
National Security Planning & Budgeting

A Report to the President
by the
President's Blue Ribbon Commission
on Defense Management



June 1986

Introduction

Among the major tasks assigned to this Commission by the President in July 1985 was a charge to recommend how to improve the effectiveness and stability of resource allocation for defense, including the legislative process. In carrying out the President's direction, the Commission, in our Interim Report of February 28, 1986, made eight major recommendations for a new process for national security planning and budgeting. These rested on our view that:

there is a great need for improvement in the way we think through and tie together our security objectives, what we spend to achieve them, and what we decide to buy. The entire undertaking for our nation's defense requires more and better long-range planning. This will involve concerted action by our professional military, the civilian leadership of the Department of Defense, the President, and the Congress.

The Commission concluded that new procedures are required to help the Executive Branch and Congress do the long-range planning necessary to develop, fund, and implement a national military program to meet national security objectives. On April 1, 1986, the President issued a directive to the Department of Defense to implement the recommendations of our Interim Report on these planning procedures. This, the Commission's Report on National Security Planning and Budgeting, amplifies the recommendations we have already made to aid in their implementation.

While national security planning is primarily the responsibility of the Executive Branch, principally the President, the National Security Council, the Secretary of Defense, and the Joint Chiefs of Staff, the defense of the nation requires constructive collaboration between the President and Congress. Although the planning process has improved in recent years, we believe that further reforms are required. Reforms must deal with three major problems in the current national security planning and budgeting process: the need to relate military plans more adequately to available resources; the instability of the defense budget process in both the Executive Branch and Congress; and the inefficient role of Congress in the review of the defense budget.

Our recommendations address each of these problems in turn. Together they are meant to achieve a new, cooperative approach to national security

planning and budgeting. In the end, a new approach must produce a national military strategy that is fiscally constrained, forward-looking, and fully integrated; must avoid costly instability in resource planning and allocation; and must enable each branch of government to better fulfill its constitutional responsibilities to provide for the common defense.

The following pages set forth our findings and recommendations on the role of the President in national security planning (Section II), a new process for planning national military strategy (Section III), and an improved defense budget process in the Executive and Legislative Branches (Section IV). A summary of our recommendations and a schematic representation (Figure 1) of the process we propose are appended.

I. The Role of the President in National Security Planning

In our Interim Report, the Commission found that there is a need for more and better long-range planning to bring together the nation's security objectives, the forces needed to achieve them, and the resources available to support those forces. It is critically important that this relationship be clearly established through a national military strategy. At the same time, military strategy cannot be carried out in isolation from the larger questions of the nation's overall foreign policy and its domestic economic and fiscal objectives. Within the Executive Branch, only the President can make the decisions necessary to balance these elements of national policy. For this reason, the Commission sees a need for improving the present extensive process for defense planning and budgeting within the Executive Branch by establishing a mechanism for early, firm Presidential guidance.

Today, the President provides national security objectives to the Executive Branch in the form of National Security Decision Directives (NSDDs) that are issued through the National Security Council (NSC). Formulated by an incoming President as policy guidance, these directives are updated periodically, either as a result of a continuing review of major national security issues or as additional guidance in response to crises.

Historically, however, this process has yielded unclear guidance for national security planning because objectives have been stated in NSDDs without recognition of the limits to fiscal resources that are finally made available. Because of the lack of early Presidential guidance on fiscal limits, defense resource plans are subject to debate and change within the Administration up to the moment the President makes final decisions before sending his annual budget to Congress. These changes can ripple throughout the entire five years of the planning period, resulting in annual change—sometimes quite large—to each year of the Five-Year Defense Program.

Based on Presidential guidance contained in NSDDs, the Secretary of Defense currently issues his own Defense Guidance document, early in the budget planning year, for development of detailed programs and budgets by the Military Departments and agencies of the Department of Defense (DoD).

The Secretary's Defense Guidance incorporates fiscal guidance to the Military Departments and Defense Agencies for a five-year period. His guidance is built on a judgment of the threats to national interests and the adequacy of our military forces to meet those threats. But it also reflects such changeable near-term factors as the previous year's congressional decisions, the current budget debate in Congress, guidance from the Office of Management and Budget (OMB) to DoD based on Presidential decisions during the previous year's budget formulation, and recent international events with national security implications.

Late in the year, two events can cause extensive changes to the Secretary's budget plan. First, Congress makes decisions on the budget submitted to it the previous January. Typically, these decisions are postponed by Congress as long as possible. Congress usually does not enact a defense budget until after the fiscal year has begun on the first of October, with obvious disruptive effects not only for execution of the budget, but also for planning a defense program for subsequent years. Recently, moreover, congressional decisions increasingly have diverged not only from the President's budget proposal, but also from Congress' own pronouncements on future defense budgets as projected in earlier concurrent budget resolutions.

Second, in November of each year before the President transmits his budget to Congress in late January, OMB conducts an independent review of the Secretary's budget plan, drawing upon updated economic projections, recently enacted congressional budget decisions, and the President's budget priorities. As late as December, based on issues raised by the OMB review, the President has directed changes to the Secretary's budget plan that have affected thousands of line items and that have required major revisions to the Five-Year Defense Program. Such Presidential decisions on the defense budget, so close in time to presentation of a finished President's Budget to Congress, do not allow the Secretary of Defense sufficient time to conduct a careful review of their effects on the national defense program and to advise the President of those effects.

