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Reform of the Planning, Programming, Budgeting System, and Management Control in the U.S. Department of Defense: Insights from Budget Theory

L. R. JONES and JERRY L. MCCAFFERY

Resource decision making for the Department of Defense (DOD) is one of the most challenging tasks in all of public financial management. DOD coordinates national security threat assessment, long- and intermediate-range planning and programming with annual budget formulation and execution. Between 2001 and 2004, Defense Secretary Donald Rumsfeld changed the system significantly, simplifying, and synchronizing it with presidential terms of office. We assess Planning, Programming, Budgeting System (PPBS) reform through application of applied budget theory. We review system evolution, document recent reforms, explain why change was necessary, and assess implementation feasibility. Only preliminary evaluation is possible because change implementation will require five or more years.

INTRODUCTION

For four decades the Department of Defense (DOD) has developed resource plans and budgets using the Planning, Programming, Budgeting System, or PPBS—renamed

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PPBES in 2003 with an “E” added to emphasize the importance of budget execution. As a decision process PPBES is important to understand for many reasons, not the least of which is that through it commitments are made that result in spending over \$400 billion annually.¹ This amount comprises approximately 49 percent² of the discretionary portion of the U.S. federal budget for fiscal year (FY) 2005 and approximately \$2.6 trillion³ in spending for the period 2004–2009. Despite the fact that PPBS coordinates spending of this magnitude, not much academic attention is paid to DOD budget and resource management processes. Although the magnitude and opportunity costs of defense spending are questioned routinely, the resource decision process has been ignored to a considerable extent. Perhaps this is explained by the perspective that PPBS is too complex to be understood and that it is not comparable or relevant to analysis of budgeting in other federal departments and agencies, or to state and local government budgeting.

The objectives of this paper are (a) to formulate an applied theoretical perspective relevant to analysis of PPBS and management control in DOD, (b) to describe briefly how and why PPBS was established and has evolved, (c) to provide an understanding of the purpose and workings of PPBS as a decision process, (d) to explain how the system was altered in the period 2001–2004, (e) to assess implementation of changes given that reform is recent and in progress, and (f) to apply theory to draw conclusions about reform of PPBS as changes in the system relate to resolution of long-standing problems with DOD budgeting, management, and control.

Inquiry into the Adequacy and Application of Budget Theory

One of our mentors, Aaron Wildavsky, taught that any effort to develop a theory of budgeting to respond to the challenge posed by V.O. Key⁴ and his contemporaries, including Verne Lewis and Arthur Smithies,⁵ was bound to fail⁶ and essentially was a waste of time. Allen Schick drew a similar conclusion although he was less critical of efforts to derive theory—but the distinction on this issue between Wildavsky and Schick is one of tone rather than substance.⁷ However, despite Wildavsky’s objections, students of his work have written reams about the “theory” of incrementalism when, in his view

1. The President requested \$407.1 billion for FY 2005. *Budget of the United States Government for Fiscal Year 2005*: 87.

2. Derived from Table 8.1: Outlays by Budget Enforcement Category, *Budget of the United States Government for Fiscal Year 2005*, Historical Tables: 125.

3. Calculated from Table 3.2: Outlays by Function and Subfunction, *Budget of the United States Government for Fiscal Year 2005*, Historical Tables: 58.

4. V. O. Key Jr., “The Lack of a Budgetary Theory,” *The American Political Science Review* 34 (December 1940): 1137–44.

5. Verne B. Lewis, “Toward a Theory of Budgeting,” *Public Administration Review* 12, no. 1 (Winter 1952): 42–54; Arthur Smithies, *The Budgetary Process in the United States* (New York: McGraw-Hill, 1955).

6. Aaron Wildavsky, *The Politics of the Budgetary Process*. (Boston: Little, Brown and Company, 1964). Wildavsky says that the task is “. . . impossible to fulfill”: 128.

and ours, there is no such thing. Incrementalism is an observation about how budgeting is done and, very generally, on how to predict the amount of change on the margin in future budgets. As a generalization incrementalism fails to address budgeting in many contexts.⁸ Thus, it lacks robustness and the attributes of what we deem to be necessary to constitute a comprehensive theory of budgeting, i.e., specific and testable propositions about how (and what kinds of) budget decisions are made in different dynamic and contingent circumstances.⁹ Without pursuing this assertion further we may observe that short of developing comprehensive theory, it is possible to identify important characteristics of budgeting and budgets in a way that may be viewed to constitute construction of applied theory¹⁰—consisting of criteria to assess the sufficiency and functional capability of budget systems and processes. Schick suggested a similar approach¹¹ and the works of Caiden¹² and Meyers¹³ demonstrate the utility of developing and applying criteria to evaluate budget systems (we have written on this at greater length elsewhere).¹⁴

We believe it is useful for our analysis to recognize the importance of Allan Schick's work in the development of what we term applied theory. In his classic analysis of the "Road to PPBS," Schick identifies characteristics present in budget systems, "Every

7. Allen Schick, "An Inquiry into the Possibility of a Budget Theory," in *New Directions in Budget Theory*, ed. Irene S. Rubin (New York: SUNY Press, 1988): 59–69.

8. Joanne Kelly and John Wanna, "Are Wildavsky's Guardians and Spenders Still Relevant? New Public Management and the Politics of Government Budgeting," in *Learning from International Public Management Reform*, eds. L. R. Jones, James Guthrie, and Peter Steane (Oxford: JAI-Elsevier, 2001): 589–614.

9. On the theoretical insufficiencies of incrementalism, see Irene S. Rubin, "Introduction," in *New Directions in Budget Theory*, ed. Irene S. Rubin (New York: SUNY Press, 1988): 3–5; Roy T. Meyers, *Strategic Budgeting* (Ann Arbor: University of Michigan Press, 1994): 4, 31, 37.

