

THE
PENTAGON LABYRINTH:
10 SHORT ESSAYS TO HELP YOU
THROUGH IT



FROM 10 PENTAGON INSIDERS,
RETIRED MILITARY OFFICERS AND SPECIALISTS
WITH OVER 400 YEARS OF DEFENSE EXPERIENCE

STRAUS MILITARY REFORM PROJECT
CENTER FOR DEFENSE INFORMATION

The Pentagon Labyrinth

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Edited by Winslow T. Wheeler

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Essay 8

“Decoding the Defense Budget”

by Winslow T. Wheeler

Many in Congress and journalism hold some commonly accepted assumptions about defense spending. Among them are that the Department of Defense budget represents U.S. national security spending, that senior DOD officials can be relied on to fairly and honestly interpret the Pentagon budget, that Pentagon numbers for the cost of programs and policies are valid and authoritative, and that more money means more defense. Perhaps, these presumptions are better characterized as hypotheses to be tested. Doing so can yield a fuller understanding of the defense budget.

The first question is –

What Is the Defense Budget?

Each year in early February, the Pentagon releases what is invariably called the “defense budget” in press articles. The numbers presented do not address all forms of defense spending; they do not even address all forms of Pentagon spending.

For example, a table included in the Pentagon’s press materials for the 2011 budget shows the “base” (non-Iraq or -Afghanistan war) budget request at \$549.8 billion.¹ The materials presented by the Office of Management and Budget (OMB) are more complete. The 2011 budget request for “base” (non-war) Pentagon spending was \$554.1 billion. The additional \$4.3 billion was for “mandatory” spending (also known as “entitlement” spending) mostly for personnel programs. The number the Pentagon released was for the “discretionary” (new annual appropriations) spending. The difference may be a minor one in this case, but it can be significant; in past years Congress has added scores of billions in new mandatory spending for military healthcare, and retirement and survivors’ benefits.

¹ See page 8 of the material presented to the press on Feb. 1, 2010 purporting to describe the request for the 2011 DOD budget at <http://www.defense.gov/news/FINAL%20PRESS%20RELEASE%20v3%20%201.pdf>.

The more complete exposition of DOD budgets in the OMB materials is not easy to find; it is usually buried in the “Supplemental Materials” to a volume called “*Analytical Perspectives*” that is released each year the same day the Pentagon releases its version of its budget. Unfortunately, the DOD press corps roundly ignores the more complete OMB materials. To be better informed in future years, track it down.²

The same OMB table yields other important information: the additional DOD spending requested for the wars in Iraq and Afghanistan, not just for the budget year but also for succeeding “out-years,” and the non-DOD spending for what OMB calls the “National Defense Budget Function,” which includes nuclear weapons, the Selective Service, the National Defense Stockpile of minerals and commodities, and more. The total for 2011 comes to \$738.7 billion in “total” (discretionary plus mandatory) spending.

The same table also yields the budget amounts for the departments of Homeland (domestic) Security, State (for economic and weapons aid and other national security programs) and Veterans Affairs (for what might be called the human cost of wars). Each is clearly related to national security or “defense,” writ broadly. Finally, if you know where to look near the bottom of this long OMB table, you can find some additional spending in the Treasury Department for military retirement and healthcare, and finally the data needed to make a calculation of how much of the 2011 payment for interest on the national debt can fairly be attributed to the Pentagon.

The results of this more complete compilation of the president’s 2011 budget request for “defense” is summarized in Table 1 below.

² Find the 2011 version of this OMB table at http://www.whitehouse.gov/omb/budget/fy2011/assets/32_1.pdf.

Table 1: Defense Related Budget Requests for 2011.

