

# American National Security

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Seventh Edition

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Foreword by  
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To  
Amos A. Jordan and W

Two exceptional scholars, educators, me  
officers, who taught and inspired generati

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A successful approach to the challenges of a dynamic and complex world must be based on a strategy that is open, clear, and unambiguous. This book provides an impressive, comprehensive discussion of the past and history that have influenced national security and its direction in the future. Just as America has changed, the authors have significantly revised this edition to reflect the initial policy approaches of the Trump administration.

A comprehensive approach to American national security must avoid the strategic myopia that can often result from a "soda straw" examination of individual issues. It is important to take a holistic view to understand trends and to anticipate challenges throughout the world.

For example, in the Middle East, the challenges that have affected and will continue to have a profound impact. First, Sunni Islamic extremism, which is embodied in Iraq and the Levant (ISIL), and their affiliates support violent attacks that foment instability. Second, Iran and its proxy forces fighting throughout the region and exploits state weaknesses. Third, the Arab-Israeli conflict remains salient throughout the efforts of the United States and others to resolve it in spite of recent increases in US energy production.

## Planning, Budgeting, and Management

The United States produces and consumes millions of ordinary private goods every day—automobiles, blue jeans, pencils, and so on—but nobody ever asks, “How many pencils does the United States need?” or, “How will those pencils be produced?” Instead, multiple institutions comprise a market that provides signals—through prices—to individual producers and consumers. The producers and consumers make decentralized decisions to produce, sell, buy, and consume pencils. No grand conductor orchestrates, plans, budgets, or manages pencils. There is no US national pencil agency, no secretary of pencils, no congressional committee on pencils, and no book chapter on planning, budgeting, and management of pencils. Nevertheless, the right number of pencils seems to be produced by this self-emergent order, which results in what economists call a market equilibrium.

### The Economic Nature of National Security

If the market for private goods like pencils can determine how many to produce and how to produce them, why does a massive, centralized infrastructure seem necessary to answer those same questions for national security? The difference is inherent in the very nature of the product itself: national security. As a public good, national security has two distinctive characteristics that affect the way that society must manage the allocation of relevant resources.

The first distinction between national security and the pencil has to do with the ability to establish, maintain, and transfer an exclusive property right over the product. For the pencil, possessing and using it establishes the exclusive property right. In the economics literature, this ease of establishing a property right is called “excludability.” A pencil is an easily excludable good, but once a unit of national

security is produced, it is generally available to all: the producer cannot decide who can and who cannot benefit from national security. It is therefore considered non-excludable in provision.

The second distinction between national security and the pencil is a difference in whether the product can be consumed simultaneously by multiple users. If someone is currently using a pencil, others must wait their turn. A pencil is thus deemed “rival” in consumption: only one person can consume or use it at any given time. When a unit of national security is produced, each individual in the society consumes that unit simultaneously. When others join this society, they also gain security with little or no degradation to the security enjoyed by those who are already there. National security is therefore considered non-rival in consumption.

These two characteristics—being non-excludable in provision and non-rival in consumption—are reflected in the characterization of national security as a public good. While decentralized markets can produce, provide, and allocate private goods, they are unable to produce, provide, or allocate, efficiently and effectively, goods and services that are non-excludable and non-rival—that is, public goods.<sup>1</sup> No private person or firm would produce something that they could not possess, nor pay for something that, once produced, could be consumed freely by all. Therefore, as Adam Smith observed in 1776, it is the government that must provide national security:

According to the system of natural liberty, the sovereign has only three duties to attend to; three duties of great importance, indeed, but plain and intelligible to common understandings: first, the duty of protecting the society from the violence and invasion of other independent societies; secondly, the duty of protecting, as far as possible, every member of the society from the injustice or oppression of every other member of it, or the duty of establishing an exact administration of justice; and, thirdly, the duty of erecting and maintaining certain public works and certain public institutions which it can never be for the interest of any individual, or small number of individuals, to erect and maintain; because the profit could never repay the expense to any individual, or small number of individuals, though it may frequently do much more than repay it to a great society.<sup>2</sup>

Thus, the burden of production, provision, and distribution of national security falls to the sovereign, or in the case of the United States, to the people as a whole or their representatives.

Since society as a whole is responsible for production, provision, and distribution of national security, the next question is: How much national security should be produced? In theory, there should be just enough national security to make society as well-off as possible. That is, the productive resources available to society—labor, physical capital, and natural resources—should be allocated among various private goods and public goods, including national security, to maximize overall social welfare. This is achieved when society could not increase its own well-being by releasing resources from the production of national security (reduce the production of national security by one unit) and making those resources available to other production processes (increase the production of pencils or blue jeans).<sup>3</sup>

When some productive resources are transferred to the government to meet national security objectives, an “opportunity cost” is imposed on society: this is the lost opportunity of producing other goods and services with those same resources to meet private consumption or other social goals. The concept of the opportunity cost of additional national security was explained by President Dwight Eisenhower in 1953: “The cost of one modern heavy bomber is this: a modern brick school in more than 30 cities. It is two electric power plants, each serving a town of 60,000 population. It is two fine, fully equipped hospitals. It is some 50 miles of concrete highway. We pay for a single fighter plane with a half million bushels of wheat. We pay for a single destroyer with new homes that could have housed more than 8,000 people.”<sup>4</sup> Even for President Eisenhower, whose background and personal experience might suggest that he would favor military expenditures, the contentious issue of “how much is enough,” as well as precisely what national security capabilities the nation should develop, were major concerns. For these reasons, the system of planning, budgeting, and managing national security spending necessarily involves Congress and the president. They must decide the allocation of resources among national security, other government functions, and private goods. If political leaders’ decisions conflict with the views of the citizens they represent, then citizens can express their preferences for alternate allocations of resources through political participation, ultimately by voting for officials who better reflect their preferences.