10. We think of applied theory as a subset of what has been termed grounded theory: a qualitative approach, begun with an orienting perspective from which inductively the attempt is made to discover, organize, and explain phenomena that specify relationships and provide conclusions useful to both academics and practitioners. For more on grounded theory see Barney Glaser and Anselm Strauss, *The Discovery of Grounded Theory: Strategies for Qualitative Research* (Chicago: Aldine, 1967), and Anselm Strauss and Juliet Corbin, *Basics of Qualitative Research* (Newbury Park, CA: Sage, 1990). On applying theory in analysis of budget reform, see Matthew Andrews, "A Theory-Based Approach to Evaluating Budget Reform," *International Public Management Journal* 5, no. 2 (2002): 135–154.

11. "The rudiments offered in this paper might be more useful as a construct for organizing the study of budgetary processes and outcomes than as a causal theory of budgetary choice," Allen Schick, "An Inquiry," in *New Directions in Budget Theory*, ed. I. S. Rubin: 68.

12. Naomi Caiden, "Guidelines to Federal Budget Reform," *Public Budgeting & Finance* 3, no. 4 (1984): 4–22.

13. Roy T. Meyers, "Is There a Key to the Normative Budgeting Lock?" *Policy Sciences* 29, no. 3 (1996–1997): 171–188.

14. Jerry McCaffery and L. R. Jones, *Budgeting and Financial Management in the Federal Government*, (Greenwich, CT: Information Age Publishing, 2001): 257–279. L. R. Jones and Jerry L. McCaffery, "Budgeting According to Aaron Wildavsky: A Bibliographic Essay," *Public Budgeting & Finance* 14, no. 1 (Spring 1994): 16–43.

budget system, even rudimentary ones, comprises planning, management, and control processes.”¹⁵ In our formulation of applied theory, we use Schick’s view on planning, management, and control processes as criteria for evaluating the sufficiency, functional capability, comprehensiveness, and in some respects the performance of budget and resource management systems, i.e., we apply Schick’s statement as normative—that these components *should* be present in all systems.

Schick asserts that different budget systems reveal different manifestations of planning, management, and control. In further development of this perspective, Jones and Thompson¹⁶ defined different types of planning, management, and control approaches, arguing that selection of appropriate control system design and accompanying methods of controls (e.g., ex ante versus ex post controls) is essential for effective budgeting and management control. They pointed out that the importance of control system design was not well understood by practitioners, particularly those in government executive branch control agencies. Also, they explained that establishing and maintaining appropriate balance in the use of ex ante, ex post, and control designs and levers does not happen by accident and is never automatic. Jones and Thompson noted that the tendency is almost always toward overcontrol in the use of ex ante leverage to reduce the discretion of agencies, and less than adequate use of evaluation and incentives/disincentives in ex post control.

These suppositions lead to the conclusion that occasionally executive and legislative leadership should seek to rebalance the management control levers employed in budget systems. This is necessary especially when the agency mission changes, when budget systems become so elaborate and convoluted that budget processes evidence incoherence and redundancy that leads to dysfunctional behavior, and when outputs cease to match constituent and stakeholder demands. With the observations of Schick, and Jones and Thompson formulated as criteria for assessing the adequacy of budget, management, and control systems, we now move to examine an attempt at resource decision system rebalancing that leads us into the story of PPBS development and evolution in the U.S. DOD.

PPBS Development and Evolution

Faced with system underperformance and failures of various types, we observe that leaders should take the initiative to institute reform to obtain improvements in both process and outcomes. In 1961, President John F. Kennedy appointed Robert McNamara as his Secretary of Defense. McNamara was determined to take control of DOD, an organization he saw as virtually unmanageable, a “behemoth . . . [with] . . . 4.5 million employees . . . [larger than] . . . America’s top 25 or 30 corporations combined.”¹⁷ In

15. Allen Schick, “The Road to PPB: The Stages of Budget Reform,” in *Perspectives on Budgeting*, ed. Allen Schick (Washington, DC: ASPA, 1980): 47. This was initially published in *Public Administration Review* in 1966.

16. L.R. Jones and Fred Thompson, “Reform of Budget Execution Control,” *Public Budgeting & Finance* 6, no. 1 (1986): 33–49.

17. Robert McNamara, *In Retrospect*. (New York: Random House, 1995): 22.

addition, as explained by Gordon, McNicol, and Jack, McNamara (and Kennedy we may add) perceived there was a problem relative to civilian control of DOD, “Despite serial attempts under President Eisenhower’s leadership to increase civilian control of the nation’s military forces, the services’ budgets remained largely independent of one another and without oversight by the Secretary of Defense.”¹⁸ McNamara thought his predecessors had high ambitions about leading DOD, but that heading this vast bureaucracy left them too busy to think sufficiently about what they were doing. Instead, they ended up deferring to line bureaucrats, and to generals and admirals without understanding the planning, management, control, budgetary, and policy consequences of such deference.¹⁹

McNamara sought to subordinate the various institutional interests and preferences of the military departments and services in the Pentagon to a broader concept of national interest. He attempted to do this by moving senior civilian officials much deeper into the planning, management, control, budgeting of defense operations, and weapons platform and systems acquisition programs. This was to be accomplished through the application of systems analysis within the framework of a new resourcing system, PPBS, by extending the planning horizon from one year to five and by clarifying acquisition choices by forcing cost and effectiveness comparisons across services.²⁰ McNamara and his comptrollers, Robert Hitch and later Robert Anthony, designed and installed PPBS in attempt to make decisions on a more systematic basis using analytical criteria and sophisticated quantitative methods to compare decision alternatives, and to oversee and control planning and resource decision making more centrally in the Office of the Secretary of Defense (OSD).²¹ Fundamentally, McNamara was tasked with taking control of DOD planning and budgeting away from the military and putting it in the hands of civilian leadership. Consequently, the initial motivation for establishing PPBS had as much to do with control and politics as it did with rational resource planning and budgeting.²²

By June 30, 1964, PPBS was fully operational within the DOD.²³ This system carefully divided decisions into those that assessed the threat and changes to it (planning); those that built force structure to meet the threat with components such as aircraft carriers,

18. C. Vance Gordon, David L. McNicol, and Bryan C. Jack, “Revolution, Counter-Revolution, and Evolution: A Brief History of the PPBS.” Unpublished manuscript. 2004: 2.

