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**NAVAL
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THESIS

**LONG-TERM MILITARY CONTINGENCY OPERATIONS:
IDENTIFYING THE FACTORS AFFECTING BUDGETING
IN ANNUAL OR SUPPLEMENTAL APPROPRIATIONS**

by

Amanda B. Evans

March 2006

Thesis Co-Advisors:

Philip Candreva
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IDENTIFYING THE FACTORS AFFECTING BUDGETING IN ANNUAL OR
SUPPLEMENTAL APPROPRIATIONS**

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Submitted in partial fulfillment of the
requirements for the degree of

MASTER OF BUSINESS ADMINISTRATION

from the

**NAVAL POSTGRADUATE SCHOOL
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ABSTRACT

Generally in the past, after initial funding was provided by supplemental appropriations, the continuing costs of long-term military operations were built into the annual baseline budget. After four and a half years fighting the Global War on Terror, funding the U.S. military effort remains under emergency designation, funded with supplemental appropriations, despite clear congressional directive to build it in the annual baseline budget request. The factors affecting this decision are examined through a comparative analysis of the current conflict and other long-term military operations in the past 60 years. The results show that planning, timing, accountability, visibility, politics and policy, stakeholder influence, military objectives, and fear of change are the most important factors. These findings can help stakeholders shape funding strategy.

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I. INTRODUCTION

This study will identify the factors affecting war funding strategy, and further describe the uses of annual appropriations and supplemental appropriations as they pertain to long-term contingency operations to see if it is possible to build these war time costs into the annual President's Budget. The history of supplemental uses will be explored, along with the support for continual war funding through these emergency appropriations. Annual appropriated budgets will be examined for possible flexibility for addition of anticipated war costs. Both methods will be evaluated on speed, efficiency, effectiveness, and ability to get the funds to the fight to ensure mission accomplishment.

Contingency is defined as an existing condition, situation, or set of circumstances involving uncertainty as to possible gain or loss to an entity that will ultimately be resolved when one or more future events occur or fail to occur.¹ For this thesis research, "long-term" will be defined by the author as having lasted two (or more) years. Short duration contingency costs are normally absorbed into the annual defense budget or reimbursed by Congress. This thesis will not focus on short contingencies given ample reimbursement opportunity, rather it will focus on funding strategies for longer, intense, publicly scrutinized operations where money is a big issue.

It is longstanding policy of the executive branch of the US Government that annual appropriations are for baseline military operations and wartime military contingency operations are traditionally funded through emergency supplemental accounts if existing operation accounts were not sufficient. There are strong arguments for continuing to fund long-term contingencies through supplemental appropriations, but arguments for moving these costs into the annual President's Budget are gaining momentum.

A. OBJECTIVE

The primary goal of this thesis is to identify the factors affecting whether long-term military contingencies are funded in the annual President's Budget or supplemental appropriations. The research will analyze the methods used, both past and present, by the

¹ American Society of Military Comptrollers, *CDFM Student Guide*, Module 3, 3.1.65, revised January 2005.

Department of Defense to fund long-term contingencies; evaluate the use, accuracy, and visibility of these methods; and provide planning and budgeting strategy recommendations for future long-term contingency operations.

The primary research question answered by this thesis is as follows:

- What are the factors affecting funding strategies for long-term contingency operations?

To help reach this objective, the following supporting research questions were explored:

- How has the DoD historically paid for war?
- What are the main differences between annual and supplemental appropriations, and what are the benefits and downsides for using either to fund war?
- What previous contingency operations have been built into the President's Budget, and how was that decided and implemented?
- Who are the stakeholders, and what do they support?
- What is the best funding strategy for accurate war requirements?

B. SCOPE OF THESIS

The scope of this thesis is limited to historical examination of methods and strategies used to fund long-term contingency operations. The purpose of this thesis is to analyze the two main ways of funding war; annual appropriations and supplemental appropriations. There are two main arguments concerning the way the U.S. pays for war costs. The first supports increasing the President's Budget through annual appropriations based on cost estimates, and the second supports "emergency" supplemental appropriations because the costs are far too unpredictable to estimate. Each side has a strong case and this thesis summarizes and analyzes all data to conclude factors affecting each funding strategy. It will describe historical patterns of war and other contingency funding, explain political and military strategies supporting each option, and evaluate current visibility and scrutiny of both funding strategies. The analysis will summarize historical operations whose initial supplemental funding eventually led to annual appropriation support, introduce the Global War on Terror, examine the four plus years of war funding trends, and develop funding strategies for three possible outcomes.

C. METHODOLOGY

This thesis was primarily written based on archived data from the Office of Management and Budget (OMB), Congressional Budget Office (CBO), Senate Budget Committee Hearings, Armed Forces Committee Testimony, Congressional Quarterly Almanac, Supplemental Appropriation Acts, Authorization and Appropriation Acts, President's Budgets, DoD regulations and OMB circulars, Congressional Records, United States General Accounting Office (GAO), Senate Policy Committees, and the Office of the Secretary of Defense. Selected research literature concerning public policy, financial management and politics in times of war, stakeholder analysis, and budgeting for national defense were also used. In addition, interviews were conducted via video teleconference with key senior defense financial managers.

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II. BACKGROUND

This chapter will begin by defining annual appropriations and supplemental appropriations. It will describe the annual budget process and supplemental processes in detail and discuss emergency spending measures. Once the appropriations background has been explained, historical examples of war funding strategies used in previous long-term contingency operations including World War II, the Vietnam War, the Persian Gulf War, and the Bosnia/Kosovo Conflict will be analyzed. The chapter will conclude by introducing the Global War on Terrorism (GWOT) and the current funding strategy used by the U.S. to pay for this long-term contingency operation.

A. ANNUAL AND SUPPLEMENTAL APPROPRIATIONS

The core annual base budget includes funding to support steady, ongoing operations and missions during a peacetime budget year. Annual budgets are intended to provide a neutral foundation to accomplish a core mission. The development of an annual baseline budget estimate, as defined in OMB Circular No. A-11, is a projection of the current year levels of budgetary resources, outlays, and receipts into the outyears based on laws already enacted.² Fighting one war, let alone two wars simultaneously, is not covered in the annual budget. DoD agencies generally seek supplemental funding to finance the incremental costs above the base budget for ongoing military operations.

A supplemental appropriation provides further funding, beyond that provided in regular appropriation acts, for a fiscal year already in progress. Supplementals were introduced by the first Congress in 1790 to give agencies the authority to transfer funds to cover their own deficiencies.³ Supplementals result from unbudgeted and largely unpredictable events. They are small compared to total budget spending, but they pay for what is needed in defense areas. Supplementals are commonly thought to be a tool the Executive branch used to supplement budget authority to meet a current year need. Compared to the normal budget process, supplementals are usually passed expeditiously. When primarily for defense, supplementals often fund 100% of the need. This makes them a very efficient vehicle. When supplementals are designated as dire emergency

² Office of Management and Budget, *Circular No. A-11 Part 2*, Section 80, June 2005, 1.

³ Congressional Budget Office, *Supplemental Appropriations in the 1990s*, March 2001, 1.

bills, they escape the control of budget caps. Finally, supplementals have great symbolic importance, for they show an immediate governmental response to a current-year crisis.⁴

B. THE ANNUAL BUDGET PROCESS

A budget is “a plan for accomplishing an organization’s objectives over a specified period of time.”⁵ The president formally transmits his proposals for allocating resources to the Congress through the budget. The Congress considers the recommendations and uses the information included in the budget as it drafts and passes laws that affect spending and receipts. Through this process the government decides how much money to spend, what to spend it on, and how to raise the money it has decided to spend. The budget process occurs in three main phases; formulation, Congressional, and execution.

During the formulation phase, the Executive Branch prepares the President’s Budget. OMB and federal agencies begin preparing next year’s budget right after the president has sent the last one to Congress. OMB starts the official process by submitting planning guidance to Executive Branch agencies in the Spring, and the president completes the formulation phase by submitting his budget to Congress on the first Monday in February, as specified by law. The Congressional phase begins on that first Monday in February when Congress receive the President’s Budget. Congress considers the proposals made in the budget and passes an overall spending plan called a budget resolution. This guides both authorizing and appropriating committees as to what they can spend for defense in the year under construction. This phase is concluded when Congress enacts 13 appropriations acts that will control spending. The last phase, execution, will start on 1 October at the beginning of the fiscal year. OMB apportions funds that have been made available through annual appropriation acts to agencies. Agencies incur obligations and make outlays to carry out the funded programs, projects, and activities. Agencies adhere to purpose, time, and amount rules governing spending.⁶

⁴ McCaffery, Jerry L., Jones, L.R., *Budgeting and Financial Management for National Defense*, 2004, Information Age Publishing, 200-201.

⁵ Candreva, P.J., *Practical Financial Management: A Handbook for the Defense Department Financial Manager*, 2005.

⁶ Office of Management and Budget, *OMB Circular No. A-11 Part 1*, Section 10, June 2005, 3-5.

The U.S. budget process has evolved over the years, changing with time and/or necessity. The Congressional Budget and Impoundment Act of 1974 established procedures for developing an annual congressional budget plan, congressional standing committees devoted solely to the budget, a system of impoundment control, and creation of the Congressional Budget Office (CBO). The Balanced Budget and Emergency Deficit Control Act of 1985 set fixed targets for the deficit. OMB ordered agencies to propose current year budget cuts to offset all requests for discretionary supplementals unless the agency could provide a “fully justified explanation” of why it could not do so.⁷ The much-debated “emergency” supplemental classification allows this limit to be ignored. The 1990 Budget Enforcement Act divided spending into two types, discretionary and mandatory spending, and provided a separate ceiling for defense. The 1990 Chief Financial Officers Act tasked CFOs with overseeing financial management in the Federal Government. Visibility and accountability of defense dollars, specifically wartime dollars, are very important factors and will be further investigated in chapter three within the stakeholder analysis.

The budget process is cyclical and budget formulation is based on performance plans. Formulation in turn forms the basis for execution, and execution provides results to be used in formulating the next year’s budget. Hence, the importance of implementing the 1993 Government Performance and Results Act (GPRA) becomes apparent. Through strategic planning, developing performance plans, and establishing performance goals, an agency is better able to justify its budget.⁸

C. THE SUPPLEMENTAL PROCESS

Supplemental appropriations with specific items of expense identified have been the traditional method of acquiring additional resources for contingencies.⁹ The supplemental process is governed by the United States Office of Management and Budget (OMB), and specific guidance is found in the OMB Circular No. A-11 (2005), section 110, and will be summarized in the following paragraphs.

⁷ Congressional Budget Office, *Supplemental Appropriations in the 1990s*, March 2001, 2.

⁸ American Society of Military Comptrollers, *CDFM Student Guide*, Module 1, 33, revised January 2005.

⁹ Candreva, Philip J., Jones, L.R., *Congressional Control over Defense and Delegation of Authority in the Case of the Defense Emergency Response Fund*, Armed Forces & Society, Vol. 32 (1) 2005.

