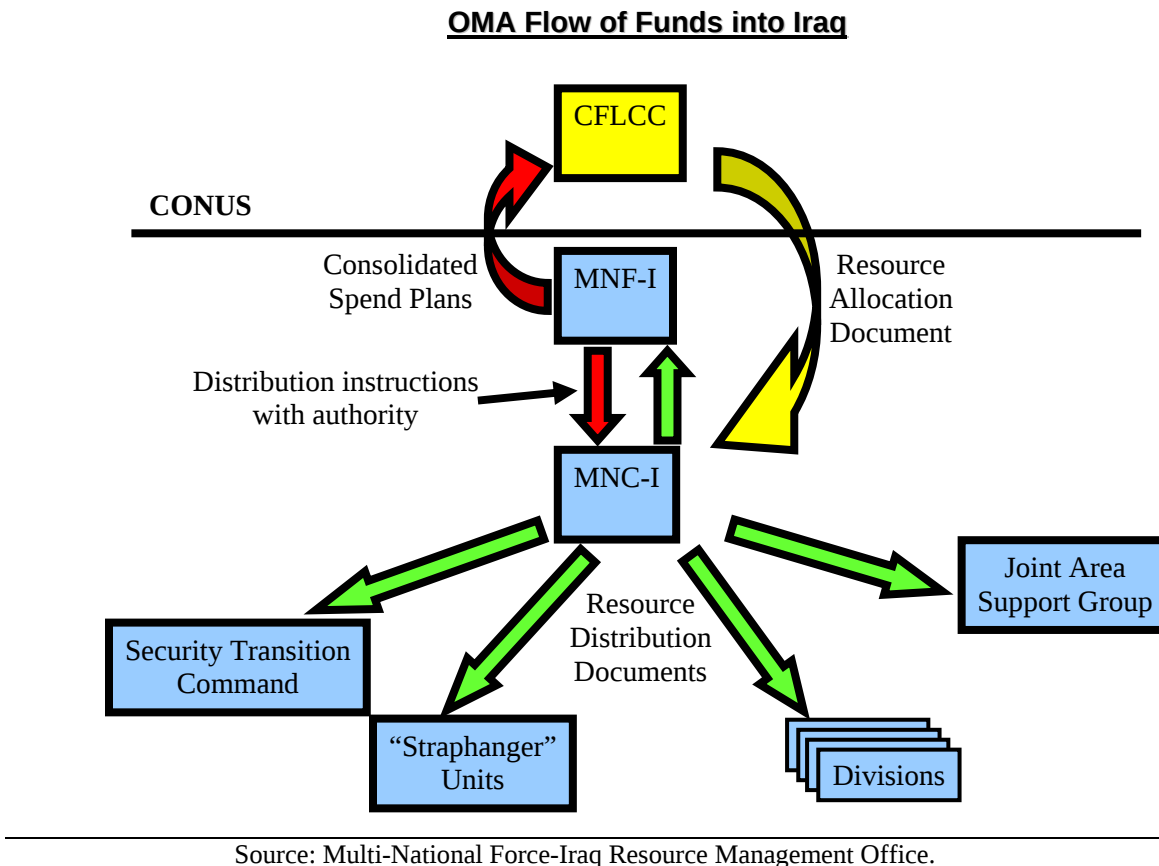


Figure 9. Spend Plan and Distribution Flowchart from the United States to Iraq.

Not only was the spend plan an administrative burden to the combatant commander, but there were indications that the spend plans were not reviewed thoroughly by any level prior to the summer of 2004. This was partly because it was too large of an undertaking for the resource managers available in country and, arguably, partly because the blank check mentality made it a futile endeavor. The thought that a resource management staff officer in-country or worse yet, sitting in the United States, could reject the requirement of a combatant commander on the tip of the spear is generally thought to be absurd. Therefore, spend plans from Iraq were routed through the financial chain to CFLCC often with little review or consideration, except for the obvious

abuses and Joint Acquisition Review Board (JARB) items which will be discussed below. This mentality of simply rubber stamping the spend plan persisted until late summer of 2004. Around this time, the pressure to reduce spending in Iraq was felt both internally and externally.

a. *Internal Pressure to Reduce Spending*

The internal drive to cut spending was brought about by the change of command of Lieutenant General Sanchez by General Casey in June, 2004. During his tenure in Iraq, Lieutenant General Sanchez was responsible for both strategic and tactical mission as the Commanding General of Coalition Joint Task Force 7 (CJTF-7), later renamed Multi-National Corps-Iraq (MNC-I). The arrival of General Casey brought about a new layer of command above MNC-I. This new strategic command was named Multi-National Force-Iraq (MNF-I). MNF-I replaced MNC-I as strategic command and placed it as one of the major subordinate commands of MNF-I. This new command structure was to allow the staff of MNC-I to focus on the daily tactical warfighting issues and MNF-I to deal with the strategic issues.

An initial meeting between the MNF-I RM principle, Lieutenant Colonel Joel Hillison, and General Casey took place in July 2004. At this meeting General Casey directed the RM to cut spending in Iraq by 10%. He stated the motivation behind this reduction of spending in Iraq was due to the reprogramming of money from home stations and procurement programs to fund the rising costs of the war in Iraq. Prior to taking the position of the Commanding General of MNF-I, General Casey was the Deputy Chief of Staff of the Army—a position that afforded the opportunity to see this reprogramming process first hand.

This problem of reprogramming money away from stations and investment accounts is often cited in the news. A recent newspaper article describes the problems U.S. bases face in paying utility bills due to budget reductions to fund the war.⁶⁷ Furthermore, it states major programs such as the Army's Future Combat System, the flagship system of the Army's future, have taken financial hits by Congress, delaying their date of implementation.

⁶⁷ Mark Sappenfield. *Belt-Tightening at Bases in US Starts to Strain*. The Christian Science Monitor. July 24, 2006.

In a report by the General Accountability Office (GAO) published September 2005, an overall lack of accountability of supplemental funding was identified resulting in reprogramming of significant amounts of annual appropriations.⁶⁸ All services were affected and all accounts to include depot maintenance, working capital funds, major commands in the states, flying hours, deferred procurement actions and reduced personnel costs. In terms of OMA obligations for 2004, the GAO reports that the Army obligated \$29.9 billion while only receiving \$25.6 billion in supplemental appropriations. This shortfall was funded by reprogramming and delayed procurement starts as well. Unfortunately, the overall lack of accountability by the DoD with supplemental appropriations leaves the severity of the problem unknown.

b. External Pressure to Reduce Spending

As was mentioned earlier, the pressure to reduce spending in Iraq was felt from the outside as well as the inside in late summer 2004. From the outside, CFLCC in Atlanta, Georgia, started to actually review the spend plans in detail. Most likely, the pressure from the Army Budget Office was being applied to FORSCOM (Forces Command) who in turn applied pressure on CFLCC to reduce spending. The new CFLCC policy that was verbally issued was that no authority would be given for spend plan requirements that did not measure up to CFLCC's justification standards. The justification standard was a bit of a moving target. Many emails, telephone calls and ultimately resubmitted spend plans were required by MNF-I to satisfy the increased scrutiny of CFLCC. Of course, to satisfy the request for more information, the request ultimately had to go to the individual commands in the field. This increased the burden on commanders for whom the avoidance of a budget system was suppose to protect. CFLCC also put an end to the cut-and-paste spend plans and refused to fund any requirement that appeared to be recurring.

This tactic by CFLCC worked, or so it seemed. In short order, the consolidated in-country spend plans no longer included the prohibited items, justifications were all in-line and the cut-and-paste spend plans were no longer apparent. But it soon became apparent that the hard line approach by CFLCC was not producing

⁶⁸ United States General Accountability Office, *Global War on Terrorism: DoD Should Consider All Funds Requested for the War When Determining Needs and Covering Expenses* GAO-05-767. pp. 15-17.

the correct incentive or response. Since the spend plans were in a Microsoft Excel Spreadsheet, the spend plans could not communicate or “talk” to the Army execution system. In other words, spend plan requirements could not be matched or verified with execution without an extraordinary amount of effort. Over time, it was recognized by MNC-I C8 and MNF-I RM that many units were gaming the spend plan system. For example, units would place only items on the spend plans that historically would not get rejected by MNF-I or CFLCC. Jersey barriers, sand bags, sand, gravel, lumber, and concrete are an example of a few of the items that rarely were scrutinized. In addition, magic words in the spend plan’s justification column, such as “force protection” were often used to reduce scrutiny. These items and justifications were ironically a part of every Spend Plan. Once the authority was provided to the MSCs, they could ignore the spend plan and purchase whatever goods and services they pleased.