19. McNamara (1995: 22).

20. McNamara (1995: 23).

21. Jerry McCaffery and L. R. Jones, *Budgeting and Financial Management for National Defense* (Greenwich, CT: Information Age Publishing, 2004): 88–91.

22. For example, establishment of PPBS may be viewed as a struggle between McNamara’s systems analysis staff and service agency leadership and staff, “As the assaults on Systems Analysis grew more intense over the years, it became apparent that the question was not so much “How much is enough?” as “Who is in charge?” While too cautious to attack the Secretary of Defense and President directly, the assailants were uninhibited in setting up the Secretary’s staff” (Gordon et al. 2004: 17).

23. Lorentz A. Feltes, “Planning, Programming, and Budgeting: A Search for a Management Philosopher’s Stone,” *Air University Review*, January–February 1976, www.airpower.maxwell.af.mil/airchronicles/aureview/1976/jan-feb/feltes.html.

airplanes, tanks, troops, and nuclear weapons (programming); and those decisions which financed the current FY share of the program (budgeting). Sophisticated decision methodologies supported this decision structure as Charles Hitch implemented PPBS and systems analysis throughout DOD. However, most of the program analysis was done by his “whiz kids” in the OSD under the Comptroller and the Office of Program Analysis and Evaluation.

In summary, under McNamara OSD attempted to control the force structure and selection of programs to meet the threat, and the military departments would be left with pricing out and buying the necessary assets in the annual budget. In practice, they conducted programming routines and submitted their product for review by OSD. The military departments were not anxious to implement PPBS, but had to do so eventually to play in the new planning and budgeting game run and orchestrated by Hitch and his staff. After a few years, the military departments were fully engaged in learning how to compete in the new PPBS process. However, PPBS was not just budget reform—it was a new approach to analysis and competition between alternative programs, weapons systems and, ultimately, multiyear programmatic objectives.

Subsequently, others would try to rebalance the control levers of the defense resource decision making process according to their vision of what was appropriate for purposes of planning, management and control. For example, Secretary of Defense Melvin Laird (1969–1972)²⁴ shifted power away from the Office of Secretary of Defense and toward the service secretaries. Laird believed that OSD had become too strong and was making decisions that more appropriately should be made at the military department/service secretariat level.

In 1986, passage of the Goldwater-Nichols Act²⁵ by Congress emphasized increased planning and resourcing of joint war fighting capabilities through empowerment of the Joint Chiefs of Staff (JCS). This resulted in part from an assessment among the JCS and some members of Congress (but not the Secretary of Defense at the time) that not enough career military wisdom was applied in DOD resource priority setting, planning, and decision making.

Most recently, Defense Secretary Donald Rumsfeld changed PPBS seeking virtually the same objectives as his predecessors, but choosing to move more control back within OSD and, for the uniformed services, more centrally to the JCS to be more responsive in a cost-effective manner to the future needs of war fighting commands.

One conclusion based on this brief review of the development and evolution of PPBS and efforts to better plan, manage, and control DOD²⁶ is that the system demands

24. Anon., “Mel Laird: Coach, Quarterback, or Both?” *Armed Forces Management* 15 (October 1969): 34.

25. Peter W. Chiarelli, “Beyond Goldwater-Nichols,” *Joint Forces Quarterly* (Autumn 1993): 71–81, http://www.dtic.mil/doctrine/jel/jfq_pubs/index.htm; Lee Roberts, “Shalikashvili Grades Goldwater-Nichols Progress,” *Armed Forces Press Service News* (December 1996): 1–3, www.dod.mil/news/Dec1996/n12181996_9612182.html; David C. Jones, “Past Organizational Problems,” *Joint Forces Quarterly* (Autumn 1996): 23–28.

constant attention to ensure its elements either remain or may be realigned into proper balance according to the management control system design and resource decision perspectives and preferences of different reformers. A succession of “rebalancing” reforms have been driven by Secretary of Defense and Presidential intentions, congressional action, and by initiatives not explored here with respect to military department and service agency responsiveness to reform attempts given their ability to shape, accommodate and at times resist reform.²⁷

Other variables have influenced PPBS development and evolution significantly. From the 1960s through the early 1990s, the application of PPBS in defense was dominated by the demands of the Cold War and then its aftermath. During this period, it may be argued that the large swings of defense resource increases and reductions produced a decision process in which many program decisions were made by budget staff when they should have been made by line (command) and program administrators. From this view, the budget drove the program, although PPBS design intended that the process operate in the opposite manner. This regression to contingency budgeting took place in a political system driven by top line spending limits determined by presidential and congressional policy implemented from the top down by the Office of Management and Budget (OMB), where issues related to the budgets and balance of authority and control are always subject to intense competition. In DOD, this competition takes place between civilian and military assessments of resource requirements, between planners and budgeters, between OSD and the military departments/services, between joint war-fighter combatant commanders and the military departments and service responsible for the hiring, training and provisioning forces, and between other agents in a variety of contexts.²⁸

DOD has spent so much time since the 1960s attempting to respond to contingent war preparation and fighting demands and trying to mesh the planning, programming, and budgeting part of PPBS that little attention has been given to critical thinking about design of management control systems. The exception to this was when Robert Anthony served as DOD comptroller in the mid-1960s. Anthony wrote his dissertation on management control at Harvard²⁹ and knew about as much on the topic as anyone in

26. For a more comprehensive review of the evolution of PPBS, see McCaffery and Jones (2004: 88–97).

27. Gordon et al. (2004: 17).

28. For an explanation of relationships between and responsibilities of Joint and Service commands, see Fred Thompson and L. R. Jones, *Reinventing the Pentagon* (San Francisco: Jossey-Bass, 1994): 216–227.

29. Anthony wrote his dissertation under the direction of Professor Ross Walker at Harvard. Anthony credits Walker for the development of modern management control theory through research as a consultant to private sector firms in the Boston area and lectures on his findings at the Harvard School of Business in the 1930s. Anthony explained that Walker created the theory but never wrote it down and all he had to do (said with customary modesty) was to write what Walker had taught him in his dissertation. Anthony's dissertation was later published in a book, *Management Controls in Industrial Research Organizations*, (Boston: Division of Research, Graduate School of Business Administration, Harvard University, 1952), later revised in Robert N. Anthony, *Planning and Control Systems: A Framework for Analysis* (Boston: Division of Research, Graduate School of Business Administration, Harvard University,

academe or government. Anthony designed what appeared to be a very useful management control system (Project Prime) for DOD, but it was rejected by Congress.³⁰ Because of this, DOD marched on with marginal adjustments to PPBS until 2001, and with little explicit attention to management control system design or methods.

