15

Reforming Defense Budgeting

Elaine McCusker

The defense budget is burdened with a significant and increasing number of programs and activities that do not produce military capability. Absent intervention, this trend is likely to continue. In addition, the defense budget is not structured to answer today's important management and oversight questions or to meet requirements at a speed of relevance for a modern ready force. The current budget structure does not easily tell us what we are spending on military capability and does not enable quickly producing and fielding the force we require.

As we rethink defense budgeting, it is useful to examine three key challenges. First, the Department of Defense (DoD) budget contains nearly $109 billion in spending that does not directly produce military capability. For context, even a fraction of this amount—$30 billion—could buy weapons and platforms that are critical for countering the pacing challenge of China and supporting the nation's deterrence and response missions, including one Virginia-class submarine, two Columbia-class submarines, 2,000 ground artillery rockets, 100 high-end fighters, and 500 armored multipurpose vehicles. Defense resources and attention are diffused among programs and spending that should be separated from defense spending or managed by domestic departments and agencies, including the Departments of State, Energy, Health and Human Services, Homeland Security, and Education and the Environmental Protection Agency.

Second, the definition of national security continues to expand such that the trend of adding noncore missions, programs, and activities to the defense budget is likely to grow. Along with the increasing costs of health care,

The views expressed in this chapter are solely those of the individual author and do not necessarily reflect the views of any organization with which they are, or have been, affiliated.

benefits, and compensation, the true cost of military capability is disguised and squeezed out by these other priorities.

Third, key characteristics of the defense budget need improvement. It should be transparent, responsive, and supportive of management and oversight functions. It should be flexible and agile in quickly adapting to and taking advantage of technological advances. Yet it currently struggles to do any of these things.

Evidence of these problems, which are not new, abounds. A closer examination of these challenges, all of which point to a need for change in the development, content, justification, and execution of the defense budget, is useful in illuminating key elements of potential solutions. What follows is a summary of each challenge and why it matters, followed by a section on potential solutions.

Diffusion of Defense Resourcing

Today's federal government does many things. Defense, as the federal government's only mandatory and exclusive job, should not be *a* priority; it should be *the* priority. Americans should understand what this priority costs. As we rethink defense budgeting, we should know how much of the budget is spent on compensation, benefits, and related activities necessary to support an all-volunteer force. We should be aware of the parts of the defense budget where nondefense spending resides and where DoD is diverted from its core function.

The notion of a "core function" is crucial. It means the things that DoD is expected to do and that only it can do, such as building a navy, army, air force, space force, and cyber proficiency capable of competing with China; sustaining and modernizing air, marine, ground, and special operations forces with power projection competence; and maintaining America's nuclear capabilities.

The definition of national security, and thereby defense, has expanded to include numerous other federal functions and missions. As a result, DoD and its budget have become an "easy button" to address problems that are not part of the DoD core mission and function. Some of these activities may seem small in the scheme of the overall budget, and many are worthy efforts. However, they artificially inflate the defense budget and distract from true defense priorities.

To get a clearer look at core defense spending, the recent report "Defense Budget Transparency and the Cost of Military Capability" divides the defense