The president proposes additions to the budget by transmitting supplemental appropriations requests to revise the original budget request for the current year. All proposed revisions must conform to the policies of the president. Agencies should make every effort to postpone actions that require supplemental appropriations and provide proposals for reductions elsewhere in the agency. The circular lists only five circumstances in which OMB will consider supplemental requests, one circumstance being an unforeseen emergency situation (this is where contingency operations belong before they become long-term). It generally takes a minimum of three weeks for OMB and the White House to consider agency proposals for supplementals. Supplementals may be transmitted prior to, with, or subsequent to transmittal of the succeeding annual budget document. Supplemental requests that are known at the time the budget is prepared are normally transmitted to the Congress with the budget rather than later as separate transmittals. The material should be prepared to reflect presidential decisions and include correct appropriations language, thorough justification, and explanation of request. Supplemental requests must also include the date when requested funds are needed for obligation, a statement of actual and estimated obligations for the year prepared on a quarterly basis, and a statement of actual obligations by month for the previous three months.¹⁰

Most defense wartime supplemental requests are designated as an Emergency. The term “emergency” is not defined in the budget process law. In 1991, OMB attempted to develop a neutral definition of “emergency requirement” by stating that such a requirement must meet five criteria:

1. A necessary expenditure (an essential or vital expenditure, not one that is merely useful or beneficial);
2. Sudden (coming into being quickly, not building up over time);
3. Urgent (a pressing and compelling need requiring immediate action);
4. Unforeseen (not predictable or seen beforehand as a coming need, although an emergency that is part of an overall level of anticipated emergencies, particularly when estimated in advance, would not be “unforeseen”); and
5. Not permanent (the need is temporary in nature).

¹⁰ Office of Management and Budget, *OMB Circular No. A-11 Part 3*, Section 110, June 2005, 1-3.

OMB's attempted definition, however, was rejected by the House during the 106th Congress. Currently, Congress and the President are not required to adhere to any definition and determine emergency spending as whatever they deem it to be.¹¹ The FY 2006 Concurrent Budget Resolution revisited the definition of emergency and the result is still a mixed review with no official emergency definition and loopholes that void caps as related to GWOT, as shown in Figure 1 from the CBR provisions.

**Provisions of the FY2006 Concurrent Budget Resolution
(H.Con.Res. 95) Permitting Additional Funding for
Overseas Military Contingency Operations**

The budget resolution allows a point of order to be made against a provision in an appropriations bill that designates funds as an “emergency” unless the funding meets certain restrictive criteria. To constitute an emergency, under §402(c) funding must be

- (A) necessary, essential, or vital (not merely useful or beneficial);
- (B) sudden, quickly coming into being, and not building up over time;
- (C) an urgent, pressing, and compelling need requiring immediate action;
- (D) unforeseen, unpredictable, and unanticipated; and
- (E) not permanent, temporary in nature.

Presumably, a point of order could apply against funding for Iraq and Afghanistan under that provision.

But other sections of the budget resolution essentially void that possibility. Under §402(a), in the House, if funding is designated as being for “contingency operations related to the global war on terrorism,” then caps on spending do not apply. Under §402(b)(11), in the Senate, up to \$50 billion for contingency operations in support of the global war on terrorism is specifically exempted from spending caps. That would appear to limit additional funding for Iraq and Afghanistan to \$50 billion. But under §402(b)(10) any discretionary appropriations for defense designated as emergency appropriations are exempted from a point of order, which makes the \$50 billion figure moot.

So the budget resolution provides no specific restriction on the amounts that may be appropriated for military operations abroad — the spending limits that the resolution establishes do not apply to additional funds for that purpose.

Figure 1. Provisions of the FY06 CBR. (From: The CRS Report to Congress, Defense: FY2006 Authorization and Appropriations, 15 July 2005)

¹¹ Congressional Budget Office, *Supplemental Appropriations in the 1990s*, March 2001, 19-21.

Senator John McCain recently gave his take on the question: What is the purpose of emergency appropriations? “The purpose is two fold. First, it is supposed to provide funding for critical expenditures beyond what was anticipated in the President’s annual budget request; second, it is supposed to pay for vital priorities that simply cannot wait until next year’s budget”¹²

D. HISTORY OF FUNDING WAR

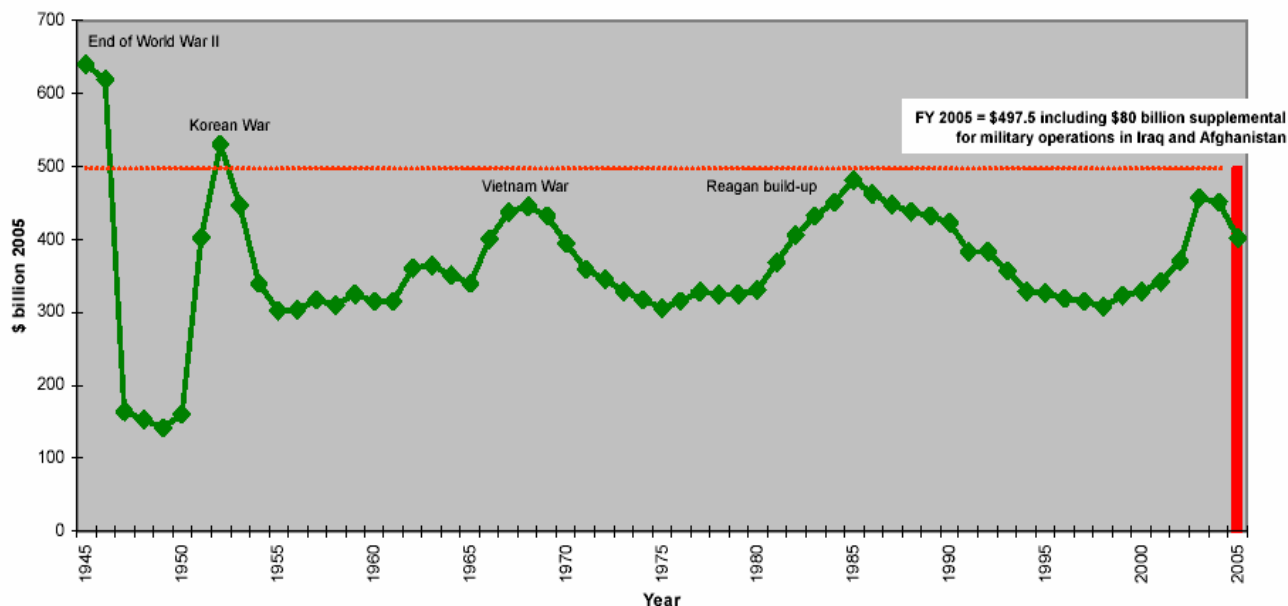
History shows us that war will lead to the passage of supplemental appropriations. “Supplementals are vital to fighting wars.”¹³ The DoD has absorbed small contingency costs in the past, considering them part of annual training exercises and decreasing spending in other areas to cover the expenditures. When larger scale operations are ordered, however, services within the DoD seek additional funding to accomplish the contingency operation instead of or in addition to their regular mission. History also aids in the development of an annual budget to support ongoing, predictable operations. Much of the dilemma concerning how the DoD funds war begins with the question “is it a predictable cost that can be built into the long-term President’s Budget?” This question will continually be addressed as the research in this thesis is presented.

Defense spending historically increases during times of war, as illustrated by Figure 2. When annual and supplemental budgets are added together for each year and converted to constant year 2005 dollars, each war has cost approximately \$500 Billion (note: all years except 2005 include supplementals. 2005 with supplementals would be above \$500 Billion).

¹² www.wais.access.gpo.gov, Congressional Record Online, *Emergency Supplemental Appropriations Act of 2005, Amendment No. 387*, 19 April 2005.

¹³ Lorenz, Stephen, MG, *FY05 Budget Update Briefing*, Video Teleconference/Interview for Conrad Seminar, Naval Postgraduate School, Monterey, CA. 12 August 2005.

US Department of Defense Budget



Source: Department of Defense, “National Defense Budget Estimates for FY 2005,” Office of the Undersecretary of Defense (Comptroller), March 2004; Richard Wolf, “White House expected to seek \$80B more for wars,” *USA Today*, January 24, 2005, http://www.usatoday.com/news/world/iraq/2005-01-24-iraq-spending_x.htm?csp=34.

Figure 2. US Department of Defense Budget. (From: Department of Defense, “National Defense Budget Estimates for FY2005, Office of the Undersecretary of Defense Comptroller)

1. World War II

Supplemental appropriations were used to fund World War II efforts even prior to the U.S. entering the war. President Roosevelt, with the help of the Senate, passed a Supplemental Lend-Lease Bill on 23 October, 1941, to aid Great Britain without violating the U.S. official position of neutrality.¹⁴ Not long after, Congress passed and the president signed the Declaration of War against Japan. Defense Aid Supplemental Appropriation Acts were fully funded each year from 1941-1946, except in 1944.¹⁵ The U.S. took on large debt for mobilization efforts before and during World War II because

¹⁴ www.americaslibrary.gov, presented by the Library of Congress, 30 November 2005.

¹⁵ <http://www.law.cornell.edu/uscode/topn/D.html>, U.S. Code Collection, 9 January 2006.

both the president and Congress were willing to spend what was necessary to counter perceptions of threat to national interests.¹⁶

There was very little need for planning the best budgeting strategy for war since the general feeling was that a “blank check” would be available and that financial management would be relegated to keeping track of what had happened, with no real attempt being made to budget or implement any other method of control of funds and expenditures.

2. Vietnam

The climate in Vietnam led the U.S. political arena to re-evaluate its previous “blank check” practice and better manage the funds for a war effort. Many of the same debates over annual versus supplemental war funding support that are argued today began during the Vietnam era. Mr. William F. Schaub, then-Assistant Secretary of the Army for Financial Management, suggested the adoption of emergency financial procedures in 1960, as appropriate, to use the Contingency Fund of the DoD, and determined what requirements could and should be included in normal budgetary programs.¹⁷ It wasn’t until 1967-1968 that the administration claimed the entire cost of war would be submitted in the annual budget request and a supplemental would not be needed. Congressional observers estimated the cost of continual war in Vietnam had become \$20-25 billion, although the exact amount was classified. Emergency supplementals were still needed for 1968 and 1969 before the entire amount was included in the baseline.¹⁸ “Defense emergencies, though an important source of supplemental requests during the peak of the Vietnam War, have been virtually non-existent in the 1970s.”¹⁹

Because Vietnam was such a fiercely debated war, supplemental appropriations did not generate the level of public scrutiny that annual appropriations generated. “The defense secretary always assumed, for budgeting purposes, that the war would end on 30

¹⁶ McCaffery, Jerry L., Jones, L.R., *Budgeting and Financial Management for National Defense*, 2004, Information Age Publishing, 84.

¹⁷ Taylor, Leonard B., *Financial Management of the Vietnam Conflict*, Department of the Army, 1974, 5.

¹⁸ McCaffery, Jerry, *Inversions, Supplementals, and Earmarks: Signs of Stress in the Federal Budget*, Draft, August 2005, 22.

¹⁹ Congressional Budget Office, *Supplemental Appropriations in the 1970s*, Staff Working Paper, July 1981.