The Apex: Where Practice Meets Theory

To conclude that DOD does not use an adequate management control system design does not presume that defense resource planning and management is not controlled. In fact, DOD receives numerous controls in appropriations and report language from Congress and operates within relatively tight budget control guidelines and procedures under the oversight and direction of the OSD Office of Comptroller, other DOD level secretariats and military service department secretariats and their comptrollers. DOD builds its budget beginning with strategic assessment of the threat. Some of this assessment comes from sources external to DOD, including the State Department, the National Security apparatus, the President's personal inclinations, and policies and includes information about allies and potential competitors and legal obligations based on treaties and alliances. The Planning component of PPBS is what Anthony termed strategic, "Strategic planning . . . the process of deciding on objectives of the organization, on changes in these objectives, on the resources used to attain these objectives and on policies that are to govern the acquisition, use, and disposition of these resources."³¹ However, fulfilling the task of planning in fact occupies the first two steps of the PPBS process: planning and programming. Planning involves assessing the threat and deciding how to provide capabilities to meet requirements and deter threats. Programming requires building a force structure that will provide the capabilities to do so.

In almost all other budget jurisdictions, programming would immediately be recognized as developing answers to the "who, what, and how" questions that must be addressed in the annual budget formulation process, while the budgeting part of PPBS is driven by how much of the program and appropriations from Congress can be executed and obligated in any given year. Compared with other budget systems, the key budgeting tasks in PPBS in DOD are quite limited, seeking only to develop correct pricing and timing decisions about force structure requirements established in the strategic planning process.

(footnote Continued)

1965). Anthony applied his conceptions to the public sector in a series of books, revised for decades, that remain the best known works in public sector management control. See, for example, Robert N. Anthony and Regina E. Herzlinger, *Management Control in Nonprofit Organizations* (Homewood, IL: Irwin, 1975). The source of Anthony's views is L. R. Jones, "Notes on Management Control Origins," written during an interview with Robert N. Anthony (unpublished notes), North Conway, NH (November 17, 2001).

30. L. R. Jones, Interview Notes (2001).

31. Robert Anthony, as quoted by Schick (1980: 47).

It is important to note that the DOD strategic planning process has a multiple year timeline. It is guided by a single resource planning guidance instrument, the Future Year Defense Plan, that provides requirements for the next FY and five future years so that the shape of the force structure is established over the near-term future. Assessing the threat involves a number of future-oriented judgments, e.g., development of war fighting and resource strategies against potential enemies ten to fifteen or more years in the future. This long-term planning is vital because of the lengthy lead times required to field new weaponry and force structure.

Anthony defines management control as “. . . the process by which managers assure that resources are obtained and used effectively and efficiently in the accomplishment of the organization’s objectives,” and further states that “Operational control is the process of assuring that specific tasks are carried out effectively and efficiently.”³² The way in which Schick defined planning, management, and control would place these tasks in the Planning and Programming phases of PPBS. About management Schick explains, “Management involves the programming of approved goals into specific projects and activities, the design of organizational units to carry out approved programs and the staffing of those units.”³³ In defense budgeting, this is accomplished as part of the programming process. Schick notes that control refers to binding operating officials to the policies and plans set by their superiors. Schick states that since time is a scarce resource, central authorities must be selective in what they emphasize and this usually means that they choose to emphasize control functions at the expense of planning functions. This conception is consistent with the hypotheses advanced by Jones and Thompson noted previously.

We contend that the applied theoretical stipulations of Anthony, Schick, and others are right on target—but this wisdom has not been applied well in DOD. If this is the case, why has it occurred? One line of approach to answering this question is to note that, pressured by Congress, *DOD officials have chosen over time to emphasize planning* (the planning and programming components of PPBS) *over management control* as defined by Anthony. Additionally, it may be argued that these officials have had to do so because of the necessity of avoiding Pearl Harbor types of attacks. After December 7, 1941 defense leadership adopted a view that never again would the U.S. be thus attacked while unprepared to respond. Attention to better planning would prevent such occurrences.³⁴ Furthermore, for 40 years the U.S. faced a seemingly implacable foe in the USSR equipped with nuclear weapons aimed to destroy major parts of the U.S. in 30 minutes.³⁵

32. Schick (1980: 47).

33. Schick (1980: 47).

34. It must be noted that the dedication to the avoidance of devastating surprise attacks did not prevent the terrorist actions of September 11, 2001, but this is another story.

35. Colin Powell, Chairman of the Joint Chiefs of Staff, testimony to the Senate Armed Services Committee (February 5, 1991).

The emphasis on long-range planning to provide the capability to deter or meet contingent threat helps to explain why in testimony before Congress in 2001 and 2004 Comptroller General David Walker gave DOD “A” grades in war planning and fighting capability, but failing grades in management control and financial management.³⁶ Based on his understanding of theory, Anthony would have installed a management control system in DOD that made sense and, arguably, has been badly needed since the 1960s. As explained above, this was not politically attractive to congressional appropriators—nor was it desirable to some officials in DOD and military departments and services. Thus, if we extrapolate from the work of those who constructed applied theory and apply what we have learned to the circumstance of DOD planning, management, and control, Anthony, Schick, and others seem to agree on what should be done—but their advice has not been heeded.

Schick provides a powerful description of the way budget systems developed and what tasks they should perform, but over the years budgeting as he defined it became somewhat distorted in DOD and elsewhere in government in our view. Effective planning, management, and control were not well integrated into many, if not most, budget systems. For DOD, control typically has been applied narrowly through line-item appropriation discipline, rigidly established and enforced by Congress and its audit agent the General Accounting Office (now the General Accountability Office), and by DOD and military department and service comptrollers and other offices, e.g., those responsible for acquisition and procurement, contracting and other functional areas within DOD. Further, as the management task morphed into performance-oriented budgeting in the past decade (e.g., since passage of the Government Performance and Results Act by Congress in 1993 and the advent of the Program Assessment Rating Tool approach by OMB in 2001) few agencies, including DOD, could implement this approach well due in part to the absence of budgetary systems embedded in solid management control frameworks.