The tremendous amount of effort that was put in the Spend Plan could easily be circumvented by MSCs if they wished. Some awkward attempts were made by CFLCC to mandate that requisitioners include a special code for each item purchased. This would allow resource managers at CFLCC to match obligations with the Spend Plan. While it was a noble attempt because it attempted to capture data at the point of requisition/accounting, this attempt was not successful due to training, time constraints and the complexity of the special codes.

2. Joint Acquisition Review Board

The Joint Acquisition Review Board (JARB) was another financial control mechanism used in Iraq. While the spend plan process was owned by resource management, the JARB process was owned by logistics, namely Multi-National Corps-Iraq (MNC-I) C-4. This arrangement was in part because the JARB and MNC-I existed before MNF-I. Even after MNF-I was stood up, it was determined that MNC-I would maintain control of the JARB, since MNC-I was responsible for the tactical level. This decision caused problems later since Multi-National Security Transition Command—Iraq (MNSTC-I) and the Joint Area Support Group (JASG) saw themselves as equal Major Subordinate Commands (MSCs) to MNC-I. They did not think MNC-I had the authority to scrutinize their OMA requirements. MNSTC-I in particular had a problem with this

relationship because the commanding generals for both MNC-I and MNSTC-I were lieutenant generals. As a result, MNSTC-I developed their own JARB-type board to review their own requirements independent of MNF-I and MNC-I. JASG eventually established their own JARB-like board as well because of their unique funding profile (both Defense and State Department funding).

In general, any item over \$200,000 was required to have JARB approval before it was allowed to be placed on the spend plan. The JARB was also used as a control mechanism for special interest items such as non-tactical vehicles (NTVs), laptop computers, cell phones, and LCD/plasma screen TVs, to name a few. The special interest items changed on occasion as the resource management or contracting office felt a certain item was getting out of control in quantity. The usual items targeted for control with the JARB were highly pilferable, electronics, luxury and entertainment items. Because of these restrictions, examples of items voted on by the JARB included a \$47 million life support contract for the 1st Infantry Division, a \$25 million dining facility, and many small ticket items such as a request for 10 cell phones for a small “strap-hanger” unit. The JARB considered both LOGCAP increases as well as non-stock purchases. The JARB did not have jurisdiction over the Army Stock Fund purchases.

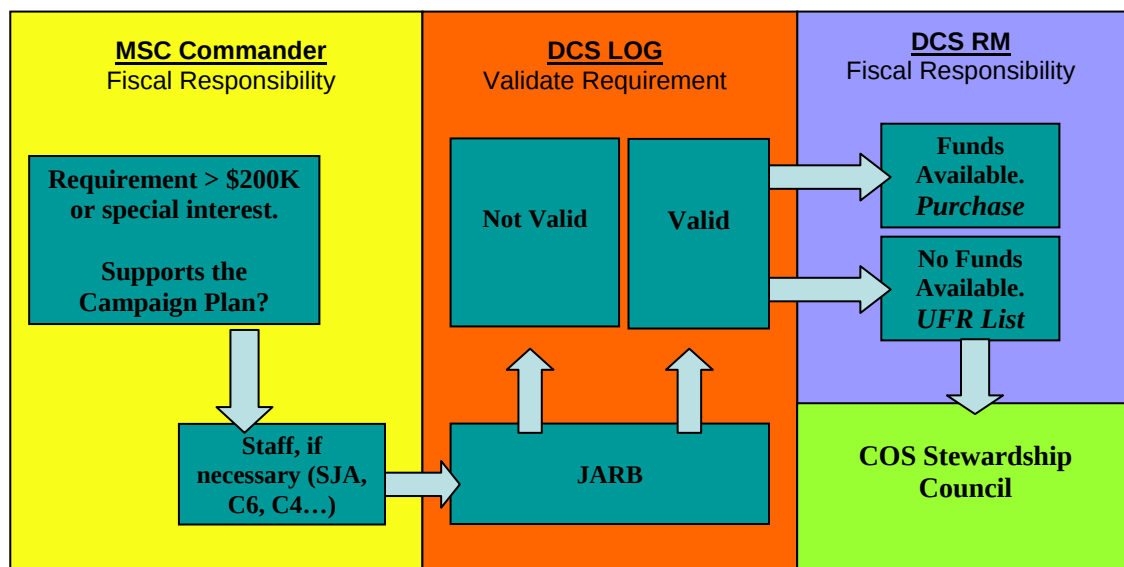
In addition to the JARB, the Coalition Acquisition Review Board (CARB) was developed by CFLCC to perform the same function as the JARB, but for requirements that exceeded \$2 million. Any in-country requirement over \$2 million had to be subjected to the scrutiny of two acquisition reviews (JARB and CARB), with the CARB conducted outside of Iraq.

The JARB was inherently flawed in several respects. The JARB was composed of the principals of each staff element in MNC-I. But since the JARB met once a week and this meeting took the entire work day, the staff principals delegated this responsibility to subordinate officers. The average rank of the officers that sat on the JARB was a major (O-4).

Requisitioners who had a requirement over the \$200,000 threshold or a special interest item, had to defend their requirement in writing. This was a laborious process that deterred some requisitioners from making a JARB request. The best strategy to win

approval before the JARB was to defend the written requirement in person. Even greater success was realized by requisitioners who defended an important requirement with a senior officer (colonel or general officer), effectively creating an awkward situation of junior field grade officers voting on a request from a general or colonel sitting in the room. Simply due to the rank disparity of the JARB members, these senior ranked represented items were always approved by the JARB members.

Another trend that was common on the JARB was for smaller requests such as cell phones to be denied while large requests such as a fleet of non-tactical vehicles (NTVs) to be accepted. The rank disparity could be partially to blame for this issue. But this trend points to a larger issue of the structure of the JARB. The members of the JARB were required to accept, deny or request further information on the proposed requirement on the spot. The only background on the requirement that JARB members had was the information provided to them on the JARB request by the requisitioner and their personal knowledge of the theater during their three to twelve month tour. It must be remembered that MNF-I consisted of over 150,000 troops in a country roughly the size of the state of California.



Source: Multi-National Force-Iraq Resource Management Office.

Figure 10. Joint Acquisition Review Board Process

Figure 10 provides a flowchart of how requirements over \$200,000 or special interest items would be vetted. Ideally, the commander was responsible to determine if the requirement was in line with General Casey's Campaign Plan. Unfortunately, the Campaign Plan is a secret document, so a detailed analysis of whether the spending was supporting the Campaign Plan cannot be included here. One item that was of importance to General Casey (part of Campaign Plan but in unclassified briefs) was the edict to avoid the "perception of permanence" of U.S. forces in Iraq. Building permanent structures and bases was considered a perception of permanence. In spite of this general order, there were many cases of commanders requesting and the JARB approving permanent structures. The failure of the commanders and the JARB board to associate spending with the Campaign Plan resulted in many permanent structures and bases throughout Iraq.

Continuing with Figure 10, once the commander makes the decision that the requirement is congruent with strategy, the JARB votes whether the item is "valid" (a term not well defined and very subjective, as discussed). After the JARB makes its decision, the principal of MNF-I DCS Sustain (i.e., logistics) makes the final call a few days later. On occasion, the principal would overturn the decision of the JARB. If the request was not considered valid, the unit was to do without the item or resubmit. If the request was considered valid, the item would go on the next spend plan for funding from CFLCC.

Taken together, the JARB and the spend plan process only had jurisdiction over non-stock spending requirements over \$200,000 and the major LOGCAP contract new starts. But the JARB and spend plan systems were islands of information and blind to any action taken outside of their forum. Neither the JARB nor the spend plan had any interface with the Army Stock Fund ordering. Therefore, splitting up the in-country OMA appropriation into these three accounts (Stock, Non-stock and LOGCAP) is a little deceptive. The split was only an accounting method. From a user's point of view (the combatant commander), the three funds were only a means to the end. For example, some of the same items in the Army Stock Fund system could be purchased on the open market with available authority. Services provided in the LOGCAP contract could also

be provided with a service contract with a company other than KBR with non-stock funds. Units who were denied a new start in the LOGCAP contract by the JARB could potentially get the service provided under the radar by non-stock funds. Additionally, if a non-stock purchase was denied by the JARB or CFLCC, the unit could by-pass the spend plan and JARB by ordering the item directly from the internet with a line of accounting.