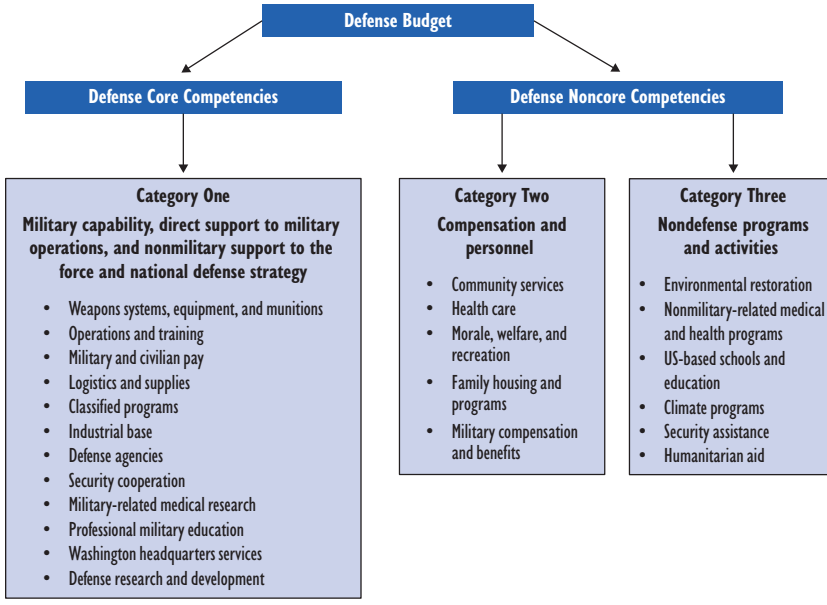

Figure 15.1 Three Categories of the Defense Budget

Source: Author's analysis of data from Department of Defense FY2023 budget documents.

budget into three categories.[1] Simply put, the categories are (1) core military competencies and the infrastructure necessary to manage the business; (2) indirect costs of supporting and retaining the all-volunteer force; and (3) nondefense programs and activities and extraneous missions assigned to DoD (see fig. 15.1).

Detailed analysis of budget justification documents submitted to Congress reveals that close to $109 billion in programs and activities are in the second two categories (see table 15.1). Though they support the force and may be important, they do not directly contribute to military capability and could be moved in favor of a reimagined defense budget that better meets national security needs.

For example, spending for must-pay expenses, including health care and compensation and benefits, could be treated as entitlement funding and moved to a separate budget. Then, programs that support the core mission of other federal departments and agencies could move to their appropriate organizations.

The remaining defense budget would contain programs and activities supporting the core mission and could then be updated to better reflect key

Table 15.1 Appropriation Title Breakdown

By Title	Budget Transparency (in $US millions)
Operations and maintenence (O&M)	$52,867
Military personnel	$38,649
Military construction	$2,683
Research, development, test, and evaluation (RDTE)	$1,057
Procurement	$572
Other (FTEs and revolving funds)	$12,733
Total Budget Transparency	**$108,561**

Source: Author's analysis of the Department of Defense budget, fiscal year 2023.

characteristics we need, including transparency, responsiveness, and reliable performance information for management and oversight. With the updated budget, we would finally, and with finality, attack long-term problems associated with the technology "valley of death" (where innovative technologies funded by DoD fail to make the transition from prototype to real capability), joint program integration, byzantine acquisition and financial processes, and other systems.

The Diffusion Trend Continues

Recent strategic documents confirm that the trend of increasing noncore spending in the defense budget described above is likely to continue. The National Security Strategy bluntly declares what had previously been strongly implied and directed through the budget submissions: everything is national security.[2] Domestic issues are national security. Environmental issues are national security. Social issues are national security. Once dividing lines are broken down between foreign and domestic policy, the strategy points to far-reaching investments here at home in our industrial and innovation base that will increase our competitiveness and better position us to deal with everything from climate to global health, to food security, to energy.[3]

This expanding definition is driven by three fundamental purposes. It justifies continuing to load the must-pass defense policy and appropriations bills with domestic programs that may not otherwise receive support. It sanctions applying the expert, can-do military planning and management culture to complex domestic challenges that require such a disciplined approach but that

should be managed by domestic agencies. And, it waters down a core defense mission that does not appear to have the interest, understanding, or support of liberal Democrats. For example, the House Defense Appropriations Subcommittee chairwoman called defense appropriations a "jobs bill" during the 117th Congress, essentially blurting out the truth of what she thought would prompt her conference to support the bill.

Though the federal government, including domestic departments and agencies, should focus on the nation's security, each should contribute through their assigned missions in education, energy, the environment, and health. Those missions should not be assigned to the Pentagon. Doing so further blurs the lines and budgets between defense and nondefense programs and activities, increasing the diversion of defense spending from military capabilities to domestic concerns.

The nation's security—and economic competitiveness—require an educated and skilled workforce in critical areas such as cyber, data analytics, artificial intelligence, microelectronics, engineering, and languages. We should focus the Department of Education on producing a workforce with the national security skills we need, not add this task to the DoD mission. Doing so not only distracts DoD from its core mission, it forces DoD to assume the mission of another department, and it inflates the defense budget, which is particularly damaging if budget agreements continue to require parity between defense and nondefense spending.