Given competing demand for scarce resources, one objective of national security policy must be to obtain the most security possible for each dollar of expenditure. This process is not perfect. Even if a system could be designed to achieve the greatest possible efficiency in one sector of national security—say cyber security—it would be impossible to meet all national security goals in other sectors, such as protection of American seaports. Resource constraints mold ideal goals into less-than-ideal objectives. National security objectives are not absolutes, but instead result from evaluation of the available options. The realistic options facing society are not bankruptcy with perfect security, on the one hand, versus prosperity while risking national-security disaster, on the other. Rather, society must confront the far more difficult questions of how much expenditure for national security is required and how much risk it is willing to accept, so that adequate resources remain available for other government programs, private consumption, and investment.

## The Challenge for Strategic Planners

In addition to economic trade-offs, Eisenhower noted the uncomfortable balance between a free society and a centralized infrastructure making choices on behalf of society’s overall welfare. In his farewell address, he expressed concern over domination by any one part of society over national security decision making and resource allocation, lest it undermine, instead of contribute to, social well-being:

In the councils of government, we must guard against the acquisition of unwarranted influence, whether sought or unsought, by the military-industrial complex. The poten-

tial for the disastrous rise of misplaced power exists and will persist. We must never let the weight of this combination endanger our liberties or democratic processes. We should take nothing for granted. Only an alert and knowledgeable citizenry can compel the proper meshing of the huge industrial and military machinery of defense with our peaceful methods and goals, so that security and liberty may prosper together.<sup>5</sup>

With this warning in mind, national security planners must consider the following: What are society’s national security objectives, and how can productive resources and the instruments of national security best be used to meet these objectives effectively? Not only must national security policy makers agree on objectives and the instruments that will be used to pursue them, but they must also grapple with how much of each instrument should be used. In a broad sense, this means agreeing on the right approach to national security—how specific combinations of force, diplomacy, and economic power should be used—and how to allocate scarce resources to create the required capabilities.

The National Security Council (NSC) is responsible for coordinating national security policies among many agencies, but it possesses no statutory power to control the actions of these agencies. Moreover, lawmakers do not annually debate a single national security budget proposal; rather they are compelled to analyze the proposed achievement of security objectives piece by piece. Multiple agencies compete for shares of national security dollars and for roles in shaping and executing national security policy.

Previous chapters have identified a wide range of actors who play key roles in the national security process. A distinct subgroup of these actors plays the dominant role in providing federal funds to execute the national security strategy. Broadly speaking, national security planning, budgeting, and management is limited to three distinct governmental arenas: defense, homeland security, and international affairs (diplomacy). Within these three broad arenas of security are more specific security-related activities, such as intelligence, law enforcement, and economic instruments of power.

In terms of resources, defense is clearly predominant. This is not surprising, nor is it anomalous historically or when compared to security planning and budgeting in many other countries. The resources required to sustain defense are typically tremendous; in the United States, defense spending constitutes the single largest discretionary government expenditure. Because of its significant role and tremendous weight within the security policy process, the Department of Defense (DoD) is the primary focus of this chapter. An evaluation of DoD’s role in national security planning and budgeting also offers insight into the problems and tensions that exist throughout the national security community.

## The Federal Budget

The crafting of the federal budget is a contentious political process, characterized by repeating cycles of conflict and resolution. Conflict stems from the fact that the budget process is not simply a matter of allocating huge sums of dollars, but also one of setting national priorities. The political nature of such an endeavor naturally

leads to conflict among a wide range of powerful actors including Congress, its individual members, the president, his or her staff, a huge federal bureaucracy, the military services, states, lobbyists, citizens, and sometimes even international actors. The stakes are high because resources are limited: pursuit of one actor's specific objectives will likely be challenged by another's. Despite this intense conflict, budgets must be resolved. Customary budgetary procedures regulate conflict by parceling out tasks and roles, establishing expectations and deadlines for action, and limiting the scope of issues that are considered. Conflict is dampened by the fact that these repetitive tasks are completed with little or no change, year after year, and by the routinized behavior of individuals involved.<sup>6</sup>

Key budget actors include the president, the Office of Management and Budget (OMB), federal departments and agencies, congressional tax and budget committees, the Congressional Budget Office (CBO), congressional authorization committees (the committees with jurisdiction over certain governmental programs, such as the Senate Committee on Armed Services), the congressional appropriations committees and their subcommittees, and the Government Accountability Office (GAO). Budgeting involves thousands of participants, but very often their roles in the process are prescribed by the iterative budget process.