As previously discussed, the spend plan could not automatically interface with the Army accounting system to validate spending and neither could the JARB process. The JARB could not make certain that their decision was heeded by the requisitioner. In truth, the sphere of influence of the JARB and the Spend Plan only extended to the distance that the RM and JARB members could travel and observe requisitions, which was mostly limited to the bases in and around Baghdad due to the extensive use of IEDs by the enemy.

The JARB and the spend plan was an attempt to budget from the front end by validating every operations and maintenance purchase and contract. This ex ante budgeting method could possibly be effective if the created systems (JARB and spend plan) were in fact linked with the Army Stock Fund and the established accounting system. However, these systems resulted in the creation of “information islands” and made the gaming of the system possible and internal controls impossible. The additional workload on commands and staffs in the combat zone created by these new systems calls into question if an ex post budget process would have been more appropriate.

3. Chief of Staff Stewardship Council and Task Force 10%

The Chief of Staff (COS) Stewardship Council was created as a direct result of the MNF-I comptroller meeting with General Casey in July 2004, which mandated the 10% spending cut. This effort was later named “Task Force 10%.” The purpose of the COS Stewardship Council was to meet with all MSC’s chiefs of staff as well as the staff element principles of MNF-I at regular intervals for the sole purpose of discussing fiscal policy and practices to reduce spending by 10%. Major General Joseph Weber, MNF-I COS, started the first meeting with the following introduction:

We have been in country for about a year and a half...we are beyond the initial stages of the campaign, when costs were unknown and no requirement was questioned.

This is a zero-sum game at the DoD level. DoD receives supplemental money from Congress, but the GWOT spending across the globe is more than the supplemental provides. DoD has been dipping into home stations infrastructure to cover our theater costs.

There are always more good ideas than there are resources. Identifying the good ideas that fit the Campaign Plan is the purpose of the COS Stewardship Council. The COS Stewardship Council will meet to review the major UFRs [Unfunded Requirements] and validate that they will contribute to the overall mission. In addition, this Council will set funding priorities and make funding decision.⁶⁹

According to an MNF-I order, the MNF-I RM was designated the facilitator and responsible for setting the agenda for the meetings. Since the mission of cutting spending by 10% was tasked to MNF-I RM, the intent of the meeting was to include the senior members of the command in solving the task. This was vital due to the large rank disparity that existed between MNF-I RM principal and the rest of the staff element principals. The RM principle was supposed to be staffed by a colonel, but the position was filled at the time by a lieutenant colonel. Most of the other staff elements principals were colonels and some were generals. The MNC-I chief of staff was a two-star general. For this reason, the head of the table was manned by the MNF-I COS as the leader of the council. The ability of the MNF-I RM to convince the MNF-I COS of the steps needed to be taken to reduce spending by 10% was crucial for success.

The COS Stewardship Council held its first meeting by laying out the amount of spending that would have to be cut out of FY2005 (based on FY2004 spending) to meet General Casey's order. The amount needed to reach the 10% cut was equally divided between the three OMA accounts, after normalization. The LOGCAP target reduction was \$352 million. The proposal was to standardize services across Iraq for all FOBs by reducing the excessive services on some bases. Since levels of service were largely left

⁶⁹ MNF-I Chief of Staff talking points from the first Chief of Staff Stewardship Council on August 26, 2004.

up to the Area Support Groups (ASGs) from the beginning of the war in 2003 up to the end of FY2004, each of the original 200 FOBs developed to vastly different levels.

E-mail correspondence from the 1st Infantry Division (1ID) headquarters to MNF-I headquarters reveals one example of many by MSCs to “keep up with the Joneses.” The e-mail stated, in part, “1ID fully supports the goal of reducing costs in theater. We also want our soldiers to receive the same quality of life support as other MNC-I MSCs.” In response to 1ID, Major General Weber, the MNF-I COS, replied:

Unfortunately, we cannot make life in Iraq as comfortable as life on “main street” USA. Last year, MNF spend approximately \$4 billion on LOGCAP. This equates to about the same amount the Army spent on procurement of aircraft and weapons/tracked combat vehicles in FY04...An unintended consequence of adding more amenities to life here in Iraq, is that we are putting more and more trucks on the road. This provides a target rich environment for insurgents and jeopardizes our main mission of defeating the insurgency...We cannot write a blank check.

For the Stock Fund, the 10% target reduction was \$393 million, while the Non-stock Fund target reduction was \$207 million. It must be pointed out that these amounts are not a true 10% cut of FY2004 spending. Due to strategic decisions already made in FY2004 for FY2005, the data were “normalized.” In the LOGCAP contract, \$600 million was added for the additional costs of base consolidation during FY2005. Another \$378 million was added for taking on additional Kellogg, Brown and Root (KBR) task orders in FY2005; specifically, Task Orders 100, 46 and 91, which were paid for in the year prior by other agencies and appropriations. Class III (fuel) from Kuwait was expected to cost an additional \$400 million since the free fuel provide by Kuwait would no longer be available in FY2005. Overhead cover to protect U.S. buildings in Iraq from rocket attacks was an additional \$250 million.

As for the Stock Fund, it was expected to increase in FY2005 by \$196 million due to a increase in aviation assets by the incoming divisions. Finally, the Non-Stock was normalized by \$275 million with the inclusion of costs from MNF-I HQ, MNSTC-I and JASG, all MSCs that were not a significant part of the FY2004 budget numbers since

they did not come under the unified MNF-I budget until the last quarter of FY2004, when MNF-I was established. Also, a maintenance contract for \$114 million was added to the Non-stock Fund.

In the end, all of the normalizing cancelled out any real cost reduction. The 10% reductions totaled to \$952 million, while the normalized amounts came to \$2.2 billion—more than double the reductions. The decision to work the numbers like this reflected the realities of additional costs from decisions already made: the MNF-I command had stood up in the last quarter of FY2004, the rebasing decision was a part of the Campaign Plan, and the LOGCAP contract statement of work was being renegotiated.

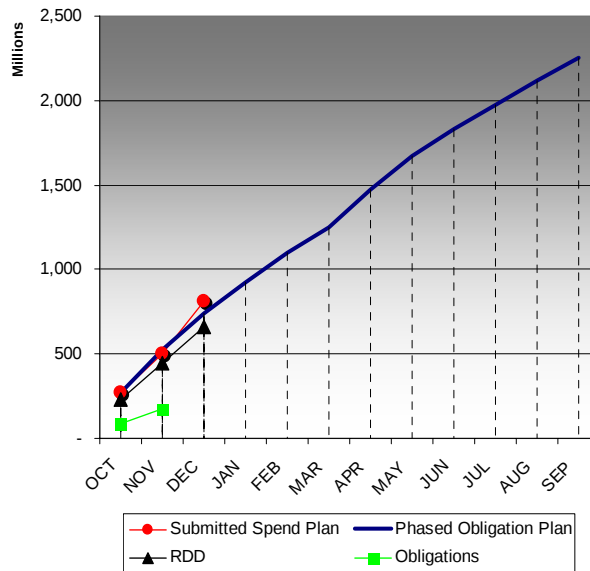
Over the proceeding meetings, the resistance to cutting spending by the MNF-I staff and MSC was not taken positively. The MNF-I RM staff met with many members of the command and especially MNF-I DCS Sustain and MNC-I C4, to discuss how the cuts could be handled. Sustain and C4 owned the Stock Fund and JARB processes and influenced the LOGCAP contract levels of service. Much resistance came from the Sustain and C4 office in cutting costs.

It was easy for everyone to agree in general that spending needed to be reduced, but no one wanted to take a hit or reduce services in their area or for their troops. Politics began to play out in the COS Stewardship Council meetings with other staff elements proposing alternative agendas for future meetings by December 2004. Over time, the principal of Sustain became irritated with the process. By the spring of 2005, the principle of Sustain had convinced the MNF-I COS to reorganize the MNF-I staff, with the RM office reporting to Sustain rather than directly to the COS. The ability of resource manager office to reduce spending was severely limited at that point.