While PPBS explicitly includes long-range planning,³⁷ in the larger world of public budgeting all but the simplest systems have integrated planning in some way—in fact Schick suggests there is a bit of PPBS in every budget system.³⁸ While this is positive with respect to conformation with Schick’s criteria for good budget systems, PPBS as applied in DOD could not escape the necessity of performing as a fully articulated planning system at the expense of management and control applications. In fact, we argue that PPBS performed planning within a system absent of adequate management and control—and under the wrong type of control system design. This should not come as a

36. David Walker, Comptroller General of the U.S., Testimony to the House Committee on Government Operations (March 7, 2001), as quoted in McCaffery and Jones (2001: 335). See also D. Walker, “Defense Transformation: A Battle the U. S. Can Not Afford to Lose,” *National Defense Magazine*, September 2004, www.nationaldefensemagazine.org accessed August 11, 2004.

37. Schick (1980: 64–66).

38. Schick (1980: 47).

surprise given what we have explained regarding the reasons why DOD concentrated on long-range planning and continued to work under rigid instruments of control. And, as noted, academic budget experts and students of management did not help matters much because they have tended to ignore PPBS in DOD. Thus, over time, recognition of PPBS as a comprehensive budget system faded and the conventional practices of public budgeting prevailed and PPBS was shuffled off into a shaded corner of the public budgetary landscape and regarded, if at all, as an expensive and muscle-bound system inappropriate for most governments.³⁹

Returning to the point when PPBS originated in the mid-1960s, just prior to Schick's definition of the necessary components of executive budgeting, Wildavsky published a view of budgeting that focused precisely on the connection between legislative and executive roles in the budget process.⁴⁰ His portrayal of this process as incremental and strategic moved the focus of research on the budget process to the relationship between executive branch agencies and legislative committees. Strategies, negotiation, and interpersonal adjustments became the focus of interest rather than skills in welfare economics, marginal utility analysis, benefit/cost calculation, operations research and systems analysis, and multiyear capital planning that Schick had suggested was needed to support good budgeting systems.

Wildavsky assumed that administrators would find ways to discover what they needed and that the important point was how they represented those needs to funding sources in the legislature. Schick's conception was and is more insightful in terms of compatibility with the views of Anthony and others on the need for planning combined with the appropriate instrumentation for management and control. Wildavsky's analysis was not concerned with planning, management and control, except insofar as his belief that extremely rationalistic calculation in the budget process was impossible and would default to lesser solutions more amenable to the way Congress does politics. Besides, according to Wildavsky, outcomes were incremental (if harm were done, it would be incremental harm). Schick's bottom line was that the "ethos of budgeting would [in our view the word "should" fits better here] shift from justification to analysis."⁴¹ However, this was not the direction taken by PPBS during the 1960s and we argue this failure has continued for decades. Because Wildavsky did not believe strategic planning was worth the effort, instead he offered the view that good justification would enable better budget playing; performing as a better player meant getting more of what was available for your

39. Allen Schick did not consciously set out to describe how public sector budgeting processes would interface with the legislative branch as all U.S. budget systems must. Thus, Schick's identification of criteria for judging budget systems as of 1966 was incomplete. He concentrated on executive budgeting at this phase of his work. Subsequently, Schick addressed budgeting in the legislative branch in his work on congressional budgeting, e.g., Allen Schick, *Congress and Money* (Washington, DC: The Urban Institute, 1980).

40. Wildavsky (1964).

41. Schick (1980: 65).

agency. However, Wildavsky's view is not consistent with our thesis relative to DOD that planning (and programming) triumphed over budgeting and management control. We view this as part of the problem versus part of the solution for DOD, independent of the inevitable budgetary politics identified by Wildavsky. It is not that Wildavsky's work was incorrect. Rather, it was incomplete in ways that the work of Schick, Anthony, and others was not.⁴²

There is more that is relevant from exploration of development of budget theory in the 1960s as it relates to the persistence of flaws in PPBS in DOD. While Wildavsky's portrayal of budgeting behavior and strategy took some time to catch on,⁴³ the fact is that it became required reading in virtually all graduate courses on government budgeting and stimulated substantial effort into measurement of incrementalism and discovery of incremental behavior at all levels of government.⁴⁴ Our point is that the appeal of delving into the details of congressional-agency politics through the lens of Wildavsky's presentation (including his attacks on PPBS⁴⁵) turned attention away from Schick's "Road to PPBS." However, despite the flaws of the system, it may be understood why DOD could not abandon PPBS and chose not to opt for more simple systems, because the stakes were too high and there was no other system that appeared to be better able to meet its needs.⁴⁶ Still, the application of PPBS in DOD does not measure up well when

42. A. Wildavsky, "Political Implications of Budget Reform: A Retrospective," *Public Administration Review* 52, no. 6 (Nov/Dec 1992): 594–603. The original edition of *The Politics of the Budgetary Process* (1964) went so far as to suggest that competition would provide for the public good, a position Wildavsky later recanted, noting that some interests were not well represented in the legislative process. Still, Wildavsky's portrayal of the key aspects of budgeting was immediately accessible in ways that Schick's was not. Most budgeters could see themselves presenting "spend to save strategies" and other means of justification to legislators; few could see themselves calculating the marginal utility of alternative forms of capital investment and service delivery.

43. Wildavsky said, "Nine publishers rejected it and at first the Bureau of the Budget claimed none of it was true . . ." See Wildavsky in the preface to the 1974 edition of *The Politics of the Budget Process*. See also L. R. Jones and Jerry L. McCaffery, "Budgeting According to Wildavsky: A Bibliographic Essay," in *Budgeting, Policy, Politics*, eds. Naomi Caiden and Joseph White (New Brunswick, NJ: Transaction Books, 1995): 20.

