

# Versailles on the Potomac

A quick trip through an American  
hall of mirrors

*"A popular government without popular information, or the means of acquiring it, is but a prologue to a farce or a tragedy, or perhaps both."*

... James Madison

Franklin (Chuck) Spinney  
(November 2002)

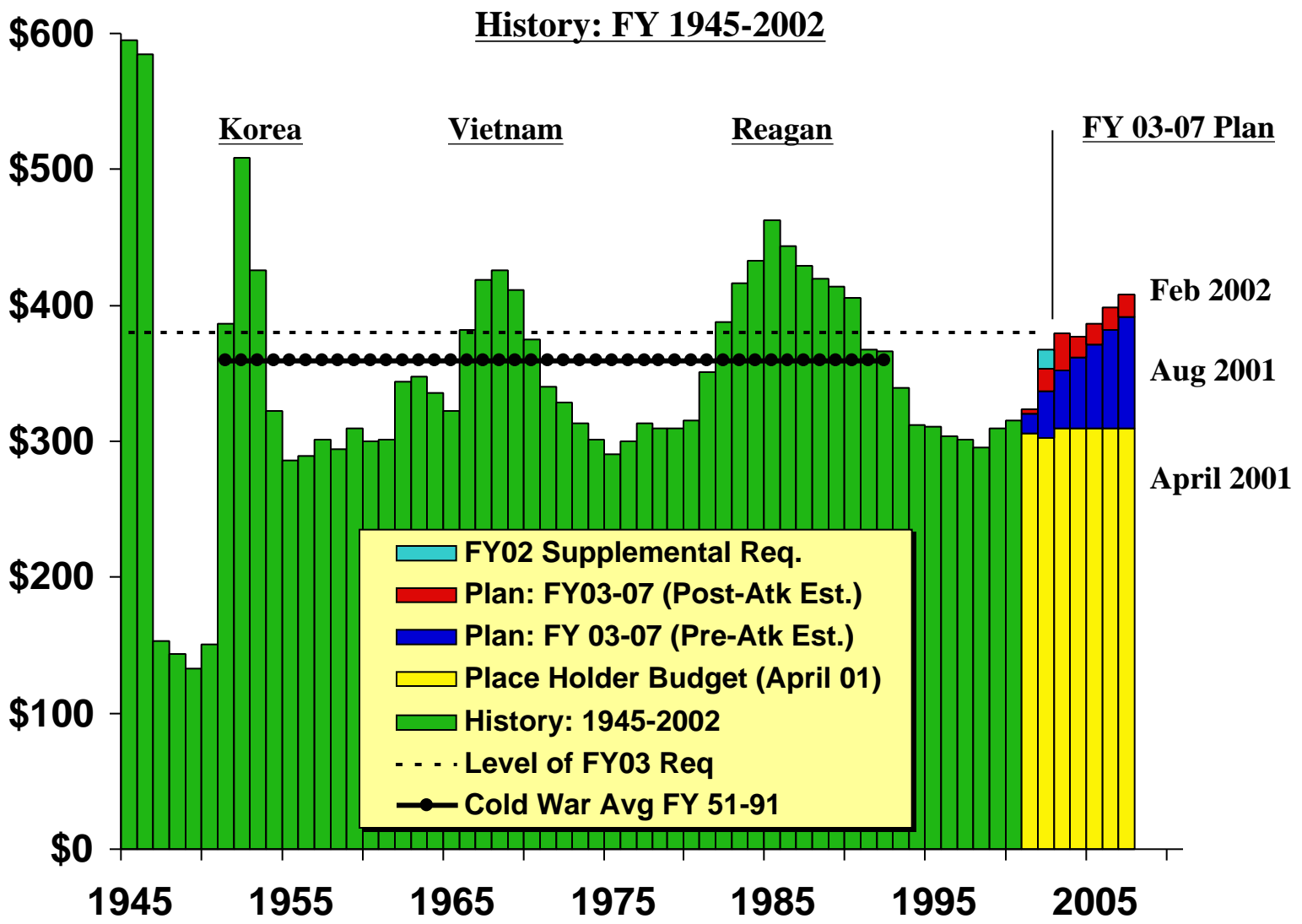
<http://www.d-n-i.net>

# Aims

- **To place current defense plans in a historic perspective**
- **To illustrate why increasing the defense budget**
  - ✓ **does not solve the Pentagon's problems, but ...**
  - ✓ **creates requirements for ever larger future budgets.**
- **To place Pentagon's budgeting pathologies in the context of**
  - ✓ **the larger breakdown of federal budgeting**
  - ✓ **the national debt bomb that is creating a crisis in democratic governance**

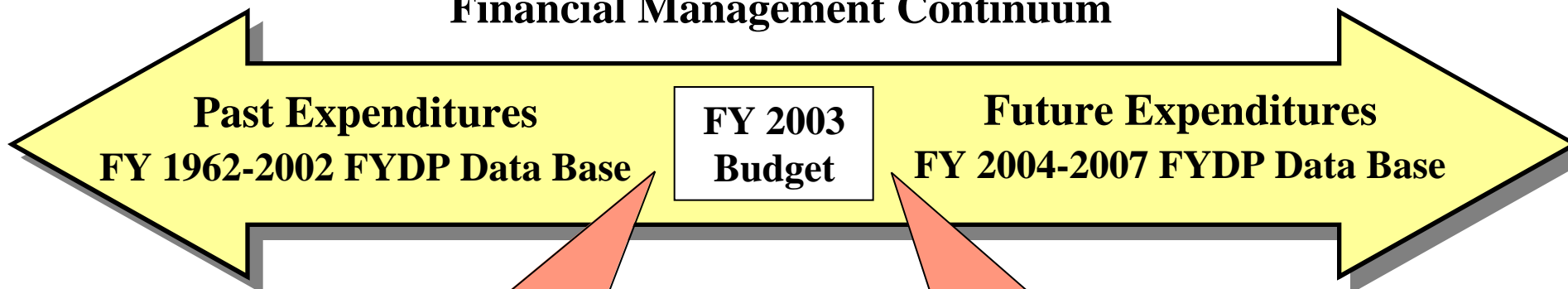
# Evolution of the Fiscal Year 2003 - 2007 Plan in a Historical Perspective

## DoD Budget Authority (FY 2003 Const \$ - Billions)



# DoD's Bookkeeping Shambles

## Financial Management Continuum



### Un-Auditable Books

#### Management Consequences

- Can not link financial inputs to policy outputs

#### Legal Consequences

- Violate the requirements of the CFO Act of 1990
- Make a mockery of the accountability and appropriations clauses in the constitution

### Plans/Reality Mismatch

#### Plans Misrepresent the Future Consequences of Current Decisions

- Bias to underestimate future costs
- #### Consequences

#### “Unexpected” cost growth

- Production cutbacks
- Pressure to reduce readiness
- Shrinking and aging forces
- Excess infrastructure capacity