By law, the president must submit a budget to Congress by the first Monday in February for the following fiscal year. The US government fiscal year starts on October 1 and concludes on the next September 30 (designated by the year corresponding to January 1). In February 2019, for example, the president submits the Fiscal Year (FY) 2020 budget, which covers October 1, 2019, to September 30, 2020. Although the president's budget submission officially begins the annual budget cycle, federal agencies will have started the annual process much earlier. During the spring a year prior to the budget submission, budget policy is developed, following the budget formulation process outlined in table 9.1.<sup>7</sup>

After the president submits the budget in February, the action moves to Capitol Hill. As specified in the Constitution, Congress must authorize all federal appropriations. It does so in a statutory process reflected in table 9.2.<sup>8</sup> There are several key steps in the process. First is the adoption of a budget resolution; this is an agreement between the House and Senate on the overall size of the budget and its general composition in terms of functional categories such as national defense, international affairs, and so forth. The amounts in these functional categories are then allocated to each congressional committee with jurisdiction over spending; subsequent legislation considered in the House and Senate must be consistent with these allocations, as well as the agreed aggregate levels of spending and revenues. In some years, the budget resolution may also contain reconciliation instructions. These instructions identify committees that must recommend changes in laws affecting revenues or direct spending programs within their jurisdiction in order to implement specific priorities agreed to in the budget resolution. All committees receiving such instructions must submit recommended legislative proposals to their respective (House or Senate) budget committee. Reconciliation bills are then considered, and sometimes amended, by the full House and Senate.

**Table 9.1** Executive Branch Budget Timetable (FY 2020)

<i>Date</i>	<i>Action to be completed</i>
Spring 2018	OMB issues spring planning guidance to executive branch agencies.
Spring and Summer 2018	OMB and the executive branch agencies: <ul style="list-style-type: none"> <li>• identify major issues for the upcoming budget;</li> <li>• develop and analyze options for the upcoming fall review;</li> <li>• plan for the analysis of issues for future decisions.</li> </ul>
July 2018	OMB issues detailed instructions for budget data (officially known as OMB Circular A-11).
September 2018	Executive branch agencies make budget submissions.
October–November 2018	OMB staff analyzes agency budget proposals in light of presidential priorities, program performance, and budget constraints.
Late November 2018	OMB director recommends a complete set of budget proposals to the president.
Late November 2018	OMB informs all executive branch agencies about the decisions on their budget requests.
December 2018	Executive branch agencies may appeal decisions to OMB and the president.
January 2019	Agencies prepare and OMB reviews congressional budget justification materials.
First Monday in February 2019	President must transmit the FY 2020 budget to Congress.

*Source:* Office of Management and Budget

Congressional approval of each year's spending is divided into thirteen separate appropriations bills that cover broad categories of spending. These appropriations bills are prepared by the House and Senate Appropriations Committees and their subcommittees, which review the requests of particular agencies or groups of related functions. During committee and subcommittee hearings, agency representatives answer questions and defend their requests. In addition to government officials, lobbyists and other witnesses may also testify. Although the appropriations committees have broad discretion in allocating funds, they must stay within the totals set forth in the budget resolution.

When examining the interaction between the federal bureaucracy and Congress, it is important to note the difference between authorization and appropriation legislation. Authorization legislation is an act of Congress that establishes a government program and defines the amount of money it can spend. For defense, this is normally done by the House and Senate Armed Services Committees. An authorization bill, however, does not provide any money: only an appropriations act can do this. Appropriations for spending on the military originate in the House and Senate appropriations committees' subcommittees on defense. The process for developing a defense budget within the overall federal budget is discussed later in this chapter.

**Table 9.2** Congressional Budget Process Timetable (FY 2020)

Date	Action to be completed
First Monday in February 2019	President submits FY 2020 budget to Congress.
February 15, 2019	CBO submits report on economic and budget outlook to budget committees.
Six weeks after president's budget is submitted	Committees submit reports on views and estimates to respective budget committee.
April 1, 2019	Senate Budget Committee reports budget resolution.
April 15, 2019	Congress completes action on budget resolution.
June 10, 2019	House Appropriations Committee reports last regular appropriations bill.
June 30, 2019	House completes action on regular appropriations bills and any required reconciliation legislation.
July 15, 2019	President submits mid-session review of budget to Congress.
October 1, 2019	Fiscal year 2020 begins; ends September 30, 2020.

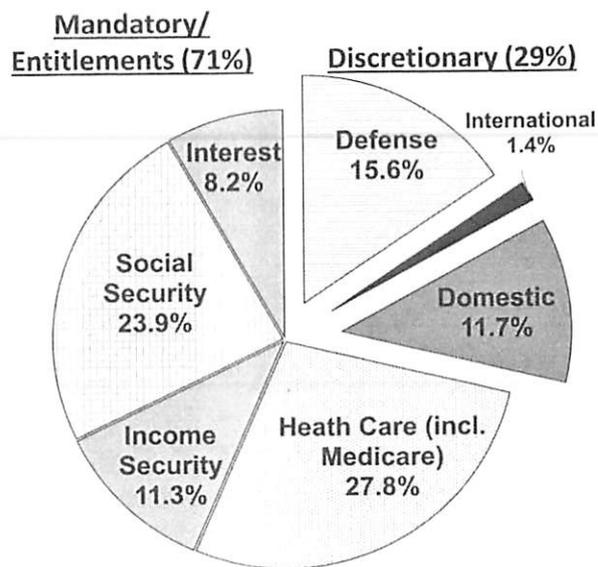
Source: Congressional Research Service

### Spending for National Security

The Department of Defense dominates the national security budget, but national security spending is not just for military forces; spending for homeland security, diplomacy, and foreign affairs also come under the national security umbrella. Of course, the vast and disparate bureaucracies involved—in terms of personnel, funds, and missions—create an ongoing puzzle for national security planning. How do these individual organizations overcome bureaucratic barriers to join in an effective, unified approach to achieving national security objectives? How can scarce resources be effectively allocated among multiple agencies and departments, given that these separate entities are typically in competition with one another?