June of the following year (the end of the fiscal year at that time)...When, inevitably, the funds appropriated for Vietnam proved too limited, the administration would return to Congress with requests for supplemental expenditures for the war, an essentially political device. By under-funding the military in Vietnam in his budgets and using supplemental requests to make up the shortfalls, the defense secretary was providing political power over the administration, which wanted to avoid debate over the costs of the war.”²⁰ This enabled the U.S to “have it both ways” with increased domestic welfare spending and having needs met in Vietnam. This budgeting strategy, not surprisingly, had serious implications for the war and the economy making it more difficult to discover the true cost of war.

Similar to how Vietnam costs were eventually built into the annual budget, current GWOT funding concerns attempt to benchmark policies used in the late 1960s/early 1970s. During senate hearings for the 2005 GWOT Emergency Supplemental, Senator Thomas Carper identified past examples of budgeting approach used by earlier administrations, both Democrat President Johnson and Republican President Nixon, at least in terms of funding the Vietnam War. These presidents eventually included the cost of military operations in Vietnam in their annual budget requests, not in emergency supplemental after emergency supplemental. Senator Carper believes the U.S. should do the same thing now going forward.²¹

3. Persian Gulf War

An estimated \$51.4 Billion in supplemental appropriations were enacted to pay for Operations Desert Storm and Desert Shield in 1990 through 1992.²² Prior to the emergency supplementals following September 11th, these were the largest defense supplementals in history.²³ The Budget Enforcement Act of 1990 stipulated that any funding in 1991 and beyond was automatically designated an emergency and not subject to new caps on defense discretionary spending. Furthermore, over the next several years,

²⁰ Buzzanco, Robert, *Masters of War: Military Dissent and Politics in the Vietnam Era*, 1996, Cambridge University Press, 238.

²¹ Congressional Record, *Emergency Supplemental Appropriations Act for Defense*, Conference Report, 10 May 2005.

²² Congressional Budget Office, *Supplemental Appropriations in the 1990s*, March 2001, 16-17.

²³ McCaffery, Jerry, *Inversions, Supplementals, and Earmarks: Signs of Stress in the Federal Budget*, Draft, August 2005, 21.

much of the incremental cost of the operations (the cost over and above the military's regular operating expenses) was offset by burden-sharing contributions from allied nations. By some accounts, the federal government "broke even" on the incremental costs of the Persian Gulf War.²⁴

The first Gulf War was short in duration, but the war inspired longer termed contingency operations such as Operation Deny Flight, Operation Northern Watch (ONW), and Operation Southern Watch (OSW). The cost of these no-fly zones could only be partially measured in dollars. While running the ONW and OSW zones, the cost mounted to over \$12 Billion as defined in annual supplemental funding bills approved by Congress over the last decade (quoted in 2003). Air Force Chief of Staff, General John Jumper, identified ONW and OSW as steady state operations. He said they are expected, planned for, and counted as part of the routine operating requirements of the service.²⁵ Since these operations were defined as steady state, questions remain as to why supplementals were approved in excess of \$12 billion to finance these long-term contingencies. Steady state, by definition, should be built into the annual budget.

4. Kosovo/Bosnia

One of the lessons learned from the Kosovo Conflict was that identification of war costs were not being isolated at the war location, and war costs were not limited to incremental expenditures. A new focus was directed on reconstitution of assets as additional war costs. "As the Kosovo war emerged, the Clinton administration realized armaments and other necessary combat supplies were too low and insufficient to win one – let alone two or even three – military conflicts at the same time."²⁶ Initial contingency reimbursement was incremental for supplies but soon it was recognized emergency funding shouldn't simply replace bullets for bullets and bombs for bombs. There are additional incremental costs associated with contingencies, and the Air Force was the only service to request supplemental funding to repair or restore infrastructure used

²⁴ Congressional Budget Office, *Supplemental Appropriations in the 1990s*, March 2001, 17.

²⁵ Tirpak, John A., *Legacy of the Air Blockades*, Air Force Magazine, February 2003, 46-52.

²⁶ Speaker Hastert, *Comments on Emergency Funding for Kosovo Crisis*, 19 April 1999.

during contingency operations in Kosovo.²⁷ This was identified in a GAO audit and the findings changed the method in which war operational costs are calculated.

The FY 1998 and 1999 defense supplementals totaled over \$11.8 Billion to support defense readiness and pay for peacekeeping operations in Bosnia and Kosovo.²⁸ FY 2000 and 2001 were years of mixed funding, where partial war costs were submitted in the annual budget and others were funded through emergency supplemental appropriations. “The president added \$2.2 billion to his budget to fully fund projected costs for Bosnia and Kosovo operations in FY 2001. To protect readiness for the rest of the 2000 fiscal year, however, the president requested \$2 billion in supplemental appropriations to cover unbudgeted costs.”²⁹ Since FY 2002, defense support for Southwest Asia, Bosnia, and Kosovo contingency operations have been directly appropriated into the annual budget for each service and defense agency operation (both in their Operations and Maintenance and Military Personnel Appropriation Accounts). These operations were deemed stable (enough) to be financed and executed through normal appropriation structure. The operations and troop levels maintained a steady pace at the conclusion of 2001 and the operations continue to be baseline funded today.³⁰ This historical example demonstrates that with the proper analysis and stability of a long-term contingency operation, building war costs into the annual budget can be accomplished.

E. CURRENT STATUS OF FUNDING WAR

It has been over four and a half years since the terror attacks of 9-11 launched the United States into the Global War on Terror. Four years and over \$322 Billion dollars in war costs, and arguments still exist over emergency supplemental funding versus annual funding. Figure 3 shows the Department of Defense’s supplemental funding since 2000. The picture clearly shows that costs associated with GWOT (funding from 2001 onward) are growing.

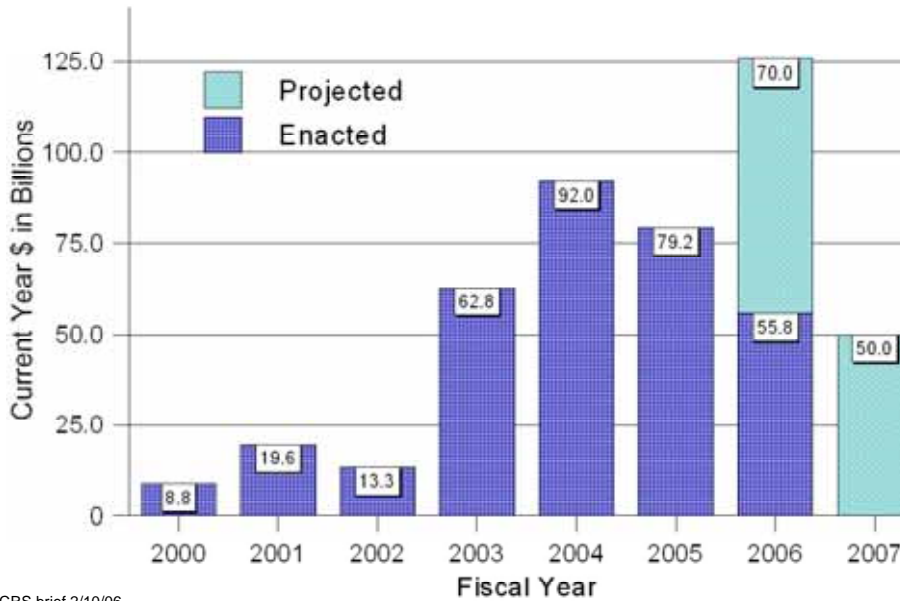
²⁷ United States General Accounting Office, *FY 2000 Contingency Operations Costs and Funding audit GAO/NSIAD-00-168*, June 2000, 2.

²⁸ Congressional Budget Office, *Supplemental Appropriations in the 1990s*, March 2001, 16-17.

²⁹ United States Department of Defense News Release, Defense Link News, *Department of Defense Budget for FY 2001*, 7 February 2000.

³⁰ Office of the Secretary of Defense, *Justification for FY 2004 Component Contingency Operations and the OCOTF*, February 2003.

DOD Supplemental/Emergency Appropriations, FY2000-FY2007



CRS brief 2/10/06

Figure 3. DoD Supplemental/Emergency Appropriations, FY2000-FY2007. (From: CRS Brief 10 December 2006)

Highlights of the FY 2006 budget request stated the DoD cannot yet determine the scope of operations in Iraq and Afghanistan nor their incremental costs, and therefore have not budgeted for them. The Air Force senior finance officer, Major General Stephen Lorenz, admits “The key to FY06 is sizing the GWOT supplemental so it covers the full cost of war operations – our peacetime budget can’t absorb these costs!”³¹

The events of recent years have led many to believe supplementals are not only a probability, but a certainty. Services are spending as usual assuming the end-of-year supplementals will cover all contingency costs. Gone are the days where prudent analysts scrub O&M accounts to make room for these contingency costs. Attitudes are rampant that the expenses are so large, they simply must be reimbursed. Current procedures highlight inefficiencies in the system. Would DoD be spending less if there

³¹ Lorenz, Stephen, MG, *FY05 Budget Update Briefing*, Video Teleconference/Interview for Conrad Seminar, Naval Postgraduate School, Monterey, CA. 12 August 2005.

was uncertainty concerning the supplementals? Current operations resemble the spend-spend-spend mentality whereas baselining war costs might deem otherwise.

Annual and supplemental appropriations have been defined and historic examples of both funding strategies have been presented. The next chapter will discuss additional differences between annual and supplemental appropriations, and further analyze the stakeholders involved in the process

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III. ANNUAL VS. SUPPLEMENTAL APPROPRIATIONS

Chapter III will discuss further differences between annual and supplemental appropriations and define policy as it pertains to war funding decisions. Key stakeholders within the defense budget process will be identified and analyzed to determine the current and future issues facing long-term contingency funding.

A. DIFFERENCES BETWEEN ANNUAL AND SUPPLEMENTAL APPROPRIATIONS

The previous chapter introduced both annual and supplemental appropriations, and explained main traits for each. It is now time for a deeper analysis of why these appropriations differ, how they differ, and what reasons support using one as opposed to the other. Currency of a budget plan, timing of the funding, and accountability of the funds are three substantial differences that will be explored.

One main difference between an annual and a supplemental appropriation is currency of the plan. A budget is a plan for use of funds. When a cost is known, it can be included in the annual budget plan and therefore be built into President's Budget. When unforeseen contingency operations arise, they are not part of the plan and adjustments must be made to fund the contingency operation. The DoD has budgeted to be ready to conduct these operations, but has not budgeted to actually conduct the operation.³² When services respond to contingency operations, the planned budget becomes disrupted and two choices exist. The service can either (1) absorb the incremental cost within its appropriation; or (2) seek supplemental appropriations.

Over the years, certain tools have been introduced to help agencies absorb unforeseen contingency costs into their annual budget. The Overseas Contingency Operations Transfer Fund (OCOTF) was established by the 1997 DoD Appropriations Act to meet operational requirements in support of contingency operations without disrupting approved program execution or force readiness.³³ The OCOTF, although a great tool for minimizing the possibility of over-executing an annual appropriation, was

³² United States General Accounting Office, *Contingency Operations GAO/NSIAD-96-184BR*, 27 June 1996.