Pressure to increase budgets even when budgets are increasing

# Unauditable Books

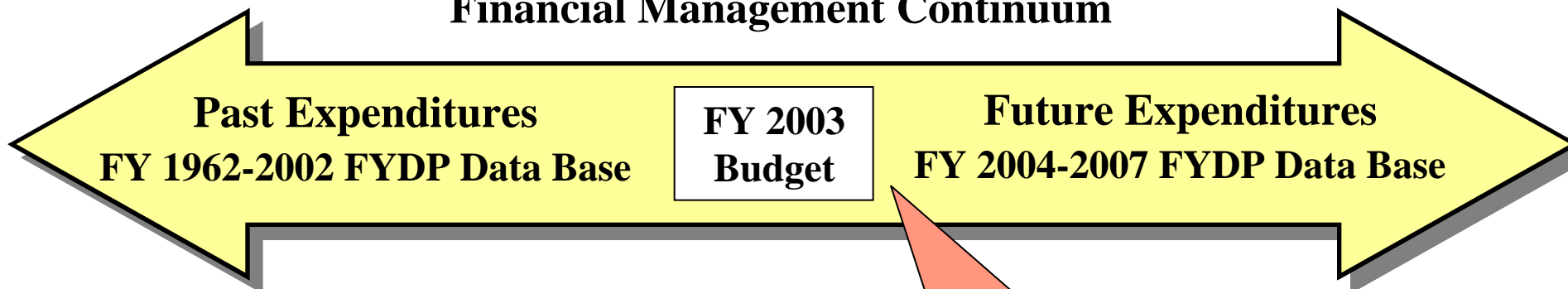
- **DoD Inspector General (DoD IG) cannot audit or track actual expenditures**
  - 19 Nov 96 - **Waived audit** of AF & Army General Fund Financial Statements for FY95
  - 10 Apr 97 - Issued 3 audits outlining **discrepancies** in Army, N/MC, & AF Financial Statements for FY 96.
  - 16 Apr 98 - **Waived audits** of 15 of 16 DoD Accounts for FY 1997
  - 1 Mar 99 - **Waived audit** for FY 1998; found **\$1.57 trillion** in unauditable adjustments to data used to prepare financial statements
  - 25 Feb 2000 - **Waived audit** for FY 1999; **\$2.3 trillion** in unsupported accounting adjustments in \$6.9 trillion of data entries used to prepare financial statements; \$2.6 trillion supported; \$2 trillion not examined
  - 8 May 2001 - **Waived audit** for FY 2000 for all accounts but Retirement Account; **\$1.1 trillion in unsupported accounting adjustments** in \$4.4 trillion of data entries.
  - Congress passes **Defense Authorization Bill deleting annual requirement for comprehensive DoD audits** by the DoD Inspector General
- **DoD IG's Reasons:** DOD's lack of a double entry accounting system and failure to track expenses on the transaction level leads to billions of dollars in accounting errors

## Implications of Corrupt Accounting System

- **Impossible to link the costs of forces and activities or the relationship of overall budgets to the outputs -- i.e., the capability or performance -- of those forces & activities. [Friedman Rpt]**
- **Violates requirements of CFO Act of 1990 and makes a mockery of the Accountability Clause of the Constitution and the principle of representative governance.**