The tendency to rely on defense capabilities and funding is increasingly widespread. The same strain noted on education occurs with energy, environmental, and medical priorities.

Other federal agencies with more technical expertise in these respective areas should take the lead on these efforts and ensure that their management systems are effective. Assigning these responsibilities to DoD results in an overinflated sense of what the nation is spending for its security and diffuses attention from military capabilities.

For example, the federal government has an agency—the Environmental Protection Agency (EPA)—assigned to "protect[ing] human health and the environment."[4] With its specific mission, designated expertise, and accountability for performance in that area, EPA should receive the funding it needs, which is now included in the defense budget for environmental cleanup and restoration, climate change, and related research.

The National Institutes of Health, under the Department of Health and Human Services, has the mission to "seek fundamental knowledge about the

nature and behavior of living systems and the application of that knowledge to enhance health, lengthen life, and reduce illness and disability."[5] As such, it is conducting basic and applied medical research on cancer and autism, among other things. DoD should not be duplicating this important work.

There is also a second-order corrosive effect of the habit of deferring to defense planning, management, and response expertise. Assigning non-defense missions to the Pentagon has ramifications for civilian-military relations. As the military is asked to perform nonmilitary activities, the lines between military and civilian roles and responsibilities get blurred, which risks damaging the military's historical, appropriate place in society.

The Further Case for Defense Budget Reform

In addition to the problem of defense resources and attention being diffused to programs and activities that do not produce military capability, as described above, the defense budget is not structured to adapt to strategic priorities or answer today's key management and oversight questions. It is not responsive in supporting modernization timelines and the innovation and industrial base resilience necessary to produce the military capacity and capability we need.

Strategy and Resourcing

Budgets that truly reflect new stated strategic priorities are notably difficult to achieve. A large percentage of the budget in any given year is committed by decisions made in past years to proceed with planned procurements, conduct directed operations and tasks, operate and sustain existing capabilities, and provide pay and benefits to the current force.[6] The rest is often rebranded or recategorized into new stated priorities rather than actually shifted to new things, making it difficult to achieve or demonstrate real change.

The inflexibility innate in the requirements, budgeting, and acquisition processes produces programs of record with a priority of sticking to planned execution rather than adapting to better alternatives to achieve intended outcomes.

For example, the current structure can tell you if you are spending money the way you said you would, and it incentivizes doing so, but it can't quickly tell you if that spending is producing the outcome you intended. Nor can the structure tell you how closely that spending is really aligned to your strategic objectives or if your budget is even sufficient to support those objectives. And if funding is insufficient to meet strategic requirements, the budget structure

is not helpful in describing the nature and timing of the risk incurred due to the strategy-resourcing mismatch.

Transparency, Agility, and Responsiveness

Evidenced by perpetual management challenges and reorganization, manual data calls that gather information in an unreliable and nonrepeatable way, program and process workarounds, and detailed congressional direction and reporting requirements, the budget is also not as transparent and responsive as it needs to be in supporting program management or in answering key oversight questions.[7]

Congress is routinely dissatisfied with the level of transparency provided by the reams of data the Pentagon produces to justify its budget, so it continues to pile on new exhibits and reporting requirements in the hopes of getting what it needs to conduct its important oversight functions.

The fiscal year 2023 defense authorization and appropriations bills contain more than five thousand pages of statute and committee report direction. Despite the fact that some of the legislative sections have nothing to do with defense (the authorization bill contains an entire division entitled "Non-Department of Defense Matters"), the frustration coming from Congress is clear and leads to legislating something as basic as a briefing request.

There is also plenty of evidence that the current budget structure and process are not serving the needs of today's military.[8] Numerous reports, papers, conferences, webinars, DoD pilot programs and special funds, and congressional language and direction tell us about the challenges we face.[9] We have opportunities to address defense industrial base issues, lag times in modernization, missed opportunities that create a technology transition "valley of death," lost buying power due to expiring and canceling funds caught up in a labyrinth of different appropriations ("colors of money"), budget line items, activities, and program elements with varying periods of availability (life of funds).[10] All of these challenges connect to a lack of responsiveness and agility in the current planning, programming, budgeting, and execution (PPBE) process.