4. The Monthly Phased Obligation Plan

Soon after MNF-I took the strategic command in the summer of 2004, the Monthly Phased Obligation Plan (MPOP) process was implemented by MNF-I RM. The MPOP required all subordinate units to plan their financial requirements by category for the period of time they were deployed to Iraq, which was usually one year. This financial information was initially used to provide CFLCC with detailed budget information for the next year's budget deliberations with FORSCOM. The amounts provided by the units

were nonbinding. The units would not be held to the MPOP estimates if future requirements exceeded the estimate, but it was expected that a good faith effort would be made to detail the financial requirements up front and stay within the monthly limit.



Source: Multi-National Force-Iraq Resource Management Office.

Figure 11. Comparison of MPOP, Spend Plan, Resource Distribution Document and Obligations for an MSC in Iraq.

Though not originally intended, the MPOP became a tool for MNF-I RM to compare the estimate against the spend plan requests and execution throughout the year. Figure 11 is an analysis of a major subordinate command's (MSC's) pattern of behavior during first quarter of FY2005. While this figure represents financial data for only one MSC, it is representative of the behavior of all MSCs. It reveals that the MSCs grossly overestimate their needs on both the annual MPOP and monthly spend plans. This is easily identified by the low obligation rate of the MSC. For example, for November 2004, the MSC estimated a cumulative need of \$500 million on the MPOP. In spite of the MSC not obligating even half of the authority provided on the Resource Distribution Document (RDD) the month prior, the MSC still submitted a Spend Plan that followed

the MPOP “glidepath” of \$500 million cumulative. However, by the end of November, the MSC had once again under-obligated, thus increasing the gap between obligations and authority substantially.

The MPOP provided resource managers with a relative way to compare spending requests and execution, much in the same way a budget ceiling is used. Since each unit set the benchmark themselves, the MPOP was inherently flawed, but it was the best that could be done without consistent historical data.

As the months progressed, a trend began to develop by early FY2005 as seen on Figure 11. The MSCs typically submitted a spend plan a little more than their MPOP. An RDD (Resource Distribution Document) would typically be sent to the MSC for an amount somewhat below their MPOP and spend plan (usually due to a combination of rejection of items on spend plan and withholds by CFLCC, MNF-I and MNC-I). Nevertheless, the resulting obligations for the month were consistently far below the MPOP and the requested spend plan.

Several explanations could account for this trend of units estimating their needs higher, then under-obligating. First, MSCs may have been simply cushioning their budgets as was discussed in Chapter II concerning slack budget resources. Second, the forward operating bases (FOBs) may have finally matured to a state that historical spending patterns no longer represented future spending. Third, the restrictions caused by Task Force 10% made it more difficult to spend on unnecessary items. Finally, the units may have been using means other than the official method (JARB and the spend plan process) to obligate funds and acquire resources. The first three explanations are likely to happen in any budgetary system, both in the public and private sectors as well as during war or peace. However, the last point was identified as a problem in several instances, as observed by the author in the fall of 2004 and based on interviews in the summer of 2006:

- Several units caught in the practice of intentionally bypassing the spend plan and JARB process and ordering over the Internet.
- A unit was identified using “generic” DoD lines of accounting to order items via the internet.

-Several cases of units using home station lines of accounting and home station credit cards for requirements in Iraq were identified. These charges were taken on by the home station who, reportedly, would simply request a reimbursement under the Operation Noble Eagle account.

As previously stated, the Iraq security situation was not conducive to non-essential travel; therefore, resource management personnel did not have easy access to the daily financial procedures of the MSCs. Further compounding the problem was the limited number of audit/internal control personnel in theater. In fact, only the MNC-I C8 had an audit/internal control section to cover the in-country OMA spending, and, on average, only three people were staffed in this office. Based on the inability to monitor all units' activities, the few problems identified are likely only a tip of the iceberg of the full extent of the problems.

D. CONCLUSION

Much of the military academic attention concerning wartime resource management seems to focus on the supplemental appropriation process, as well as the perennial suggestion since Vietnam to establish a permanent contingency reserve account in the Future Year Defense Plan. What seems to be a glaring omission, however, is questioning the spending legitimacy of the requirement generators, that is, the requisitioners and commanders in the combat zone. No doubt, this omission is due to the irreverent nature of questioning the requirements of a combatant commander. Only after the negative effects due to resource management in Vietnam on DoD's future readiness did Taylor and Rogerson question in-country spending procedures and policies.

As previously stated, in recent years the GAO has raised its eyebrow at the lack of cost controls in DoD for the Global War on Terror. The DoD Comptroller stated, in the same response to the GAO audit as previously mentioned, "The Financial Management Regulation (FMR) includes guidance on the fiduciary responsibilities of DoD components...Combatant commanders understand their fiscal responsibility." But the evidence of spending in Iraq does not support this assumption by the DoD Comptroller. The ad hoc funding system in Iraq does not provide the correct system of incentives to the combatant commanders to control spending.

CFLCC and MNF-I have imposed spending controls in Iraq in an attempt to ensure curb war spending; however, these controls are inefficient and ineffective as they are ex ante. The controls attempts to gain the benefits of cost controls that are realized with a peacetime budget, but these controls are not attainable. They lack inherent incentives for commanders as well as the inability to audit for compliance.

It could be argued that eventually Congress will supply the funding to reconstitute the future readiness of the DoD. Furthermore, the financial inefficiencies of the U.S. style of war could be viewed as the natural result (or price) of a democracy's politics. Also, one could argue that, as was discussed in Chapter II, the wealth of the American society dictates how we fight (annihilation) and culture drives the additional cost of the luxuries that is provided to U.S. service members in combat. If this is the case, these inefficiencies and high costs of war, while excessive, would be the acceptable cost of our society going to war. But, other problems have been identified that are not financial and are associated with the blank check. The next chapter will look at these unintended non-financial consequences of the blank check policy in Iraq according to some recently published studies.

IV. NON-FINANCIAL CONSEQUENCES OF THE BLANK CHECK POLICY

This chapter will examine the non-financial consequences of the blank check policy. It is proposed in this chapter that the well-intended blank check policy during war can result in negative unintended consequences in other related but non-financial areas. These negative consequences will be identified from recently published reports and studies. The issues presented in this chapter are not solely the blame of a blank check policy, but a connection will be argued that a *carte blanche* budgetary policy has affected much more than just the fiscal issues in the war in Iraq.

The chapter will start by revisiting the previously discussed issue of the Snowball Effect to determine if this historical problem for past U.S. wars is a problem in Iraq. Next, a connection will be presented between increased spending on goods and services for Iraq and the resulting decrease of U.S. public support and, ultimately, a decrease in DoD appropriations. Finally, one of the fundamental assumptions resulting in the high levels of OMA spending will be examined; that is, increased levels of entertainment and life support services will result in higher troop morale.

A. REVISITING THE SNOWBALL EFFECT

Figure 12 provides a visual flow of the proposed relationship between fiscal policy with strategy and ultimately politics. It starts with the blank check policy assumption by DoD, as already presented in previous chapters. This assumption results in unfettered access by combatant commanders to unlimited supplies and levels of service. In the past, this flood of requisitions and services has resulted in backlogs and mountains of unaccounted for gear. This issue was identified as the “Snowball Effect,” as described in earlier chapters. In brief, it is the problem of unnecessary equipment and personnel clogging the logistics channels and preventing the flow of necessary items to support the war.⁷⁰ A cause and effect relationship was presented by Rogerson (and less so by Taylor) that the blank check, as the default wartime budgetary policy, caused the Snowball Effect in Vietnam.

⁷⁰ Henry Eccles (1965). *Military Concepts and Philosophy*. New Brunswick: Rutgers University Press.