# DoD's Bookkeeping Shambles

## Financial Management Continuum



**Example:**  
**Navy F/A-18 ABCD**  
**Procurement Case Study**

### Plans/Reality Mismatch

**Plans misrepresent the future consequences of current decisions**

- **Bias to underestimate future costs**

#### Consequences

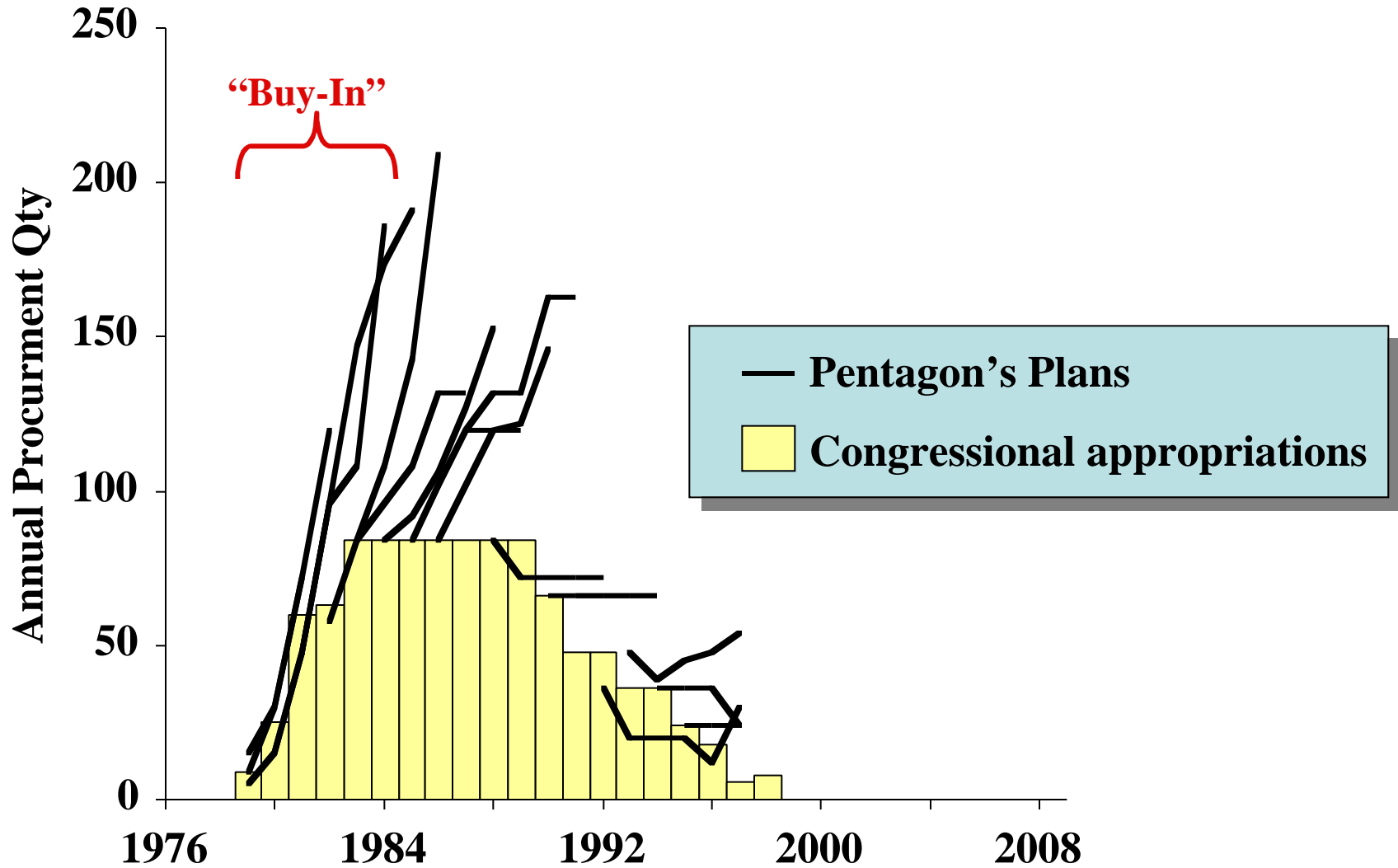
**“Unexpected” cost growth**

- **Production cutbacks**
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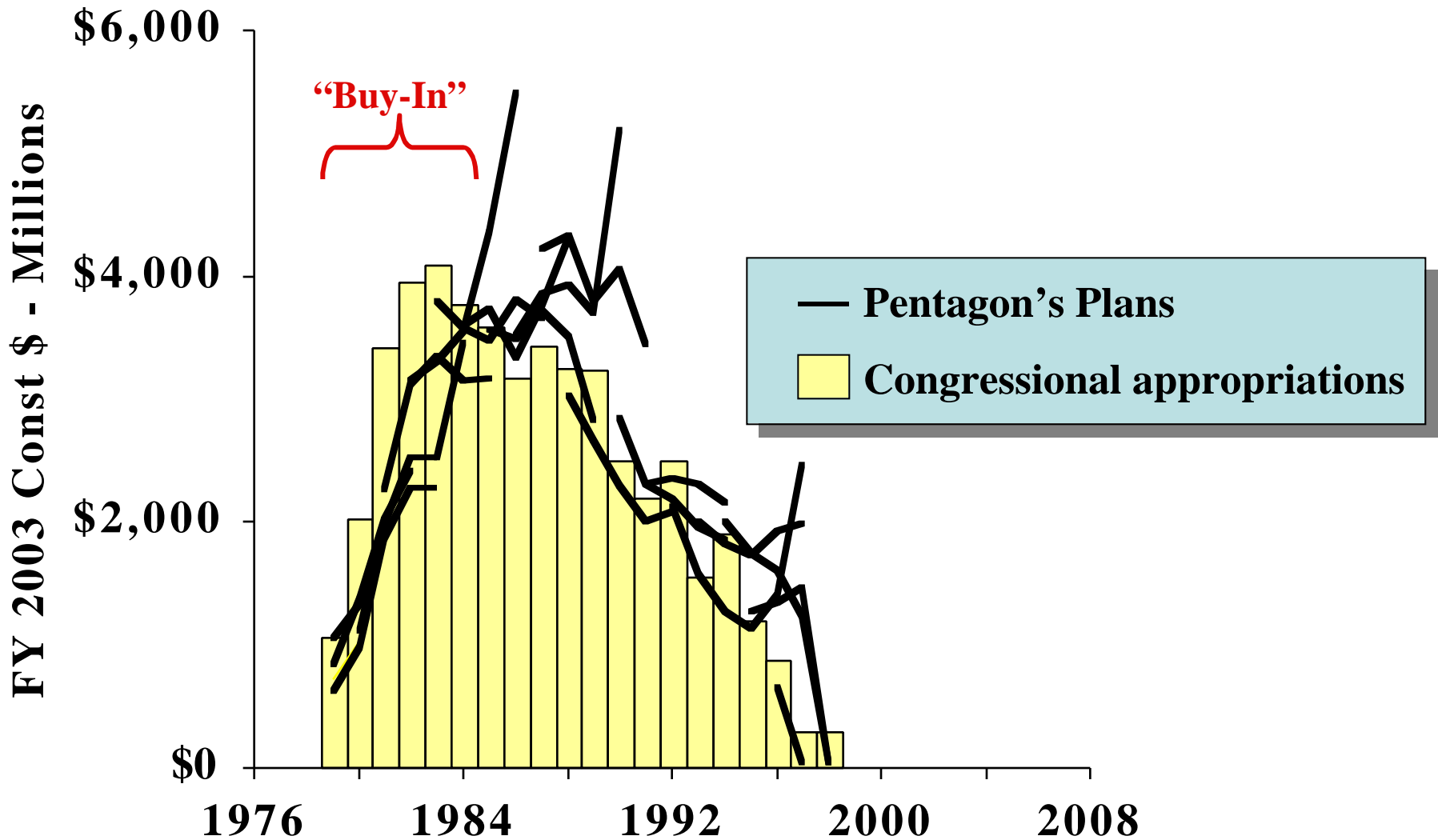
**Pressure to increase budgets even when budgets are increasing**

