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A Budget-Theoretical Perspective on DoD PPBE Reform

EXECUTIVE SUMMARY AND REPORT
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ASSOCIATE PROFESSOR

Odd Stalebrink, *Pennsylvania State University and Stevens Institute of Technology*

PRINCIPAL INVESTIGATOR

Philip S. Antón, *Stevens Institute of Technology*



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RESEARCH TEAM

Name	Organization	Labor Category
Odd Stalebrink	Penn State University; Stevens Institute of Technology	Associate Professor; Research Scientist
Philip S. Antón	Stevens Institute of Technology	Principal Investigator; AIRC Chief Scientist
Douglas J. Buettner	Stevens Institute of Technology	Co-Principal Investigator; AIRC Deputy Chief Scientist

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ACRONYMS AND ABBREVIATIONS

CR	Continuing Resolution
DoD	Department of Defense
DPG	Defense Planning Guidance
FM	Field Manual
GDP	Gross Domestic Product
GPRA	Government Performance and Review Act
GTA	General Transfer Authority
HR	Human Resources
NPM	New Public Management
OMB	Office of Management and Budget
OSD	Office of the Secretary of Defense
PART	Program Assessment Rating Tool
PEO	Program Executive Officer
PM	Program Manager
PPB	Planning, Programming, and Budgeting
PPBE	Planning, Programming, Budgeting, and Execution
PPBS	Planning, Programming, and Budgeting System
R&D	Research and Development

EXECUTIVE SUMMARY

Budget theory and historical lessons offer insights into the basic structure of the Department of Defense's (DoD's) Planning, Programming, Budgeting, and Execution (PPBE) process and possible ways to reform PPBE to improve DoD innovation and adaptability.

First, for reforms to be successful, *decision-makers' ability and willingness* to utilize administrative flexibilities need to be enhanced. This includes addressing the risk of non-prudent use of administrative discretion and low risk tolerance.

Second, budget participants need to be involved in the design and implementation stages of PPBE reforms that relax restrictions. Also, when delegating PPBE decisions, *clearly defined goals, authorities, and responsibilities* are needed to convey senior leadership intent and hold delegates accountable. A potentially important starting point for moving toward additional clarity in goals is to assess the need to add additional detail to the Defense Planning Guidance (DPG).

Third, benefits hinge on addressing several conditions in ways that prevent policy makers and DoD officials from allowing the perfect to get in the way of the good. This includes *addressing the sheer complexity* of the defense budget when seeking to optimize and adjust at each stage of PPBE.

Finally, there are three fundamental budgeting formats: outcomes, inputs, and tasks. *Outcome-based budgeting generally used in PPBE still appears to be the desired format* given the defense budget exists solely to improve national security.¹ Portfolio- and mission-based budgeting aligns well with the intent of outcome-based budgeting and thus is supported by budget theory.

The other two formats (inputs and tasks) focus more on fiscal responsibility/control and efficiency/managerial control, respectively, which may not optimally lead to desired defense mission outcomes. Some portions of the DoD budget are actually input- or task/activity-based, which are not explicitly tied to agency outcomes but rather to intermediaries that can lead to outcomes. This further supports changes that better align budget elements with mission outcomes.

WILLINGNESS TO UTILIZE ADMINISTRATIVE FLEXIBILITIES

Decision-makers in the DoD need to be able and willing to use new budgeting or reprogramming authorities in recommended reforms. Decision-makers (especially at lower levels) need to be sufficiently trained and incentivized to properly use these authorities. Moreover, the frequency of changes in PPBE statutes, regulations, policy, and guidance aggravates training deficiencies in both staff and leadership. Finally, public servants tend to be overly risk-averse because of disincentives and the threats of personal punishments (e.g., many decision-makers take out professional liability insurance because they are worried that a mistake may lead to personal financial penalties).

¹ Outcome-based programming is called "program budgeting" in the literature—not to be confused with "acquisition programs".

Recommendations

- **Batch PPBE reforms:** Consider introducing discipline in the frequency of reforms by batching them so they only become effective periodically (e.g., every 3–4 years).
- **Improve PPBE training:** Explore ways to streamline processes for requesting above-threshold reprogramming.
- **Align incentives:** Conduct further applications of frameworks to align incentives and imbue them with prudent decision-making.²
- **Balance accountability:** Conduct applied research to (a) assess and summarize the frequency with which DoD officials are held personally financially liable for mistakes made in good faith without intent of breaking a law, and (b) develop recommendations on how to balance actual with perceived liabilities—possibly to include better training on the actual risks and engagement with the Department of Justice to clarify when the Government will stand behind civil servants who are conducting their job. If risks are significant, the research may consider whether changes to law would be prudent to indemnify public servants from financial penalties for mistakes when operating in good faith in their areas of responsibility and authority.

DECENTRALIZING SOME PPBE AUTHORITIES

Delegation of decisions is possible (e.g., similar to Commander's Intent), but this must come with mechanisms to hold lower-level decision-makers accountable for aligning to senior leader guidance.

Recommendations

- **Develop improved ways to define PPBE goals:** This may include additional details in the DPG but also developing additional actionable goals during execution to inform actions, such as reprogramming and making tradeoffs between expending funds on problems in development versus buying down future sustainment costs through improved designs.
- **Delegate more PPBE decisions:** Explore ways to shift decision authority down from senior DoD leaders by providing clearly defined goals along with PPBE authorities and responsibilities to reduce managerial restrictions by increasing accountability for results.
- **Delegate below-threshold reprogramming to PEOs:** Along with ideas to raise reprogramming thresholds, consider delegating below-threshold reprogramming authorities (e.g., to program executive officers [PEOs]) rather than requiring significant reviews and higher-level approvals.