44. Irene Rubin suggests that the popularity of Wildavsky's analysis had an unanticipated consequence for theory building. Rubin argues that incrementalism was incomplete as a theory, but that it dominated budget literature and descriptive theory for more than two decades. It was so dominant that it prevented many budgeteers from seeing the budget reality that was in front of them and theorizing about it. Rubin suggests the result was that theory and practice grew ". . . unacceptably far apart." Irene Rubin, "Budget Theory and Budget Practice: How Good the Fit?" in *Government Budgeting: Theory, Process, Politics*, ed. Albert C. Hyde (Pacific Grove, CA: Brooks Cole, 1992): 88–89.

45. These attacks were rendered in Wildavsky (1964: 135–141) in the chapter on reforms, and carried on in journal articles, especially in "The Political Economy of Efficiency: Cost Benefit Analysis, Systems Analysis, and Program Budgeting," *Public Administration Review* 26, no. 2 (1966): 292–310 and "Rescuing Policy Analysis from PPBS," *Public Administration Review* 29, no. 3 (1969): 189–202 and continued throughout his career until he lost interest in the topic in the 1980s.

46. L. R. Jones and Glenn C. Bixler, *Mission Budgeting to Realign National Defense* (Greenwich, CT: JAI Publishers, 1992).

evaluated against criteria for good budget systems articulated by Schick, and by Caiden, Rubin, Meyers and others.⁴⁷

PPBS in DOD failed to move the focus away from budget justification and toward management, control and better analysis despite the efforts of McNamara, Hitch, Anthony and others to make the system conform to Schick's criteria. Anthony's vision of management control was not implemented and, as a result, PPBS was not articulated into a well-organized management control system in DOD. While PPBS did not mature within a much-needed management control structure, it continued to subsist as a disjointed long-range resource planning mechanism. But this has perpetuated key weakness—failures in management and control. These evident weaknesses continue and are manifested in resource planning and execution failures that may be predicted to result where inappropriate control system design exists.⁴⁸

Furthermore, the predominance of budgeting at the expense of management and control has led to failures in coordination of the various parts of the complex DOD resource decision-making processes. This has resulted in huge wastes of taxpayers' money and civilian and military time and energy, mismatches between budgeting and acquisition decision making so that it takes far too long to move from specification of requirements to the fielding of weapons systems, inability to supply war-fighter needs on time, and not having enough money to afford implementation of a badly needed weapons platform and system investment strategy to replace obsolete and overused war-fighting assets. These and other problems plague DOD in part because it is a highly decentralized, overly bureaucratic organization that requires better coordination, management, and control, but does not have a resource-planning and management control system equal to the challenges at hand.

An Overview of the Rumsfeld Reforms

Now that we have developed an understanding of PPBS within the context of DOD planning, management, and control and an appreciation for some of its strengths and weaknesses, we turn to investigation of efforts to redesign the system under Secretary of Defense Donald Rumsfeld and staff. This reform, part of what has been termed the transformation of business affairs in DOD, constitutes a significant initiative to improve and correct many of the evident problems that have weighted down the functioning of PPBS. In summary, the Rumsfeld transformation initiative merged separate program and budget reviews into a single review cycle performed simultaneously rather than sequentially. Second, it incorporated a budget process matched to national electoral cycles with major strategic changes slated for the second year of a presidential term and

47. Schick, "An Inquiry," 1988; Caiden, "Guidelines to Federal Budget Reform," 1984; Rubin, "Introduction," 1988; Rubin, "Budget Theory and Budget Practice: How Good the Fit?" 1992; Meyers, *Strategic Budgeting*, 1994; Meyers, "Is There a Key to the Normative Budgeting Lock?" 1996–1997.

48. This includes the absence of matching design to decision context; see Jones and Thompson (1986) and Thompson and Jones (1994).

minimal updating done in the first and third years, given no major change in the threat. Third, it fixed timing of the process so that planning and budgeting were clearly derivative processes driven by the Quadrennial Defense Review and the National Military Strategy. Fourth, it changed the cycle for OSD provision of top-level planning information to the military departments and services from an annual to multiyear schedule with two-year combined program and budget review.

The essence of the PPBES reform is to establish a four-year resource planning and decision cycle to replace the previous system that operated in a six-year cycle for planning, a two-year cycle for programming and an annual cycle for budgeting. Year one requires “review and refinement” of the previous president’s strategy and plans, including only limited changes in programs and budgets, an early national security strategy, and an “off-year DPG.” MID-913 anticipated that in year one “a small and discrete number of programming changes will be required to reflect real world changes and as part of the continuing need to align the defense program with the defense strategy.”⁴⁹ Changes would be made in overall defense resource posture in response to information provided from two new and separate planning guidance documents and processes, the Strategic Planning Guidance (top-level DOD civilian staff input) and the Joint Planning Guidance (input from the military JCS — the SPG and JPG replaced the single Defense Planning Guidance) to reflect incremental changes in the threat and the posture of the U.S. and its allies. As is normal, a new administration may take steps to insert its defense policy priorities in the budget submitted to Congress and to make changes caused by fact-of-life events in acquisition programs.

In the summer of year one, work would be begun on the Quadrennial Defense Review⁵⁰ for reporting to Congress. During this year, the program structure and budget undergo minimal and incremental updates, given no major changes in the threat.

Year two is a year of major change. Following the completion of the Quadrennial Defense Review in late winter of year one, and other studies as directed by OSD and the military departments (for example, on the nature of undersea warfare) new SPG and JPG documents are prepared and a full program and budget review is undertaken in year two. This constitutes a major scrutinizing of the force structure and resource priorities and patterns following the changes in the SPG/JPG. The POM and budget process for the next two years are built around incremental changes to this DPG and termed off-years. In these off-years, program change proposals (PCPs) and budget change proposals (BCPs) are considered as necessary to adjust to changes in the real world. This means that in a four-year presidential regime, fundamental change is targeted for the second year of the cycle with the first and third years changed only as threat environment

49. Secretary of Defense, “Management Initiative Decision 913” (Washington, DC: DOD, May 22, 2003): 5.

50. Part of the reason for this change in timing was that senior defense officials had argued to Congress that the requirement to submit a QDR in the first year was too much to ask of a new administration still involved in the rigorous congressional process.

demands modify the major changes made in the second year of the cycle. DOD Comptroller Dov Zakheim⁵¹ indicated that DOD would use these off-years when budgets would not be prepared from scratch to examine how well DOD was executing its programs and dollars.⁵² Zakheim reported that the intent was to measure the “burn rate” (rate of spending) in an execution review. Zakheim observed that the review would include asking questions such as how money had been spent, whether it should be moved to other areas and accounts, and what results have been achieved. The off-years provide additional decision space for execution analysis.