# Plans/Reality Mismatch: Production:

## F/A-18ABCD: Planned vs. Actual Procurement Quantities

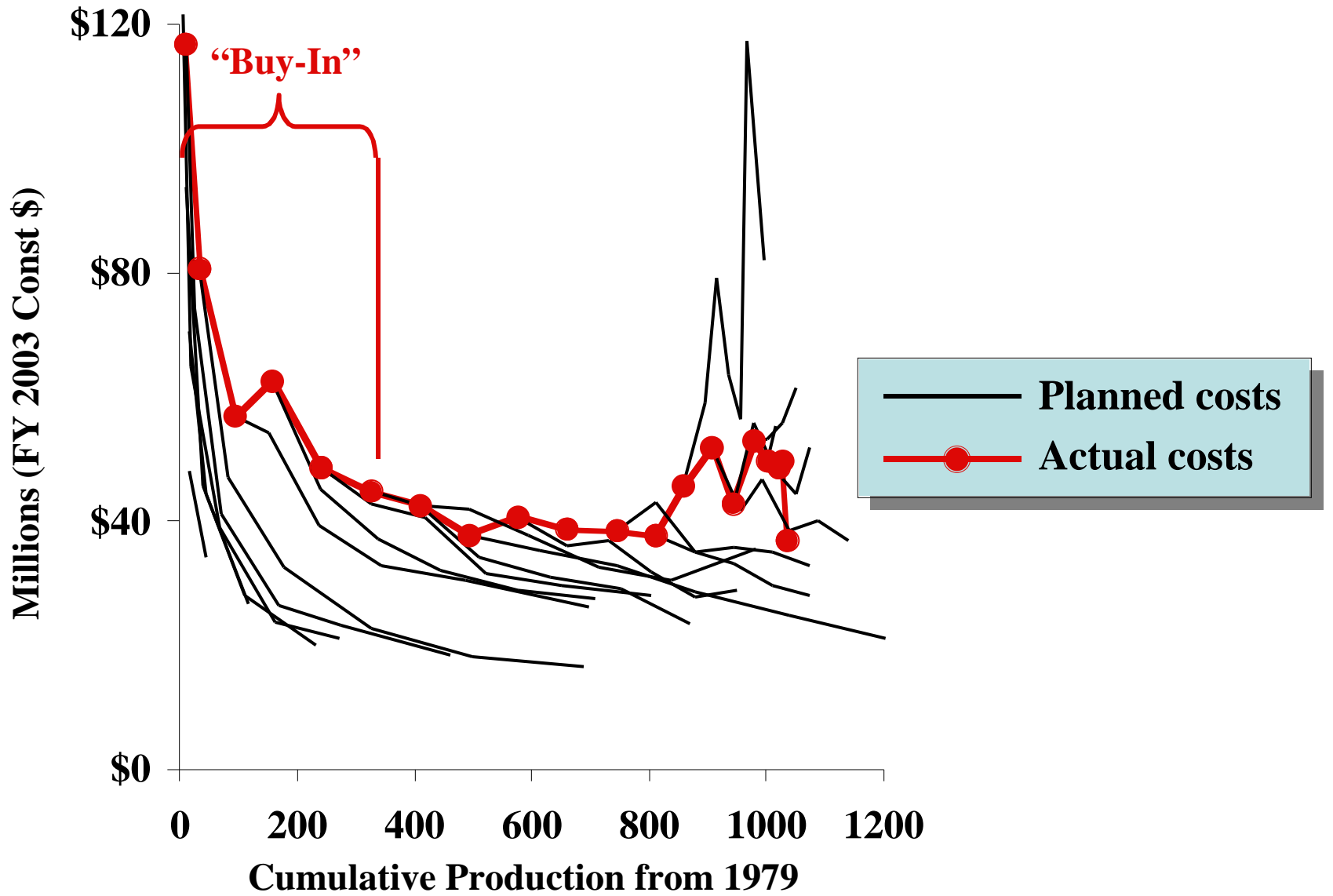


# Plans/Reality Mismatch: Program Budgets: F/A-18ABCD: Planned vs. Actual Procurement Budgets



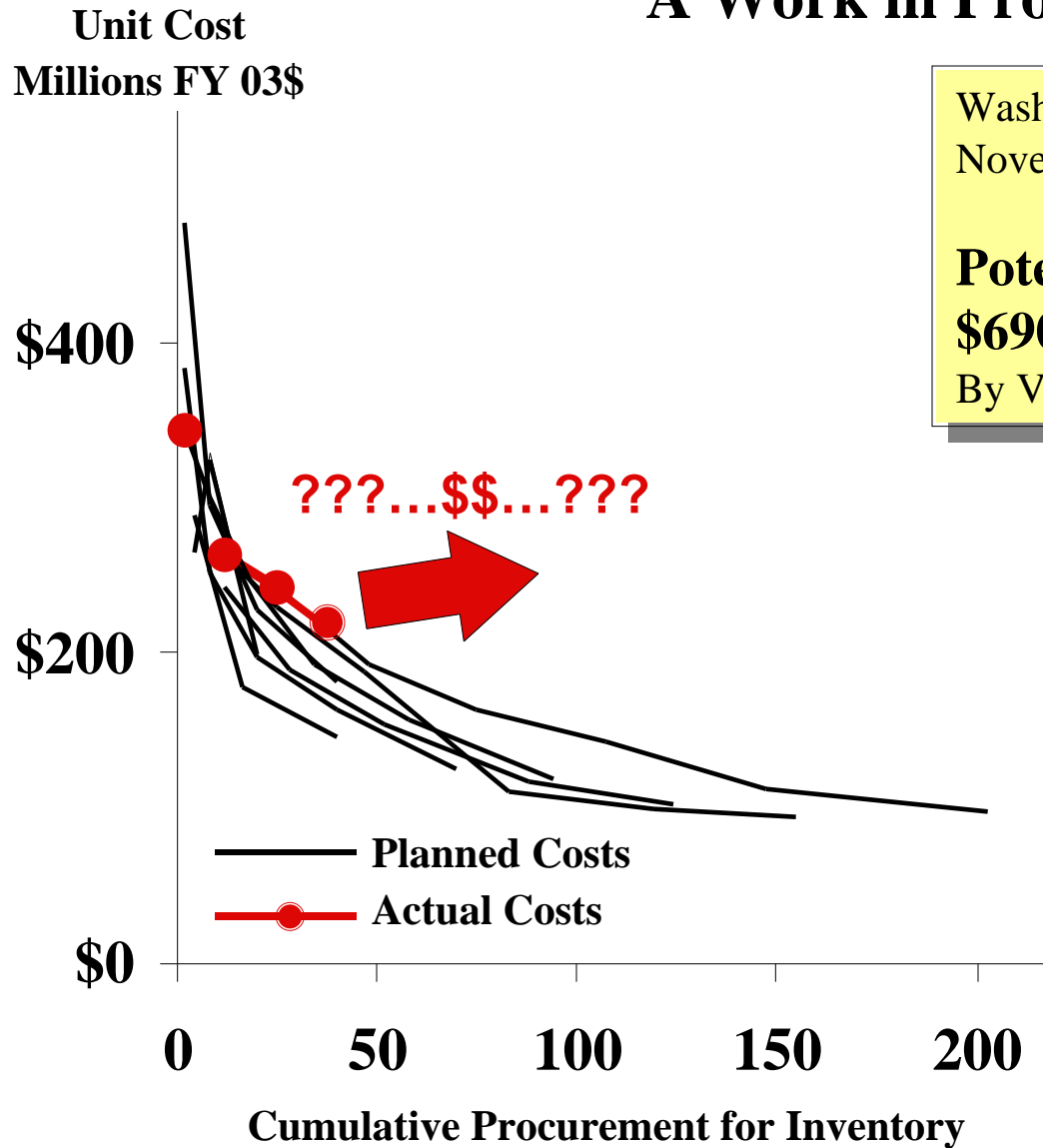


# Plans/Reality Mismatch: Unit Costs: F/A-18ABCD: Planned vs. Actual Costs



# Current Example: F-22 Cost Growth

## A Work in Progress



Washington Post  
November 8, 2002, Pg. 14

### Potential F/A-22 Cost Overrun Of \$690 Million Is Announced

By Vernon Loeb, Washington Post Staff Writer

#### Total Production "Planned"

- ✓ Oct 86 - Jul 91 ..... 750
- ✓ Jul 91 - Jan 94 ..... 648
- ✓ Jan 94 - Dec 00 ..... 442
- ✓ Dec 00 - Dec 02 ..... 338
- ✓ **31 Dec 02 ..... 276**

#### Progress To Date

- ✓ # Bought ..... 52
  - Includes Non-Inv R&D planes
- ✓ Spent ..... \$36.3 Bill
  - **or 52% of \$69.7 Bill Program**

# Now ....

- *Multiply the F-18 & F-22 examples* by hundreds of other procurement programs (big & small)

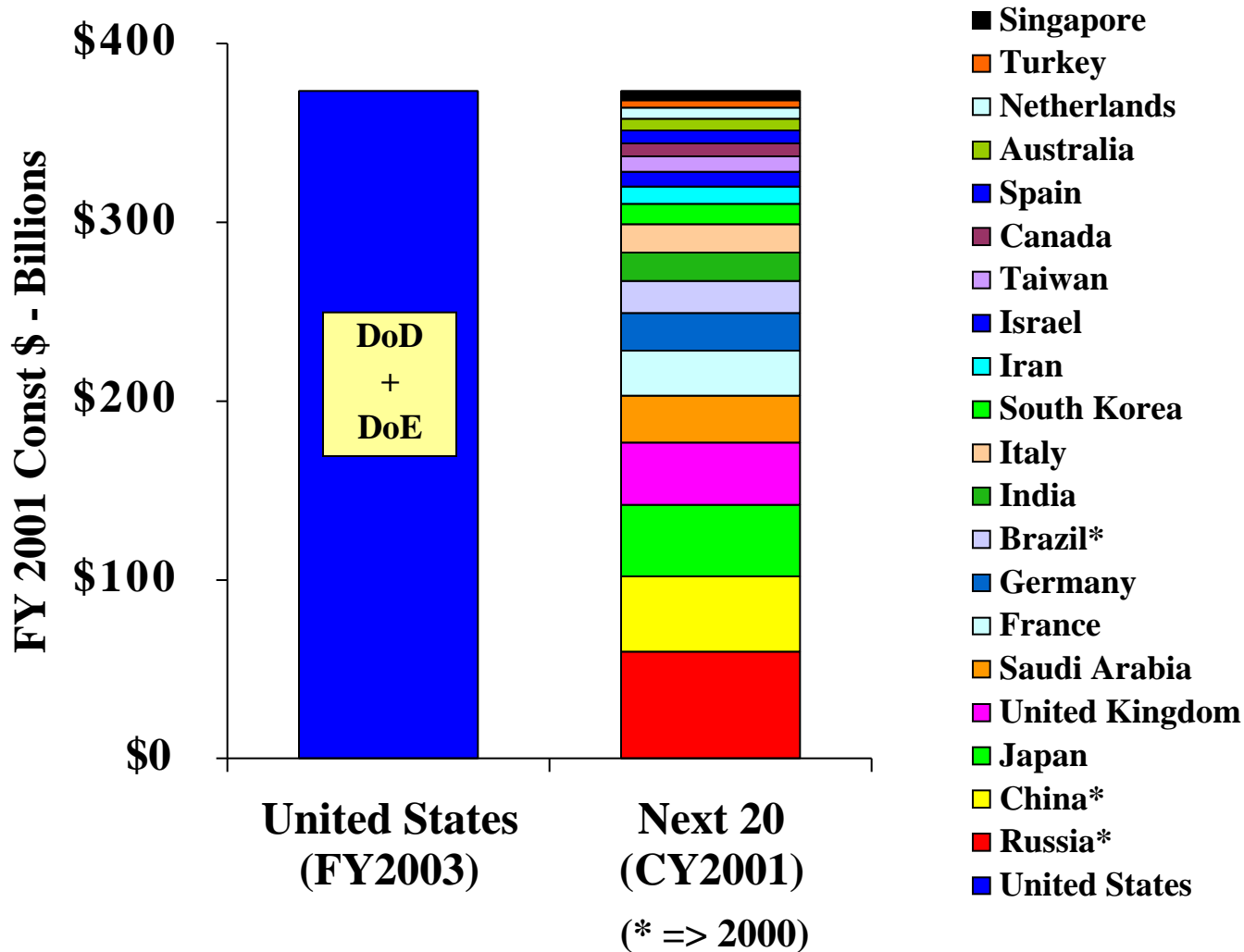
... and ...

- *Add-In* effects of *Rising Operating Costs*, due to --
  - ✓ Increasingly complex Weapons
  - ✓ Aging inventories of weapons
  - ✓ Increasingly inefficient & aging infrastructure
  - ✓ Skyrocketing health care costs
  - ✓ Rising salaries due to the need to recruit (bribe) people to join the all volunteer military

...and You Evolve the ...