Figure 9.1 illustrates spending for Fiscal Year 2019. The pie chart represents the entire federal budget, including mandatory and discretionary spending. *Mandatory* spending includes interest payments on the existing debt and entitlements, including Social Security, income security (such as unemployment, food stamps, supplemental security income, some veterans benefits, and housing assistance), and health care (including Medicare and Medicaid). Entitlement spending programs give eligible recipients a legal right to payments from the government and as such, the government is obligated to make such payments even if the budget and appropriation acts do not provide sufficient funds.<sup>10</sup> Many entitlements, such as Social Security and Medicare, are funded in part from individuals' prior contributions (via taxes) designated for those programs. The only way to reduce mandatory spending is to change the timing of or eligibility for benefits, which is extremely difficult. Politicians and the public are typically unwilling to cut entitlement spending because of the importance of these programs in society and the belief, by law and public policy, that government has the obligation to provide these promised payments to

**FIGURE 9.1** US Federal Spending, FY 2019

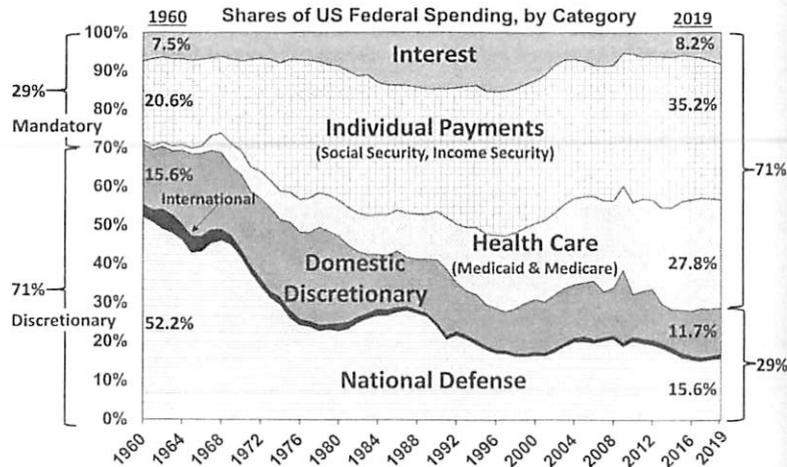


Source: Economic Report of the President, February 2018

eligible individuals. These programs provide the “social safety net” that most Americans are not willing to forego even when there are clear trade-offs, including with national security spending.

The *discretionary* portion of the federal budget provides significant opportunity for conflict and debate over the proper allocation of scarce resources. Discretionary funding proposals must be renewed by departments and the president each year, and must also survive the authorization and appropriation processes in Congress. A discretionary program can be “killed” at several decision points throughout this process, which lends itself to a great deal of jockeying and compromise.

Since World War II, mandatory spending has increased so much that it now dominates the federal budget. In 1946, the share of the budget committed to mandatory spending was only 12 percent.<sup>10</sup> By 1960 it had grown to 29 percent. In the past sixty years, mandatory spending has increased to include 71 percent of federal expenditures (see figure 9.2).<sup>11</sup> This is due to many factors, most importantly the creation and expansion of entitlements over the past century, such as Social Security in 1935, Medicare in 1965, and Medicare Part D in 2006. Another important cause is changing demographics. The retirement of the baby boomer generation, coupled with increased health care costs and longer life expectancy, is driving up the cost of entitlements. As mandatory spending increases, either overall spending must increase or discretionary spending must decrease to offset it. To pay for any overall increases, the government must increase taxes or it must borrow funds and thereby raise the national debt. Fortunately, low interest rates in recent

**FIGURE 9.2** Changes in Federal Spending, 1960–2019

Source: Economic Report of the President, February 2018

years have limited the cost of interest on the national debt. As interest rates increase, the cost of interest payments on an increasingly large debt will also increase the cost of mandatory spending.

During the first half of the twentieth century, the president had a tremendous amount of power over federal budgeting. In the 1960s, however, a variety of factors motivated Congress to reassert its institutional prerogatives. This trend came to head in the early 1970s when Congress fought with President Richard Nixon over budget priorities and procedures. The result was the Congressional Budget and Impoundment Control Act of 1974. Although this act did not alter the formal role of the president in the budget process, it created budget committees in each house and the Congressional Budget Office, and made other statutory changes to enhance Congress's role in fiscal decisions. The result was a system with more conflict between the executive and legislative branches. Discretionary funding proposals, in particular, became the primary battleground on which each branch fought for division of national priorities. As the discretionary funding proportion decreased, these battles became more intense.