³³ Office of the Secretary of Defense, *Justification for FY 2004 Component Contingency Operations and the OCOTF*, February 2003.

far too small (\$50 million for FY 2004) to handle the enormous requirement needed to support current long-term contingency operations such as GWOT (\$5-6 billion for each month). When a contingency is either long or expensive, tools such as OCOTF can not eliminate the pain felt by the annual appropriation and “emergency” actions must be taken.

Timing is also an important factor differentiating annual appropriations from supplemental appropriations. The contingency’s mission will be in jeopardy if the military doesn’t receive proper funding when required. Supplemental appropriations are appropriated more expeditiously than annual appropriations and are preferred over taking the time needed to build a cost into the annual President’s Budget. Annual budgets require several agency drafts prior to forwarding the budget to congress. A typical agency would require the first draft budget 21 months prior to the budget year.³⁴ That first draft is further refined for 12 months until it is submitted to Congress. In order for war costs to be built into the annual budget, not only would they need the referenced lead-time but the cost estimates required would need to be accurate as possible. Many argue that a precise estimate will not be valid when the actual need arises at least nine months later.

Initially, the visibility and accountability of appropriating long-term contingency operations vary between annual and supplemental funding. The annual budget is reviewed over time and at a micro level, whereas a proposed supplemental is reviewed at a quickened pace allowing only a macro level review. Once the funds are executed, however, incremental costs of contingency operations are tracked and the DoD prepares monthly contingency operations cost reports.³⁵ These reports cover the costs of war and are broken down by service, and lawmakers have voiced concerns with fraud, waste, and abuse on how funds are being spent in Iraq. Regardless of how funds were appropriated (annual or supplemental), the disparity in visibility and accountability is eliminated once the money is appropriated for execution. Concerns may still exist over accurately and

³⁴ American Society of Military Comptrollers, *CDFM Student Guide*, Module 1, 20, Revised January 2005.

³⁵ United States General Accounting Office, *FY 2000 Contingency Operations Costs and Funding audit GAO/NSIAD-00-168*, June 2000, 5.

appropriately tracking the costs of war, as well as many other elements that divide opinions for or against the annual budget vs. supplemental argument, all of which will be covered next.

B. OPPOSING VIEWS

There are “two camps” when it comes to views on funding long-term contingency operations. Both views agree there is a need for additional funds for contingency operations; they simply disagree when it comes to the strategy used to secure the funding. One supports building the costs into the annual budget, and the second supports seeking continual supplemental support until the contingency is over. Some can not decide which view to support, and they are discussed under a separate section for conflicted views. The differences of both main options were presented at the beginning of the chapter, and the following research was conducted to illustrate the support for each option, as well as the conflicted option.

1. Annual Budget Support

Once a contingency operation has become stable and “steady-state”, the costs are predictable and could be placed in the annual President’s Budget. Using prolonged supplemental funding masks the true size of the defense budget and inhibits congressional oversight. Figure 4 represents the annual budget without supplemental appropriations. These numbers are far lower than the actual defense costs for each year and paint an inaccurate picture of real defense spending, which must include the costs of GWOT as related to defense.

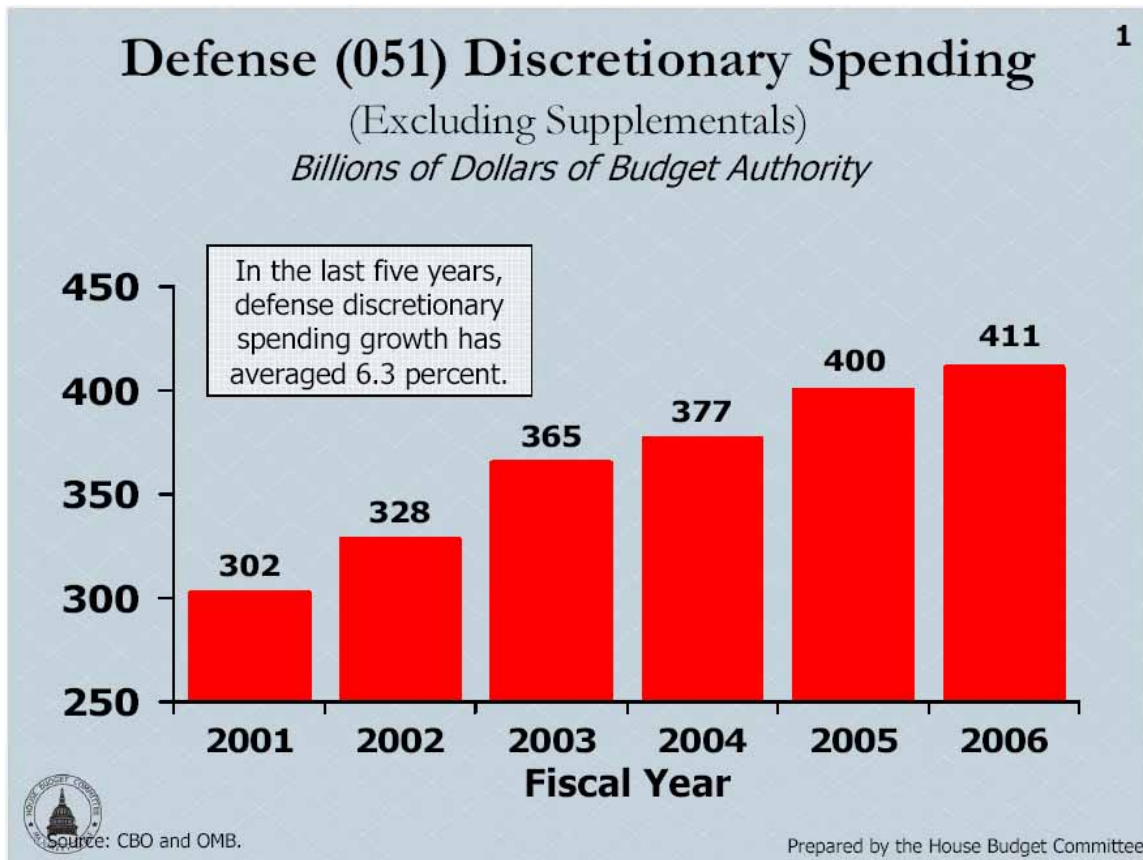


Figure 4. Defense (051) Discretionary Spending (Excluding Supplementals). (From: CBO and OMB)

Few analysts expect the Iraq mission to be wrapped up this year, so keeping the costs off the annual budget creates a false picture of the government’s commitments when Congress is making funding decisions.³⁶ When supplementals have emergency designations they escape discretionary spending caps and make the deficit look smaller than it is, and it furthermore distorts the clear size of the defense budget. Even Secretary Rumsfeld admits, “The only way you can look at this budget is to look at the supplementals with it”.³⁷ Figure 5 shows the “real” size of the defense budget, including supplemental appropriations.

³⁶ Bender, Brian, *War Funding Request May Hit \$100 Billion*, The Boston Globe, 15 December 2004.

³⁷ Shalal-Esa, Andrea, *Pentagon Plays Games With War Funding Requests*, Capitol Hill Blue, 9 February 2005.

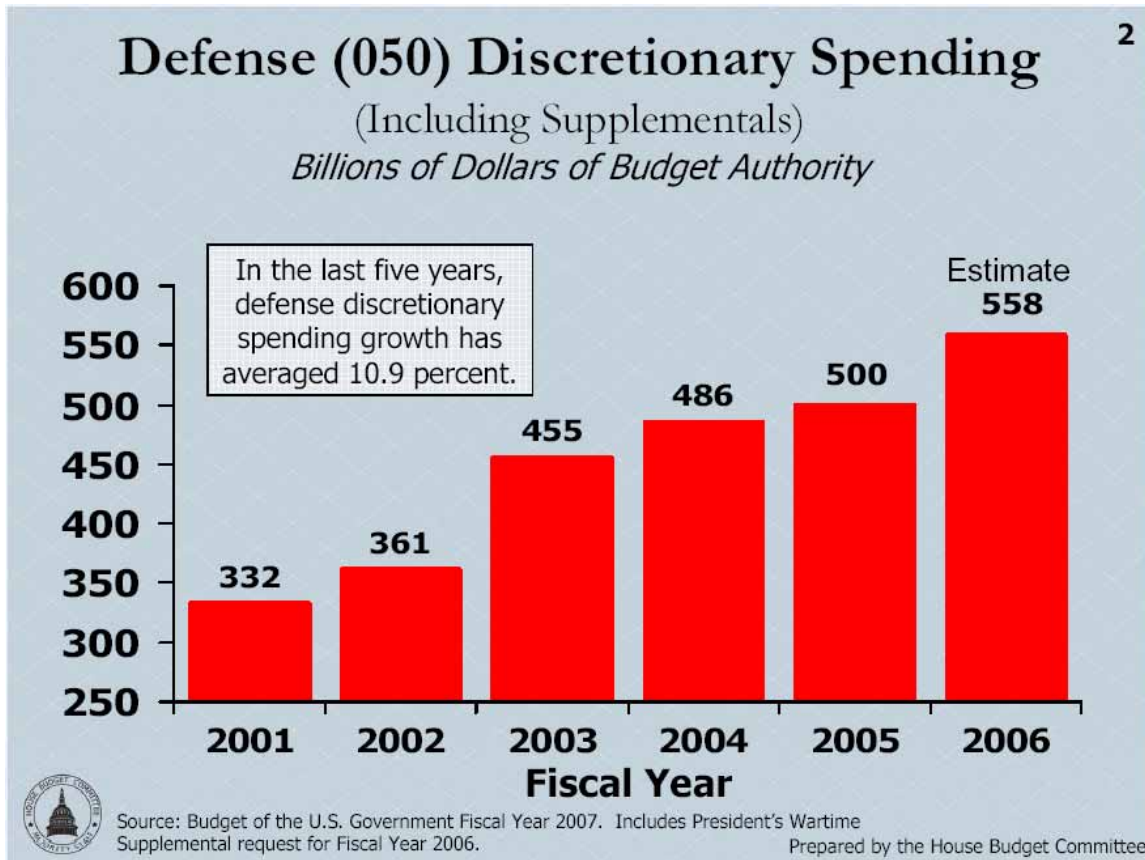


Figure 5. Defense (50) Discretionary Spending (Including Supplementals). (From: Budget of the U.S. Government Fiscal Year 2007)

Attempting to squeeze long-term funding out of supplementals is a losing strategy. Supporting the increased annual base budget will prevent such wish lists from passing through omnibus supplemental appropriations bills where the mentality is “everything passes” or nothing gets funded. “The GAO reported on September 21, 2005 that neither DoD nor Congress can reliably know how much the war is costing.³⁸ Adding war costs into the annual budget will minimize this problem because all funded programs have assigned analysts within the DoD that report where each dollar is spent. Annual appropriations are preferred by stakeholders who want further scrutiny of the defense budget for the reason that supplementals undermine congressional oversight.

³⁸ Wood, David, *Pentagon, Congress Fly Blind on Cost of War*, Newshouse News Service, 21 October 2005.