Spending Category	President's 2011 Budget Request (in \$ billions)
“Base” DOD Budget (Discretionary only)	548.9
DOD (Mandatory only)	4.3
DOD War Spending	159.1
DOD Total	712.3
DOE (Defense)	18.8
Miscellaneous Defense -Related Agencies	7.6
National Defense Budget Function Total	738.7
Homeland Security (DHS)	43.6
Veterans Affairs (DVA)	122.0
International Affairs	65.3
Treasury Dept. Military Retirement Payments	25.9
Interest on DOD Retiree Health Care Fund	5.7
19% of Interest on Debt (DOD Proportional Share)	47.7
Grand Total	1,048.9

The next time someone tries to tell you that the numbers DOD throws at you in its press releases are what you should use to understand monies spent for national security, give him a polite smile; then, go to that obscure table in the Supplementary Materials in OMB’s “*Analytical Perspectives*.” It is published online the same day as the Pentagon press release. A few minutes of checking can give you a more complete understanding than what the press will report.

Selling the Pentagon Budget

Once the numbers are distributed by Pentagon press releases and their spawn in most news articles, large amounts of energy are spent in Washington to shape how they are understood. Those wanting to increase the DOD budget try to make it seem smaller by playing a popular game—the “Percent of Gross Domestic Product” diversion.

In 2007, for example, some Pentagon leaders, including the Chairman of the Joint Chiefs of Staff, told the press that the nation needed to increase Pentagon spending from 3.3 percent of the U.S. Gross Domestic Product to 4.0 percent. This argument was also frequently heard from DOD budget growth think tanks, like The Heritage Foundation. An increase of 0.7 percent should not be much, especially if, as they said, we spent much more during the Cold War—such as the 8.9 percent we spent in 1968 during the Lyndon Johnson administration.

In 2007, the Gross Domestic Product was \$13.4 trillion. If we increased the Pentagon's "share" of it from 3.3 to 4.0 percent, that 0.7 percent increase meant \$94 billion more for the Pentagon. What sounded like a tiny increase turns out to be significant.

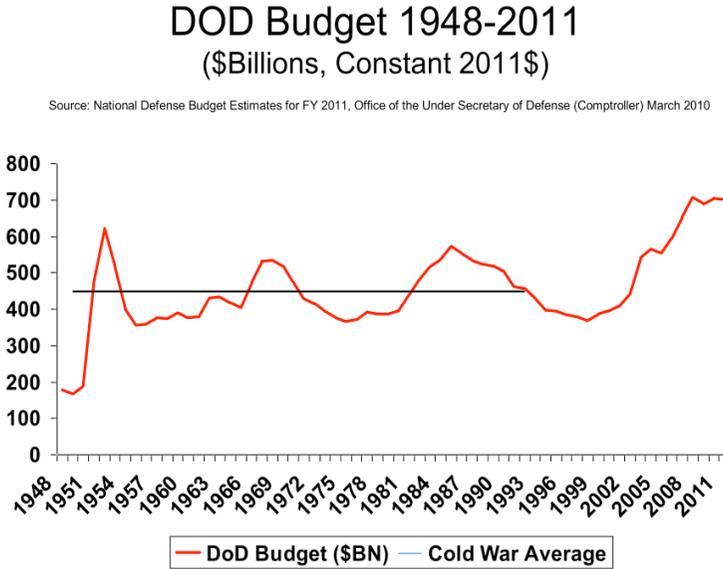
The GDP has been going up tremendously over time and even though the percent of GDP that we spend on defense has gone down, the actual dollar amount we spend on defense has been going up. In fact, today we spend more on defense than we did at any time since the end of World War II; that's in inflation adjusted dollars, and it's according to the Pentagon's own official budget data in something called "National Defense Budget Estimates," more popularly known as the "Green Book."

The Green Book is an essential tool for anyone working with Pentagon spending numbers. It is annually updated and presented at the DOD Comptroller's Web site.³

Figure 1 below shows the DOD budget history (from the Green Book); it is a lot more informative than politically driven assertions with the effect of making the biggest ever appear to be the smallest ever.