***“Big Boom and Little Bust”***  
**Cycle of defense budgeting**

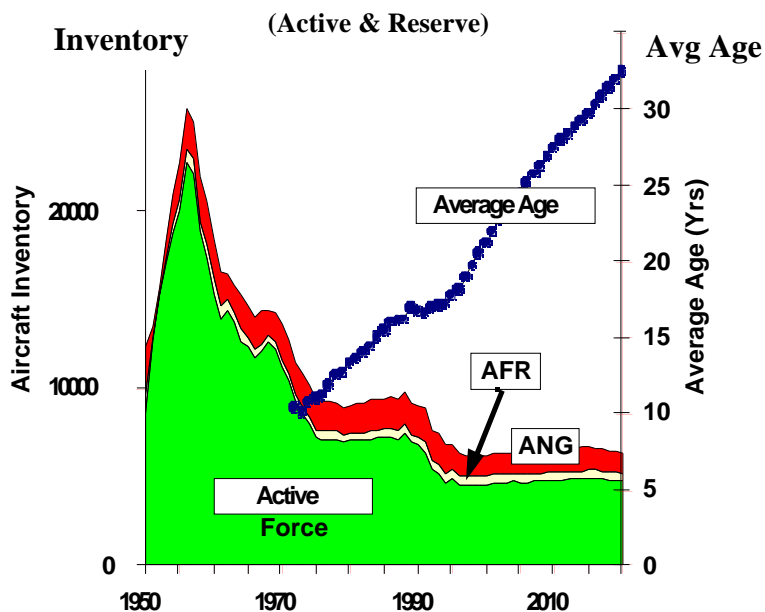
Even though cost pressures are causing planned budgets to explode  
 ... and...  
 the US is now spending as much on defense as the  
 next 20 largest defense budgets ...



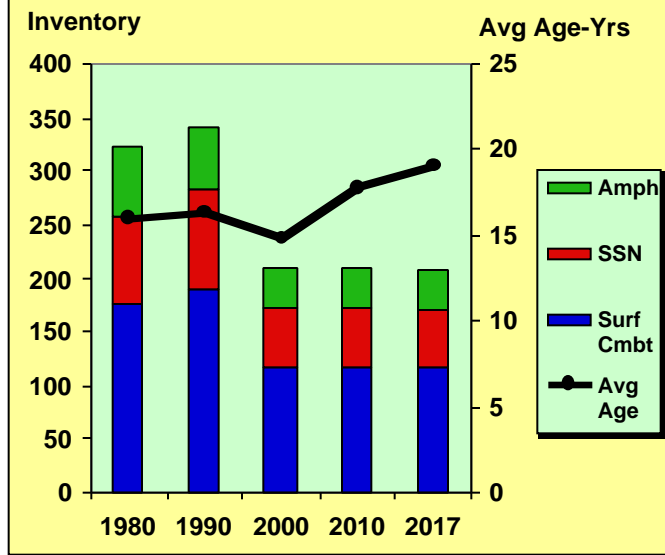
Note: Most recent estimates (DoD and IISS) on exchange rate basis, not purchasing power parity.

**... And While Force Size Shrunk Since the End of the Cold War...  
and Weapons Will Continue to Get Older ...**

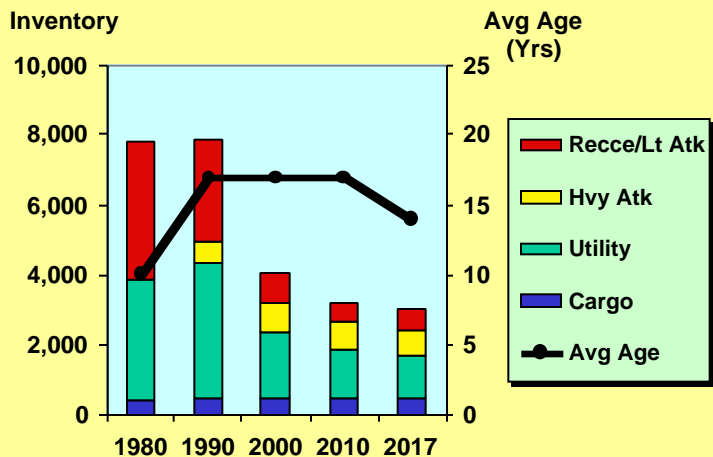
**Air Force Airplanes**



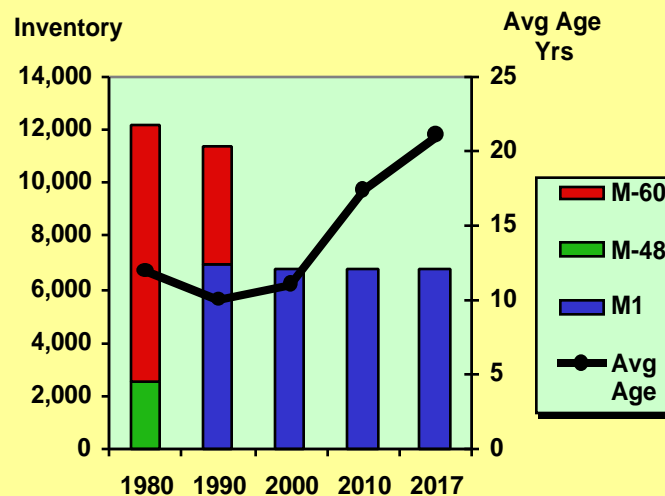
**Naval Fleet Combatants**



**Helicopters**



**Tanks**



**Pressure is mounting to cut future weapons production again ...**

*Wall Street Journal*  
October 15, 2002

**Pentagon Weighs Big Cuts In Major Arms Programs**  
*Weapons Are Targeted Despite Plans For Increased Overall Military Budget*

**By Anne Marie Squeo and Greg Jaffe, Staff Reporters of *The Wall Street Journal***

“Top Pentagon officials are considering a series of cuts to major weapons programs intended to save tens of billions of dollars, as it becomes increasingly apparent that planned budget increases won't cover the bills for both modernizing the military and building a promised missile-defense shield.” ...

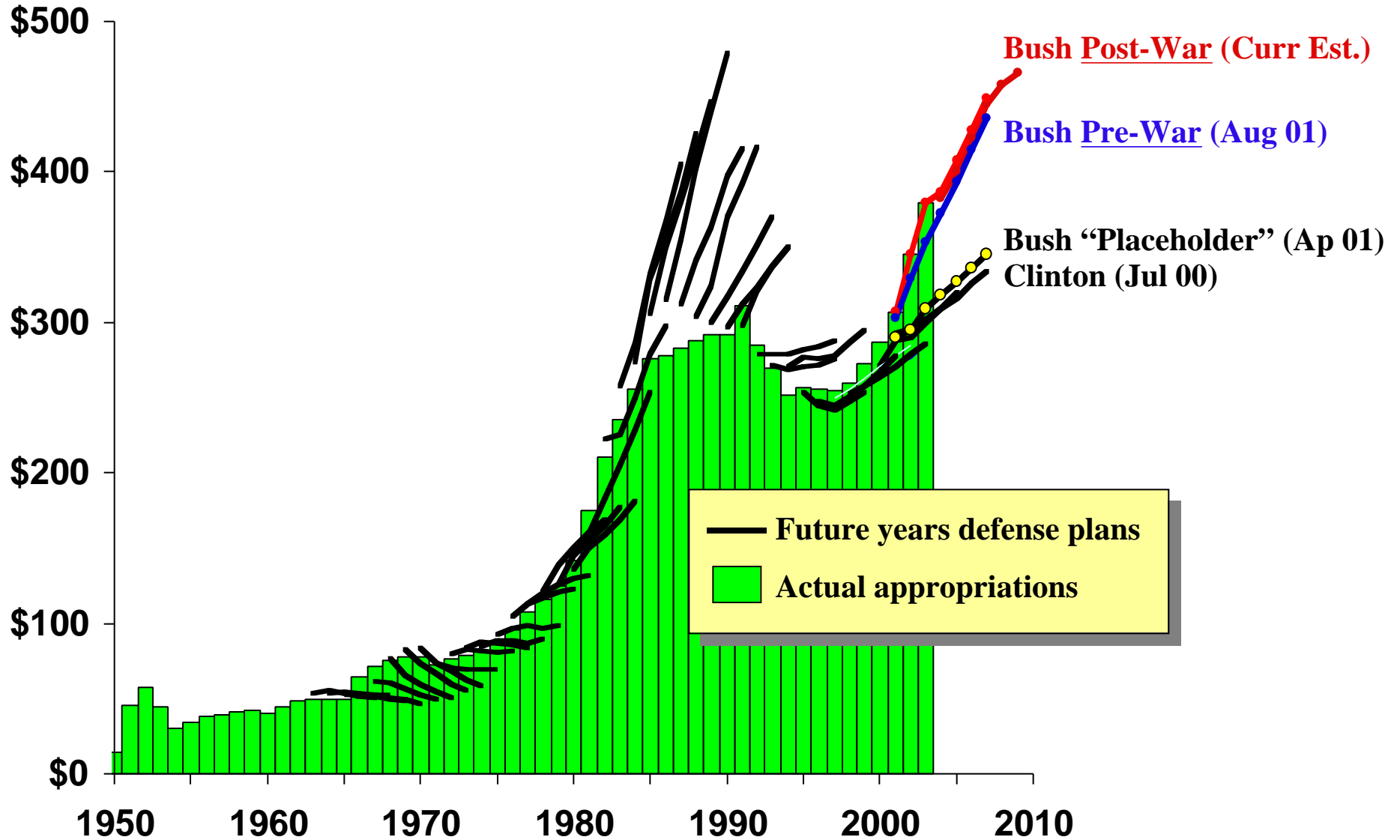
**... leading to a destructive interaction of incestuously amplifying pressures  
that manifest themselves as ...**