In the Commission's view, the instability induced by the present planning and budgeting process can be substantially reduced, and its effects can be made far less disruptive. As the Commission recommended in our Interim Report, defense planning should start with a comprehensive Presidential statement of national security objectives and priorities based on recommendations of the NSC. On this basis, the President would issue provisional five-year budget levels to the Secretary of Defense reflecting competing demands on the federal budget as well as projections of gross national product and revenues. These budget levels would be based on recommendations from the NSC with the advice and assistance of the OMB.

Upon receipt of Presidential planning guidance, the Secretary of Defense would instruct the Chairman of the Joint Chiefs of Staff (JCS) to prepare a national military strategy that best achieves the national security objectives within provisional budget levels. The Chairman would also be instructed to develop strategy options for each of the provisional budget levels, based on consideration of major defense policies and operational concepts, to meet the entire range of threats to these national security objectives. A recommended national military strategy and options would be prepared by the Chairman with the assistance of the other members of the JCS and the Commanders-in-Chief (CINCs) of the Unified and Specified Commands. The military capabilities provided by this strategy and options would be compared with the present and projected capabilities of potential opponents in a military net assessment.

The Secretary of Defense would review the Chairman's recommendations and response to his instructions and make such modifications as he deems appropriate. Upon completing that phase of the new defense planning process, the Secretary, and the Chairman as the principal military adviser, would present a recommended national military strategy, strategy options, and the net assessment to the President.

After review by the NSC, the President would select his preferred national military strategy and its corresponding five-year defense budget level, based upon his national security objectives and priorities, and an acceptable level of risk. He would provide this decision to the NSC, the OMB, and the Secretary of Defense. The Presidential decision, including the five-year fiscal guidance, would be binding on the Executive Branch unless changed by further Presidential decision.

The Secretary of Defense in turn would develop a detailed Defense Guidance for the Military Departments and Defense Agencies to launch the Planning, Programming, and Budgeting System (PPBS) internal to the Department of Defense. The final version of the Defense Guidance would contain the Secretary's detailed guidance on defense objectives, policy, strategy, force levels, and fiscal guidance, all based on the President's decisions. The detailed fiscal guidance would be the basis for a new Five-Year Defense Program and for detailed pricing and scheduling of the new defense budget.

The Commission strongly believes that an early Presidential decision on a five-year defense budget level, clearly linked to a Presidentially approved national military strategy, is necessary to achieve a more orderly and more stable process for executive and congressional planning and budgeting for defense. Early Presidential determination of an appropriate five-year budget level would better integrate all elements of the Executive Branch in the resource allocation process, would result in more coherent and stable long-range planning for national defense, and would provide the Congress a proposed defense program

more readily explained and justified against national security requirements.

A notional process for developing the requisite Presidential planning guidance would include:

- Articulation of national security objectives;
- Development of parameters for national security planning, including the establishment of defense priorities and policies;
- Development of provisional five-year defense budget levels; and
- Direction to the Secretary of Defense concerning the preparation of a recommended national military strategy to achieve national security objectives, strategy options for each budget level provided, and a military net assessment to evaluate the risks of the military strategy and options.

These recommended improvements in the defense planning and budgeting process should be commenced immediately to assist the defense planning and budgeting activities now underway in the Defense Department and in Congress to construct the first biennial defense budget. The budget to be submitted to Congress in January 1987 for fiscal years 1988 and 1989 should be the transitional budget for the new planning process. The new defense planning and budgeting process would thereby be fully implemented for the fiscal year 1990–91 budget. The President should provide to the NSC, the OMB, the Secretary of Defense, the Chairman of the JCS, and the Military Departments the strongest guidance possible to that end.

Recommendations

To institutionalize, expand, and link a series of critical Presidential determinations, we recommend a process that would operate in substance as follows:

The National Security Council would develop and direct a national security planning process for the President that revises current national security decision directives as appropriate and that provides to the Secretary of Defense Presidential guidance that includes:

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- **A statement of national security objectives;**
 - **A statement of priorities among national security objectives;**
 - **A statement of major defense policies;**
 - **Provisional five-year defense budget levels, with the advice and assistance of the Office of Management and Budget, to give focus to the development of a fiscally constrained national military strategy. Such budget levels would reflect competing demands on the federal budget as well as projections of gross national product and revenues; and**
 - **Direction to construct a proposed national military strategy and strategy options for Presidential decision in time to guide development of the first biennial defense budget for fiscal years 1988 and 1989.**

Following receipt of the Secretary's recommended national military strategy, accompanying options, and a military net assessment, the President would approve a particular national defense program and its associated budget level. This budget level would then be provided to the Secretary of Defense as five-year fiscal guidance for the development of biennial defense budgets such that:

- **The five-year defense budget level would be binding on all elements of the Administration.**
- **Presidential guidance, as defined above, would be issued in mid-1986 to guide development in this transitional year of the first biennial defense budget for fiscal years 1988 and 1989 to the maximum possible extent.**
- **The new national security planning process would be fully implemented to determine the course of the defense budget for fiscal years 1990 to 1994.**

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II. A New Process for Planning National Military Strategy

To provide the President and the Secretary of Defense with military advice that better integrates the views of the nation's combatant commands and Military Services, the Commission in our Interim Report recommended legislation creating new duties for the Chairman of the Joint Chiefs of Staff (JCS). In the Commission's view, the Chairman should become the principal military adviser to the President, the National Security Council, and the Secretary of Defense, representing his own views as well as the corporate views of the JCS. The Chairman should be given exclusive direction of the Joint Staff, and other elements of the Organization of the Joint Chiefs of Staff, to perform such duties as he prescribes to support the JCS and to respond to the Secretary of Defense. To further assist the Chairman in performing his new duties, a new position of Vice Chairman of the JCS should be created. We note that in a message to Congress on April 24, 1986, the President endorsed these recommendations and that the Senate and House have separately passed legislation along these lines.