2. Supplemental Support

War costs are unknown and can only be funded using emergency supplemental appropriations. If costs are added to the annual budget, they become permanent. Moving temporary costs into the annual budget is problematic because when the war concludes, the costs are gone and the funding should end. Former Pentagon budget chief, Dov Zakheim, defends the use of supplementals. He said current troop levels were far higher than expected last year, proving the wisdom to hold off and use supplementals to fund such operations.³⁹ Another view believes that keeping war costs out of the annual budget will protect other defense spending. These complaints fear scrutiny and remain a strong factor supporting use of supplemental appropriations and these fears are valid because if war funding was forced into the annual President's Budget, the costs would be vulnerable for cuts. The frequent and almost famous argument supporting supplementals can be summed up with two points; (1) when the war ends, so does the funding, and (2) next year's costs are far too difficult to predict. The major reason supplemental appropriations continue to be used for GWOT is because stakeholders claim the situation is likely to remain uncertain.

3. Conflicting Support

The Republican Policy Committee of the United States Senate issued a talking paper that reported contradictory messages. Two summary statements were made, one being that Congress should fund operations in Iraq and Afghanistan through emergency supplemental appropriations (because funding it through the regular appropriations process would unnecessarily inflate the defense base), and the other being that Congress was correct to scrutinize the Administration's request, since it arguably included items that do not meet the definition of emergency spending.⁴⁰ How can the war be funded strictly through emergency supplementals if they admit they are incorrectly classifying the costs as emergency. This inconsistent example shows only the tip of the iceberg concerning the many conflicting messages sent regarding current policies that govern long-term contingency costs.

³⁹ Shalal-Esa, Andrea, *Pentagon Plays Games With War Funding Requests*, Capitol Hill Blue, 9 February 2005.

⁴⁰ United States Senate, *Congress Should Fund the War With "Emergency" Spending*, Republican Party Committee, 12 April 2005.

C. POLICY

Public policy involves specific policy problems and the governmental responses to them.⁴¹ Public Policy determines many things, one of which includes the government's predicament concerning how the United States pays for war. Policymakers are the president, White House staff, Congress, congressional committees, courts, federal agencies, and interest groups. Additional stakeholders exist, and will be covered at the end of this chapter. Policy deals with who gets what concerning political issues, and more importantly why they get it and what difference it makes. Policy evaluation allows the study of social, economical, and political impact of decisions made by the government. In the tenth edition of *Understanding Public Policy*, author Thomas Dye claims most public policies are a combination of rational planning, incrementalism, competition among groups, elite preferences, public choice, political process, and institutional influences.⁴² When reviewing the historical struggles with funding long-term contingency operations, each one of the aforementioned policy elements was present, and all still exist today as questions are raised on how the United States can continually fund a predictable war out of emergency supplemental appropriations.

Article one, Section eight of the United States Constitution states the Legislative role is "To make all laws which shall be necessary and proper for carrying into execution the foregoing powers, and all other powers vested by this constitution in the government of the United States, or in any department or officer thereof." Congress is the ultimate policy maker, and over the decades it has delegated some of that legislative power (over the budget) to other organizations. Not all of Congress approved of the delegation, one being Congressman Henry Waxman, who expressed his political fear in 1985 when changes in budget policy were proposed. "I am sad that the Congress thinks so little of itself. It is our job to look at each government effort to evaluate its success, and choose to continue it, revise it, or end it. It's politically painful work, but it should be done. But rather than facing up to this responsibility, we are today adopting government by automatic pilot. We are establishing a financial doomsday machine that will make our choices for us and that will be beyond our control. We can not delegate our authority to

⁴¹ <http://en.wikipedia.org>, definition and information on public policy, 6 February 2006.

⁴² Dye, Thomas R., *Understanding Public Policy, Tenth Edition*, 2002, Prentice Hall, xi.

make laws to CBO, OMB, or GAO or even the president. The drafters of the Constitution most fundamentally wanted the voters to have say in who makes laws and wanted the voters to be able to get to these elected representatives.”⁴³ Despite Congressman Waxman’s objections, the house passed the proposal.

D. KEY STAKEHOLDERS

Stakeholders are defined as individuals, groups, and other organizations who have an interest in the actions of an organization (in this case, the action of interest is the Defense Budget) and who have the ability to influence it.⁴⁴ This thesis addresses three groups of stakeholders; Legislative vs. Executive, Republican vs. Democrat, and Politics vs. Military. There is a balance of power issue involving opinions how long-term contingencies should be funded, especially with the military’s continued presence in Iraq and Afghanistan.

There are several organizations devoted to evaluating the United States Budget. The Congressional Budget and Impoundment Control Act of 1974 created a congressional standing committee devoted solely to the budget, and introduced the Congressional Budget Office (CBO). CBO is responsible for producing an annual economic forecast, formulating the annual base budget, and reviewing the president’s budget. The budget committee in Congress has jurisdiction over operation of CBO and is primarily responsible for producing the Concurrent Budget Resolution on the budget which set budget totals to guide the work of the appropriations committee. Another organization is the Office of Management and Budget, a White House office responsible for devising and submitting the President’s Budget proposal to Congress.

1. Executive Vs. Legislative

Legislative branch staffers recently described the current state of the budget process a “train wreck”. At a recent NPS conference, Mr. Jim Dyer, retired House Appropriation Committee (HAC) Staff Director, reflected on his congressional tenure when small supplementals made up the small differences in the budget. Today, Mr. Dryer illustrated that one long string of supplementals allow two sets of books that enable

⁴³ Fisher, Louis, *Congressional Abdication on War and Spending*, Texas A&M University Press, 2000, 135.

⁴⁴ Savage, Grant T.; Nix, Timothy W.; Whitehead, Carlton J.; Blair, John D., *Strategies for Assessing and Managing Organizational Stakeholders*, Academy of Management Executive, 1991 Vol. 5 No. 2.

games to be played and create a crunch in the federal budget. This crunch is felt by all organizations requiring additional funds to accomplish their mission. Mr. Scott Lilly, also retired HAC Staff Director, added that it becomes a political vs. policy issue where loopholes are created by both executive and legislative branches.⁴⁵ The Legislative branch reminds the executive branch that executive power is given to them by Congress. Congress, on the other hand, has not been quick to put an end to the inappropriate emergency spending, as they have admitted to playing the game by cutting money from the president's budget to fund their programs and then turn around and fund what was cut from the president's budget in the supplemental.

Congress continues to prove they are willing to fully fund emergency spending bills, and reluctantly admit they are less willing to accept large increases to an ever-growing annual defense budget.

2. Republican Vs. Democrat

Both Republicans and Democrats support the need for additional funding to support long-term contingency operations, they simply disagree concerning the method used to obtain the funding. The majority of these stakeholders support their own party's view, minus a few exceptions. The partisan support falls into one of four categories. First, if their party holds the office of the Presidency and the President wants the military to be funded quickly without additional strain to the defense budget, the stakeholder will support supplementals. Second, if their party is running the white house and the president does not support large military operations, the DoD will be forced to "adapt and overcome" by absorbing contingency costs into their annual budget with possibly a little help from small contingency reimbursements. Thirdly, if the stakeholder's party is not running the white house and their party (for the majority) disapproves of the exorbitant costs of the war funded through supplementals, then the stakeholder will support adding the costs to the annual budget. Lastly, if the stakeholder's party is not running the white house but their party approves of funding the war, then the stakeholder will support supplemental funding. All options allow funds for the war efforts, they differ only with the method used to obtain the additional contingency funding.

⁴⁵ Dyer, Jim; Lilly, Scott; Morrison, David, *Budget of 2006 and Beyond*, Naval Postgraduate School Conference, 26 January 2006.

These four examples are only valid when Republicans and Democrats fall along partisan lines, and as mentioned earlier, that does not always occur. For example, the Global War on Terror's use of emergency supplementals (4 years, 300 Billion and growing) has led some Republicans to jump ship. Senator John McCain argues that the continual use of supplementals "Distorts understanding of the defense budget and removes from our oversight responsibilities the scrutiny these programs deserve"⁴⁶ House Armed Services Readiness Subcommittee Chairman, Republican Joel Hefley, also questions the current reliance on supplemental spending to cover predictable costs. "My theory has always been that you put in the supplemental things that surprise you."⁴⁷

Democrats have been careful to underscore their support for the troops, but they insist the Bush administration should be held to a higher level of accountability. Democrats also complain the supplemental spending has hidden the true scale of war costs.⁴⁸ Both these arguments were previously addressed under opposing views.

3. Political Objectives Vs. Military Objectives

For the most part, the military supports supplemental funding because supplemental appropriations are paid quicker and often funded at 100% of the request. Army Lieutenant General John Riggs disagrees, "Fighting a war on supplementals is a hell of a way to do business. The base budget of the U.S. Army needs to be adjusted to fight the war on terror, and I have no idea where the money is going to come from,"⁴⁹ but still he is hesitant to rely on increasing the annual budget because of the high probability war funding would be cut.

Congress has been questioning the DOD's use of supplemental appropriations, suggesting they include war costs in the annual defense budget. The tension between the military and congressional views was evident at the hearing of the Senate Armed Forces Committee on 17 February 2005, as the Defense Authorization Request for Fiscal Year

⁴⁶ Weisman, Jonathan, *President Requests More War Funding*, The Washington Post, 15 February 2005.

⁴⁷ Klamper, Amy, *Subcommittee Voices Dismay Over Defense Supplemental Spending*, Congress Daily, 4 March 2005.

⁴⁸ Robinson, Dan, *Democrats Want More Accountability for Iraq Spending*, Capitol Hill, 15 February 2006.

⁴⁹ Weisman, Jonathan, and Murray, Shailagh, *Congress Approves \$82 Billion for Wars; Iraq Cost to Pass \$200 Billion; Army to Ask for More*, The Washington Post, 11 May 2005, A-01.

2006 and the Future Years Defense Program (FYDP) were questioned and defended. Senators Levin and McCain interrogated Secretary of Defense Donald Rumsfeld, Chairman of the Joint Chief of Staff General Richard Myers, and Under Secretary of Defense Comptroller Tina Jonas concerning a missing FY 06 budget request for 30,000 Army troops and Army modularity, which they felt should have been requested in the FY 06 supplemental instead of being added to the annual FY 05 President's Budget. The hot topic sparked a few charged comments and questions, and the following testimony exemplifies the hostility:

SENATOR LEVIN: The Army has given us core end strength of 512,000. Why doesn't the budget request fund 512,000? Why is that only 482,000 in the '06 budget request?

SECRETARY RUMSFELD: ...we need to look at the budget and the supplemental together...

SENATOR LEVIN: No, the real question is, since it's a known cost, why don't you put it in the budget? Why are you hiding the cost of 30,000 troops in the Army?

SECRETARY RUMSFELD: There's nothing hidden. It's all right there. It's either in the supplemental or in the regular budget.

SENATOR LEVIN: We don't have the '06 supplemental yet. We only have the '06 budget request that says 482,000, although the '05 active duty end strength, by your own chart, 512,000.

SECRETARY RUMSFELD: Right

SENATOR LEVIN: If you know '06 is going to be 512,000, why aren't you putting the 512,000 in your '06 budget request? That is the question...that's a short, direct question.

SECRETARY RUMSFELD: The, well, I can't answer it briefly. I'm sorry, I'd be happy to submit something in writing...

SENATOR LEVIN: It would be better for the record then.