In an attempt to understand the overall effectiveness of the Pentagon PPBE process and why what seem to be fundamental questions about program cost and performance are so difficult to answer, Congress established a commission, which is currently underway and which one commissioner noted has an "incredible opportunity to scale and tailor the PPBE process to match the pace and innovation in order to accelerate capability to the warfighter."[11]

Further emphasizing the central importance of the defense PPBE process to our national security, the often-quoted National Security Commission on Artificial Intelligence said: "Unless the requirements, budgeting, and acquisition processes are aligned to permit faster and more targeted execution, the US will fail to stay ahead of potential adversaries."[12] This blunt recommendation to the Defense Department makes clear the urgency for cultural and structural updates to the way the department currently does business.

The department recognizes it is often slow to take advantage of innovative opportunities and has created, often with congressional support, numerous funds and offices over the years to work around its own systems. The latest attempts—Rapid Defense Experimentation Reserve (RDER) and the Office of Strategic Capital—are just getting started but are likely to struggle to institute substantive lasting change without a fundamental shift in the culture of how requirements, resourcing, and acquisition decisions are made.[13] Once process workarounds are institutionalized into the system, they become part of the system and fall victim to the same cultural, governance, and process delays that prompted their creation in the first place.

The challenges are well documented. The level of focus and understanding on them may be reaching levels required to produce actionable solutions and actual action to achieve them.

Characteristics of a Reformed Budget

Despite all the challenges noted here, the planning, programming, budgeting, and execution processes developed over decades served a fundamental purpose—obtaining the resources necessary to provide for the common defense. What worked to bring us here won't work well to take us further.

We can't stop time and start over with a blank piece of paper, but we can do something similar and just as powerful. We can harvest what has worked and what we have learned to build a reimagined budget that is also capable of further reform.

We should first consider principles for what we expect from the defense budget. What should be in it? What characteristics should it exhibit? How should it be structured, assessed, and conveyed?

The budget for defense in a constitutionally based federal democratic republic should adhere to the fundamental intent described at the start of this chapter, with national defense as the priority. It should be transparent (with necessary classification exceptions) to the nation's people and their elected

representatives. It must be accountable to the laws governing its structure and the activities it supports without adding undue restrictions to those laws. It should enable definition and acceptance of well-defined risk in decision making—specifically, what risk, to whom, for how long? It should be agile, resilient, and responsive. It must reflect and support the way the military will evolve and operate—digital, jointly, and in coalitions. It should be developed, analyzed, presented, and assessed with outcomes at the forefront.

How do we get to this budget structure utopia? Incrementally, boldly, relentlessly, and in partnership with Congress.

First, we need to clear out the non-core-mission programs and activities that have complicated the budget structure and diffused resources and attention from core programs. I recommend a direct approach to doing this:

- Align current defense programs that are the primary mission of other organizations to those organizations. Programs found to be of lesser priority should be ended, at least at the federal level.
- Move entitlement-like spending embedded in the defense budget (health care, compensation, and benefits) that do not produce military capability to a separate budget for management and execution.

Once non-core-mission funding is removed from the defense budget, we should also prioritize federal domestic spending to support the nation's security. For example, the Department of Education should focus resources on vibrant, interactive primary, secondary, and workforce education and training in skill sets the nation needs for long-term security and economic vitality.

Second, we need to modify and update the budget to support the way programs should be developed, tested, and procured today and to easily—and automatically—answer key management and oversight questions. These updates must fix the key problems noted above related to speed, transparency, responsiveness, and alignment to strategy.

Ultimately, the new budget structure would remove or reduce artificial barriers like shares of the budget between the Military Departments, "color of money," life of funds, budget activities, program elements, and programs of record. These would be replaced with capability management and real-time, dynamic tools that provide visibility on program performance, status, and progress in producing outcomes. Elements of this new budget structure would include the following key characteristics.