³ Find the 2011 edition of the Green Book at http://comptroller.defense.gov/defbudget/fy2011/FY11_Green_Book.pdf. If you check the data out for 2011, don't be deceived; the amount does not include all costs for the wars in Iraq and Afghanistan; although such costs are included – for the most part – for previous years. For unexplained reasons, the DOD Comptroller's Office chose to cite an incomplete figure for 2011. There's more on the frailty of this much used, important document below.

Figure 1: DOD Budget Authority 1948-2011, in \$ Billions of Constant 2011 Dollars



According to the Green Book, the previous high point in post-World War II Pentagon spending was 1952 – during the Korean War – at \$622.9 billion (see page 109). President George W. Bush’s Pentagon budgets were higher (peaking at \$708.5 billion (see page 114), and are now being matched, and outdone, by President Obama.

If you understand the GDP game, you’ll understand that you can make the Pentagon budget appear to grow while it is actually shrinking: in a recession, the economy might shrink by two percent; if the Pentagon budget shrinks by the lesser percentage of one percent, it will appear to be growing according to this misleading measure.

What Do Weapons Cost?

On Wednesday March 25, 2009, an F-22 crashed near Edwards Air Force Base in California. Sadly, the pilot was killed. The news articles surrounding this event contained some strange assertions about the cost of the crashed airplane.

Based on the price asserted in the Air Force's "fact" sheet on the F-22 that was linked to a Pentagon news release on the crash, the press articles on the crash cited the cost per aircraft at \$143 million.⁴

It was incomplete, to put it charitably, but the media passed it on nevertheless.

The extant "Selected Acquisition Report" (SAR) from the Defense Department is the definitive DOD data available to the public on the costs for the F-22.⁵ The SAR showed a "Current Estimate" for the F-22 program in "Then-Year" dollars of \$64.540 billion. That \$64.5 billion was for 184 aircraft.

Do the arithmetic: $\$64.540/184 = \350.1 . Total program unit price for one F-22 calculates to \$350 million per copy.

So, where does the \$143 million unit cost come from? Many will recognize that as the "flyaway" cost: the amount we pay today, just for the ongoing production costs of an F-22. (Note, however, the "flyaway" cost does not include the pilot, fuel and other consumables needed to fly the aircraft away.) The SAR cost includes not just procurement costs, but research and development (R&D) and some military construction, as well.

At about the same time as the crash, a massive lobbying effort had started to buy more F-22s, to reverse Secretary of Defense Robert Gates impending announcement (in April 2009) that he wanted no more. F-22 advocates were asserting the aircraft could be had for this bargain \$143 million unit price. That was, they argued, the "cost to go" for buying new models, which would not include the R&D and other initially high production costs already sunk into the program.

Congressional appropriations bills and their accompanying reports are not user-friendly documents, but having plowed through them for decades, I know many of the places and methods that Appropriations Committee staff like to use to hide and obscure what Congress and the Pentagon are actually spending. Let's check through the 2009 congressional appropriations for the F-22. Most – but not all – of the required information is contained in HR 2638, which contained the Department of Defense Appropriations Act for fiscal year 2009.⁶

⁴ Find the U.S. Air Force "fact" sheet at

<http://www.af.mil/information/factsheets/factsheet.asp?id=199>.

⁵ Find the SAR at <http://www.acq.osd.mil/ara/am/sar/2008-SEP-SARSUMTAB.pdf>.

⁶ Find the Act and related documentation at the definitive public Web site for bills and laws, the Library of Congress' "Thomas" Web site, <http://thomas.loc.gov/cgi-bin/query/D?c110:6:./temp/~c110tSbWVJ>.

In the “Joint Explanatory Statement” accompanying the bill, the House and Senate appropriators specified that \$2.907 billion was to be appropriated for 20 F-22s in 2009. The math comes to just about what the Air Force said, \$145 million per copy. So, what’s the problem?

Flipping down to the section on “modification of aircraft” we find another \$327 million for the F-22 program.

Switching over to the Research and Development section, we find another \$607 million for the F-22 under the title “Operational System Development.”