In making these recommendations, the Commission envisioned that the new duties of the Chairman would include a major role in national security planning. The Commission recommended that the Chairman, with the advice of the other members of the JCS and the Commanders-in-Chief (CINCs) of the combatant commands, be given responsibility for preparing and submitting to the Secretary of Defense a fiscally constrained national military strategy, with strategy options, based on the President's initial guidance on national security objectives and priorities, and his provisional five-year budget levels. The Chairman would also, with the assistance of the other members of the JCS, and in consultation with the Director of Central Intelligence, prepare a military net assessment of the capabilities of United States and Allied Forces as compared to those of potential adversaries. The net assessment would be used to evaluate the risks of the strategy and the strategy options. The Secretary would make such

modifications as he thinks appropriate and present the recommended national military strategy, options, and net assessment to the President, to provide a basis for a Presidential decision on the development of a five-year defense plan and a two-year budget.

On April 1, 1986, the President issued a directive to the Secretary of Defense calling for a new process for planning national military strategy. The following section of this report elaborates the Commission's views on the new process to aid in implementing our recommendations.

Improved Defense Strategy Development

Just as the President's guidance on national security objectives and priorities should provide a clear statement of what we must achieve, military strategy should provide a clear statement of how we will achieve it. That strategy must address how we plan to achieve particular national ends with available, or reasonably anticipated, military means. Specifically, a strategy must relate proposed military force levels to available resources.

It is incumbent upon our senior military leaders, as they chart a course for the nation's military forces into the next century, to apply financial limits to military force planning in a way not previously attempted. The questions that such planning entails must be answered in that light. These include:

- What kind and what numbers of forces should we field in the future?
- What kind of equipment should they have?
- How rapidly should we modernize their equipment?
- How, and at what pace, can we best incorporate the benefits of technological advances?
- How much should we spend on readiness and sustainability, on the one hand, and modernization, on the other?
- What balance should we strike between strategic nuclear and general purpose forces?
- How can we keep the overall cost of building and maintaining military forces within limits while achieving performance objectives?

To develop a well-designed national military strategy, the Chairman should first ensure that he has a full range of views from the Joint Chiefs, who, as individual Service Chiefs, are charged with developing and providing the nation's Armed Forces, and the combatant commanders, who are charged with employing them. Second, the Chairman should integrate the sometimes conflicting perspectives arising from the different responsibilities held by these officers into a coherent military strategy. This strategy thus would reflect the best thinking of the nation's senior military leadership.

The product of such a strategy-development process would reflect the fiscal constraints directed by the President for the planning period and would include:

- an appraisal of threats to the achievement of our national objectives across the full range of potential conflict during the five-year planning period;
- a recommended strategy to meet our objectives and to respond to these threats during the planning period; and
- the force requirements and capabilities to support the strategy.

In order to frame a wide range of decision alternatives for the President, the Chairman would be directed to provide the Secretary with strategy options resulting from the President's five-year budget levels and from variations within a given budget level. These would reflect explicit trade-offs among the Services and among competing requirements from the combatant commands. In addressing options to the proposed national military strategy, the Chairman would consider major defense policies and operational concepts (e.g., modernization, force structure, readiness, sustainability, security assistance policy and funding levels, strategic nuclear forces versus general purpose forces, etc.).

In order for the Chairman of the Joint Chiefs of Staff to provide sound military advice on the various strategy options, a companion analysis should be prepared that would identify:

- adjustments to current force levels in accordance with the President's provisional budget levels and the associated costs or savings;
- problems that may preclude attainment of needed force levels or capabilities without mobilization (e.g., personnel quality or quantity unattainable without conscription, and the adequacy of the industrial base to support force levels);

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- unique regional considerations that may restrict our ability to employ military force (e.g., political or other potential disadvantages to the use of U.S. forces, maintainability of lines of supply, access to friendly ports of entry, etc.); and
 - limits on deployment or mobilization that may restrict our ability to employ military forces in conflict (e.g., the availability of transport, the adequacy of the training base, etc.).

Our proposed process for strategy development does not diminish the value of force planning as currently provided in the Joint Strategic Planning Document (JSPD). The JSPD serves as the JCS contribution to the planning phase of DoD's Planning, Programming, and Budgeting System, but it could be revised to provide a more meaningful overarching framework for strategy and force planning. The analytical value of the JSPD lies in its identification of force levels for global general war that could guide the development of related *peacetime*, resource-constrained forces. Specifically, the JSPD planning force could be linked to a peacetime mobilization base for a "worst case" contingency of a global general war. The mobilization base derived from the JSPD planning force could be developed to achieve the shortest possible time to expand from mobilization base levels to planning force levels—consistent with the President's fiscal guidance. Such a peacetime posture should be a central consideration in developing the recommended national military strategy and strategy options provided to the President. In addition, forces for support of regional unified commanders in pursuit of U.S. national security objectives in peacetime, as well as the more probable, less intense forms of conflict, should also be identified in the JSPD mobilization base planning force.