As shown in figure 9.1, discretionary spending constituted about 29 percent of budget outlays in FY 2019. Defense dominated discretionary spending: 15.6 percent of the overall budget, it was 57.2 percent of all discretionary spending. The other components of discretionary security spending—homeland security (at 4.4 percent) and international affairs (at 3.4 percent) combined to equal an additional 7.8 percent of discretionary spending.<sup>12</sup> What stands out most in this analysis is the enormous share of funds allocated to the military, compared with other instruments of national security policy. One reason for this imbalance is simply that large, high-quality, all-volunteer armed forces and their associated equipment are expensive.

Developing a balanced national security program and translating it into budgets acceptable to the Congress, the public, and other executive agencies is an extraordinarily demanding public policy effort. Accomplishing it requires articulation of national security goals and objectives, identification of the departmental and agency strategies and specific capabilities required to meet the defined objectives, and setting priorities that apportion risks (given that no amount of spending will address all the possible security concerns that strategists and planners identify). What follows describes these challenges, and how the DoD seeks to overcome them through its Planning, Programming, Budgeting, and Execution (PPBE) system.

### Evolution of Defense Budgeting

Ideally, a budgetary process assists an organization to perform three essential functions: planning, management, and control. The planning process, which translates the goals of an organization into specific objectives, must provide some mechanism for adjusting objectives and resource allocations to total levels of expenditure. The management function involves the establishment and execution of projects or activities to meet the approved objectives. Finally, the control process monitors the results of various activities measured against the objectives and ensures that expenditures fall within specified limits. DoD needed a system to enable the secretary of defense to plan, manage, and control defense resources effectively.

Prior to the creation of the Department of Defense, the Department of the Navy and the Department of War (which included the Army and the Army Air Corps) would submit their budget proposals separately. These budget proposals would be approved by the president and then considered by two separate authorizing committees in each house of Congress. After the National Security Act of 1947, DoD submitted a consolidated, centralized budget. This centralization provided the Office of the Secretary of Defense (OSD) with additional authority to make tradeoffs among defense programs to shape national security strategy more coherently and more effectively.

Although subsequent defense reorganizations, including amendments to the National Security Act of 1947 in 1949, 1953, and 1958, brought the secretary of defense increasing authority, budgetary process reform occurred slowly. Secretary of Defense Robert McNamara, who took office with the Kennedy administration in 1961, was the first person in that position to shape defense policy actively. In doing so, he developed the budgeting process that largely remains today. Instead of merely reviewing plans and budgets prepared by the services, McNamara had a presidential mandate to evaluate and balance alternative methods of accomplishing the nation's security objectives. For example, several strategic nuclear weapons systems—such as Minuteman missiles, strategic bombers, and Polaris missile submarines—contributed to the same objective of deterring nuclear attack. In deciding how much of the defense budget to allocate to each system, the cost and effectiveness of all three systems needed to be compared. This was virtually impossible under the system that McNamara inherited because it was arrayed in terms of service inputs, including personnel, operations, maintenance, and military

construction, rather than in terms of end products or missions. While forces and weapons were normally considered “horizontally” across services in the planning process, expenditures were portrayed “vertically” within each service by accounting category. The integration of military planning, which was the domain of the Joint Chiefs of Staff (JCS), with budgeting, the domain of the civilian secretaries and comptroller organization, required a link between mission objectives and expenditures.

McNamara’s solution was “program budgeting,” under which all military forces and weapons systems were grouped into mission-oriented defense programs according to their principal military purpose, regardless of traditional service boundaries. Programs were then subdivided into program elements. For example, the General Purpose Forces Program included as program elements both Marine and Army forces, such as brigades and divisions. With expenditure data arrayed by program, a decision maker could readily observe how funds were distributed over mission-related outputs and how those funds were allocated among different forces and weapons systems within each program.

The Planning, Programming, and Budgeting System (PPBS) that McNamara instituted made it possible to link expenditures more closely to the national security objectives to which they were directed, to compare the relative value of various expenditures, and to apply the resultant decisions to force structure and weapons procurement. PPBS improved the ability of DoD to analyze defense decisions and coordinate interrelated activities. In practice, it also centralized power in the hands of McNamara and the OSD. It did so by providing a systematic methodology for identifying key issues, focusing the attention of the senior leadership on them, organizing the sequence of and participation in the decision process, recording decisions, and shaping the defense program and budget to reflect them.

Although PPBS has often been criticized, it has been retained as the basic structure for defense strategy, program, and budget development through successive presidential administrations. In fact, as a result of numerous government-wide management initiatives over the last twenty-five years, other departments and agencies have essentially adopted the PPBS approach. Although DoD changed PPBS in 2003 to Planning, Programming, Budgeting, and Execution (PPBE) to increase emphasis on budget execution, most of the components remain the same.

### **The Planning, Programming, Budgeting, and Execution (PPBE) Process**

In the PPBE process, the secretary of defense establishes policies, strategy, goal priorities, and fiscal constraints for the department, which are used to guide resource allocation decisions. The PPBE process consists of four distinct but overlapping phases: planning, programming, budgeting, and execution.