# The big boom and little bust cycle of defense spending

## DoD Budget: Plans Vs. Reality

Current \$ - Billions

(Includes effects of inflation)



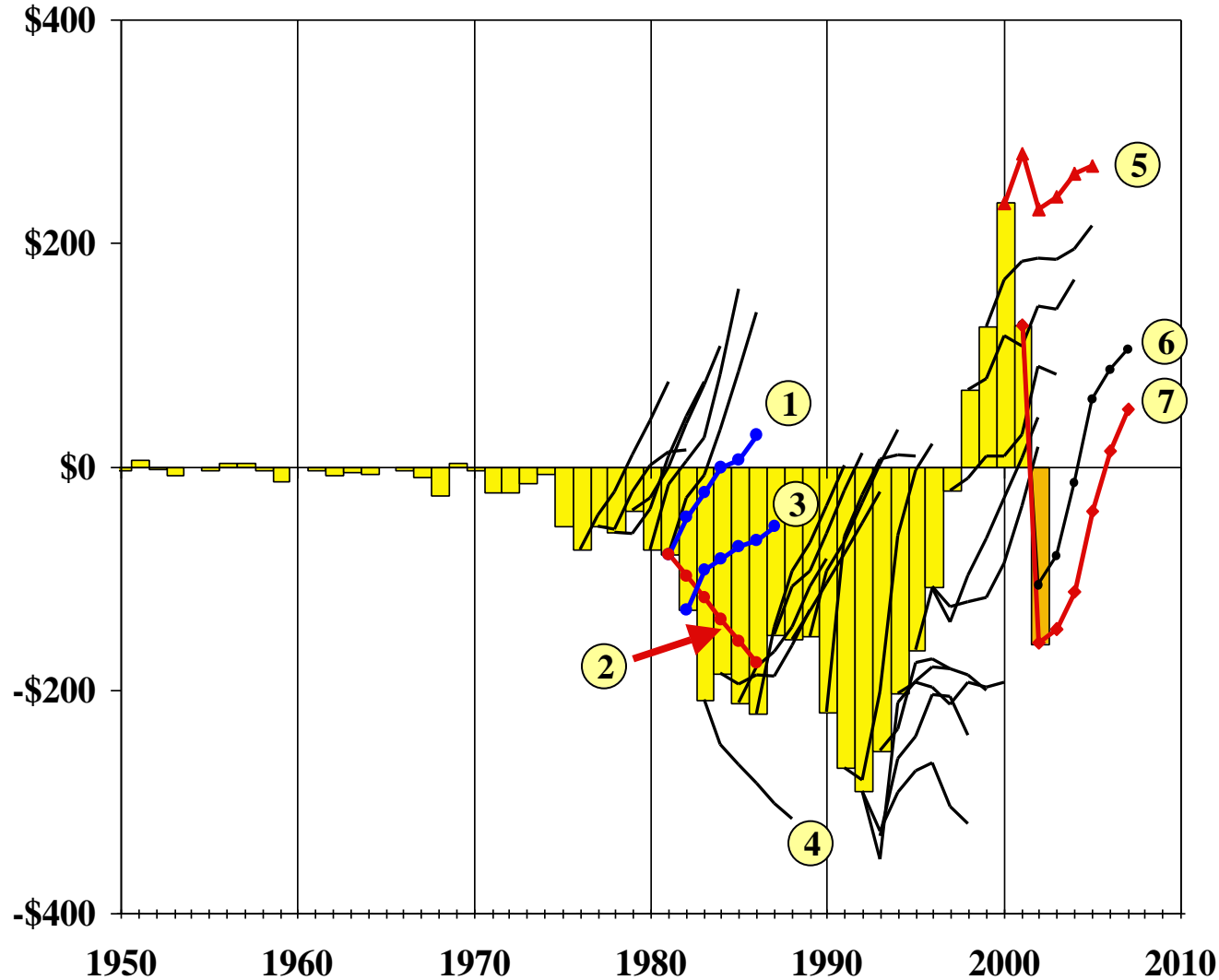
**Moreover,  
the Pentagon's  
pattern of incestuous amplifying assumptions  
does not exist in a vacuum,  
but ...  
is part of a larger political-economy fueling  
the national debt bomb.**



# Federal Deficits: Plans vs. Reality

## Is history repeating itself?

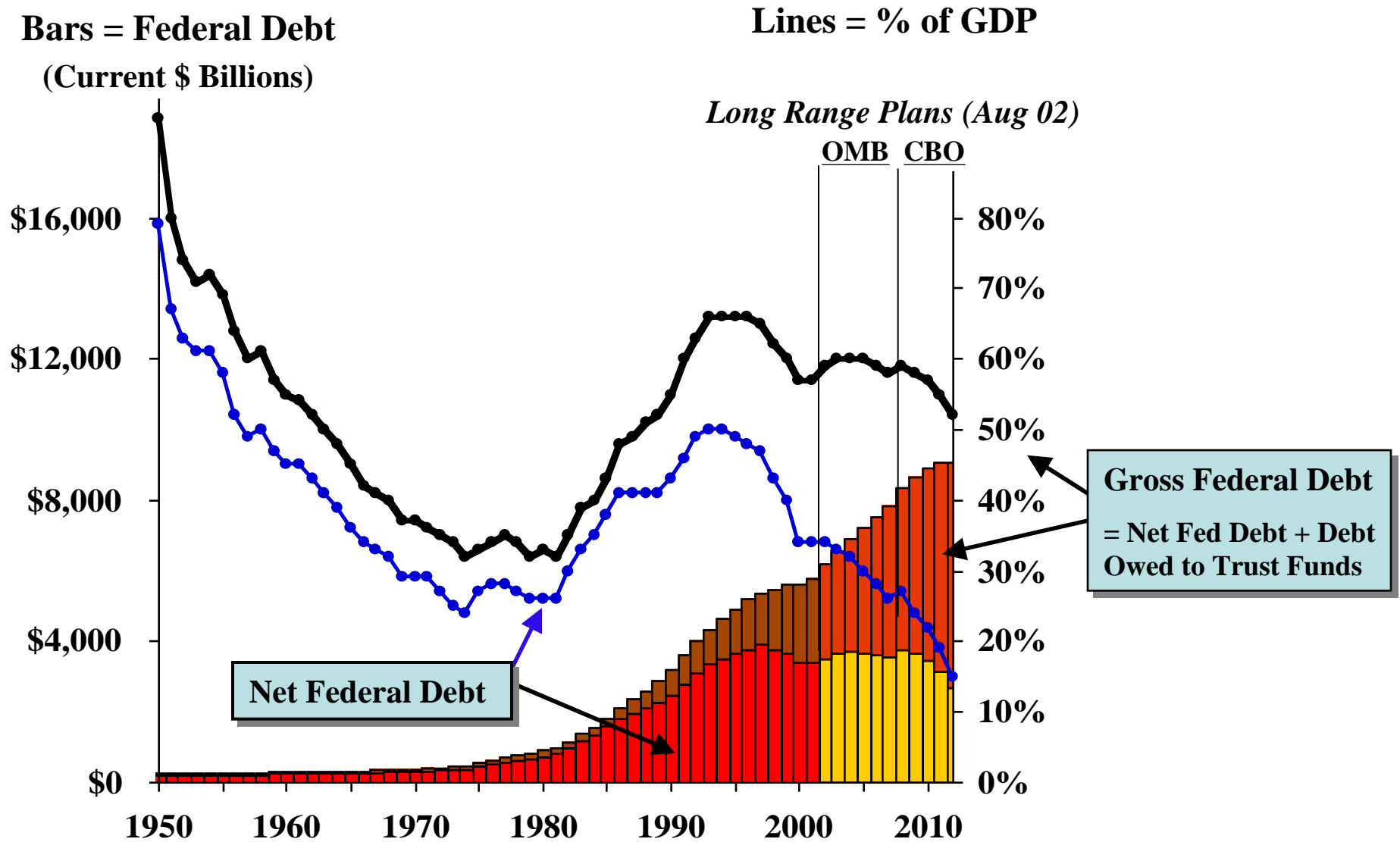
Surplus/Deficit  
(Current \$ - Billions)