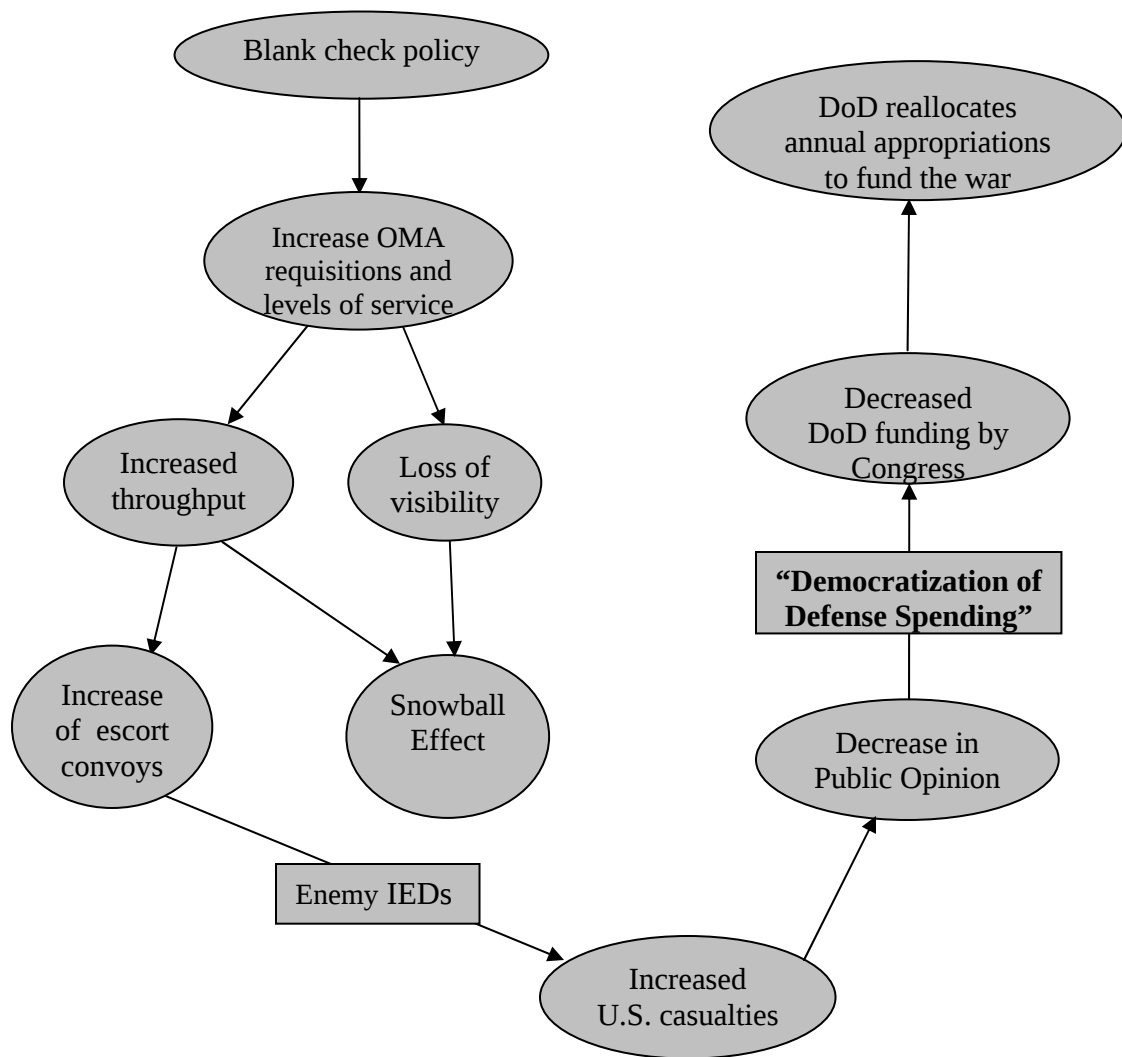


Figure 12. Non-financial and Financial Impacts of the Blank Check Policy.

Even as recent as the Persian Gulf War of the early 1990s, it was realized that the same logistical problems (i.e., Snowball Effect) of previous wars had not been resolved. A recent interview with General Norton Schwartz, the current commander of U.S. Transportation Command, reflects on the Gulf War and updates the situation for the current war in Iraq. He states:

Many will recall the “iron mountain” of shipping containers during the Gulf War...It was a rare thing when we had good insight into what was actually in those mountains of supplies. In a metaphorical sense, today we have “mounds of supplies”, and we have a pretty fair insight into what is in them...The analogy is with UPS: You send me something, and I can track it on the Web. Increasingly, it is what we are able to provide.⁷¹

This statement indicates that a solution for the Snowball Effect may have been found through adopting commercial technology and business practices. Information will soon be available for the commander in theater to track the supplies ordered. When in-country requisitioners are provided visibility into the system, this may reduce the chronic problem of duplicate ordering that was observed in Vietnam. But other organizational behavior and economic issues may not be addressed by a technology fix. This was identified in Vietnam with technology initiatives such as RED BALL (Chapter II), in which a system was established to expedite high priority items but was soon abused as a way to order any item quickly.

A comparison can be made to other disciplines in which more information has been provided through technology. For example, the intelligence gathering capability of the U.S. military is better than ever before, but “mountains” of information on the enemy is only knowledge unless the information is analyzed and presented coherently to the commanders in a timely fashion. Watching a real-time feed from an unmanned aerial vehicle in the command center is celebrated as cutting edge, but it is not exploitable data by itself. It is simply a thin slice of knowledge; not intelligence.

In summary, it seems that the Snowball Effect has been mitigated in this war through the use of technology, at least as far as the increased throughput and practices have allowed a decreased cycle time from the United States to the theater. The effectiveness of the logistics system is able to satisfy the significant appetite of the U.S. forces in Iraq in a timely fashion. But recent research has uncovered other issues in connection with this increased throughput of supplies and services.

⁷¹ Defense AT&L. *Interview with General Norton Schwartz*. July-August 2006.

B. LOVING THEM TO DEATH

For the combatant commander, getting the supplies and services into the theater is only half the battle. Intra-country transportation of items once they are delivered to the border of Iraq presents a problem that has strategic implications. In addition, it has been questioned by senior military leaders if more “stuff” equals higher troop morale. A *Frontline* interview with Colonel Thomas Hammes ties the fiscal decisions into the strategic level. In 2005, after returning from Iraq, he gave the following responses to the issue of resource priorities and levels of service:

Interviewer: ... What you're seeing in a lot of these bases, KBR was coming in and running a lot of fairly -- for what one would think was appropriate, was a lot of [excess]. I mean, I had lobster in Mosul.

Hammes: What you're saying is we created luxury in a war zone, and I would agree.

Interviewer: Well, except that there wasn't armor on the vehicles.

Hammes: Well, again, this is misguided luxury. You contract out for this because in peacetime in Bosnia, we set up Burger Kings and all of these sorts of things. [There's] some feeling that we have to do this because the troops won't respond otherwise. I don't think that's true...If your assumption is, is this a peacetime occupation, and then you wanted your base to start to look like Germany -- if you think you're still in a war zone, you build a different structure altogether...Somebody's risking their life to deliver that luxury. Maybe you could tone down the luxury, put fewer vehicles on the road. Again, fewer vehicles on the road create less tension with the locals, because they get tired of these high-speed convoys running them off the road.

The next two sections will look at evidence that supports these statements by Colonel Hammes.

1. Lives for Luxuries

The interview presents a questioning of priorities. It presents the issue as, either we can buy lobsters or we can buy armor for our vehicles. This is an unfortunate misconception by the interviewer. It should not be looked at as a simplified economic productivity possibility frontier with only two goods. The two issues are unrelated. The

armor would provide better protection but it would not take away from the ability to purchase lobster, nor would less lobster provide more lobster.

More importantly, the increase in services or goods ordered sets in motion a string of increases that is largely unaccounted for. For example, a seemingly simple and noble decision to increase services at dining facilities across Iraq has a significant logistical and financial tail associated with it. The increase in food and beverages (to the point of luxuries) has an obvious cost of the purchase of food as well as labor costs to prepare and serve the food. But each additional contractor brought into Iraq must be provided life support. Water, sewage, laundry, transportation, electricity and housing have to be provided to the additional workers.