Some will know it is typical for DOD to provide “advance procurement” money in previous appropriations bills to support the subsequent year’s purchase. In the case of the 2009 buy of 20 F-22’s, the previous 2008 appropriations act provided “advance procurement” for “long lead” F-22 items to enable the 2009 buy. The amount was \$427 million.

Here’s the math: $\$2.907 + \$0.327 + \$0.607 + \$0.427 = \$4.268$ billion for 20 aircraft. That’s \$213 million each.

Do not think these data represent an exceptional year. If you check any of the annual buys of F-22s, you will find the same pattern: in addition to the annual “procurement” amount, there is additional “modification,” R&D” and advance procurement.

A few weeks later, F-22 advocate Sen. Saxby Chambliss, R–Ga., attempted to amend the 2010 DOD “authorization” bill coming out of the Senate Armed Services Committee to buy seven more F-22s for \$1.75 billion, or \$250 million each. The Chambliss effort, almost certainly worked out in close association with Lockheed Martin – a major F-22 plant is in Marietta, Ga. – surely sought to pay Lockheed the full amount to procure more aircraft: not \$143 million each, but \$250 million.⁷

Clearly, Chambliss and Lockheed knew about some additional F-22 costs not included in my estimate of \$213 million.

The pathology of low-balling a weapon’s costs goes far beyond the F-22 example cited here; it is a basic tenet of bureaucratic behavior; it helps a program acquire support by top DOD management and Congress.

⁷ Find data, discussion and sources about this failed effort in an essay “How Congress Finances Pork” at <http://www.cdi.org/friendlyversion/printversion.cfm?documentID=4535>.

Understatement of cost does not occur in isolation in the Pentagon; it is accompanied by an overstatement of the performance the program will bring, and the schedule articulated will be unrealistically optimistic. Once the hook is set in the form of an approved program in the Pentagon (based on optimistic numbers) and an annual funding stream for it from Congress (based on local jobs and campaign contributions), the reality of actual cost, schedule and performance will come too late to generate anything but a few pesky newspaper articles. It is a system described in great detail in a 1990 essay, “Defense Power Games” by Franklin C. Spinney. He elaborated on the same themes in subsequent testimony to Congress in 2002.⁸

Does More Money Mean More Defense?

For as long as I can remember, the politicians in Congress, the Pentagon and think tanks have judged whether people are “strong” or “weak” on defense using money as the measure. If you want to increase the budget, you are “pro-defense”; if you want to take money away, you are “anti-defense.” It is that simple.

Having attacked Democrats for decades on precisely this basis, the Republicans have trained them to be shy about Pentagon budget cuts. The Democrats, especially self-proclaimed moderates, have favored Pentagon budget increases to protect themselves, but – alas – the Republican attacks don’t stop; instead, they assert the Democrats’ increases are too tepid. Moreover, contractors build support networks for their weapons programs by spreading dollars, jobs and profits to as many congressional districts as possible. Thoroughly imbued by their superficial view of military strength combined with the money flowing to their states and elections campaigns, senators and representatives of both political parties have failed to notice that more spending merely set the stage for a meltdown.

With the Pentagon at post-World War II spending highs, the U.S. Navy has fewer combat ships than in any year since 1946; the U.S. Air Force has fewer combat aircraft, and the Army hit a post-World War II low in combat division-equivalents in 2008 – from which it has barely recovered. These trends are not new; as the defense budget has grown over time, our forces have shrunk.