An Improved Net Assessment

As an element of the planning process we propose, it would be necessary to make a more comprehensive effort to assess the capabilities of our forces to accomplish their missions in the light of projected military threats posed by potential adversaries. Where appropriate, Allied Forces should be included in this analysis.

A net assessment of military capabilities, projected five years into the future, can help identify the risks associated with alternative military strategies and force postures. It would be of major assistance to the Chairman, the Secretary of Defense, and the President in framing and selecting a defense

budget level and force posture better tied to national security objectives and priorities. As an adjunct to the new strategy planning process, the net assessment could help identify existing or emerging problems and opportunities that need to be brought to the attention of the Secretary of Defense and the Chairman for further study in the development of strategy options.

The expanded planning responsibilities to be assigned to the Chairman of the Joint Chiefs of Staff would require that he prepare an independent, comprehensive military net assessment in order to evaluate the recommended national military strategy and any strategy options proposed. The Commission has recommended that the Chairman prepare this assessment for the Secretary of Defense with the assistance of the other members of the JCS and in consultation with the Director of Central Intelligence. He should also draw upon the advice of the combatant commanders.

Recommendations

The Secretary of Defense, following receipt of the Presidential guidance described in the previous section of this report, should direct the Chairman of the Joint Chiefs of Staff (JCS), with the advice of the other members of the Joint Chiefs of Staff and the Commanders-in-Chief (CINCs) of the Unified and Specified Commands, to:

- **Appraise the complete range of military threats to U.S. interests and objectives worldwide;**
- **Derive national military objectives and priorities from the national security objectives, major defense policies, and priorities received from the President; and**
- **Provide the Secretary of Defense a recommended national military strategy that:**
 - Best attains those national security objectives provided by the President, in accordance with his policies and priorities;**
 - Identifies the forces and capabilities necessary to execute the strategy during the five-year planning period; and**
 - Meets fiscal and other resource constraints directed by the President during the five-year planning period.**

At the direction of the Secretary of Defense, the Chairman also should

develop strategy options to achieve the national security objectives. Such strategy options would:

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

At the direction of the Secretary of Defense, the Chairman of the Joint Chiefs of Staff, with the assistance of the other members of the JCS and the CINCs, and in consultation with the Director of Central Intelligence, should also prepare a military net assessment that would:

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

The Secretary of Defense, following his review and analysis of the Chairman's recommendations, should provide to the President:

- The Secretary's recommended national military strategy and its corresponding five-year defense budget level, consistent with the President's policy and fiscal guidance;
- Appropriate strategy options and corresponding five-year defense budget levels sufficient to provide the President a wide range of alternatives in choosing a national defense program; and
- A military net assessment of the recommended national military strategy and strategy options.

III. The Congressional Defense Budget Process —A Need for Change

The recommendations discussed above, when implemented by the President and the Secretary of Defense, will go a long way toward making defense planning and budgeting within the Executive Branch more rational and stable. But this effort will fail to accomplish the Commission's aim if Congress does not do its part to improve its role in the process. Realism in long-range planning and budgeting for defense within the Executive Branch must be met by a responsible exercise of congressional power in budget review and oversight.

In defense budgeting, as in most other matters of national policy, the President proposes but Congress disposes. The national defense program depends upon steady, long-term vision if it is to meet our long-term security needs effectively. Congressional focus, however, is myopic and misdirected. Only the upcoming budget year gets real attention, and this attention is directed at the budget's microscopic pieces, its line items.

Problems inherent in Congress' defense budget review manifest themselves in budget resolutions that reflect little or no consistency from year to year; in changes to thousands of line items within the defense budget that, taken together on this kind of scale, verge on randomness; and in defense appropriations that are invariably late in enactment.

It is true that changing political and economic circumstances may require the Congress to adjust its plans from time to time. But the Commission believes that both the number and the magnitude of changes resulting from congressional review of the defense budget are excessive and harmful to the long-term defense of the country.

Where national defense is concerned, today's congressional authorization and appropriation processes have become mired in jurisdictional disputes, leading to overlapping review of thousands of line items within the defense budget. A growing rivalry between the Armed Services Committees and the

Defense Appropriations Subcommittees over the line-item makeup of the defense budget has played a major role in moving congressional review of the defense budget toward narrowly focused financial action on individual items and away from oversight based on operational concepts and military effectiveness. During the review of the 1985 defense budget, for example, Congress made changes to over 1,800 separate defense programs and directed the Department to conduct 458 studies ranging from the feasibility of selling lamb products in commissaries to the status of retirement benefits for Philippine scouts.

This kind of tinkering and financial fine-tuning has heightened defense program instability because of its wide reach and lack of broader operational focus. Congressional action on the 1985 budget reduced the President's request by \$20.5 billion, but, of that amount, only \$0.5 billion (or 2 percent) involved outright program cancellations or procurement terminations. The other 98 percent of the reduction came from changes to procurement rates and mixes, level-of-effort cuts, miscellaneous personnel trims, and financing adjustments.