**Planning.** The *planning* phase of PPBE is a collaborative effort by OSD and the joint staff that begins with an annual articulation of national defense policies and

military strategy, known as the Strategic Planning Guidance.<sup>13</sup> The Strategic Planning Guidance incorporates the latest National Security Strategy, National Defense Strategy, Quadrennial Defense Review guidance, and other strategic directives. The PPBE planning process results in fiscally constrained guidance and priorities for the development of programs (such as for military forces, modernization, readiness, sustainability, and supporting business processes and infrastructure activities). The results of this planning effort are then articulated in a document known as the Joint Programming Guidance. The Joint Programming Guidance is the link between planning and programming. It provides guidance to each DoD component—military departments and defense agencies—for the development of a program proposal by each, known as the Program Objective Memorandum (POM).

**Programming.** The programming phase begins with the development by each DoD component of a POM that responds to the guidance and priorities of the Joint Programming Guidance within fiscal constraints. Normally completed in the summer before the submission of the president’s budget the following February, the POM provides a fairly detailed and comprehensive description of the proposed programs, including a time-phased allocation of resources by program projected six years into the future. In addition, each DoD component may identify important programs not fully funded (or not funded at all) in the POM and assess the risks associated with the funding shortfalls. The senior leadership in the OSD and the joint staff review each POM to help integrate the various DoD component POMs into a coherent overall defense program. In addition, the OSD staff and the joint staff can raise issues with selected portions of any POM, or any funding shortfalls in the POM, and propose alternatives. Issues not resolved at lower levels are forwarded to the secretary of defense for decisions, and the resulting decisions are documented in a Program Decision Memorandum.

**Budgeting.** The budgeting phase of PPBE overlaps with the programming phase.<sup>14</sup> Its purpose is to convert the programmatic view into a format appropriate to the congressional appropriations structure, along with supporting budget justification documents. The budget projects resources only two years into the future, but with considerably more financial detail than the POM. Upon submission, each budget estimate is reviewed by analysts from the Office of the Undersecretary of Defense (Comptroller) and the Office of Management and Budget. Their review seeks to ensure that programs are funded in accordance with current financial policies and that they are properly and reasonably priced. The review also ensures that the budget documentation is adequate to justify the programs that will be presented to Congress. If budget staffs cannot resolve issues during the review, they are forwarded to the deputy secretary of defense for decisions. These decisions are incorporated into an updated budget submission provided to the OMB. Then, the overall DoD budget is provided as part of the president’s budget request to Congress.

**Execution.** The execution review occurs simultaneously with the program and budget reviews. The purpose of the execution review is to provide feedback to senior leadership concerning the effectiveness of current and prior resource allocations. To the extent that performance goals of an existing program are not being met, the execution review may lead to recommendations to adjust resources or restructure programs to achieve desired performance goals.<sup>15</sup> The execution analysis supports DoD in its development of the Annual Performance Report, a submission required as part of the Government Performance Results Act of 1993.

**Timing.** The PPBE process is complex and detailed for a single fiscal year. Complexity is multiplied because, at any given time, at least four different budgets are being prepared. In the summer of 2019, for example, DoD was:

- Executing the FY 2019 budget, which lasted from October 1, 2018, to September 30, 2019;
- Defending the FY 2020 budget, submitted to Congress in February 2019;
- Preparing the POM submission for the FY 2021 budget; and
- Conducting planning for the FY 2022 submission.

If an unforeseen event takes place—from a public health crisis like the 2014 outbreak of Ebola to a military intervention such as the 1991 Gulf War—all of these budgets may be affected, requiring complex and cascading readjustments of priorities.

## Budgeting during Crisis

In addition to the standard PPBE process, two features of federal budgeting have dominated much of defense planning, budgeting, and management in the past two decades. The first issue has been finding a way to provide funding for ongoing wars, and the second has been attempting to constrain overall spending for the purpose of controlling the US fiscal deficit.

**Supplemental Appropriations.** In addition to the formal budget process, Congress has the ability to appropriate funds to cover unexpected outlays. One of the most important advantages of such supplemental appropriations is that they allow the government to react quickly to unexpected events, such as natural disasters or unforeseen military operations. While the regular appropriation process lasts around nine months, supplemental requests are normally approved within four months.<sup>16</sup> During the 1990s, such supplemental appropriations were used for the 1991 Gulf War and for peacekeeping missions in Somalia, Haiti, and the Balkans. Congress has also used supplemental appropriations for relief after hurricanes, flooding, and other domestic disasters. After 9/11, supplemental appropriations were used for Afghanistan, Iraq, and homeland security measures. Over time, more of the budget requirements for war could be anticipated, and thus, rather than permitting

the president to have a flexible “shadow budget” for operations, Congress and DoD established a separate category of budget requests called *overseas contingency operations* (OCO). These OCO funds are in addition to the basic defense budget, and they provide funding that is intended only for support of wartime operations. The use of the OCO designation is intended to keep wartime spending separate from routine budgets.

**Constraining Spending.** Budgeting reflects a classic economic problem of unlimited wants and limited resources. Although each specific request for spending may seem, on its face, completely justified, the total of all justified requests exceeds the amount of funding available. In response, Congress and the president have approved legislation that limits federal spending. This includes the Graham-Rudman-Hollings Act of 1985, the Budget Enforcement Act of 1990, the Budget Enforcement Act of 1997, the Pay-As-You-Go Act of 2010, and the Budget Control Act of 2011.<sup>17</sup> The problem is that the circumstances confronting the federal government in any given year will be different from those that existed when discipline-enforcing budget acts were approved: the economy may be less robust than predicted, wars may be longer or more expensive, a hurricane’s devastation may require emergency spending, or political conditions may have changed. So the strict limits in the acts are also subject to the ability of Congress—if pushed by a crisis (real or contrived)—to grant a temporary reprieve from constraints that were deemed necessary for long-term fiscal stability.