The current DOD plan is to make the Air Force even smaller, at dramatically increased cost. The Navy has a 2010 shipbuilding plan to marginally increase the fleet from 287 ships to just over 300, if shipbuilding budgets are increased by 30 percent or more. Meanwhile current plans to “upgrade” naval aviation

⁸ Find both of these analyses at <http://pogoarchives.org/labyrinth/01/09.pdf> and <http://pogoarchives.org/labyrinth/01/02.pdf>.

mean a smaller force than we had during the Clinton administration but at a cost of more than quadrupling spending for naval combat aircraft. The Army has been spending up to \$88 billion to increase its active-duty combat brigades from 38 to just 42.⁹

As they have shrunk, major hardware inventories have simultaneously grown older, on average. According to the Congressional Budget Office (CBO), among others, major categories of military equipment are aging at unprecedented rates. CBO data also shows us that the DOD plan in many major hardware categories is to make this problem worse.¹⁰

Data from the Pentagon show that significant elements of our armed forces are far less ready for combat than they should be. Air Force and Navy combat pilots get one-half to one-third of the in-air training time they had, for example, in the Vietnam War era. Army units are sent into Iraq and Afghanistan without the months of training, and re-training, they need, and what training they get almost never includes all the equipment and people they will take with them into combat.¹¹

Some argue that, while these trends should be reversed, they are not a cause of major alarm because American “high tech” compensates for the smaller inventory. As was the case in Vietnam, the immeasurable technological advantage we hold over our enemies in Iraq and Afghanistan means little to nothing in winning the form of conflict we find ourselves in. In fact, one of our most advanced, “high-tech” systems in Afghanistan and Pakistan – the unmanned drones used to attack the al-Qaeda and Taliban leadership – is very clearly a double-edged sword. The successful attacks against more than 600 militants (according to one tabulation) notwithstanding, the drones may be helping the enemy more than us. In Pakistan, drones are said to have also killed over 300 noncombatant civilians.¹² In Afghanistan, the available data is

⁹ For more discussion of these data and trends see Chapter 11, “Understand, Then Contain America’s Out of Control Defense Budget,” *America’s Defense Meltdown* (Stanford University Press, 2009),

¹⁰ For example, see “The Long-Term Implications of Current Defense Plans: Detailed Update for Fiscal Year 2008,” Congressional Budget Office, March 2008, <http://cbo.gov/ftpdocs/90xx/doc9043/03-28-CurrentDefensePlans.pdf>.

¹¹ While data on training tempos are typically classified, some data for U.S. Air Force F-16 and U.S. Navy F-18 flying hours can be found from their budget presentations, such as for 2010 at <http://www.saffm.hq.af.mil/budget/> and <http://www.finance.hq.navy.mil/fmb/10pres/books.htm>. Data for F-22 flying hours was collected during visits by the author to Langley and Nellis Air Force bases in 2006. Data for Vietnam-era flying hours is based on information collected at the time from pilots and DOD officials.

¹² See Peter Bergen and Katherine Tiedmann, “The Year of the Drone; Analysis of US Drone Strikes in Pakistan, 2004-2010,” The New America Foundation,

confounded by civilian deaths also incurred by U.S. and NATO manned aircraft, but the numbers are unavoidably troubling. In a region where the code of honor demands avenging the deaths of family members and foreigners are already reviled, each drone-caused civilian death is likely to inflame multiple reactions against us.

For waging conventional war, the new weapons we buy to replace existing ones increase in cost far faster than the budget increases (which makes inevitable the shrinking and aging of our weapons, at growing cost).

Also, the new systems rarely, if ever, bring a performance improvement commensurate with the cost increase. In some cases the new system is even a step backwards. The F-35 Joint Strike Fighter is a good example. Among the aircraft it is to replace is the 1970s vintage – but still much used and almost universally praised – A-10 close air support aircraft. Even if the F-35 stays at its 2010 purchase price of over \$150 million per aircraft (which it will not), it will cost ten times more than an A-10. For that additional expense, it will have less payload than an A-10; it will not be able to loiter over the battlefield to help troops engaged in combat hour after hour; it will be too fast to be able to find targets independently, and it will be too fragile and sluggish to survive at the low altitude it must operate at to be effective, even against the primitive small arms and machine gun defenses terrorists and insurgents can mount. To make matters worse, the F-35 will lack the extraordinarily effective 30 mm cannon the A-10 carries.¹³

The conventional wisdom that more money means more defense is superficial political hype.

http://www.newamerica.net/publications/policy/the_year_of_the_drone. See also “CIA Drone Operators Oppose Strikes as Helping al-Qaeda,” Gareth Porter, AntiWar.com, June 4, 2010.