These changes have created a combined two-year program and budget review decision cycle (but not a biennial budget), with a complete review in one year followed by limited incremental review in the following year. This change in cycle from a full program review and a full budget review to a combined review is meant to reduce the inefficiencies of unnecessary remaking of program decisions and should allow for the program to drive the budget rather than the opposite. With the programming and budgeting cycles operating contemporaneously, decisions are intended to be arrived at more effectively, whether they are made in the off- or on-year. Changes made in each off-year cycle are intended to have quicker effect by compressing the programming and budgeting cycles while still preserving the decisions made in the on-year cycle through the off-year by limiting reconsideration of decisions to only the most necessary updates. In essence, decisions flow from the Quadrennial Defense Review and other studies, and a structure is erected in the Strategic and Joint Planning Guidances that provide direction for the remaining years of a presidential term. This structure remains in place unless dramatic changes in worldwide threat occur. Year to year changes in the program structure and budget then are made only to adjust to incremental fact of life changes. The inefficiencies of conducting zero-based review every year as intended in the previous PPBS process are avoided and the decision process itself is supposed to move more responsively to war fighting and preparation demands.

The changes made in the period 2001–2004 came about in large part because Secretary of Defense Donald Rumsfeld believed (correctly in our view) that the PPBS process was too slow and cumbersome, and did not produce the best decisions on defense resource requirements. Also, we may speculate that he preferred the type of reform, as did McNamara that increased resource decision control at his level (OSD) versus in the military departments and services.

Off-Year Changes and Program/BCPs

In the new PPBE cycle, during off-years military departments and the military commanders of major commands may submit PCPs to the POM, and BCPs to justify new

51. Dov S. Zakheim, “Revised PPBES Process” (DOD Office of the Comptroller, Washington, DC: DOD, February 3, 2003).

52. Secretary of Defense (May 22, 2003: 3–4).

budget requirements. The PCPs allow for fact-of-life changes to the previous year's POM; they are meant to be few and of relatively large size. Guidance for 2003 indicated the PCPs had to exceed a dollar threshold or had to be driven by serious policy and programmatic implications. For example, in 2003 the Navy submitted only three PCPs, one worth \$100 million that involved 450 line items. The threshold amount for FY 2005 was \$100 million.

The PCP process provided the combatant commanders (those with direct warfighting responsibilities) with a new tool in the PPBS process, but as with the military departments, they have to suggest offsets. For example, if a war fighter wants to increase force protection in one area at a certain cost, a change proposal might suggest weakening force protection in another area as an offset or trade-off for the increase.

BCPs were expected to be more numerous but smaller. They too would be largely fact-of-life changes (e.g., cost increases, schedule delays, new congressional directives) and would have to be paid for by offsets. Although the individual BCP need not be offset, the package of offsets proposed by a Military Department has to be offset and provide a zero-balance change. Whether off- or on-year, the results from these decisions are consolidated into one database. This is an important change to the PPB system that relied on multiple databases for different purposes.

A key element in the new process is that offsets may be identified from other commands. Thus, encouragement for "hunting in someone else's field" has been institutionalized. This element of the process introduces new dynamics of competition between commands. And the entire change proposal process is meant to function as a zero-sum game. Changes have to be accompanied by offsets. As is usual with any offset procedure, claimants who submit either PCPs or BCPs take the risk that the offsets they suggest from their own commands or from other commands will be accepted. They also risk that what they propose to fund will not be approved. The offset identifies a cache of money somewhere allocated for a lower priority item to be directed to a higher priority area. Making change proposals within a command is risky. A more tempting strategy to reduce risk may be to fund new initiatives by proposing an offset from another command. Introduction of the ability to identify offsets from other commands imbeds incentives to shift the risk through program and budget gamesmanship.

Reflections on Concurrent Processes and Implementation

With the introduction of PPBS, the budget process within DOD was dramatically changed. However, the outcome of this change still may be viewed as a triumph of incrementalism. For example, only changes to the POM and the budget were brought forward in 2003, and 2004 was a year primarily dedicated to fact-of-life changes in budget execution as the demands of the campaign in Iraq continued to impact the budget. This is a dramatic change from the past with its focus on complete review of the threat, force structure, and programs.

One significant result of the 2003 budget process reform is that unless a BCP is explicitly approved, then unit budgets are the same as they were in the previous year. This might be termed reappropriating the base. Even if an inflation adjustment is given, no new program changes are created. Thus, if a unit does well in the on-year cycle (second year), it may carry some “fat” through the off-years. Since the stakes are now higher, it would seem that one longer-run consequence would be an increase in the intensity of the struggle during the on-year process, both within the Pentagon and Congress. Success is rewarded for at least two years and failure is doubly penalized, i.e., to change in the off-year, offsets have to be offered up, so the only way to get better in the off-year is by giving up something else.

It is important to note that for the PCP/BCP offset procedure to operate effectively, commands offering up offsets have to perceive that what they identify to be reduced will not simply be taken without exchange for the new priority program toward which resources offered up are supposed to flow. Evidence on how the new process has operated to date reveals that some commands have identified offsets from their own budgets but have not been rewarded with redirection of these funds to their new priorities. Instead, proposed offset dollar amounts have been accepted as reductions in their budgets without trade-offs. Thus, the incentive to participate in the PCP/BCP processes is reduced because of fear that identifying something as an offset is too risky and plays into the hands of those in the review process who just want to cut spending, i.e., a triumph of budgeting as usual over the objectives of transformation.