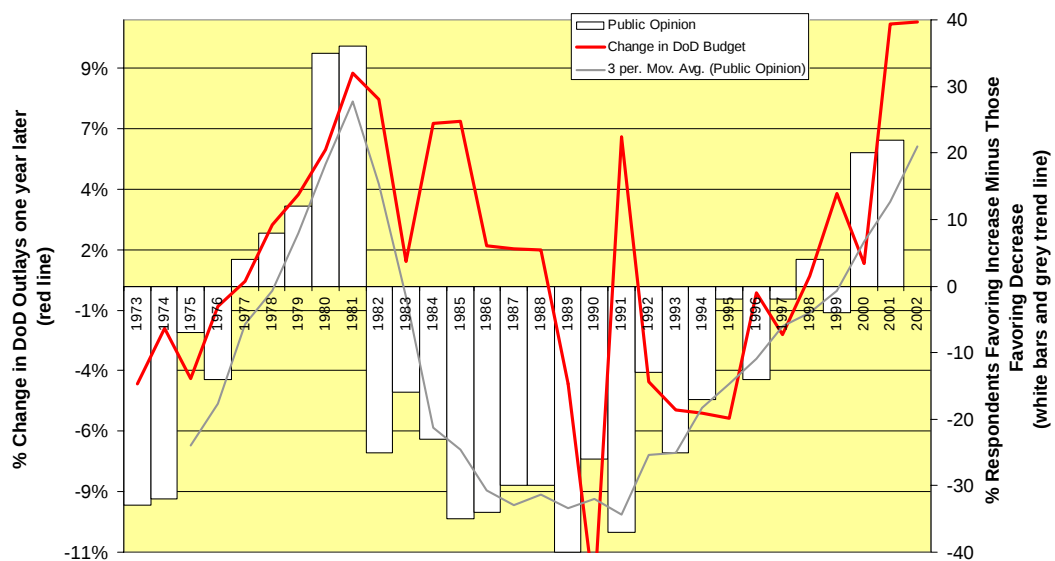
Currently there is no accurate count on the number of contractors in Iraq, but it is conservatively estimated that there are well over 50,000 contractors and it is possibly as high as 100,000. Kellogg, Brown and Root estimated in their FY2004 letter to shareholders that they have more than 47,000 contractors in Iraq. The thousands of additional contractors for security, intelligence and other services are unknown. All contractors are provided life support services free of charge by the U.S. military. The costs are billed to the LOGCAP contract and increase the footprint of the U.S. in Iraq.

A second-order effect of this increase in services is the increased exposure of U.S. troops to IEDs. For example, it is roughly estimated that each person in Iraq consumes 16 gallons per day, resulting in water being a significant portion of the daily shipments and convoys in Iraq. More bodies in Iraq requires more water (as well as other items), placing more vehicles on the road to transport the water. As Major General Weber, MNF-I chief of staff, stated (Chapter III), “An unintended consequence of adding more amenities to life here in Iraq, is that we are putting more and more trucks on the road. This provides a target rich environment for insurgents and jeopardizes our main mission of defeating the insurgency.” More targets for the enemy increasing the probability of U.S. service members’ death or injury from IEDs.

The cost of U.S. casualties is a measuring stick that is very closely watched by the press and public since Vietnam and has been used to determine the public support of war

efforts. The news of U.S. deaths in Iraq emboldens the enemy and negatively affects public opinion of the war. Research conducted by Philip Candreva shows a strong correlation of 0.68 between the change of American public opinion toward DoD and the change in Defense funding (Figure 13). His analysis is a compilation from two sources. The first is the percentage change in DoD outlays from year to year, as presented on the left vertical axis. The second source on the right vertical axis is from a long-term study by the University of Maryland. This study focuses on the public opinion of how all government resources should be allocated, including the DoD.

This graph introduces a couple important points. First, Congress is very in-tune and responsive to the desires of the U.S. public concerning DoD funding. In corporate finance, this phenomenon of responsiveness is described as the Efficient Market Hypothesis. It states that the market knows and incorporates all relevant information to properly value publicly traded stock. For the markets, the incentive is to earn a profit. For the legislator, the incentive is to stay in office. This research from Candreva is evidence of a properly structured and responsive democracy that is serving to the desires of the people, at least concerning DoD spending.



Source: Philip Candreva, PowerPoint presentation.

Figure 13. Democratization of Defense Spending, 1973-2002

Second, the research by Candreva provides a bridge or explanation for the flowchart on Figure 12. Since Defense spending can be positively correlated with public opinion, a link from wartime fiscal policy to public opinion and finally to the DoD budget can be established. Following this flowchart in Figure 12, the fiscal policy of a blank check provides the means for high levels of service and unlimited spending. The Snowball Effect was deemed to have been resolved earlier in this chapter; however, an increase in the throughput results in increased convoys. This puts more vehicles on the roads of Iraq providing a target rich environment. A target rich environment for the enemy increases the casualty rate of U.S. service members, which the news services are most inclined to report. If U.S. citizens find the loss of life intolerable, public opinion for Defense spending declines. Congress now has the moral authority to tighten the purse strings on DoD, which was observed in Vietnam and conflicts of the 1990s.

2. If It Makes Them Happy, It Can't be that Bad

Colonel Hammes directly challenged the levels of service provided by the LOGCAP contract. Specifically he referred to services that are beyond the basic life support services, otherwise known as luxuries. For example, Meals Ready to Eat (MRE) and hot meals are a basic life support for troops in combat. Lobster and steak dinners with large ice cream and desert bars are beyond the basic life support services and therefore are luxuries. As Colonel Hammes stated, “[There's] some feeling that we have to do this because the troops won't respond otherwise. I don't think that's true....” Strong evidence that he is correct has surfaced in two official reports by the U.S. Army. One was from the Inspector General's office in Iraq and the other from the Army's Strategic Studies Institute.

a. MNF-I Inspector General's Report on Troop Morale in Iraq

The assumption that more spending on morale, welfare and recreation (MWR) and levels of life support services will directly result in higher troop morale was challenged with the results of an MNF-I IG (Inspector General) survey. In the fall of 2004, the MNF-I IG conducted a survey of the U.S. troops across Iraq to determine the

level of morale.⁷² The conclusion of this survey was unexpected. Reportedly, it stated that troops who lived in more austere conditions and FOBs with fewer KBR provided services actually had higher morale than troops who lived on relatively more lavish FOBs.

This study can be interpreted a few ways. First, the life support service levels and amenities for troops in Iraq do not have a relationship with morale. This is unlikely, since hot showers, decent food and a decent bed are all items that are beneficial. As discussed in Chapter II, World War II planners identified and corrected the extreme austere conditions of World War I that negatively affected troop morale and combat effectiveness.

Another interpretation that could be made is that services and amenities have a point of diminishing returns that actually turns negative. In other words, there is a point in which services give the maximum return in morale and after that point any further increases in services will decrease morale. Once again, this interpretation does not pass the common sense test. Perhaps a direct comparison is not appropriate. For this IG report to make sense, a missing link between amenities and troop morale must be identified.

During the late 1980's and early 1990s when the Quality of Life (QOL) initiative was eliminating the communal squad bay environment in favor of two- to three-man rooms, a change in unit personal interaction was seen. Particularly, the camaraderie of the platoons was observed to suffer. The Commandant of the Marine Corps at the time, General Alfred Grey, observed this as well and attempted to reverse this initiative and return to squad bays. Today, with the private spaces of today's barracks, it is a common observation in the military and especially in combat units that an organization does not develop camaraderie while at the home station in the Continental United States. Once a unit is deployed and compelled to live in tight quarters with each other, a bond

⁷² The U.S. Army would not release the IG results for citation. The results of this survey by the MNF-I IG are known by the author based on personal interviews with the IG personnel who conducted the IG inspection.

begins to develop between the individuals in the organization. The camaraderie and *esprit de corps* of the unit increases as the members are forced to deal with one another and get to know one another.

Returning to the issue in Iraq, a large effort has been made in Iraq to provide individual living trailers to the troops. These trailers provide similar private space to the service member that is enjoyed at the home station due to QOL. After working hours, many troops can retire to this personal space to entertain themselves with satellite TV or video games.

Interestingly, the individual living trailers are mostly provided on larger and more mature FOBs with other high levels of amenities, leaving many smaller FOBs to live together in large unit tents. If the loss of unity camaraderie in peacetime due to the QOL initiative is applied to Iraq, this may could explain the findings by the IG that troops in more austere conditions in Iraq have higher morale.

b. Findings of the Strategic Studies Institute Survey

Another study conducted by the Strategic Studies Institute found interesting gap between good intentions of amenities and negative results. The authors, Wong and Gerras, conducted individual interviews with troops in Iraq and toured Iraq to analyze the living conditions of U.S. troops. Their report finds many positive aspects of the amenities of the FOBs in Iraq for the troops stating that the levels of service are without comparison in U.S. history. They do, however, report one problem of services provided to the troops. The increased number of call centers, Internet cafes and computer in the work space has increased the burden of family life on especially junior enlisted service members.⁷³

Many service members have daily access to a telephone or a computer. This has provided to virtually all troops daily interaction with family members in the United States. But surprisingly, the constant communication with family has put the additional stress on the deployed soldier that has not been realized in past wars. This is an unprecedented situation for the U.S. service member at combat. According to Wong

⁷³ Leonard Wong and Stephen Gerras (March 2006). *CU @ the FOB: How the Forward Operating Base is Changing the Life of Combat Soldiers*. Strategic Studies Institute. U.S. Army War College. pp. 4-8. Available on the World Wide Web: www/StrategicStudiesInstitute.army.mil.

and Gerras, some sociologists consider both the military (especially at war) and the family “greedy institutions.” In other words, each institution wants 100% of the individual’s time and attention. The mix of two greedy institutions on especially a young enlisted service member was found to be a significant problem. Ironically, the amenities provided to service members in Iraq at the command’s expense for communication with family has had a negative effect in some cases.