¹³ For further discussion, see “Joint Strike Fighter: Latest Hot Spot in Americas Defense Meltdown,” *Jane’s Defence Weekly*, September 8, 2008, at <http://www.cdi.org/program/document.cfm?documentid=4370&programID=37>. For cost comparison data see “How Much Will Each F-35 Cost?” at http://www.cdi.org/friendlyversion/printversion.cfm?documentID=4596&from_page=../program/document.cfm and “Still More F-35 Cost Growth to Come,” at http://www.cdi.org/program/document.cfm?DocumentID=4599&StartRow=1&ListRows=10&appendURL=&Orderby=D.DateLastUpdated&ProgramID=37&from_page=index.cfm. For A-10 cost data, see p. 166 of “Operation Desert Storm: Evaluation of the Air Campaign,” U.S. General Accounting Office, June 1997, GAO/NSIAD-97-135, <http://www.gao.gov/archive/1997/ns97134.pdf>.

Other Problems in DOD Data

The DOD “Green Book” (“National Defense Budget Estimates for FY 20XX”) is extremely useful, albeit flawed.¹⁴ It contains tables on discretionary Pentagon appropriations sliced and diced several different ways. It also contains DOD manpower (civilian and military) figures, some basic economic data (such as work force, and budget ratios) and the multipliers to convert older dollars to current dollars. It is released annually by the DOD Comptroller.

The numbers presented for contemporaneous budget years need to be treated with caution, however. The budget year data does not typically include spending for ongoing wars, but the previous years will—mostly. Sometimes, the year just before the budget year will also be incomplete because a new supplemental has been requested but has not yet been acted on by Congress.

There are also some systemic problems in the Green Book. In the 1980s, Chuck Spinney and Pierre Sprey uncovered an ongoing enterprise in DOD regarding inflation that had the effect, and very probably the intent, to mask cost growth in DOD programs as inflation and to hide enormous budget windfalls (in excess of \$30 billion) in appropriations that assumed excessively high predictions of future inflation. DOD applied cooked inflation indices to procurement spending and incorporated its dubious economic assumptions into the data in the Green Book. As Spinney found, the constant dollar calculations used in DOD’s inflation indices can exaggerate the effects of past inflation. This can elevate past years relative to current ones and make today’s spending appear less of an increase than would otherwise appear. Even though GAO investigated the matter in the 1980s and found DOD’s inflation indices to be flawed, the biased calculations were never backed out of the Green Book. Doing so is surely possible, but it would also require a direct intervention by the DOD Comptroller, which is unlikely under current circumstances. While DOD’s spending estimates in the Green Book are the most authoritative available, keep in mind that they are also flawed.

DOD’s SARs (Selected Acquisition Reports) are also an important, but flawed, tool.¹⁵

The summary tables list DOD’s current estimates for the cost to acquire a major defense acquisition program, including the procurement, development (including research, testing and evaluation) and military construction costs. There are several limitations, however:

¹⁴ Find it at the Web site of the Office of the Under Secretary of Defense (Comptroller) at <http://comptroller.defense.gov/>.

¹⁵ Summary tables of SARs are available at <http://www.acq.osd.mil/ara/am/sar/>.

- Many important programs, such as infantry rifles, are not included; they do not trip the spending criteria to qualify as a “major defense acquisition program.”
- Sometimes there are costs associated with the program that DOD has arbitrarily excluded from the SAR estimate.
- Frequently, DOD will re-adjust the “base year” of the program which has the effect of removing the appearance of cost growth. For example, the December 2009 SAR shows the base year of the Air Force’s F-22 and the Marines’ V-22 both to be 2005. In fact, both programs started in the 1980s and showing the initial cost estimates exposes the huge cost growth both programs have experienced.
- No support costs are shown. Inherent in the cost of any program, expenses to maintain, operate and provide spare parts and training for any program are essential to understand the cost to possess the equipment. Such data is usually hard to find in the unclassified world.¹⁶

Finally, and most importantly, no one checks the SARs seriously. GAO does not automatically review them and recommend, or perform, recalculations or revisions. More importantly, the programs the SARs assess are not audited. The spending figures are not verified; they are merely contemporary estimates.