In addition, the Department of Defense (DoD) now finds itself involved in a new congressional budgeting phenomenon in which the Appropriations Committees have funded programs that the Armed Services Committees have not authorized. In fiscal year 1986, the DoD Appropriation Act included over 150 line items, valued at \$5.7 billion, that were authorized at a lower level or were not authorized at all. As of this date, the fiscal year is more than half over but the Defense Department cannot obligate funds nor conclude contract negotiations for almost \$6 billion of programs while the disagreement continues between congressional committees.

Under these circumstances, the Secretary of Defense and the Military Departments find themselves in the position of making final decisions in formulating a budget for the next fiscal year while Congress is still debating its own wide-ranging differences on the budget that was submitted for the ongoing fiscal year. When Congress finally makes its appropriation decision, the Secretary and the Services are forced to adjust the proposed budget for the upcoming fiscal year, late in the budget-formulation process within the Executive Branch, in order to incorporate the impact of congressional changes. The timing and scope of these changes prevent the DoD from making coherent linkages among the three defense budgets that it manages at any one time—the budget being executed, the budget under review by the Congress, and the budget that DoD is developing for the upcoming fiscal year.

Meanwhile, defense managers and defense procurement personnel around the world must implement late congressional decisions after the fiscal year has started. They are confronted with numerous changes that alter and delay their program plans, schedules, and contract decisions. This instability, in turn,

spreads outward to the defense industry, whose investment and production plans must be hastily adjusted annually as a result of late congressional appropriations.

Finally, instability in defense budget planning has been further exacerbated as a result of the new Gramm-Rudman-Hollings legislation. In March 1986, the sixth month of the fiscal year, the Defense Department was forced to take a 4.9 percent reduction in each of almost 4,000 programs, projects, and activities, for a total cut of \$13.6 billion in budget authority and \$5.2 billion in outlays. These across-the-board, automatic cuts allowed no analysis or management judgment to be exercised about priorities or about their effect on defense programs and forces. The essence of budgeting is setting priorities. Our recommendations depend upon a rational choice of priorities by responsible defense managers, as opposed to a mechanistic allocation of resources across all activities. We must assume that government will remain a place of judgment.

Many of the problems described above affecting congressional action result from major differences of opinion within Congress on the funds to be provided for defense in any one year. However, as this debate continues from year to year, congressional budget resolutions show very little consistency regarding national defense funds, and, as a result, their projections of defense budgets for future years have become unreliable measures of congressional intent.

Shortly after congressional budget resolution projections are made, the budget-formulation process begins in the Executive Branch to build budgets for the years covered by such projections. As the last guideposts of congressional intent before Executive Branch budget formulation, budget resolution projections play a central role in decisions on the levels for defense that are used for planning within the Defense Department and that the President ultimately will propose to Congress. To the extent, then, that Congress has reflected unrealistic levels for future defense budgets in its budget resolutions, lack of realism will also affect the President's budget. This document to a large degree each year mirrors the congressional budget resolution of the previous year. That is why congressional budget resolution projections should be made with great care, with full commitment to those projections from key committees that review the defense budget.

The Commission urges the leaders of Congress to develop ways to relate projections in budget resolutions to the five-year budget levels developed within the Executive Branch (as described in the previous sections of this report) for provision, in turn, to Congress. We believe that a much-improved linkage between the new proposed process for defense planning and budgeting within the Executive Branch, and the current budget resolution process within Congress, is central to responsible decision-making on matters of national security.

Another concern is the role budget resolutions play in later phases of the overall congressional process. The practice has been for the authorizing and appropriations committees to treat Budget Committee targets as ceilings from which they could depart, rather than as congressional commitments. The steadiness that should mark long-term planning for the nation's defense has suffered as a result.

The Commission is also concerned about the lack of cooperation in review of the defense budget that marks authorization and appropriation actions today in Congress.

The Armed Services Committees need to become less concerned with attempting to control line items through authorization action and need to concentrate more on the task for which they are best suited, allocation of funds between and within major operational categories of the defense budget. In the Commission's view, the Armed Services Committees also should have an important role to play in ensuring that new weapon programs in fact contribute to military effectiveness within major operational categories. They should be the primary congressional agents for approval of acquisition programs entering full-scale development and high-rate production as recommended by the Commission in its report on defense acquisition and described later in this report.

The Armed Services Committees cannot, however, simply take on such roles unilaterally. The leadership of the authorizing and appropriations bodies that deal with the defense budget must agree on a division of labor that lessens considerably the overlap and consequent rivalry that marks the process today. We agree completely with the observations made by the Senate Armed Services Committee, in an April 1986 report, on the need for congressional reform in providing for the nation's defense:

Congressional reform must extend beyond the confines of defense oversight. Ultimately, fundamental patterns of congressional behavior must change. Committee jurisdictions must be reasserted and tightened to minimize overlap and duplication. Redundant legislative phases of budgeting, authorizing, and appropriating must be consolidated.

Procedural Reforms

If leadership problems within Congress can be overcome, and stability of the defense budget and a more appropriate division of labor among committees can be achieved, procedural reforms can have further beneficial effect. The most important reform, in the Commission's view, is adoption by Congress of biennial defense budgets tied to a five-year plan.