- ① Reagan's Rosy Scenario (2/81)
- ② OMB's Secret Est. (11/81)
- ③ Cooked Books (1/82)
- ④ Political Terror Budget (1/83)
- ⑤ Bush II's Rosy Scenario 4/01
- ⑥ Bush II's 2nd Budget 2/02
- ⑦ CBO Mid-Summer Est. 8/02

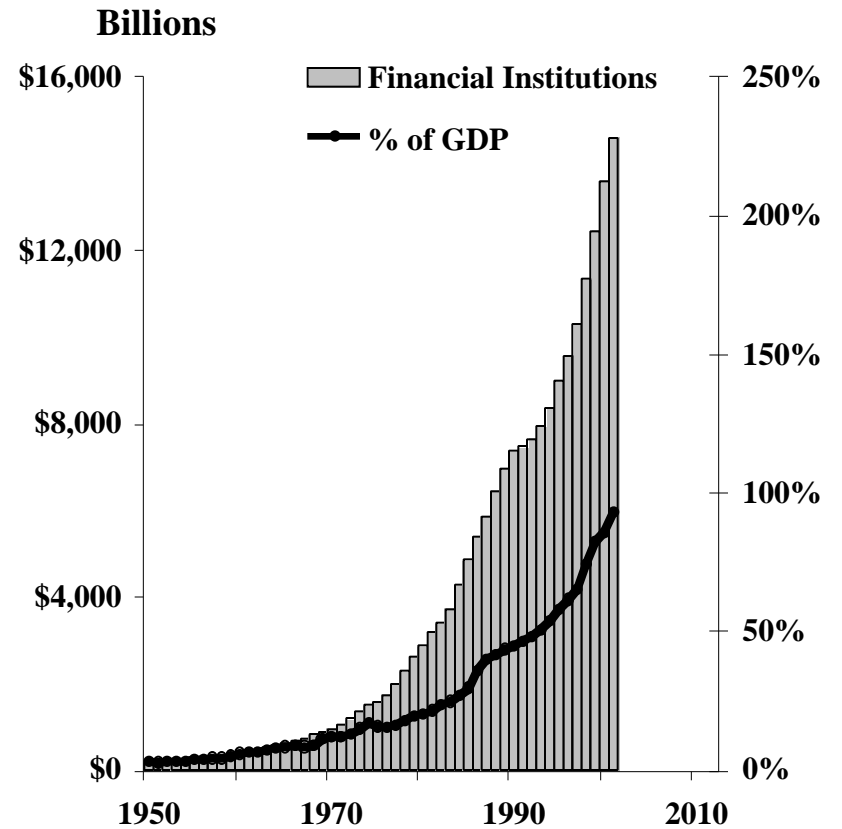
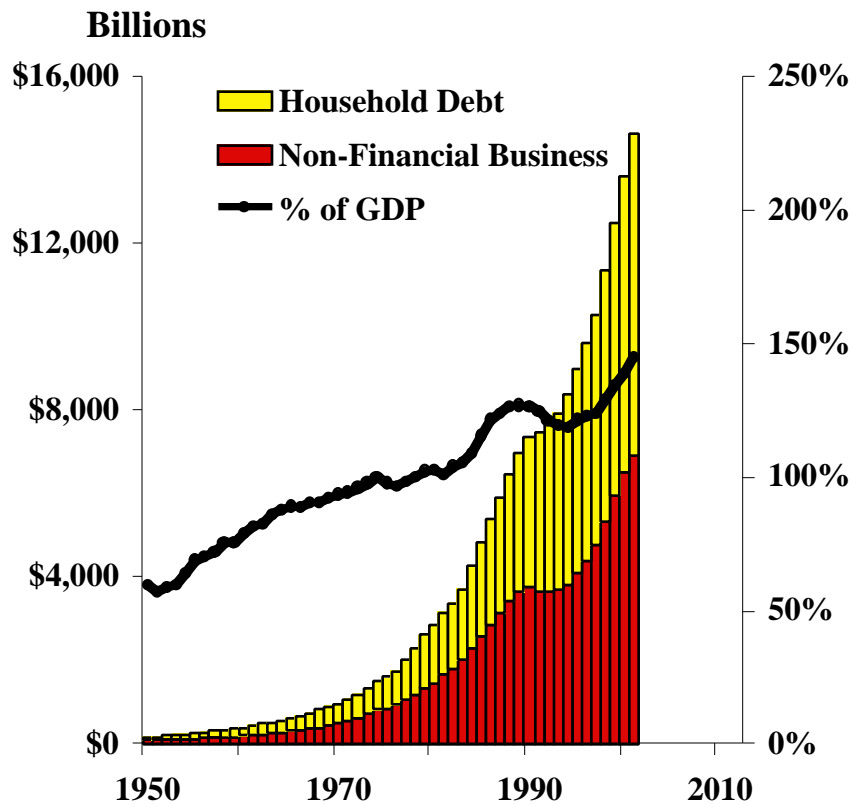
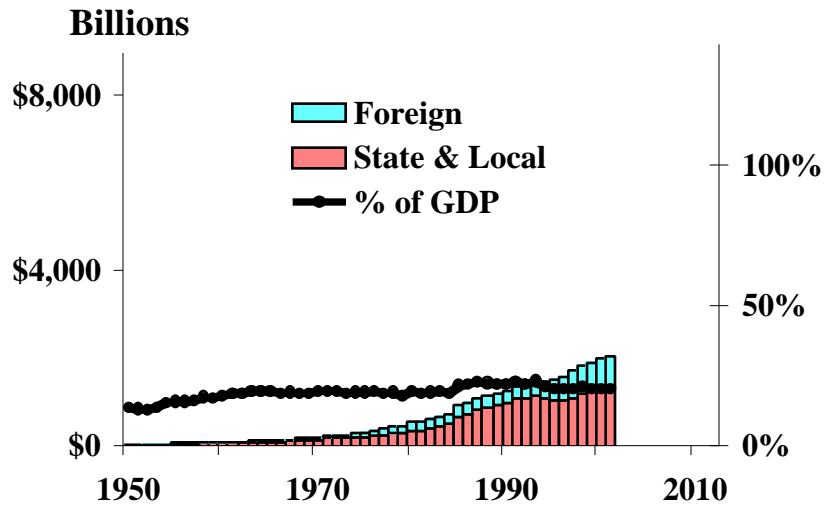
Sources: President's Budget Messages & CBO