SENATOR LEVIN: What did you ask for modularity in the '05 supplemental?

MS. JONAS: There's \$5 billion that they're requesting.

SENATOR LEVIN: Thank you. Is there any reason to doubt that that modularity need is going to continue in '06, General?

GENERAL MYERS: I think that's correct, and I think in the '06 budget, you'll see it in the regular budget.

MS. JONAS: '07

SENATOR LEVIN: But why not '06? Why isn't it in the '06 regular budget? It's a known amount.

MS. JONAS: ...we could have waited and put them in the baseline budget, but General Schoomaker suggested it was urgent, and we agreed.

SENATOR LEVIN: I'm not suggesting you wait. They're in the '05 supplemental. I'm suggesting you put them in the '06 regular budget. You know what they really are, don't you?

MS. JONAS: I'm not sure that they know fully. We have a good idea, but we didn't know for sure.

GENERAL MYERS: Let me give you a short answer on that...it is still being refined. To insert a large number in the '06 budget with the uncertainty surrounding them would have perturbed a lot of the '06 budget. As the secretary said, we start the '06 budget prep a long time ago....So that's why the decision was made, I think, to put them in the '07 budget, give us time to work them, and work big numbers, billions of dollars, into the '07 budget, and handle it in the supplemental in the two years where it's still being developed.

SECRETARY LEVIN: Thanks.

SENATOR MCCAIN: Mr. Secretary, what Senator Levin is trying to get to is part of your presentation. The normal budget cycle is 30-33 months, and the supplemental is nine months. And there are many of us who feel that the supplemental which is earmarked for combat operations in Iraq and Afghanistan has been expanded to a significant degree to other programs such as the modules that Senator Levin just talked about, which are – in the view of many of us, should be in the normal authorization process so that we can exercise our responsibilities of oversight...I can certainly see things from your point of view, where it would be a lot

easier. But we're going to have to make a decision at some point in the congress as to exactly what should be included in supplementals and what shouldn't.⁵⁰

Key military stakeholders argue the circumstances of ground war can change quickly and a supplemental allows for more accurate cost estimates and quicker access to needed funds. Despite congress demanding the increase of anticipated war costs to be included in the annual appropriations, a 19 October 2005 memo from the Deputy SECDEF states "The objective is to ensure that all war-related costs are being captured in supplementals to include resetting the force for damaged and destroyed equipment"⁵¹

E. WHO IS RESPONSIBLE FOR CHANGE?

After all is said and done concerning the methods used to pay for contingency costs, where does the responsibility for change lay? The United States Constitution gives Congress the power to make laws, and this robust stakeholder has the ultimate authority to direct and mandate all predictable costs associated with long-term contingencies be built in to the annual budget. The previous congressional testimony illustrates how congress has questioned the executive branch's improper use of "emergency" supplementals, but nowhere in their consistent disapproval was the proposal and enforcement of change. The legislative branch can (and should) make a law that requires the proper use of the term emergency for supplemental appropriations. Previous senates have voted to properly define the term emergency, but these proposed definitions were never officially approved so nothing is preventing their improper use. Furthermore, Congress can use the OMB and CBO to insist the annual defense budget include all predictable costs for long-term contingency operations, defined previously as operations lasting longer than two years.

This chapter has explained additional distinction among annual and supplemental funding strategies, revealed the opposing views and support for each strategy, discussed public policy and how it pertains to wartime funding, and analyzed major stakeholders

⁵⁰ Hearing of the Senate Armed Services Committee, *Defense Authorization Request for Fiscal Year 2006 and the Future Years Defense Program*, 17 February 2005.

⁵¹ Memorandum for Service Secretaries, CJCS, VCJS, and Service Chiefs, *Subject: FY07 Budget*, signed by Deputy Secretary of Defense, Gordon England, 19 October 2005.

involved in the process. Next, the intricacies and possibilities concerning future funding for the Global War on Terror will be explored.

IV. GLOBAL WAR ON TERROR

As the United States continues to fight in both Iraq and Afghanistan with no end in sight, many agree the foundation of force stabilization has been set. Continuing support is growing for the annual President's Budget to include funding for steady state operations in the Global War on Terrorism. This chapter will explain the incremental costs of war, describe current Army transformation efforts funded in the defense supplemental, analyze three funding strategies for different GWOT outcomes, and discuss the impact of an increased annual budget.

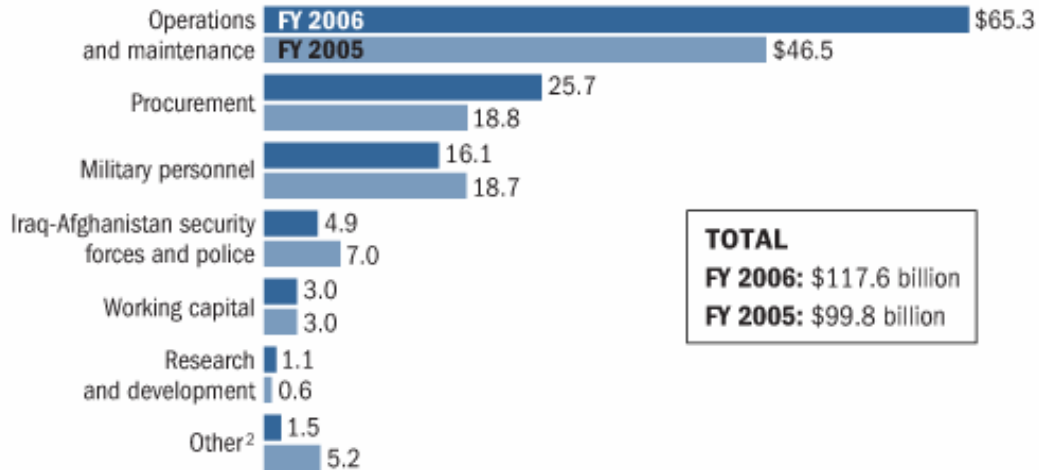
A. COSTS

During times of war, it is natural for defense spending to rise due to military necessity. The Wall Street Journal recently reported that “monthly expenditures are running at \$5.9B for Iraq, and Afghanistan adds roughly another \$1B. Taken together, annual spending for the two wars will reach \$117.6B by the end of FY2006—18% above funding for the prior 12 months.”⁵² Figure 6 shows the growth from FY2005-FY2006 for each appropriation.

⁵² Rogers, David, *US Annual War Spending Grows*, Wall Street Journal, Eastern Edition, 8 March 2006, A4.

Rising Price Tag

Though the Bush administration expects the number of U.S. troops in Iraq to decline, overall costs for the war there and in Afghanistan are expected to rise this year. Below, defense emergency spending for Iraq and Afghanistan, in billions¹



¹Data collected from House-Senate Appropriations Conference reports and pending supplemental spending bill in House

²Includes intelligence funding and Iraq Freedom Fund account that in later bills is redistributed among other accounts, chiefly O&M

Source: U.S. House-Senate Appropriations Conference reports and pending supplemental spending bill

Figure 6. Rising Price Tag. (From: Wall Street Journal, 8 March 2006)

Costs will increase incrementally as more contingency support is provided. Once a contingency has remained stable, however, costs for the ongoing contingency support can be predicted well enough to develop an overall budget plan on how the U.S. is going to fund the long-term contingency operation. Although predicted estimates are not completely accurate when compared to the actual costs, they create a basis for the stakeholders, enabling them to better prepare for the expenditures regardless of if the money is appropriated through a supplemental or built into the annual budget. The Global War on Terror is a current example of how war costs have been determined ahead of time (for a supplemental estimation), yet are not built into the annual budget. The research has presented two separate funding strategies used to fund long-term contingency operations and the true costs of war remain the same no matter which way the war is funded.

B. ARMY TRANSFORMATION

As the majority of costs directly related to the Global War on Terror are funded through supplemental appropriations, so also are additional costs specifically tied to

Army transformation efforts. Although these costs are not incrementally related to the war, the rationale behind the emergency supplemental funding is that with the nation at war, it is more crucial than ever to restructure the Army. The supplemental resources are readily available because the focus and momentum for winning the GWOT are ever present, and the new capabilities achieved from transforming will aid the effort.

The annual Army budget for FY05 increased over 50% when supplemental funding was included, and projections for FY06 are even higher with an 85% increase.⁵³ Figure 7 shows the final FY05 obligations as compared to what was initially appropriated FY06, supplemental appropriations so far (only five months into the fiscal year), and President Budget numbers for FY07.

Category	(\$B)			
	FY05 Actuals	FY06 Approp'd	Title IX & Hurr	FY07 Pres Bud
Military Personnel	51.9	40.6	5.3	42.6
Operation and Maintenance	67.2	30.0	21.8	32.0
Procurement	24.7	11.0	4.8	16.8
RDT&E	10.5	11.0		10.9
Military Construction	3.4	2.4	0.4	2.7
Army Family Housing	1.6	1.3		1.3
Other	6.6	1.5		4.1
Sub Total	165.9	97.8	32.3	110.4
Chemical Demilitarization	1.4	1.4		1.4
Total	\$167.3	\$99.2	\$32.3	\$111.8

Figure 7. Army Budget by Appropriation Category. (From: U.S. Army News Release, The Army Budget FY2007, 6 February 2007)

Military transformation means making fundamental change in the technology, organization, or doctrine of the armed services that renders obsolete current technology and methods of warfare.⁵⁴ Transformation strategy encompasses plans and actions that have the aim of inducing, sustaining and exploiting revolutionary change in the conduct of war. These transformation initiatives do not come cheap. The Army has begun an aggressive organizational transformation they deem necessary to sustain GWOT rotational commitments, and claim any reduction in annual or supplemental funding will

⁵³ Army Public Affairs, News Release, *The Army Budget – Fiscal Year 2007*, 6 February 2006.

⁵⁴ <http://www.whitehouse.gov/omb/budget/fy2007/budget.html>, Office of Management and Budget, *Budget of the United States Government FY 2007*, Department of Defense, 23 February 2006.

introduce increasing unacceptable risk to the Army's force. Army's Chief of Staff, General Peter Schoomaker, outlined several major challenges facing today's Army as they fight for adequate defense budgets and timely supplemental funding. They include infrastructure, end-strength, active/reserve balance, transformation, modularity, and acquisition.⁵⁵ The FY 2006 President's Budget request did not include known costs for increasing the Army's end-strength by 30,000 troops, nor did it include modularity estimates. These costs were deemed too large to include in the annual budget and were left for the supplemental request where they would be a "must pay." Critics, such as Christopher Hellman, the director of the Project on Military Spending at the Center for Arms Control and Nonproliferation, argue that the Pentagon can't have it both ways. "It's either an emergency item or a budget item...these guys are getting into some really, really, bad habits."⁵⁶ Bad habits, maybe, but these habits are being accepted by both executive and legislative branches. The complaints are voiced, but the funding is still approved. Modularity will be funded in the FY 2007 budget, but is only a small percentage of total transformation costs, which are mostly being funded via emergency supplemental appropriations.