A. Biennial Budgeting and Five-Year Planning for Defense

In our Interim Report, we recommended that the President submit to Congress a two-year defense budget and the five-year plan on which it is based. Congress would be asked to approve a two-year budget based upon this plan. It would do so through a two-year authorization and appropriation for national defense. We note that the 1986 Defense Authorization Act calls for the submission to Congress by the President of a two-year defense budget for fiscal years 1988 and 1989 in early 1987. DoD is now preparing such a budget. We applaud this initiative by the House and Senate Armed Services Committees, and we believe that, if Congress decides to adopt this new method of budgeting, it can lead to the two-year defense authorization and appropriation that we have recommended. We are mindful, however, that for some years the President has, at congressional direction, provided requests for two-year defense authorizations, but only the first year of each of these requests has ever been acted upon.

The Commission believes that a biennial budget process for defense, tied to a five-year defense plan, would promote stability by providing additional time to do a better job—to think through military planning options, to evaluate results of current and prior-year execution of the defense budget, and to ensure that each phase of the cycle has the attention needed. A two-year cycle also would, in particular, allow the Department of Defense to pay more attention to programming, the second phase of the Planning, Programming, and Budgeting System (PPBS) where individual defense programs are put together, refined, and compared to each other to respond to defense needs.

A new biennial defense programming process would need to be fashioned to precede the process through which biennial budgets are formulated. Stability obtained from such two-year processes would provide many benefits throughout the Department of Defense, not the least of which would be found at the operational level in the field, where installation and activity commanders and program managers turn budget decisions into action.

A two-year defense budget cycle could also allow the Executive and Legislative Branches of government to spend one of the two years on a necessary, but generally ignored, evaluation process. It should help the Services to better manage their programs, and Congress to stick to its deadlines and schedules. Having spent a year reviewing ongoing activities, Congress should be able to begin earlier and move faster in the appropriation year.

One of the major arguments against biennial budgeting is that it builds too much inflexibility into the system. National security objectives and priorities,

however, ordinarily do not change appreciably from year to year, nor should military strategy or the military force structure change radically over a two-year period. In addition, the appropriate tools needed to make any changes required in the second year of budget execution are already in existence. Current reprogramming, supplemental, and budget amendment procedures are more than adequate to address the need. Reprogramming thresholds and transfer limitations within program categories should be reviewed by both Congress and the Defense Department in a biennial budget context, and additional flexibility should be provided if needed. Rescissions and deferrals are also techniques that can be used when necessary.

Primarily, however, a two-year appropriation for defense would stop the yearlong chaos of budget-making that we now have, or at minimum, allow it to happen only every two years rather than annually. This would surely provide a greater degree of stability over a longer period of time.

We applaud DoD support for two-year defense budgets and growing support within the Congress. We are particularly encouraged by Secretary Weinberger's commitment to the concept. He echoed the Commission's sentiments in his letter transmitting the April 1, 1986, Report on Two-Year Defense Budgeting to the Armed Services Committees and Appropriations Committees when he stated:

. . . The resulting improved stability could increase the efficiency of defense operations. Such an approach could also serve to simplify the currently lengthy and time consuming budget process. Both Congress and the Executive Branch would have significantly more time to focus on the resolution of policy issues and the establishment of priorities. Moreover, the adoption of biennial budgeting should reduce the need for Congress to fund our (defense) operations through limited and ineffective Continuing Resolution Authority procedures. . . .

B. Milestone Authorization, Baselineing, and Multi-Year Procurement

To complement biennial budgeting, the Commission believes that milestone authorization, baselineing, and multi-year procurement should be instituted and expanded by both the Defense Department and Congress for all major defense programs.

Milestone authorization would allow the Armed Services Committees to focus their review of major acquisition programs on two key program milestones, the beginning of full-scale engineering development and the start of

high-rate production. Programs advancing through these milestones in either the first or second year of a particular biennial authorization request would be identified to Congress by the Department of Defense, and DoD would provide a program baseline for each identified program. A program baseline would describe the cost, schedule, and operational performance of the systems to be acquired during the production lifetime of the program, would be certified at the highest level of responsible officials within DoD, and would establish a contract between the Executive and Legislative Branches based on mutual expectations for the program.

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

C. Changing the Structure of the Defense Budget

Finally, the Commission believes that the Congress, the Department of Defense, and the Office of Management and Budget must together begin the hard work necessary to reduce an overly detailed line-item review of the defense budget and to bring a broader, operational perspective to the defense budget and its companion Five-Year Defense Program.

The Five-Year Defense Program has been constructed to provide a crosswalk between the input (financial) side of the nation's defense budget and the output (forces, weapon systems, manpower, etc.) side where defense programs are grouped according to the operational purposes they serve. However, the relative lack of attention historically directed at operational concepts to guide defense spending has resulted in relatively poor structural development of the output side. While the basic foundation of an operationally oriented structure has been in place in the Five-Year Defense Program for some time, much more work must be done to build a new, and more adequate, budget structure for congressional biennial defense authorizations and appropriations.

For example, such a new budget structure might better show the contribution of the B-1 bomber to national defense by grouping the B-1 program and other appropriate programs within a budget account titled "Modernization of Strategic Nuclear Forces" rather than, as is now the case, a budget account called "Aircraft Procurement, Air Force." A revised budget structure of this type would allow a better review of the different types of strategic nuclear systems, in relationship to each other and to overall national security objectives, than is now the case.