This new process puts the Secretary of Defense and the JCS (J-8) into the decision chain at an earlier stage than the old PPB process, “in the driver’s seat,” in the words of one budgeteer. Decisions in the new PPBS are intended to reach the Secretary and JCS to review against criteria for “jointness” and interoperability between services before new program proposals and requirements have become a foregone conclusion and part of the assumed adjusted base at the military department level. The transformed PPBS process puts requirements up for review while options are still open, and while important and large-scale changes still can be proposed or opposed. Under the old system Secretary of Defense input came mostly near the end of the process and momentum made change difficult by this point. Even when Defense Secretary input came early in the process in the Defense Planning Guidance, often it was too late to affect military department programming, or it was ignored. Consequently, some decisions that could have been made were not considered or were preempted because they would have caused too much “breakage” in other service level programs.

It is evident that Secretary Rumsfeld had a clear interest in process “transformation” through PPBS reform, but not all communities within the defense establishment were equally committed or committed at all to Rumsfeld’s vision. We may note that inserting the Secretary of Defense into the decision process early stands up so long as history proves the decisions he makes are correct over the long term. While this is true whether this input is early or late, elevating the role and authority of the Secretary in the PPBS process puts a larger burden of proof on his office and him personally.

CONCLUSIONS AND OBSERVATIONS

PPBS reform in DOD may be viewed as a relatively simple story. The top official becomes dissatisfied with the resource planning and decision system. It is taking too long to produce decisions and he finds the decisions it produces are not helpful to him. Moreover, he judges that annual zero-based review is unnecessary because most trends persist and major environmental changes are few. As a result, the system is overly elaborate and too costly. Thus, he makes changes that will preserve system strengths without incurring additional weaknesses. He plans to speed up the process and increase his control over it.

Does this story have salience beyond DOD, i.e., for the rest of the federal government and for state and local government budgeting? We suggest that it does. Budget instrumentation allows for the incorporation of strategic and operational vision into organizational operations. We believe that leaders who proceed without such vision and an understanding of budgetary instrumentation are doomed to repeat past failures or be enslaved by the trend lines of past spending patterns. We may speculate that those who would choose to incorporate vision in the budget process need not adopt PPB: there are other systems that will work to accomplish this goal. However, what PPBS does provide in essence is a process where vision is checked repeatedly and extensively (even exhaustingly) against the environment and against the vision of others.

Is this rocket science? In our view the answer is emphatically “no”—an administrator with the view that the budget function he/she is in charge of does not measure up in some way who looks to another jurisdiction to compare, or who contacts a professional organization for a model and develops and tests alternative concepts against the thinking of those who make resource decisions under the status quo may be on the road to developing a more sophisticated budget system. The question that recent PPBS reform has attempted to answer is: “What would it take to do this right?” Executive leadership in this case went one step farther by attempting to develop an improved process for multiyear planning to permit resource determination to be done in a better integrated and articulated manner so that there would be little or no need to create everything programmatic and budgetary anew each year.

It must be conceded that DOD still has to structure and present its multiyear resource plan and budget into annual appropriation language for Congress, but this is just ordinary budget work. Were Congress to recognize the value of multiple year budgeting, DOD would be better able to respond than most if not all of the federal government (except NASA—but this is a different story). However, Congress is not likely to embrace multiple year budgeting, nor even a simple change in appropriation law to extend the obligation period for operations and maintenance accounts from one to two years, permitting closing of obligation from these accounts biennially rather than annually—subject to end of year reporting after year one in the cycle. Such modest reform could reduce the vicissitudes of end of year “close out” spending blitzes on lower than desired priority purchases—saving the taxpayers from wastage of countless millions and perhaps billions of dollars annually in misspent funds across the federal government.

One of the most highly touted benefits of the new DOD four-year cycle is that it fits the PPBS process into the presidential electoral cycle. Incoming administrations usually struggle to get their people on board in the first year and significant defense policy changes usually do not come until later. The new cycle recognizes this reality, although radical changes in the threat environment such as the attack on September 11, 2001 obviously produce immediate and major course changes in defense policy, planning, programming, and budgeting.

We feel obligated to point out that the lag time for full and satisfactory implementation of DOD-level macro-management reforms generally and changes in planning, programming, and budgeting specifically is probably three to five years. It is understood by seasoned observers of such change that the solutions and new processes developed within DOD will differ by service and therefore some degree of incompatibility between different service solutions is inevitable despite the intention of DOD decision makers to prevent this from happening. DOD prefers uniformity, but this is not possible, and probably not desirable, given the highly differentiated resource management systems and processes used by the respective military departments and services.

In defense of diversity, it may be asserted that any system developed by DOD should serve the needs of its constituents, i.e., among these the military departments and services. From the view of the OSD, diversity in implementation of reform is an annoyance at best, and a direct violation of authority at worst, to be illuminated and eliminated. However, the power of OSD is not such that it can mandate what the military departments and services, as semiautonomous operating entities, will do in implementation of any DOD directed reform, or congressionally mandated reform for that matter, e.g., the CFO Act or the Government Performance and Results Act. Because of its size and complexity, it may well be that DOD cannot be centrally managed and controlled. Thus, changes at the top of the organization at the level of the secretary of defense manifest themselves in different forms in various other parts of the DOD.

Planning and budgeting comprise the heart of the PPB system. However, politics counts in budgeting. Taking lessons from the applied theory of both Wildavsky and Schick, one may conclude that those who plan, manage, and budget so as to allow legislators to help supply inputs to their vision are more likely to finish ahead in the battle of the budget than those who do not. In this respect, no matter what DOD does with PPBES reform, the keys to getting the desired resources still are to be found in the policy posture defined by the president and the politics of budgetary competition in Congress. Finally, applying Schick's and Anthony's wisdom, PPBS reform has not installed a satisfactory management control system articulated into financial systems, operations and all of the other managerial functions employed in the DOD. Clearly, much more work remains to be done before DOD is capable of managing the defense enterprise effectively. In our view, greater attention by reformers to the lessons of applied budget theory would enhance chances for success in designing, marketing, and implementing effective and lasting change.