Transforming the Army with supplemental dollars will prove to be a large problem when the Global War on Terror ends and emergency funding will no longer be available. Finding the resources will be troublesome, but will only be a small part of the larger defense budget shortfall. A problem with service transformation will be finding the money to accomplish the change if supplementals are used strictly for emergencies, leaving the Army with a half transformed force and no extra funds to continue transforming. Everyone agrees that the United States can build a bigger and better defense with the latest and greatest technology. The problem lies with the funding sources. If the GWOT was not funding transformation through emergency supplementals, where would the money come from? The question then becomes how much the U.S. can do with the resources they have. The Army will continue to receive the majority of defense supplemental funding as long as transformation efforts are tied

⁵⁵ Schoomaker, Peter J., General, *The Future of the Army: A view from the Top*, Presentation given at The Heritage Foundation, 7 December 2004.

⁵⁶ Klamper, Amy, *Critics: Army Transformation Costs Should be in Budget, not Supplemental*, Congress Daily, 26 January 2005.

directly to the emergent capabilities needed to fight the Global War on Terror. Figure 8 illustrates the supplemental split among services, Army overwhelmingly in the lead because they are doing the majority of the work in theatre and partly because of transformation funding via supplementals.

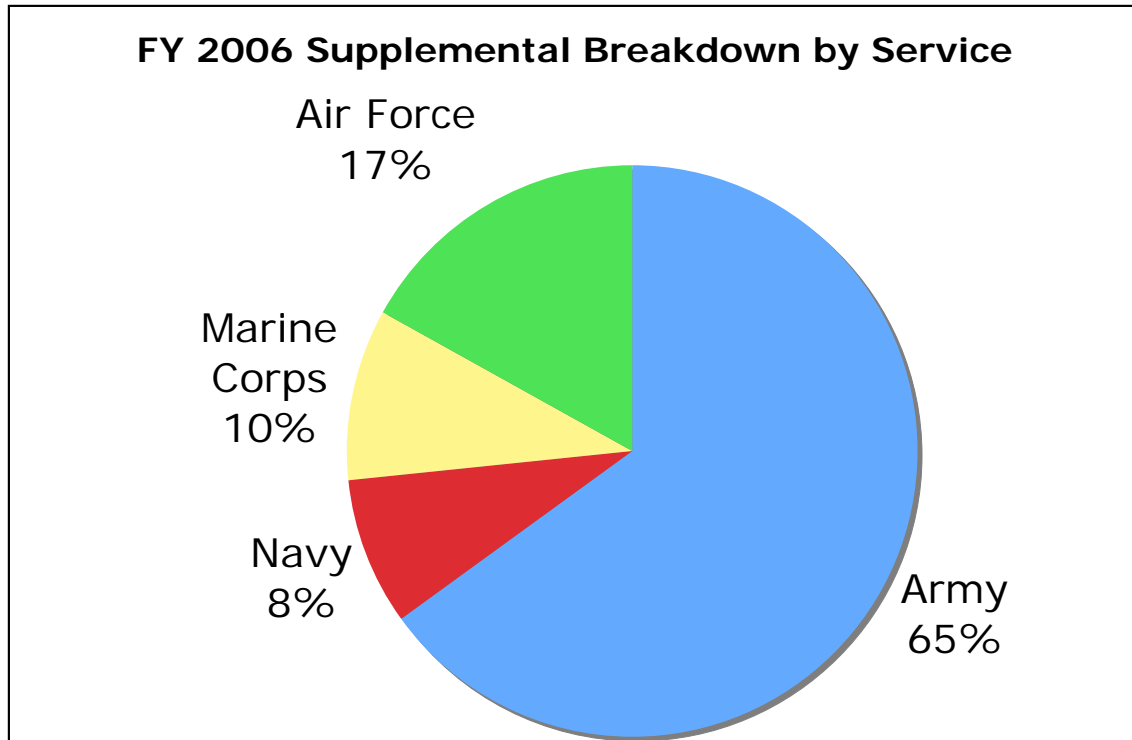


Figure 8. FY2006 Supplemental Breakdown by Service (From: Office of Management and Budget, FY2006 Estimate #3 Emergency Supplemental Appropriations)

The defense budget is facing enough scrutiny over its consistent growth without factoring the enormous costs associated with transforming. Instead of determining what the costs of the needed transformation are and then funding them, the U.S. is forced to alternatively determine what they can afford (far less) and then settle on what they can do for that dollar amount. As the Department of Defense realizes their transformation plans cannot be funded by current or projected budgets, near-term military capability becomes the primary focus instead of long-term readiness with a completely transformed force. No longer are they able to determine the capability and then building the budget to achieve it, they settle for taking the budget and then determine just how much of the capability can be funded.

DoD's vision of transformation must be translated into a funding strategy that is deeply involved with budget formulation, years prior to the need. Supplemental appropriations cannot continue to be the funding vessel in which transformations efforts are achieved. Long-term planning and budget support are crucial elements to achieving successful transformation results. The urgency of transformation, however, can change the need of funding from a planned annual budget to an accelerated need because of the war. In this case, one could argue the supplemental funding of strictly war related transformation capabilities is valid because the wartime necessity.

On the other hand, critics have a valid argument to question why the Army's transformation costs have been conveniently added to the supplemental appropriation requests during the past few years. Modularity is part of the transformation plan separate from GWOT and with the unveiling of the President's Budget for FY 2007, Army modularity was fully funded for \$6.6 Billion in the baseline.⁵⁷ These costs have become predictable and military officials admit their proper placement in the annual baseline budget.

C. THREE POSSIBLE OUTCOMES

This thesis will propose a war funding strategy for the uses of annual and/or supplemental appropriations for the following three outcomes: steady state operations, rapid withdrawal due to increased instability (lose), and rapid withdrawal due to decreased instability (win). The topic research led to the discovery that the Congressional Budget Office (CBO) projected the potential 10-year costs associated with GWOT in June of 2004. Senator Kent Conrad, ranking member on the US Senate Budget Committee, requested the cost estimations based off three scenarios. Similarly, he classified them as Occupation Force Increase, Remain at Current Levels, and Occupation Force Decrease.⁵⁸

Barron's, a weekly publication for investors from the publisher of the Wall Street Journal, also conducted budget analysis on the costs of troop drawdown to a steady force structure in Iraq and Afghanistan. Even with a proposed drawdown, the 10 year cost

⁵⁷ <http://www.whitehouse.gov/omb/budget/fy2007/budget.html>, Office of Management and Budget, *Budget of the United States Government FY 2007*, Department of Defense, 23 February 2006.

⁵⁸ Congressional Budget Office report, US Congress, Washington, DC 20515. 25 June 2004.

estimate reaches \$450 Billion based of Barron’s data, and \$498 Billion based off CBO’s data.⁵⁹ Figure 9 illustrates the troop number and total estimated outlays.

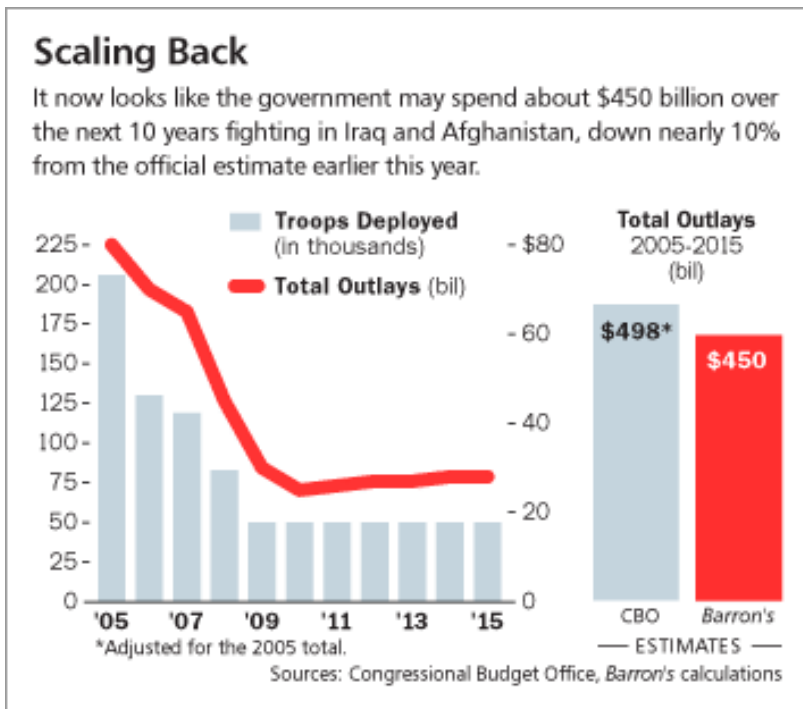


Figure 9. Scaling Back (From: Barron’s Online, *Leaving Iraq, Gaining a Rally*, 2 January 2006)

The above research led to number crunching analysis whereas this thesis will carefully outline a funding strategy. These proposed strategies will not focus on how much funding is needed for the three possible outcomes, rather how the funding will be appropriated, via annual budget increase or supplemental appropriation.

The United States support for GWOT could soon become a steady state operation with predictable annual costs associated. In this case, the annual costs of this long-term contingency would be built into the annual budget.

If there were tremendous bloodshed incidents in support of GWOT, the public and media could lash out at the President and Congress, and ultimately U.S. troops could be pulled out of Afghanistan and Iraq immediately, leaving little to no contingency costs. In this case, the best way to handle funding GWOT would be continual use of emergency

⁵⁹ McTague, Jim, *Leaving Iraq, Gaining a Rally*, Barron’s Online, 2 January 2006.

supplementals and then when the operation is over, there will be no effect on the annual budget since no long-term contingency funds were added.

If there were a tremendous lead taken by coalition troops in Afghanistan and Iraq, the war could be declared a win and the U.S. would taper off its involvement in the areas. The costs of stabilizing both countries (establishing peace, aid in creation of new governments, etc.) could be funded through supplemental appropriations.

D. IMPACT OF INCREASED ANNUAL BUDGET

Many reasons why Supplemental appropriations are a preferred funding strategy for select stakeholders is because temporary costs cannot artificially increase the annual appropriations. Once the contingency, short-term or long-term, is over, the costs simply go away as the annual budget remained constant throughout the entire process. Of the three aforementioned outcomes, only the option of the Global War on Terrorism becoming a steady state operation allow for the annual budget to be permanently increased. Even so, the term permanent only applies for the duration the long-term contingency remains in the stable state status. At anytime, the status can change to the win or to the lose option and costs will fluctuate from predictable and eventually cease.