In addition, it would allow for more management judgment to be introduced by aggregating, consolidating, and reorganizing thousands of line items into fewer budget activities within the Military Departments. For example, if all Army cargo and utility helicopters and their modifications, spares, and simulators were placed in a new, single, aggregated activity, 39 line items could be reduced to 4. Similarly, 358 line items for trucks could be reduced to 11. This would permit more reasoned, practical, and balanced decisions to be made.

Recommendations

CONGRESS

A joint effort among the Appropriations Committees, the Armed Services Committees, the Office of Management and Budget (OMB), and the Department of Defense (DoD) should be undertaken as soon as possible to work out the necessary agreements, concepts, categories, and procedures to implement a new biennial budget process for defense. Biennial budgeting for defense should be instituted in 1987 for the fiscal year 1988-89 defense budget. Congress should authorize and appropriate defense funding for those two years. The second year of this new biennial budgeting process should be used by both Congress and DoD to review program execution where appropriate.

Congress should reduce the overlap, duplication, and redundancy among the many congressional committees and subcommittees now reviewing the defense budget.

The leadership of both parties in the House and the Senate should review the congressional process leading up to annual budget resolutions with the intent of increasing stability in forecasts for defense budgets for future years. We cannot stress strongly enough that a responsible partnership in providing for the national defense means agreement between Congress and the President

on an overall level of a five-year defense program early in a new President's term in office and adherence to this agreement during his Administration.

The chairmen and ranking minority members of the Armed Services Committees and the Defense Appropriations Subcommittees should agree on a cooperative review of the defense budget that has the following features:

- Review by the Armed Services Committees of the defense budget in terms of operational concepts and categories (e.g., force structure, modernization, readiness, and sustainability, etc.);
- Review and authorization of individual programs by the Armed Services Committees that concentrate on new defense efforts at key milestones—specifically the beginning of full-scale development and the start of high-rate production—in terms of their contributions to major defense missions; and
- Review by the Appropriations Committees, using the new budget structured in terms of operational concepts and categories, to adjust the the President's defense budget to congressional budget resolution levels through refinements based on information not available when the President's budget was formulated months earlier.

Congress should adhere to its own deadlines by accelerating the budget review process, so that final authorizations and appropriations are provided to DoD on time, and less use is made of continuing resolutions.

Congress should review and make major reductions in the number of reports it asks DoD to prepare and should closely control requirements for new reports in the future.

EXECUTIVE BRANCH

The President should direct the Secretary of Defense and OMB to institute biennial budgeting for defense in 1987 for the fiscal year 1988–89 defense budget and budgets thereafter.

The Secretary of Defense should develop and submit to Congress defense budgets and five-year plans within an operationally oriented structure. He should work with the appropriate committees of Congress and with OMB to

establish the necessary mechanisms and procedures to ensure that a new budget format is established.

The Secretary of Defense should institute a biennial programming process within DoD to complement the proposed biennial planning and budgeting processes.

The Secretary of Defense should work with the Armed Services Committees to define procedures for milestone authorizations of major defense programs.

Baselining and multi-year procurement should be used as much as possible to reinforce milestone authorization.

Conclusion

We have refined the ideas presented in our Interim Report in the hope that better linkages might be forged among national security objectives, national military strategy, and defense budgets. Defense of the nation demands such linkages.

The President must initiate the effort. He must challenge the Secretary of Defense, the Chairman of the Joint Chiefs of Staff, and the nation's key military leaders to engage in creating a national military strategy that can become the basis of America's protection into the next century. Only the President can define the terms and boundaries necessary to set such an effort in motion, and he must be confident that it will yield the proper result.

Prepared with this kind of a national military strategy, the President can provide Congress a blueprint for national security, and a constructive partnership can be formed to carry it out—through a five-year national defense program that logically follows. This partnership will, however, require Congress to improve its methods and make them more responsive to the requirements of national defense.

For these reasons, senior officials must exercise leadership if better methods are to take hold and yield a better national defense. We must depend upon dedicated and talented people to take the concepts we have presented and build upon them for the future.

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Summary of Recommendations Arranged in Sequential Order

To institutionalize, expand, and link a series of critical Presidential determinations, we recommend a process that would operate in substance as follows:

1. The National Security Council would develop and direct a national security planning process for the President that revises current national security decision directives as appropriate and that provides to the Secretary of Defense Presidential guidance that includes:

- A statement of national security objectives;
- A statement of priorities among national security objectives;
- A statement of major defense policies;
- Provisional five-year defense budget levels, with the advice and assistance of the Office of Management and Budget, to give focus to the development of a fiscally constrained national military strategy. Such budget levels would reflect competing demands on the federal budget as well as projections of gross national product and revenues; and
- Direction to construct a proposed national military strategy and strategy options for Presidential decision in time to guide development of the first biennial defense budget for fiscal years 1988 and 1989.