Joint Capability-Focused Budgets

Joint development of capability-oriented budgets—not service-specific platforms—that include the Combatant Commands (COCOMs) and Joint Staff are a broad and necessary reform. This approach would reduce and combine program elements and budgets under outcome-focused management and mitigate the friction between capability providers and COCOM demand signals. If budgets are unable to support requirements, then defined risk would be accepted or strategies would need to be adjusted—as would COCOM-directed tasks—to avoid the current and perpetual strategy-resource mismatch as well as the cognitive dissonance that takes place during program/budget review when we try to pretend such a mismatch does not exist.

The reduction of budget divisions and the resulting flexibility would release program managers from sticking to old plans and instead incentivize exploration.[14] Programs not dedicated to a specific program or weapons system would support the integration of existing systems, the insertion of new technologies, and the creation of new operational concepts that would allow the department to competitively improve warfighting outcomes now rather than waiting years for new weapons systems, thereby possibly also eliminating the technology valley of death.

As programmers and program managers are the center of gravity in rescuing innovations from the valley of death, we need to alter the expectation that they can predict the future and instead allow them to adapt to it *and* take advantage of it. The concept would also better mirror a modular rather than program-of-record approach pursued by industry partners.

Biennial Budget

We should take another shot at a biennial budget process to fully incorporate program performance and strategic direction into budget development. Strategic direction would need to be clear and actionable. Substantial funds would be held back from programming for a program/budget review that is not crammed into the end of the calendar year. Combining this change with reforms to the budget itself that allow for—and actually encourage—changes to proposed plans to incorporate innovative solutions that could not have been known during plan development would contribute to a cultural change in favor of outcomes management, not just budget execution.

Each year's Program Objective Memorandum (POM) development process should have past performance as the first question, bullet, assessment, and fact on every decision brief. What changed? What are the lifetime

operations and sustainment cost projections with key drivers and unknowns? Where and when will technology refresh occur? The "planned vs. actual" facts and figures should be easily generated from a budget and financial system supporting management and decision making. They should not be tough questions to answer, requiring mostly manual, nonrepeatable data calls as they do now.

Data is power. Efforts to create a single data analytics system (Advana) to harness the power of the financial, budget, personnel, contracts, logistics, information, readiness, and property data now available in the myriad of systems should be expanded and accelerated.

The new structure and the accompanying generation of timely, reliable, and responsive program data would support congressional oversight responsibilities. It could also potentially create some useful temporary new friction related to committee jurisdictional divisions. Noting the plan in the 118th Congress for a China-focused forum to cross committee lines, policy makers are already aware that improvements to the oversight structure are necessary as well.[15]

The proposed changes are not easy or straightforward, or we would have made them by now. There are reasons for how things currently are and numerous stakeholders who must participate in creating the necessary changes.

The first set of changes—moving noncore or entitlement-like efforts out of the defense budget—should be achievable relatively quickly, in one to two budget cycles. The second set of changes—reforming how the budget is developed, managed, assessed, and conveyed—will take more time (three to four budget cycles), as well as concentrated leadership and focused partnership with Congress.

Concluding Thoughts

Ultimately, we would never want budget or funding solutions to consume a large quantity of time or attention. Funding should be a positive background enabler to the military mission, not a time-consuming hurdle to capability or program outcomes.

That said, our form of government also requires a strong emphasis on stewardship. The money being spent belongs to the American taxpayer. As such, we always need to keep in mind three basic things: First, funds must be used consistent with the strategy. Second, we should get a dollar's worth of value for every dollar spent, and investments should produce the outcomes the nation needs. Third is transparency and accountability. The defense

budget structure must enable each element of stewardship, which is foundational to trust in the use of taxpayer funds.

Finally, I could not conclude this chapter without also mentioning the critical requirement that the budget structure support budget agreements that avoid the damages of continuing resolutions, which carry last year's funding and priorities into the next year when Congress fails to act on annual appropriations bills.[16] Implementation of the most productive and successful defense budgeting modernization effort for speed, agility, responsiveness, and transparency won't matter without budget agreements that enable on-time enactment of annual appropriations. The Defense Department has operated under continuing resolutions for sixteen hundred days since fiscal year 2010. The latest iteration, from October 1 to December 23, 2022, cost the department $17 billion in buying power plus time that can't be bought back.

