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My assigned topic is "Program Budgeting: Long-Range Planning in the Department of Defense." At first, I thought that this would be an appropriate subject for me to talk about; but then I noticed the list of speakers and discussants to follow me on the program. All of these gentlemen are on the "firing line," so to speak, in the sense that they are key people in the Department of Defense who are actually implementing program budgeting in the Defense Establishment. In this capacity, they most certainly know much more about the subject than I do.

This being the case, I thought I might perform a useful function at this meeting by refreshing our memories about what some of the basic objectives of program budgeting are, and then to make some speculations about the future. I would also like to point out and emphasize that a tremendous amount of progress has been made to date. We tend to forget this when we are in the midst of implementing a new system and are caught up in the day-to-day problems and frustrations that are inevitable in such undertakings. On any given day, the difficulties of the moment may see inordinately large, so that

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we may tend to lose perspective about original objectives and how far we have come in meeting them.

Now what about original objectives, and what do we have now that was not available before? We might start by looking briefly at a conventional military budget format (Chart 1). Here it is pretty clear that certain elements that we now think are very important are missing -- for example, lack of an extended time horizon, and lack of an orientation toward missions and the major instrumentalities required to perform these missions. The main focus is on functional identifications and a time horizon that extends essentially one year into the future. It is obvious that such a structure is of limited usefulness from a planning/programming point of view. This observation sets the stage for a discussion of the objectives of program budgeting.

A fundamental purpose of the new program budgeting system is to provide the Secretary of Defense and his military advisors with a better basis for making major program decisions. This is to be accomplished primarily by providing information--both financial and non-financial--in a more meaningful way than before. Here the phrase "more meaningful way" is the important consideration. There is certainly no paucity of information and data in the Department of Defense. But much of it is either irrelevant to, or not sufficiently oriented toward, the requirements of top management in making major program decisions.

The term "major program decision" deserves special comment. By "major program decision" we mean those decisions pertaining to

Chart 1

CONVENTIONAL BUDGET FORMAT

	FY '62	FY '63	FY '64
Procurement			
RDT&E			
Construction			
Military Personnel			
Oper. & Mtce.			
. . . . .			
etc.			
Total			

important choices with regard to alternative future weapon or support systems, force structures, and their principal modes of employment and deployment. Of particular interest to OSD are those cases where the problem of choice cannot be "factored" into departmental compartments (Army, Navy, Air Force)--a seemingly ever-increasing portion of today's major national security decisions. Polaris and Minuteman are good examples of this. These systems are about as complementary as they are competitive. Here is a case where one might not expect that the Navy can best make the ultimate decision regarding force size of Polaris in the context of Navy responsibilities, or that the Air Force can do the same for Minuteman when looking only at Air Force missions. It is a "joint" question which must be viewed in the context of the total strategic picture. The problem is "not factorable" into separate Service compartments. Most limited war questions also ultimately involve this characteristic of non-factorability or relationships broader than one military department and its traditional assignments.

It should be emphasized that the new program budgeting system is not itself concerned with making decisions, but rather is concerned with providing information which, hopefully, will provide a better basis for decision-making in the Department of Defense. Viewed another way, we might say that the basic objective of the new system is to integrate the planning/programming and the financial management functions in order to provide better tools and information for decision-making by the Secretary of Defense and his military advisors. This is to be done in such a way that budget decisions will be program decisions, and program decisions will be budget decisions.

This concept of integration is illustrated in Chart 2, where budgeting is taken as an example of one of the key financial management functions.

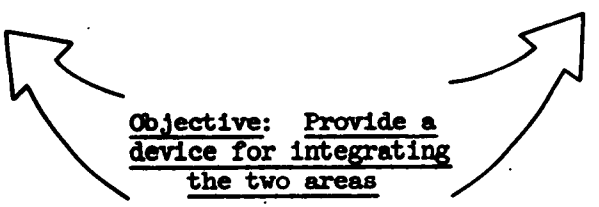
On the right hand side of the chart budgeting is portrayed in its conventional sense: major concern with functional categories (procurement, construction, operations and maintenance, etc.), a short time horizon (essentially next fiscal year), and emphasis on purely fiscal matters (obligations, commitments, reimbursements, object classes, etc.).

The left hand side of Chart 2 indicates some of the factors of major concern to planners and programmers: weapon and support systems and forces and their modes of employment and deployment, a long time horizon (5, 10 or more years into the future), and emphasis upon "end product" activities (e.g., missions and the instrumentalities to be used to carry out these missions).