2. The Secretary of Defense, following receipt of the Presidential

guidance described above, should direct the Chairman of the Joint Chiefs of Staff (JCS), with the advice of the other members of the JCS and the Commanders-in-Chief (CINCs) of the Unified and Specified Commands, to:

- Appraise the worldwide military threats to U.S. interests and objectives;
- Derive national military objectives and priorities from the national security objectives, major defense policies, and priorities received from the President; and
- Provide the Secretary of Defense a recommended national military strategy that:

**Best attains those national security objectives provided by the President, in accordance with his policies and priorities;
Identifies the forces and capabilities necessary to execute the strategy during the five-year planning period; and
Meets fiscal and other resource constraints directed by the President during the five-year planning period.**

3. At the direction of the Secretary of Defense, the Chairman also should develop strategy options to achieve the national security objectives. Such strategy options would:

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

4. At the direction of the Secretary of Defense, the Chairman of the JCS, with the assistance of the other members of the JCS and the CINCs, and in

consultation with the Director of Central Intelligence, should also prepare a military net assessment that would:

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

5. The Secretary of Defense, following his review and analysis of the Chairman's recommendations, should provide to the President:

- The Secretary's recommended national military strategy and its corresponding five-year defense budget level, consistent with the President's policy and fiscal guidance;
- Appropriate strategy options and corresponding five-year defense budget levels sufficient to provide the President a wide range of alternatives in choosing a national defense program; and
- A military net assessment of the recommended national military strategy and strategy options.

6. Following receipt of the Secretary's recommended national military strategy, accompanying options and a military net assessment, the President would approve a particular national defense program and its associated budget level. This budget level would then be provided to the Secretary of Defense as five-year fiscal guidance for the development of biennial defense budgets such that:

- The five-year defense budget level would be binding on all elements of the Administration;

-
- Presidential guidance would be issued in mid-1986 to guide development in this transitional year of the first biennial defense budget for fiscal years 1988 and 1989 to the maximum possible extent; and
 - The new national security planning process would be fully implemented to determine the course of the defense budget for fiscal years 1990 to 1994.

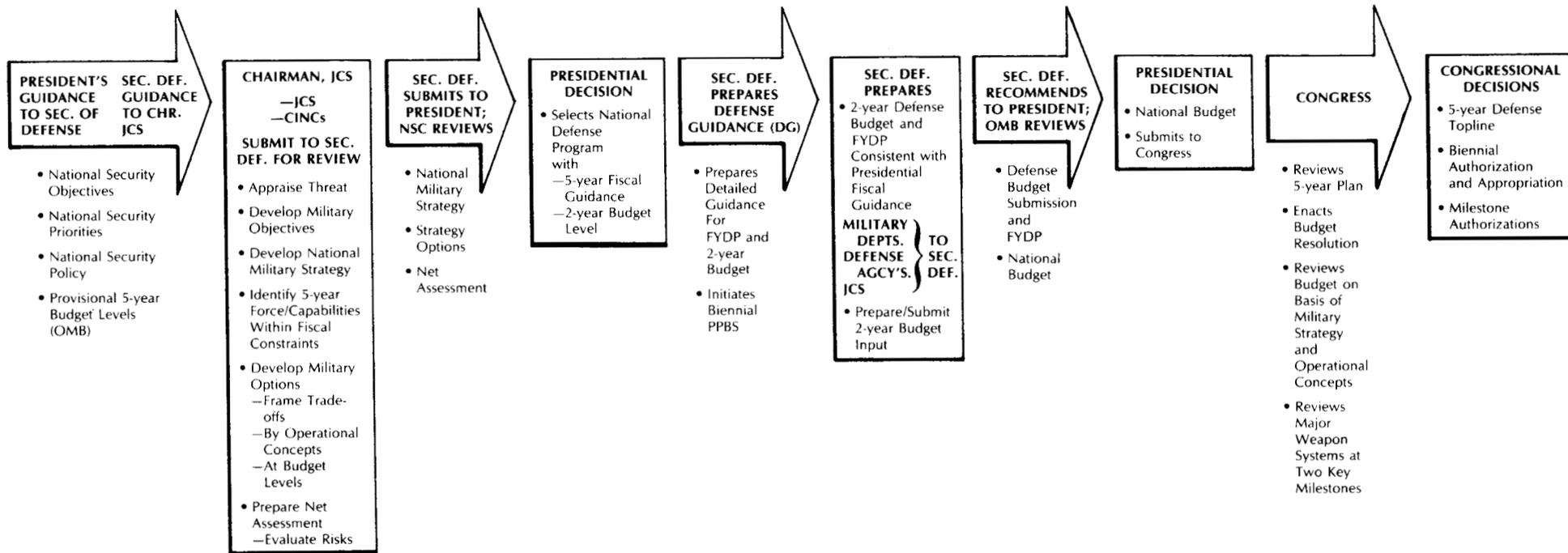
7. The Secretary of Defense would:

- Institute a biennial programming process to complement the new biennial planning and two-year budget processes.
- Develop the Department of Defense (DoD) budget for fiscal years 1988-89 and future defense budgets in a new, operationally oriented structure on a biennial basis. He should work with the appropriate committees of Congress to jointly establish the necessary mechanisms and procedures to ensure that the biennial process works smoothly and that Congress authorizes and appropriates DoD funds every two years henceforth beginning in fiscal years 1988-89.
- Develop a formal program review process with the Services to ensure that, where appropriate, major programs receive a complete evaluation during the off-year of the biennial budget process.

8. Congress should institute biennial budgeting for defense beginning with the next Presidential budget proposal for fiscal years 1988-89 by authorizing and appropriating defense funding for those two years.

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

Figure 1 PROPOSED NATIONAL SECURITY PLANNING AND DEFENSE BUDGETING PROCESS



*Five-Year Defense Program

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