The defense budget is not just about dollars and cents. It is at the core of our nation's security and the safety of those who provide it. We know that reform is needed. We should agree on fundamental desired characteristics of the ultimate outcome, some of which are outlined here. Then, we must simply begin.

Notes

1. Elaine McCusker, "Defense Budget Transparency and the Cost of Military Capability," American Enterprise Institute Report, November 9, 2022.

2. The White House, "National Security Strategy," October 2022.

3. Jake Sullivan quoted in Aamer Madhani, "Biden Global Strategy Tackles China, Russia, Domestic Needs," *The Independent* (US Edition), October 13, 2022.

4. US Environmental Protection Agency, "Our Mission and What We Do," June 13, 2022.

5. US National Institutes of Health, "Mission and Goals," July 27, 2017.

6. Mackenzie Eaglen, "The Paradox of Scarcity in a Defense Budget of Largesse," American Enterprise Institute Report, July 18, 2022.

7. Jaspreet Gill, "Pentagon Seeks More 'Jointness' for JADC2 as OSD Stands Up New Office," *Breaking Defense*, October 27, 2022; US Department of Defense (DoD), "Department of Defense Disestablishes Chief Management Office," press release, September 3, 2021; DoD, "Executive Summary: DoD Data Strategy," September 30, 2020; DoD, Office of the Under Secretary of Defense for Acquisition and Sustainment, "DoD Instruction 5000.81: Urgent Capability Acquisition," December 31, 2019; National Defense Authorization Act for Fiscal Year 2023, H.R. 7900, 117th Cong. (2022), see Subtitle C—Plans, Reports, and Other Matters.

8. Day One Project, "Relevant Literature," https://www.dayoneproject.org/defense-budget/relevant-literature.

9. Eric Lofgren, Jerry McGinn, and Lloyd Everhart, "Execution Flexibility and Bridging the Valley of Death: An Acquisition Next Report," George Mason University Center for Government Contracting, October 26, 2022.

10. National Defense Authorization Act for 2023 (H.R. 7900), Subtitle E, "Industrial Base Matters"; William C. Greenwalt and Dan Patt, "Competing in Time: Ensuring Capability Advantage and Mission Success through Adaptable Resource Allocation," Hudson Institute, February 25, 2021; Elaine McCusker and Emily Coletta, "What We Can Learn from the Government Accountability Office's Unused Funds Report," American Enterprise Institute, *AEIdeas*, May 26, 2021; Matt MacGregor, Greg Grant, and Peter Modigliani, "Five First Steps to a Modern Defense Budgeting System," MITRE Center for Data-Driven Policy, August 1, 2022, https://www.mitre.org.

11. Commission on PPBE Reform, https://ppbereform.senate.gov; Commission on PPBE Reform, "A Status Report from the Commission on Planning, Programming, Budgeting, and Execution (PPBE) Reform," undated, accessed March 15, 2023.

12. National Security Commission on Artificial Intelligence, "Final Report," March 2021.

13. DoD, Office of the Under Secretary of Defense for Research and Engineering, "Rapid Defense Experimentation Reserve," undated, accessed March 15, 2023; DoD, "Memorandum for Senior Pentagon Leadership, Commanders of the Combatant Commands, Defense Agency and DoD Field Activity Directors: Establishment of the Office of Strategic Capital," December 1, 2022, https://media.defense.gov/2022/Dec/01/2003123982/-1/-1/1/ESTABLISHMENT-OF-THE-OFFICE-OF-STRATEGIC-CAPITAL.PDF.

14. Elaine McCusker and Dan Patt, "Faster Weapon Buys: Try Evolutionary Innovation," American Enterprise Institute, op-ed, July 2, 2021.

15. Congressman Mike Gallagher, "Gallagher Announced as Chairman of Select Committee on China," press release, December 8, 2022.

16. Elaine McCusker, "Another Continuing Resolution? The Enemy Is Us," *Breaking Defense*, December 8, 2022.