In August 2011, the United States was only days away from exceeding the federal debt limit (also referred to as the *debt ceiling*); absent congressional action, it might have failed to meet its obligations to pay entitlement recipients, federal workers, holders of US debt, and federal contractors. As a result, the Standard and Poors rating agency reduced the US bond credit rating from AAA to AA+. A last-minute compromise was reached in which Congress raised the debt ceiling and passed the 2011 Budget Control Act (BCA). That Act specified that if Congress did not limit future spending to specified amounts, dramatic and severe reductions of discretionary spending would be automatically implemented in a process known as *sequestration*.<sup>18</sup> An automatic order would permanently cancel budget resources to achieve required savings in outlays.

In 2013, sequestration was imposed. It slashed \$109 billion from discretionary spending, with half coming from defense spending and half coming from nondefense spending (entitlement spending was exempt). The president exempted military salaries from the reductions, but every other defense and nondefense account was reduced across the board. The result was involuntary furlough of government workers, curtailment of contracts, and other unplanned reductions in government programs. The automatic sequestration undermined the otherwise rational PPBE process.

With the sequestration threat reemerging in 2016, the official DoD Quadrennial Defense Review concluded that “the return of sequestration-level cuts in FY2016 would significantly reduce the Department’s ability to fully implement

our strategy . . . [and] risks associated with conducting military operations would rise substantially. Our military would be unbalanced and eventually too small and insufficiently modern to meet the needs of our strategy, leading to greater risk of longer wars with higher casualties. . . . Ultimately, continued sequestration-level cuts would likely embolden our adversaries and undermine the confidence of our allies."<sup>19</sup> This conclusion is extraordinary because it states that following the law, which is the obligation of all federal departments, would lead to devastating consequences for the country. In the 2016 defense authorization signed in November 2015, Congress and the president agreed to count some regular defense spending as OCO and to permit a similar increase in domestic spending, suspending sequestration constraints until after the 2016 election. In February 2018, Congress approved and the president signed the Bipartisan Budget Act of 2018, which adjusted the sequestration caps for another two years, but did not remove them entirely. This continued to postpone the time at which the federal government must find a solution to significant deficit spending. It is likely that the challenges of managing supplemental appropriations and confronting sequestration or similar budgetary constraints will continue to dominate defense planning, budgeting, and management in the future.

### The Outlook for Planning, Budgeting, and Management

Ideally, the distribution of scarce government resources into security expenditures would perfectly reflect the government's foreign and security policies and explicit trade-offs between investments in security and in other social values. In practice, this is difficult to accomplish because of the fragmented nature of the US national security apparatus and the fact that national security is a public good. Planning for and funding ongoing operations as well as wartime spending continue to be difficult challenges. Moreover, as the largest component of discretionary spending, defense spending will likely continue to face increasing budgetary constraints in the future.

The US government as a whole struggles with determining how much and what types of national security are needed. This struggle affects its ability to determine how much to spend on national security and to evaluate defense with respect to other types of expenditures. Given that national security goals are essentially unlimited, while national resources to achieve them are scarce, how can the national security process be effectively managed? The answer is elusive. The president can use the NSC to coordinate the actions of several agencies, but there is no unified national security apparatus with the capability to plan, manage, and control all national security-related spending. In addition, the checks and balances built into the US system of government inevitably lead to tensions and cross purposes in the process. It is difficult for the president and Congress to agree on national security priorities; even when there is general agreement over objectives, there will still be disagreements over what instruments of power to use and the relative emphasis appropriate to each. The structure and processes currently in place, although better than those of the past, do not lend themselves to efficient unified decisions.

### Discussion Questions

1. What is it about the fundamental properties of national security that makes it hard to produce and allocate through competitive markets? What problems do governments face in producing and allocating national security?
2. Is it inherently impossible to achieve all of the country's ideal national security goals? Why or why not?
3. Should the United States seek to create a more unified national security apparatus? If so, what should it look like? What political factors would make the formation of such an organization difficult?
4. What agencies and organizations play a central role in the federal budget process? Are some agencies more powerful than others? Why?
5. What factors limit the ability of the president and Congress to reshape the federal budget radically?
6. What is the difference between mandatory spending and discretionary spending? Why are these categories significant to national security?
7. Why has discretionary spending decreased steadily as a proportion of the federal budget in recent decades? What factors affect discretionary spending priorities?
8. What is program budgeting and how is it different from previous budgeting practices?
9. Describe the overall PPBE cycle. What are the roles of the president, DoD, and Congress in this process?
10. How do various crises affect the budget cycle? What effect do supplemental appropriations and sequestration have on the process?