The Ultimate in Cooked Numbers

Late in 2009, the DOD Inspector General (DOD IG) reported the following in its “Summary of DOD Office of the Inspector General Audits of Financial Management.”¹⁷

¹⁶ Unclassified data available to the author for the cost to operate and support aircraft vividly demonstrates that modern, more complex, equipment is invariably much more expensive to operate than the equipment it replaces, even when that older equipment is quite ancient and needs constant work. For example, while Air Force data shows 1950s vintage B-52 H bombers to cost a hefty \$2.7 million each to support annually; a much newer B-2 costs \$9.7 million on the same measure. It is also true that typical DOD support costs do not include all support costs. Never included is the government overhead, such as operating the System Program Office; paying for contract bid preparation, response, and evaluation; DOD analysis of systems at CAPE and other offices, and more. One experienced senior contractor employee “guesstimated” that such costs would add as much as 3 percent to total program cost.

¹⁷ Find this report at the DOD IG Web site at <http://www.dodig.mil/audit/reports/fy10/10-002.pdf>.

- The financial management systems DOD has put in place to control and monitor the money flow don't facilitate but actually "prevent DOD from collecting and reporting financial information ... that is accurate, reliable, and timely." (p. 4)
- DOD frequently enters "unsupported" (i.e. imaginary) amounts in its books (p. 13) and uses those figures to make the books balance. (p. 14) Inventory records are not reviewed and adjusted; unreliable and inaccurate data are used to report inventories, and purchases are made based on those distorted inventory reports. (p. 7)
- DOD managers do not know how much money is in their accounts at the Treasury, or when they spend more than Congress appropriates to them. (p. 5)¹⁸ Nor does DOD "record, report, collect, and reconcile" funds received from other agencies or the public (p. 6), and DOD tracks neither buyer nor seller amounts when conducting transactions with other agencies. (p. 12)
- "The cost and depreciation of the DOD general property, plant, and equipment are not reliably reported" (p. 8); "...the value of DOD property and material in the possession of contractors is not reliably reported." (p. 9)
- DOD does not know who owes it money, nor how much. (p. 10.)

It gets worse; overall –

- "audit trails" are not kept "in sufficient detail," which means no one can track the money;
- DOD's "Internal Controls," intended to track the money, are inoperative. Thus, DOD cost reports and financial statements are inaccurate, and the size, even the direction (in plus or minus values), of the errors cannot be identified, and
- DOD does not observe many of the laws that govern all this.

That last finding is perhaps the most appalling. It is as if the accountability and appropriations clauses of the U.S. Constitution were just window dressing,

¹⁸ Technically, this is a violation of the Anti-Deficiency Act, a statute carrying felony sanctions of fines and imprisonment.

behind which this mind-numbing malfeasance thrives. Congress and the Pentagon annually report and hold hearings on DOD's lack of financial accountability and sometimes enact new laws, but many of the new laws simply permit the Pentagon to ignore the previous ones; others are eyewash.

For example, the DOD IG reports that "The Chief Financial Officers Act of 1990 ... required ... [DOD] to prepare ... financial statements that were audited by either the Inspector General or an independent public accountant Beginning in 1991, DOD began preparing and submitting financial statements for audit. However, DOD OIG audits of those financial statements for FYs 1991 through 2001 identified pervasive and long-standing material weaknesses which caused those financial statements to be un-auditable. As a result, Congress passed the 'National Defense Authorization Act for Fiscal Year 2002,' on Dec. 28, 2001, that limits the amount of audit work performed by the DOD OIG under the CFO Act based on management's representation regarding the [un-]reliability of the financial statements." (See p. 1 of the summary report identified above.)