The media and the United States public often criticize the size of the defense budget and disapprove of supplemental requests or annual increase to the defense budget. The reasoning stems from the fact the majority of Americans do not support the war on terror and therefore reject anything related to the financial support of defense programs or war efforts. U.S. public opinion polls show serious declines in support for the war and increasing pessimism about how it will end.⁶⁰ A February 2006 CBS News Poll states that over half of Americans say they disapprove of the war on terrorism, while only 43% approve.⁶¹

A separate argument to defend the size of the defense budget, and one that this thesis does not plan to address in detail but must mention for proportionality's sake, is that although the dollar amount poured into the defense budget grows higher than

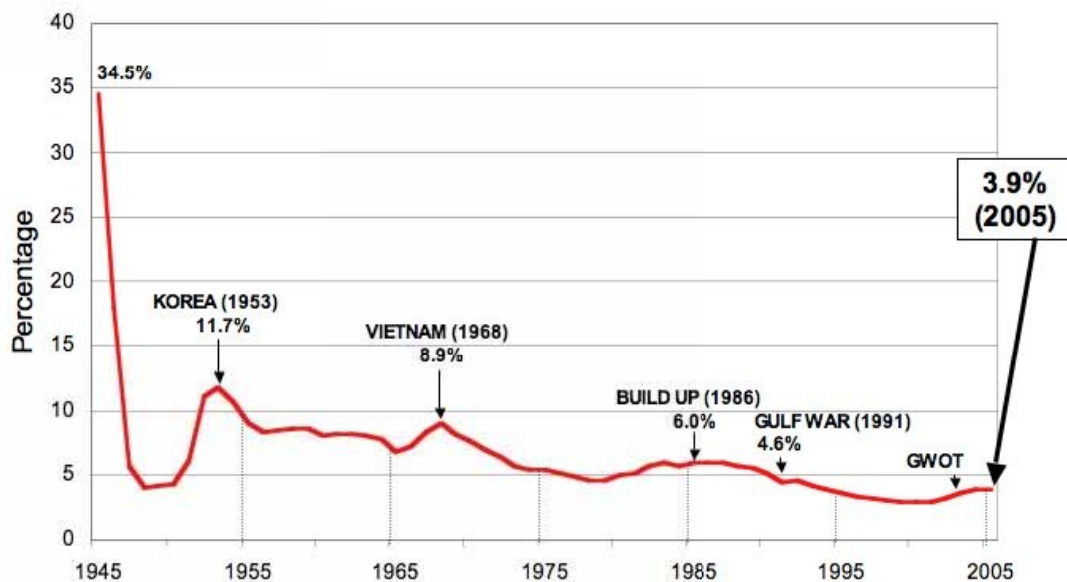
⁶⁰ Lieberman, Joe, Editorial Page Comments from Connecticut Senator, Wall Street Journal, 29 November 2006.

⁶¹ www.cbsnews.com, *The Latest CBS News Poll*, 27 February 2006.

inflation each year and seems to be very large, the defense budget is still only 3.7%⁶² of the national Gross Domestic Product (GDP). This number is far smaller than the years during the Regan build up, Vietnam, or even World War II, where they reached between 6–9% of GDP.



DoD Budget as % of GDP



Source: Historical Table, Budget of the United States Government

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Figure 10. DoD Budget as % of GDP. (From: DoD News Briefing on Fiscal Year 2007 Budget, 6 February 2006)

Certain stakeholders hold similar views as the media and public and it has been said that the recurring emergency supplementals are easier for the public to accept because they are viewed as temporary. Far more disapprove of increasing the annual President's Budget because it seems so permanent. Americans reluctantly accept supplementals because they know there is an end in sight, or so they assume. It is the perceived difference of the FY 2006 annual budget of \$420 Billion with \$50 Billion

⁶² <http://www.defenselink.mil/news>, Garamone, Jim, *DoD 2007 Budget Proposal Matches 1995 GDP Percentage*, 2 March 2006.

worth of defense supplementals (and another \$70B on the way)⁶³, verses the annual budget reaching \$540 Billion. However it is presented, the money being spent on the contingency remains the same...\$540 Billion.

The impact on the increased annual budget would be felt the first year of implementation (stakeholder acceptance of the fact the budget is now \$470 Billion), and more painfully the last year of the steady state operation. That last year will fund the remaining operation costs and leave a hole of, for example, \$50 Billion. Lawmakers might find it difficult to convince military stakeholders that the \$50 Billion must come out of the following year's top-line. This same situation occurred when the war in Vietnam ended but the annual budget remained at the plus-up levels. Military officials claimed increased troop levels required preservation of additional funding, and the annual expense that had been "temporarily" added to the annual budget was never reduced.

In the next chapter, a final summary of the research will be presented, to include recommendations and suggestions for further research.

⁶³ <http://www.whitehouse.gov/news/releases/2006/02/20060216-7.html>, FY2006 *Emergency Supplemental Request for Global War on Terror*, 16 February 2006.

V. CONCLUSIONS AND RECOMMENDATIONS

A. SUMMARY

The primary research question answered by this thesis is as follows:

- What are the factors affecting funding strategies for long-term contingency operations?

The main factors that affect the use of either annual or supplemental appropriations are planning, timing, accountability, visibility, politics and policy, stakeholder influence, military objectives, and fear of change. The first factor, planning for a contingency, is difficult because of the unknowns. Supplemental appropriations are needed because budget plans take months/years to accomplish. Timing was also found to be critical as urgent contingency needs must be funded immediately and that can only be done with an emergency supplemental. Accountability and visibility were factors found to support an increase of the annual budget as opposed to supplementals. Research found the scrutiny of annual appropriations was far more in-depth because the annual appropriations bill is deliberated longer by Congress. Politics and policy have played a key role in historical struggles with funding long-term contingency operations. Arguments for both annual and supplementals appropriation use help define each stakeholder, but no one group has a unanimous opinion. Military objective were (not surprisingly) found to fully support supplemental funding, mainly because the funding is often at 100% of the need and it comes quickly. Fear of change was the last factor this thesis identified, and it is vividly evident the change is desired but no one wants to enforce it. The military fears change because if war time requirements are mandated in the annual budget, the speed at which funding is received and the amount of actual funding might decrease. Congress fears change because although they have requested an end to non-emergency war related supplementals, they have been able to use supplementals to their advantage.

To help reach the objective of the above primary research question, the following supporting research questions were explored and the findings are reported below:

- How has the DoD historically paid for war?

A study of history indicates that after initial funding was provided by supplemental appropriations, the ongoing costs of long-term operations have been built into the annual budget.

- What are the main differences between annual and supplemental appropriations, and what are the benefits and downsides for using either to fund war?

Annual budgets are designed to fund ongoing, steady state operations and supplementals provide additional funding for largely unpredictable events. The benefits of using an annual appropriation include more congressional control, better visibility and accountability, and a more accurate picture of the size of the defense budget. Supplemental appropriations fund an emergency quickly, normally at the full dollar amount requested. The “emergency” designation inherent in supplementals exempt the amount from initial computations of the budget deficit and deliberations by the Congressional Budget Committees, thus distorting the overall budgetary issues facing the United States. It is difficult to put war costs into the annual budget because of the lead time and because it will distort the baseline when the long-term contingency is over.

- What previous contingency operations have been built into the President’s Budget, and how was that decided and implemented?

After a few years of emergency supplemental funding for Vietnam, the costs were included in the President’s annual budget request. The Kosovo/Bosnia Conflict was also initially funded via emergency supplementals, but when the operation became steady-state, the costs were predictable and included in the annual appropriation.

- Who are the stakeholders, and what do they support?

The research identified three main stakeholder groups; Legislative vs. Executive, Republican vs. Democrat, and political objectives vs. military objectives. They hold a wide variety of positions on how long-term contingencies should be funded, and there was no stakeholder group that held the same opinion across the board. Some think every cost known at the time of budget formulation should be added to the annual budget while others think as long as the cost of war is vaguely unpredictable it should be funded through supplemental appropriations.

- What is the best funding strategy for accurate war requirements?

The best funding strategy involves using both annual and supplemental appropriations together to optimally fund the contingency according to the needs of the specific mission.

B. FINAL RECOMMENDATION MIX

Emergency supplemental appropriations are a vital tool for urgent operations. They provide the military resources needed to accomplish the mission. Thus, it is imperative the United States continue to approve supplemental appropriations during the onset of a dire need emergency situation. After the contingency operation has developed into a long-term operation surpassing the second year of involvement, however, availability of supplemental appropriation should be limited. The initial unpredictable costs should have become predictable after two years of involvement to build a good estimate to be included in the annual budget. After analyzing the pros and cons of both annual and supplemental appropriations, it is clear there is no one way to completely fund a long-term military contingency operation. Because contingencies are unpredictable, the supplemental tool is the only way to get funding at the beginning of the conflict. The final recommendation involves a mixture utilizing both funding strategies. Initial supplemental use, followed by a “temporary” annual budget increase is a fair way to use the defense budget to meet the needs required by the contingency. Future long-term contingency funding should initially be funded by supplementals, and once the operation becomes stable, the foreseeable ongoing operational costs could be funded in the annual appropriations bill. Once the annual budget has increased and is steadily funding the long-term contingency, DoD could permit the use of supplementals to cover sudden spikes in costs driven by emergency events.

This study documents issues most stakeholders have faced for years. Military commanders and the majority of the executive branch prefer using supplementals because of their ability to provide fast, full funding to the fight. Congress would like to see the costs in the annual appropriations for better accountability and control. These arguments were evident in the early 1960’s just as they are today in 2006. It is now more of a political issue than ever. The term “emergency” has yet to be defined⁶⁴, and because of that reason, it is overused and inappropriately used to meet the needs of the stakeholders

⁶⁴ Congressional Budget Office, *Supplemental Appropriations in the 1990s*, March 2001, 19-21.

wanting immediate funding. Change in the process is necessary, and Harvard studies on managing change state that establishing context for change must be accomplished by providing guidance.⁶⁵ Guidance within Congress and the Department of Defense must come in forms of laws, regulations, instructions, etc. The debate over validity of supplemental use for anticipated costs has continued during 2003, 2004, and 2005. Section 1105 of title 31, United States Code has requested the FY2007 President's Budget include estimated costs for each element of expense or object class and a reconciliation of increases and decreases for each contingency operation⁶⁶, yet a memo signed by Deputy SECDEF Gordon England mandated all FY 2007 war costs be in the supplemental request.⁶⁷ With contradictory guidance, the subject will undoubtedly come up again in 2006. Congress will demand that the military put the costs in the annual budget, and each year the President's Budget includes zero dollars for GWOT and a large supplemental request. The supplemental request is then approved by Congress, despite their guidance for the war costs to be added to the annual budget request. This message is clearly telling the President he can continue to ask for emergency funding and get approved. War costs are not in the annual budget because military officials state they do not know what the costs are going to be, yet the supplemental request is introduced right after the annual request and the dollar amount is already determined. If stakeholders want to see this repetitive cycle change they must rewrite the rules governing supplemental appropriations.

C. SUGGESTIONS FOR FURTHER RESEARCH

Further research should include two important areas for exploration. First, the definition of emergency as it is used within the supplemental process. More research can lead to determining why this term has yet to be officially defined, and potentially lead to the transformation of the supplemental process if steps are taken to ensure only true emergency requests are funded with supplemental appropriations. The second area that can benefit from further research is analysis of implementing change management within

⁶⁵ Daniel Duck, Jeanie, *Managing Change: The Art of Balancing*, Harvard Business Review On Point, November-December 1993, 117.

⁶⁶ <http://thomas.loc.gov>, FY2006 Defense Appropriations Bill, Section 8100, 18 December 2005.

⁶⁷ Memorandum for Service Secretaries, CJCS, VCJS, and Service Chiefs, *Subject: FY07 Budget*, signed by Deputy Secretary of Defense, Gordon England, 19 October 2005.

the contingency budget process. There should be set standards by which long-term contingencies are governed, as pertained to their budget, and these standards can be created and suggested to the stakeholders within a change management analysis overview.

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