C. CONCLUSION

This chapter provides examples of how the blank check policy in a combat environment has negative non-financial effects. These effects were placed in a flowchart with the intent to show how fiscal policy links to life support standards, services, and goods, which will increase the probability of IED casualties and ultimately decrease public support toward Defense spending. The close relationship of public opinion towards Defense spending with actual historical Defense outlays was seen to be highly correlated. The discussion comes full circle to the issues of Chapter III with the DoD eventually funding the war effort from annual appropriations because Congress will not supply enough funding for the war.

This chapter also explored a common assumption that service members in combat demand high levels of amenities to the point of luxuries in order to maintain morale in combat. This assumption was refuted by two recent studies by the U.S. Army. In fact, these studies indicated that some unintended negative effects can occur from excessive amenities. The assumption that “more amenities equal higher morale” must be re-examined.

V. CONCLUSION AND RECOMMENDATIONS

While most research concerning wartime funding has been devoted to the Congressional and DoD levels of the supplemental processes, this thesis has presented wartime financial issues from the perspective of the in-country resource managers. This thesis has built upon the research and writings of Taylor, Rogerson, and Rundell who, seemingly for the first time, explored the affects of a lack of appropriate in-country resource management during combat.

The war in Iraq has revealed many issues. Some of these issues have appeared repeatedly in past wars. Still other issues seem to be new and unique to OIF. It is possible that the advancements in technology as well as increased interest in the business side of the DoD have allowed for better visibility into financial issues. In other words, these “new” problems may have always existed, but it was impossible to gather the data and see these problems in past wars. Regardless, the identified misplaced financial assumptions and policies that are presently in place are resulting in mission threatening side-effects. This situation calls for a reassessment of wartime fiscal assumptions and policies.

This chapter will start by briefly reviewing the content of the previous chapters. The chapter will conclude with recommended policy and procedure changes for future wars.

A. OVERVIEW OF THESIS

In Chapter II, military actions of the United States were presented from the standpoint of Congressional intent for the Executive Branch, as established by declarations of war and the authorizations for the use of military force. The assumption was made that the words in these documents were the Congressional intent for the Executive branch. The genesis of the blank check policy was identified in the Congressional language of the declarations of war for the First and Second World War. The language of declarations of war and authorizations for the use of military force was less generous in later wars, likely due to war powers issues. From the Korean Conflict to the end of the century, the language of Congress looked increasingly less like a blank

check policy. Regardless of this change in language, the DoD continued to support the combatant commander without spending ceilings, mostly by taking costs out of hide (i.e., reprogramming) when Congressional funding fell short of wartime requirements. In addition, Chapter II reviewed the way in which money flowed into the theater and the financial problems presented to the combatant commanders and the DoD. Also, some reasons were proposed for the increased cost of war throughout the twentieth century.

Chapter II concluded with analysis of possible explanations for the development of the blank check policy. Weigley and Huntington associated the cost of war with the wealth of the nation and its culture of excess, respectively. The discussion of slack budget resources in public sector presented that slack budget is necessary for the short term and is a political process at the Congressional level. At the DoD level, budget slack during times of uncertainty and risk (i.e., war) can and should be managed in a similar fashion as the private sector with incentives and measures other than budgetary.

With Chapter II as a historical reference, Chapter III investigated the financial environment of the current war in Iraq. It was identified that the common and historical practice of providing a blank check to the combatant commander was no longer viable by the end of FY2004 due to cannibalizing of the infrastructure and investment accounts of the DoD. In response to these funding shortfalls, incremental policies were gradually implemented on Iraq in hope to cut “the fat” from OMA spending. In a short period of time, the spending control mechanisms for Iraq evolved into a cumbersome system. Unfortunately, the mechanisms were found to be ineffective since they were built outside of the official Army accounting system, resulting in an inability to monitor or audit this ex ante system. The piecemeal budget systems (JARB, Spend Plan, COS Stewardship Council, MPOP) did not provide incentives to commanders or the ability to assess compliance.

Chapter IV considered the non-financial effects that have occurred in Iraq as a result of the blank check policy and the improvised budget system. If we were to accept that the financial and organizational inefficiencies in combat are simply the way America fights due to our political structure, culture and wealth, are there any other negative issues related to the blank check policy? It was determined that the Snowball Effect that has

plagued U.S. wars throughout the twentieth century seems to no longer be an issue as an unintended second-order effect of the blank check. Technology and increased throughput has seemed to have resolved this issue. But third-order effects have been identified in recently published interviews and reports. Without a control on spending or common levels of life support service, more vehicles are put on the road to move the demanded supplies and other supplies in support of these services. The increased exposure of U.S. service members to IED attacks creates a higher probability of U.S. casualties. The casualties have a direct impact on the U.S. public opinion of the war.

The assumption that “more amenities equal higher troop morale” was examined. Recent Army studies suggest that this assumption may not be accurate. Forward Operating Bases (FOBs) with fewer amenities and services were found to have higher morale than opulent FOBs. Furthermore, an increased level of communication technology was found to have negative effects on junior enlisted troops’ morale. The daily family problems are placed on the service member due to increased access to communications.

B. RESEARCH QUESTIONS AND RECOMMENDATIONS

The primary research question asks, “Is the fiscal blank check policy still a valid assumption for funding wars in the twenty-first century?” The research and analysis presented in this thesis indicates that it is not. At the DoD level, the blank check policy has persisted through the twentieth century and into the twenty-first century as an unwritten wartime policy. Since at least the Vietnam War, the Defense Department has reallocated annual operating and investment appropriations to fund the shortfalls of wartime supplementals. Appropriations are a limited resource, causing other areas to suffer when wartime requirements increase outside of supplemental appropriations. In short, the blank check damages DoD future readiness and infrastructure.

At the in-theater operational level, the blank check policy serves to increase the appetite of the in-theater units. Without financial ceilings, every “requirement” becomes a priority. This undisciplined resource management assumption clashes with the disciplined and constrained financial environment of State-side supporting commands. Attempts to remedy this clash for Operation Iraqi Freedom were detailed in Chapter III

(JARB, Spend Plan, Task Force 10%). These attempts could not curb excessive spending since they did not provide proper incentives for disciplined spending habits.

A supporting research question asks, “What are the primary characteristics of the resource management environment of Operation Iraqi Freedom and does it support the mission?” The primary characteristic of the financial management environment of Operation Iraqi Freedom is the unconstrained financial environment. The advertised characteristic of the blank check policy is that it provides flexibility for the commander and decreases the administrative burdens. However, this thesis has presented the case that, in the end, it does not. State-side commands operate in a disciplined and financially constrained environment. The higher command attempts to support a wartime theater that operates under a financially undisciplined policy (blank check). In Iraq, this conflicting relationship resulted in a patchwork of ineffective and time consuming controls. The blank check policy, over time, does not support the mission since in-theater commanders are eventually forced to deal with an ad hoc budget system anyway.

In addition, the blank check policy does not fully support the mission due to the unintended non-financial consequences. As was presented in Chapter IV, the blank check policy encourages excessive levels of service to the point of luxury. For example, the desire for increased life support services require more contractors, which require more food, water and electricity; which requires more vehicles and convoys to deliver these supplies and personnel; which, in the end, has proven to not help morale and has increased the troops exposure to risk.

This leads to the next supporting research question: “What incentives does the blank check policy suggest to U.S. commanders and requisitioners in combat?” The blank check policy, at best, condones an inefficiency use of appropriations and, at worst, encourages hoarding or “keeping up with the Joneses”. In Iraq, where many U.S. troops rarely leave the walls of the FOB, the mentality of homesteading and continual improvement of the FOB develops. In many cases, units cross the line into excessive services and luxuries at the expense of future readiness and increased troop risk.