# Gross vs. Net Federal Debt



Sources: President's Budget Message & Fed Reserve Board

# Other Components of US Debt Structure

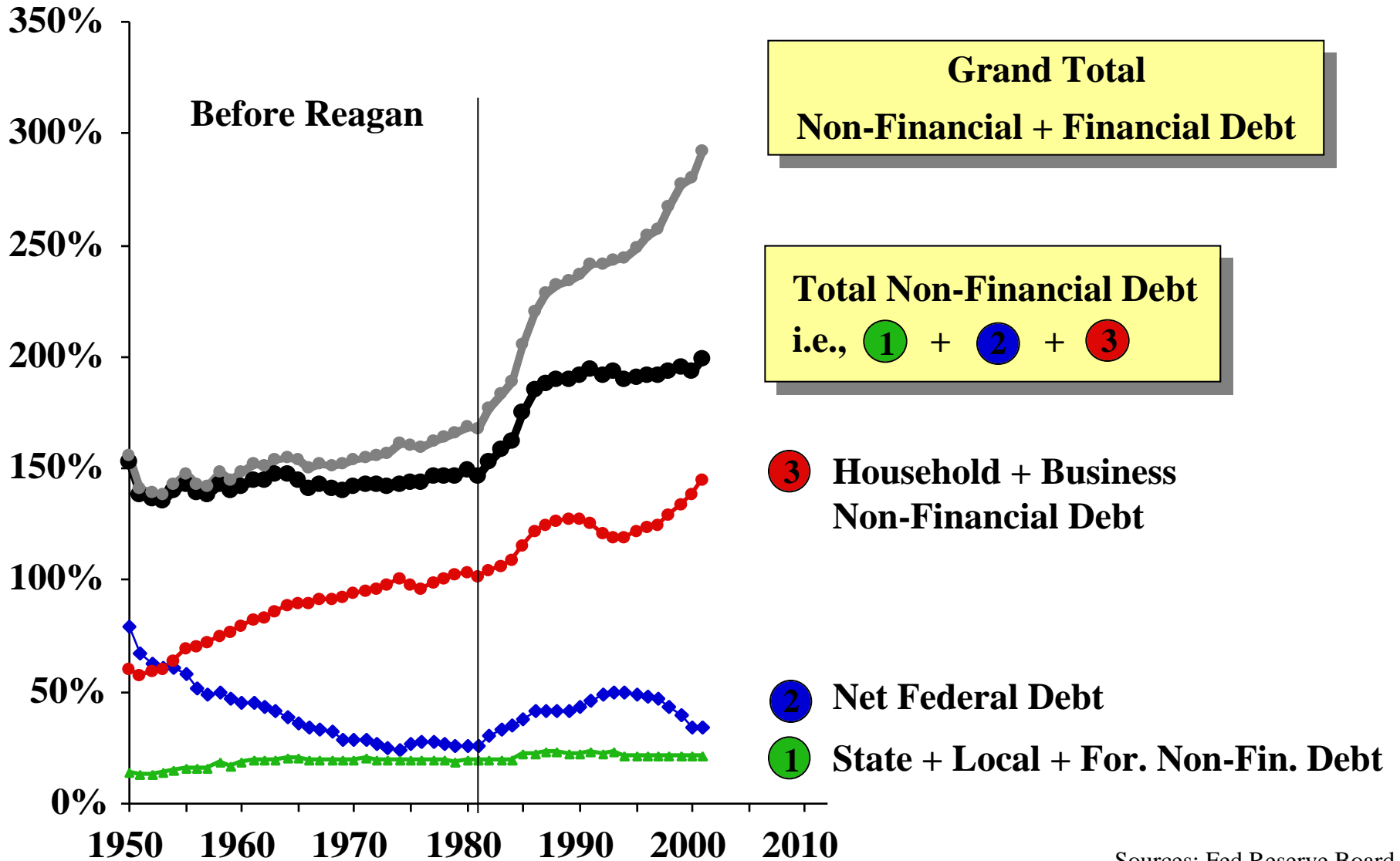


Sources: Fed Reserve Board

# The Exploding U.S. Debt Bomb

## Conventional Economic View with Net Federal Debt

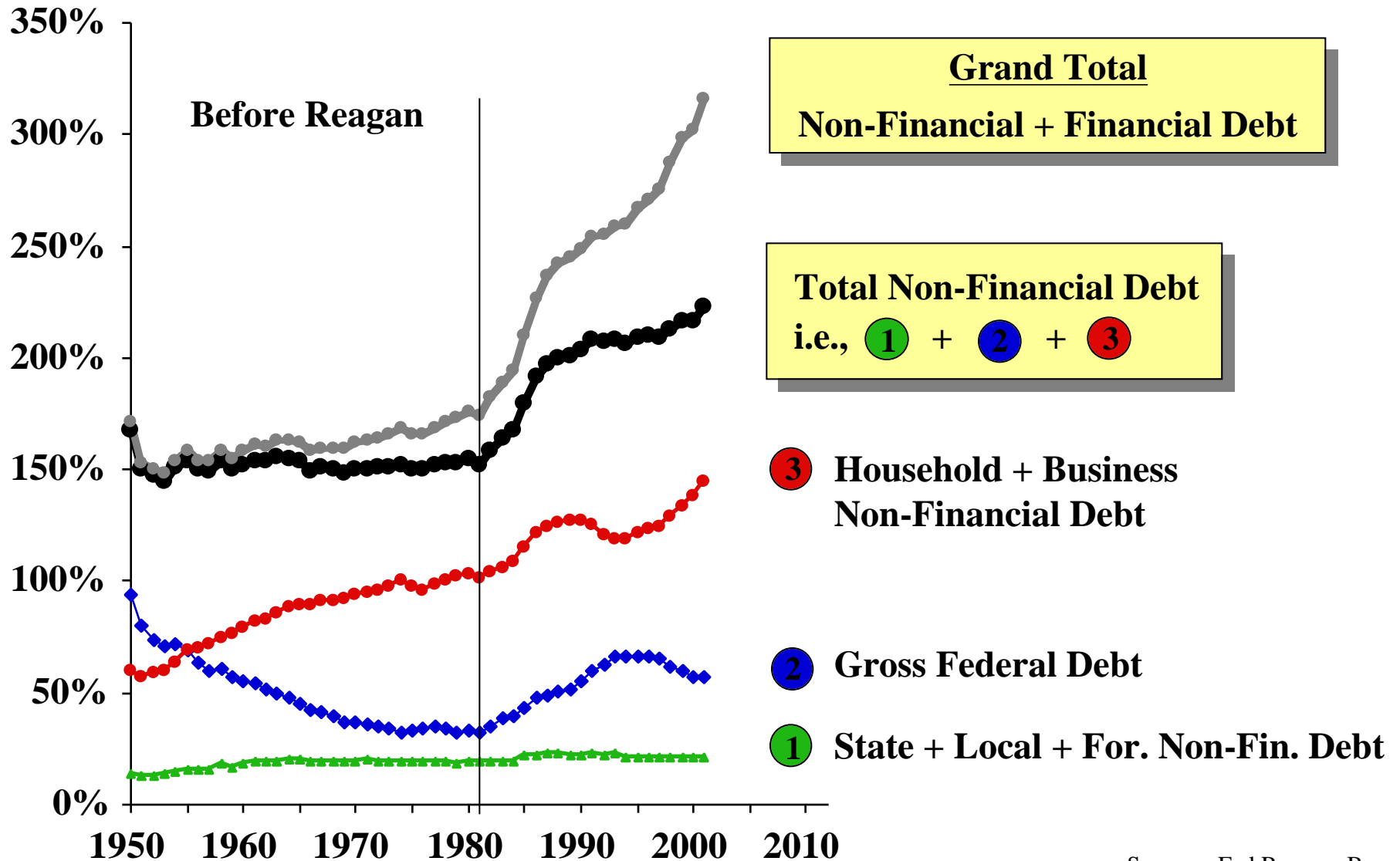
Debt as % of GDP



# The Exploding U.S. Debt Bomb

A Better Portrait of Political Reality: with Gross Fed Debt

Debt as % of GDP



Sources: Fed Reserve Board