### Recommended Readings

- Enthoven, Alain C., and K. Wayne Smith. *How Much Is Enough? Shaping the Defense Program, 1961–1969*. New York: Harper & Row, 1971.
- McCaffery, Jerry L., and L. R. Jones. *Budgeting and Financial Management for National Defense*. Greenwich, CT: Information Age Publishing, 2004.
- McNaughter, Thomas. *New Weapons, Old Politics: America's Military Procurement Muddle*. Washington, DC: Brookings Institution Press, 1989.
- O'Hanlon, Michael E. *Budgeting for Hard Power: Defense and Security Spending under Barack Obama*. Washington, DC: Brookings Institution Press, 2009.
- . *Healing the Wounded Giant: Maintaining Military Preeminence while Cutting the Defense Budget*. Washington, DC: Brookings Institution Press, 2013.
- Rubin, Irene S. *The Politics of Public Budgeting: Getting and Spending, Borrowing and Balancing*. Washington, DC: CQ Press, 2010.
- Schick, Allen. *The Federal Budget: Politics, Policy, Process*. Washington, DC: Brookings Institution Press, 2000.
- Wilson, George C. *This War Really Matters: Inside the Fight for Defense Dollars*. Washington, DC: CQ Press, 2000.

### Recommended Internet Sources

- The Center for Strategic and Budgetary Assessments, [www.csbaonline.org](http://www.csbaonline.org)  
 The Office of Management and Budget (OMB), [www.whitehouse.gov/omb](http://www.whitehouse.gov/omb)

The Office of the Under Secretary of Defense, Comptroller, [www.defenselink.mil/comptroller](http://www.defenselink.mil/comptroller)  
The RAND Corporation, [www.rand.org](http://www.rand.org)

## Notes

1. Paul A. Samuelson, "The Pure Theory of Public Expenditure," *Review of Economics and Statistics* 36, no. 4 (1954): 387–89.
2. Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, ed. C. J. Bullock (New York: PF Collier and Son, 1906), 4:466–67.
3. Abram Burk, "A Reformulation of Certain Aspects of Welfare Economics," *Quarterly Journal of Economics* 52, no. 2 (1938): 310–34.
4. See Dwight D. Eisenhower, "The Chance for Peace," address delivered to the American Society of Newspaper Editors, April 16, 1953, contained in "Public Papers of the Presidents," The American Presidency Project, <http://www.presidency.ucsb.edu/ws/>.
5. Dwight D. Eisenhower, "Military-Industrial Complex Speech," Public Papers of the Presidents of the United States, Dwight D. Eisenhower, 1959: Containing the Public Messages, Speeches, and Statements of the President, January 1 to December 31, 1959. General Services Administration, National Archives and Records Service, Office of the Federal Register, 1035–40.
6. Allen Schick, *The Federal Budget: Politics, Policy, Process*, 3rd ed. (Washington, DC: Brookings Institution Press, 2007).
7. Office of Management and Budget, *Preparation, Submission, and Execution of the Budget*, Circular No. A-11 (Washington, DC: Office of Management and Budget, June 2015), section 10, 3–4.
8. James V. Saturno et al., *Introduction to the Federal Budget Process*, Report 98-721 (Washington, DC: Congressional Research Service, December 3, 2012).
9. George C. Edwards III, Martin P. Wattenberg, and Robert L. Lineberry, *Government in America: People, Politics, and Policy*, 12th ed. (New York: Pearson Longman, 2006), 453–60.
10. Calculations based on Bureau of the Census, "Outlays of the Federal Government 1789 to 1970," in *Historical Statistics of the United States, Colonial Times to 1970* (Washington, DC: Department of Commerce, 1975), 1114.
11. Figures 9.1 and 9.2 are based on data from Council of Economic Advisors, *Economic Report of the President* (Washington, DC: Government Printing Office, February 2018).
12. "Fiscal Year 2017 Historical Tables: Budget of the U.S. Government—Tables 55," (Washington, DC: Office of Management and Budget, February 2017), <https://www.whitehouse.gov/wp-content/uploads/2018/02/histo55-fy2019.xlsx>. "International Affairs" includes funding for the Department of State, the US Agency for International Development, foreign aid, and US funding of multilateral organizations, such as the United Nations.
13. This document has sometimes been referred to as the Defense Planning and Programming Guidance, or Defense Planning Guidance. See "Planning, Programming, Budgeting and Execution Process (PPBE)," September 29, 2017, <https://dap.dau.mil/acquipedia/Pages/Default.aspx>.
14. Prior to 2015, budget submissions were simultaneous with POM submissions. Starting with the FY 2017 budget, DoD returned to a staggered submission in which budget documents were prepared after POM submission; this allowed DoD to produce better, more

defensible budget submissions. See "Planning, Programming, Budgeting & Execution Process (PPBE)."

15. See Defense Acquisition University, "Planning, Programming, Budgeting, and Execution Process," *Defense Acquisition Guidebook*, December 5, 2017, chap. 1, <https://dag.dau.mil/Pages/Default.aspx>.
16. Jerry L. McCaffery and L. R. Jones, *Budgeting and Financial Management for National Defense* (Greenwich, CT: Information Age Publishing, 2004), 189.
17. Saturno et al., *Introduction to the Federal Budget Process*.
18. Technically, the 2011 Budget Control Act (BCA) appointed a bipartisan Joint Committee on Deficit Reduction (the so-called Super Committee) to solve the budget impasse. However, the Super Committee failed to achieve a compromise, and it was that failure in November 2011 that precipitated sequestration.
19. Department of Defense, *Quadrennial Defense Review 2014* (Washington, DC: Department of Defense, March 4, 2014), 53.