“How can resource management contribute to the strategic goals? How might it be improved?” Resource management can contribute to the strategic goals by creating a system of incentives for proper spending that supports the mission. Specifically, targets or budget ceilings should be used to force a commander to prioritize and make decisions on which “requirements” are most beneficial for the mission. All of the excessive and unnecessary spending would naturally fall out in this self-regulating system of constraints. In the combat environment, this financial constraint should be redefined as a positive force.

The current system employed in Iraq is an “ex ante” system of controls (i.e., the Spend Plan and JARB). In other words, each and every purchase is scrutinized for legitimacy prior to providing funding. This is time consuming for both in-country and State-side personnel. Furthermore, since the current ex ante system is not automated or linked to the official financial system, no one can audit the Spend Plan, resulting in a gaming of the Spend Plan system. In short, this system is of no value.

The DoD should require instead that an “ex post” system be implemented in combat. The commanders would be provided periodic allotments and would be responsible for managing the money. In short, what is recommended is the implementation of the peacetime budget process in combat. This process is known and understood by military personnel, which would avoid a learning curve for new personnel to the combat theater. In addition, recreating the financial wheel for each combat operation would not be necessary.

This proposed peacetime budget system would require some modifications. Specifically, budget slack would have to exist and be carefully managed. It was argued in this thesis that Congress provides budget slack out of political necessity. Therefore, it is up to the DoD and the combatant commander to manage the excess funding effectively and not let it run amuck. Slack budget resources should be managed by in-country strategic resource managers.

It may be argued that this would allow improper and illegal purchases to take place. This is not a valid argument for two reasons. First, the current ex ante system

allows multiple avenues to acquire goods and services. A ex post budget system would allow the budgeting and accounting process to exist within the established peacetime systems, preventing a system of financial or purchasing loop-holes. The reduction of systems outside the accounting system and the elimination of the ex ante budget controls (i.e., Spend Plan and JARB) would increase, rather than decrease visibility. In other words, as a result of less busy work, the in-country resource managers could focus on important issues such as internal controls. The knowledge that financial audits are actively taking place would encourage proper behavior.

Second, if each MSC is given ownership of a budget “target” for a given period of time, the need for external agencies to cut unnecessary spending (e.g., plasma screen TVs, leather furniture, golf courses) in an ex ante fashion would vanish. Limiting funds to MSCs would force them to make priority decisions. With unlimited funds, everything is a priority. The basic problem of information asymmetry would be reduced or eliminated. While budget slack could still be created and maintained by MSCs to pad their target, the budget slack would be under better control.

“What is the future of in-country resource management during combat operations?” The function of strategic resource management in Iraq has been largely reactive in an attempt to curtail the negative effects of the blank check policy. These reactive measures consumed enormous amounts of time to “baby-sit” the created ex ante system. A self-regulated system of financial controls (i.e., peacetime budget process) would free the resource management personnel to be more pro-active. For example, the resource management office could focus on cost estimations, auditing, and provide economic and trend analysis. The budget responsibilities would change to distributing quarterly allocations to major subordinate commands then focusing on managing the slack resources in the form of the commander’s reserve.

This leads us to another important contribution of slack budget resources: goal congruency. Goal congruence is the alignment of the organizational goals with individual goals. Commanders and requisitioners are humans and driven by the system of incentives provided to them; therefore, it is important that a budgetary system in the

combat zone encourages proper spending behaviors. The knowledge of accountability can lead to proper behavior because of reputation concerns.

Slack budget resources in private industry largely rest on the ability to measure a second objective. This second measurable objective allows for management to determine if the improvement in this second objective is worth the local manager exceeding the budget ceiling (or target). Unfortunately, it is not possible to take such a measurement in the combat environment. Historically, defeating the enemy (as seen in Congressional war language) is the only secondary measure that is provided by Congress. If a measurable objective could be determined for wartime, it would greatly enhance the management of resources in combat. Further research in this area is recommended.

The blank check policy has been revealed to be a destructive policy. But are there any instances in which the blank check be implemented in war? A simple two-by-two matrix presents two basic dynamics of a war: the cost and the duration (Figure 14). Each quadrant will be discussed in turn to analyze when the blank check may be appropriate.

In the upper right quadrant, a war is expected to be long and the costs high. Iraq and Vietnam fit in this quadrant. Based on the problems presented in Iraq and Vietnam with a blank check policy, the in-country financial process should closely resemble the peacetime process (as described above).

A similar conclusion should be made if the war costs are low but the length of the war is long (lower right quadrant). This is supported by the observations that a blank check policy encourages improper behavior over time, such as “keeping up with the Joneses”, duplicating orders, and purchasing luxuries.

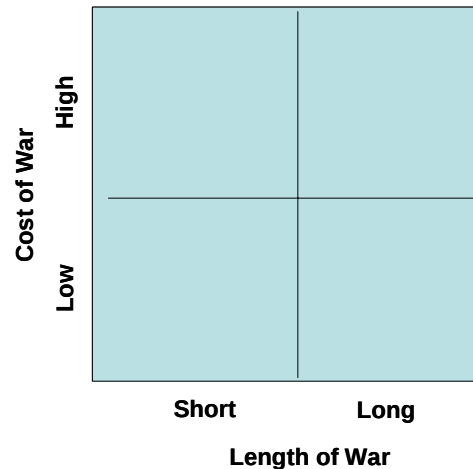


Figure 14. Determinants of Resource Management Policy in War.

If a war is estimated to be short, regardless of the cost, the blank check policy may be appropriate. The short duration of a war may prevent stockpiling, hoarding and other negative behaviors. However, with history as our teacher, the blank check policy may not be appropriate in this scenario either. Vietnam is the prime example of the Executive Branch underestimating the duration of the war. The assumption that it would be a short war resulted in poor financial structure decisions, which plagued the logistics and financial resources for the duration of the war. Iraq has a similar story. At the outset of the war, former Secretary of Defense Donald Rumsfeld estimated that the war would last only six months. From this analysis, it seems that entering any war (large or small, long or short) with a budgetary carte blanche policy is not in the best interest of the nation, the DoD or the combatant commander.

Several simple recommendations may help introduce a change in future wars from the blank check to a target based system. First, policy and doctrine should reflect that resource management issues are a part of combat decision making. Second, to provide increased credibility to resource management in combat, the in-country strategic comptroller should be a one-star general. (This idea was considered for Iraq but not implemented.) This one-star general should report directly to the chief of staff and not through a logistics office. Third, proper levels of life support services must be established by the DoD or the combatant commander if the DoD level fails to implement proper levels of service. Leaving each commander or camp mayor with the responsibility

to establish levels of service has lead to “keeping up with the Joneses” mentality and excess. Lastly, the transition from peacetime to wartime should not include “throwing the budget out the window” as historically has been the case. Instead, DoD and in-country resource managers should maintain accountability through targets and provide flexibility through an effectively managed slack budget resources system.

The technology already exists and the personnel are already trained to implement a peacetime budget process in the combat theater. In past wars this was not the case. What remains is a change of attitude in the military toward resource management. Resource management must overcome the perception that it is a hindrance in war and prove that it is a powerful tool that can help or hinder a combat operation.

C. RECOMMENDATIONS FOR FUTURE RESEARCH

The intent of this thesis was to present the issues of the blank check policy in Operation Iraqi Freedom. Along the way, many topics were introduced that were not further pursued due to time constraints. As was previously stated, many issues are not new and had been previously discussed, while others seem to be unique to this war.

The porous nature of financial execution and accounting seems to be new. The impact of the lack of control over internet ordering is unknown and further research in this area is highly recommended. What attitude towards spending does the internet provide to requisitioners? Does internet ordering provide anonymity and discourage individual accountability? In addition, if accounting data of the Army Stock Fund and the Non-Stock Fund could be obtained, analysis should be conducted to reveal the true scope of the problems as presented in this thesis.

This thesis has revealed the mentality and ensuing actions that a blank check policy produces in-theater. Further research should be conducted on operations such as Somalia, in which the normal unit budget was used in the operation. It would be beneficial to compare the attitudes and actions of requisitioners and commanders operating under their own annual budget in combat. Was spending more thoughtful because they were spending from limited resources? What was the impact on the mission?

The dynamics between the in-theater, DoD and Congressional levels was suggested in Chapter I and IV but not fully explored. While the research of Candreva concerning the support of the DoD spending was used to link politics with operational spending, Candreva's research was not directly linked with combat. An assumption was made that the American population looks negatively at increased combat casualties. Further research on the attitude of American citizens toward both the escalating cost of war and combat casualties may present a different conclusion and should be further explored.

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