It is clear that in the past there has all too often been a large gap between the two realms: planning/programming on the one hand, budgeting on the other. Planners and programmers had difficulty communicating with the budgeteers, and vice versa. They in effect "viewed the world" in different terms, with the result that programs and budgets did not always match up. The objective of the new system is to develop a device for integrating the two areas (the left and right hand sides of Chart 2). This is to be done in such a way as not to disturb the structural characteristics of either of the two areas in any fundamental way, at least not in the near future. Thus, we may speak of a "new dimension" or a "transformation device" which will

Chart 2

PLANNING/PROGRAMMING	BUDGETING
Major concern with alternative ways of attaining national security objectives: Total force structures Weapon/support systems Modes of employment and deployment of forces : : : etc. Long time horizon Emphasis on "end product" activities	Major concern with functional categories: Procurement Construction RDT&E Military personnel Operations and maintenance Short time horizon Emphasis on purely fiscal matters



permit going readily from planning and programming to budgeting and vice versa.

One example of a way to bring in this "new dimension" is illustrated in Chart 3. Here we have a format developed at RAND for the Air Force back in 1955. The stub of the table contains the "end product" identifications: missions and the various systems required to perform them. (These are analogous to Major Programs and Program Elements in the DOD program budgeting system.) The top of the table provides for the force structure projection and the related resource requirements expressed in terms of major categories of money flow: research and development, investment, and operating cost. Although not shown on the summary format, these latter categories are broken down into sets of sub-categories, one of the sets being the Air Force appropriation codes. The appropriation code identification provides the tie-in to the conventional budget structure. The present DOD program budgeting system has identifications very similar to all of those contained in this illustrative example.

So much for basic objectives. I would now like to turn to some speculations about the future--speculations in a somewhat idealistic sense. Several years from now, ideally we might visualize a DOD program budgeting system having the following major characteristics reasonably well developed and implemented:

(1) A series of DOD data and information reporting systems which adequately support the program budgeting process in two major senses: (a) progress reporting on major elements of important programs, and (b) providing a

Chart 3

FORMAT - SUMMARY OF TOTAL FORCE COSTS

Missions and System	Force Structure: Number of Squadrons (end of fiscal year) '63	'64	'65	'66	'67	....	'70	Expenditures (Total Obligational Authority) (millions of 1963 dollars): Research and Development '63	'64	'65	'66	'67	....	'70	Investment '63	'64	'65	'66	'67	....	'70	Operation '63	'64	'65	'66	'67	....	'70	Total Expenditure '63	'64	'65	'66	'67	....	'70
STRATEGIC																																		
B-52 (incl. GAM)																																		
B-58																																		
KC-135																																		
SRAM																																		
SRAM																																		
MPLE																																		
Etc.																																		
Other Strategic																																		
Total Strategic																																		
DEFENSE																																		
F-101, 102 (incl. GAR)																																		
F-104, 106 (incl. GAR)																																		
BR-99																																		
BMI																																		
AEW (RC-121)																																		
DEWS																																		
AICBM																																		
Etc.																																		
Other Defense																																		
Total Defense																																		
TACTICAL																																		
F-104, 105																																		
F-111																																		
TFX-76																																		
TFX-X																																		
Troop Carrier																																		
Etc.																																		
Other Tactical																																		
Total Tactical																																		
MISCELLANEOUS																																		
MATS																																		
Other Unallocated																																		
Total Miscellaneous																																		
GRAND TOTAL																																		

reasonably good data base for developing estimating relationships for use in making future projections.

(2) A program element structure which is meaningful from a planning/programming point of view, and which therefore provides one of the key bases for integrating planning and programming on the one hand and financial management on the other.

(3) A program change system which adequately up-dates programs and program elements, and their associated resource requirements.

(4) An analytical capability for rapidly determining the future impact of alternative program proposals in terms of estimated incremental resource requirements and estimated military effectiveness.

The four points I have just listed cover a lot of territory, and they are not new. The program budgeting system as it now stands has all of these characteristics in principle. But they are not yet fully developed, and their degree of development and implementation varies considerably from one area to another.

For instance, in the case of Major Program III--General Purpose Forces--there is no doubt room for improvement in structuring of the program elements. Also, one of the most severe problems pertains to development of concepts and methods for estimating the effectiveness of proposed general purpose forces. Neither of these problems is so great in some of the other Major Programs, for example, Program I--Strategic Retaliatory Forces.

A major problem area that applies almost "across the board" pertains to my first point--data and information support of the program budgeting structure. As of now, this support is pretty thin in many areas. A great deal of time and hard work will be required to correct this data reporting deficiency. But just as important, some imaginative thinking is required. I would hope that some new approaches will be tried and experimented with. For example, it is not clear to me that all accounting and other types of reporting data must be accumulated on a complete enumeration basis. Sampling may suffice for some purposes. On the basis of limited experiments that I have conducted, I think the selective use of sampling may offer real promise. In deriving estimating relationships, for example, these experiments have suggested that in certain areas, relationships developed on the basis of fairly small samples are not significantly inferior to comparable relationships derived from a reasonably complete enumeration of data.

So much for the current problems. While these problems are pressing, and are particularly bothersome to those persons involved in the further implementation of the program budgeting system, I think they can and will be solved. At this meeting I would prefer to stress the progress made to date, and the very real importance of having a new framework to provide an improved basis for integrated planning, programming, and budgeting in the Department of Defense. This is something that has not existed before in the Defense Establishment.