In other words, the 1990 law aimed at imposing accountability was waived by the update, permitting the Pentagon to ignore its statutory and constitutional requirements. This was done by both Democratic and Republican administrations and Congresses. The behavior continues to this day. The recently enacted National Defense Authorization Act for 2010 contains a Section 1003 ("Audit Readiness of Financial Statements of the Department of Defense") which instructs DOD management to produce a plan "ensuring the financial statements of the Department of Defense are validated as ready for audit..."¹⁹ The plan is not to be effected until Sept. 30, 2017. The DOD Comptroller, the Department's CFO, has let it be known that he will seek relief even from this extremely relaxed deadline.

If you have a system that does not accurately know what its spending history is, and does not know what it is now (and does not care to redress the matter), how can you expect it to make a competent, honest estimate of future costs? It is self-evident that an operation that tolerates inaccurate, unverifiable data cannot be soundly managed; it exempts itself from any reasonable standard of efficiency.

Recall, also that the errors in cost, schedule and performance that result are not random: actual costs always turn out to be much higher than, sometimes even multiples of, early estimates; the schedule is always optimistic, and the performance is always inflated.

¹⁹ See p. 801 of the Conference Report for HR 2647, National Defense Authorization Act for Fiscal Year 2010, http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=111_cong_reports&docid=f:hr288.111.pdf.

The Pentagon, defense industry and their congressional operatives want—need—to increase the money flow into the system to pretend to improve it. Supported by a psychology of excessive secrecy, generated fear and the ideological belief that there is no alternative to high cost, high complexity weapons, higher budgets are easier to justify, especially if no one can sort out how the Pentagon actually spends its money.

The key to the DOD spending problem is to initiate financial accountability. No failed system can be understood or fixed if it cannot be accurately measured.

And yet, there is no sense of urgency in the Pentagon to do anything about it. Indeed, in the 1990s, we were promised the accountability problem would be solved by 1997. In the early 2000s, we were promised it would be solved by 2007; then by 2016; then by 2017. Now we are being told that to expect a fix in 2017 is unrealistic.

Conclusion

The question must be asked: if nothing has been done by the Pentagon to end the accountability problem after more than 20 years of promises, is top management simply incompetent, or is this the intended result of obfuscation to avert accountability?

A spending system that effectively audits its weapon programs and offices would also be one that systemically uncovers incompetent and crooked managers, false promises and those who made them. It would also necessarily reveal reasons to dramatically alter, if not cease, funding for some programs, which of course would make lots of people in industry, Congress, and the executive branch unhappy.

The current system and its out of control finances mortally harm our defenses, defraud taxpayers, and bloat the Pentagon and federal budgets. Any reform that fails to address this most fundamental problem is merely another doomed attempt that will only serve to perpetuate a system that thrives on falsehoods and deception.

The Pentagon Labyrinth aims to help both newcomers and seasoned observers learn how to grapple with the problems of national defense. Intended for readers who are frustrated with the superficial nature of the debate on national security, this handbook takes advantage of the insights of ten unique professionals, each with decades of experience in the armed services, the Pentagon bureaucracy, Congress, the intelligence community, military history, journalism and other disciplines. The short but provocative essays will help you to:

- identify the decay—moral, mental and physical—in America’s defenses,
- understand the various “tribes” that run bureaucratic life in the Pentagon,
- appreciate what too many defense journalists are not doing, but should,
- conduct first rate national security oversight instead of second rate theater,
- separate careerists from ethical professionals in senior military and civilian ranks,
- learn to critique strategies, distinguishing the useful from the agenda-driven,
- recognize the pervasive influence of money in defense decision-making,
- unravel the budget games the Pentagon and Congress love to play,
- understand how to sort good weapons from bad—and avoid high cost failures, and
- reform the failed defense procurement system without changing a single law.

The handbook ends with lists of contacts, readings and Web sites carefully selected to facilitate further understanding of the above, and more.