ABILITY TO UTILIZE ADMINISTRATIVE BUDGET FLEXIBILITIES

The intent of PPBE is to consider all alternative means to accomplish established objectives, but PPBE is too large and complicated to predict the results of, or even consider, all options every budget cycle, resulting in slow PPBE and less-desirable coping mechanisms. This includes *incrementalism* (using last year's budget as the bulk basis for the next year's budget, which is more aligned with line-item budgeting focused on inputs) and *satisficing* (using simpler structures that are acceptable but not necessarily optimal).

² See Girth et al., 2002, for approaches on aligning incentives. [Incentives for Motivating Workforce Agility and Innovation - The Acquisition Innovation Research Center \(acqirc.org\)](https://www.acqirc.org/publications/incentives-for-motivating-workforce-agility-and-innovation-the-acquisition-innovation-research-center)

Recommendation

- **Develop computational top-down budgeting:** Continue developing portfolio and mission-engineering decision processes. Explore computational and AI approaches that can build budgets from top-down guidance and portfolio/mission reviews.

BUDGETING FORMAT

Outcome-based budgeting generally used in PPBE still appears to be the best format, but more can be done to structure DoD budgets around outcomes instead of inputs and tasks/activities.

Recommendations

- **Keep PPBE budget formats focused on outcomes:** Retain PPBE's basic theoretical underpinning of outcome-based program elements.
- **Continue development of portfolio- and mission-based budgeting:** Strengthen PPBE's focus on outcomes (over inputs and tasks) by ensuring that budget documents clearly describe the connection between acquisition programs and other tasks/activity line items and agency outcomes. Moving to budget elements that are outcome-based (e.g., by mission or portfolio) should be explored to the degree that leadership intent, equities, and control (both by Congress and DoD leaders) are retained to a satisfactory level.
- **Restructure DoD budget elements that are input- or task-oriented:** With the basic format in mind, it would be useful to conduct a review of the entire current DoD budget to identify those that are formatted around inputs or tasks/activities and develop alternative outcome-based formats to replace them, improving both the focus on mission and stakeholder understanding of the need for these elements and their funding levels.

CHAPTER 1. INTRODUCTION

Significant efforts are currently being undertaken to investigate ways to improve the Department of Defense's (DoD) system for allocating resources, known as the Planning, Programming, Budgeting, and Execution (PPBE) system. This system, established in the 1960s, has been criticized for impeding the DoD's ability to adapt to and keep pace with emerging threats and needs.³ It is often characterized as being overly rigid, too slow, too cumbersome, and for having incentives that skew allocations toward past allocations. In response to such concerns, Congress established an independent commission, the Commission on Planning, Programming, Budgeting, and Execution Reform (hereon forward referred to as the Commission), charged with examining the effectiveness of the PPBE system and to consider ways to reform the current PPBE process.

Based on research and interviews with individuals and organizations directly involved in, or familiar with the PPBE process, the Commission issued an interim report on August 15, 2023, that identified five opportunity areas for improving the PPBE process. These include:⁴

1. PPBE-related relationships between the DoD and Congress.
2. PPBE processes to enable innovation and adaptability.
3. Alignment of budgets to strategy.
4. PPBE business systems and data analytics.
5. Capability of the DoD PPBE programming and budgeting workforce.

In preparation for its final report (due in March of 2024), the Commission seeks additional insights into several potential recommendations that fall within these five opportunity areas.

In this essay, we show that theories generated in the academic field of budgeting can be usefully applied to offer insights into several potential recommendations that fall in the second of the above listed opportunity areas (i.e., innovation and adaptability). More specifically, the eline items that a budget theoretical perspective can be applied to offer insights into a set of potential recommendations that, if adopted would add additional flexibilities to the PPBE process, including, but not limited to an expansion of reprogramming and new-start authorities, increased availability of appropriations, and a consolidation of budget line items. The Commission considers the expansion of these flexibilities to be a critical component in enabling the DoD to more effectively capitalize on new technologies and innovations, and to adapt to emerging needs.⁵

The budget field is well suited for offering insights into the Commission's suggested recommendations in the innovation and adaptability area. Perhaps the most important reason for this is that it includes a rich body of academic inquiries that has resulted in a multitude of dominant theories that help to explain and describe a variety of observed budget phenomena. These include incrementalism and theories related to the influence of bureaucratic rules, procedures, politics, and economics on budget decisions and outcomes. Key elements of these theories are directly relevant for generating insights into the Commission's suggested proposals in the innovation and adaptability area.

³ ASMC (2023). *ASMC PPBE Reform Survey on Processes*. ASMC American Society of Military Comptrollers. January 2023. https://federalnewsnetwork.com/wp-content/uploads/2023/01/111123_asmc_ppbe_survey.pdf; McGregor, M., Grant, G., & Modigliani, P. (2022). *Five First Steps to a Modern Defense Budgeting System*. MITRE Corporation, August 8, 2022, 17. <https://www.mitre.org/news-insights/publication/five-first-steps-modern-defense-budgeting-system>; Lofgren, E., McGinn, J., & Everhart, L. (2022). *Execution Flexibility and Bridging the Valley of Death*. George Mason University School of Business Center for Government Contracting, October, 2022.

⁴ PPBE (2023). *Commission on Planning, Programming, Budgeting, and Execution Reform 2023 Interim Report*, Commission on PPBE Reform. August 20223. <https://ppbereform.senate.gov/wp-content/uploads/2023/08/PPBE-Commission-Interim-Report-Final.pdf>.

⁵ PPBE (2023), p.3.

The budget field is also well suited for offering such insights due to its historical emphasis on identifying and examining alternatives to traditional budget practices. The resulting body of literature has contributed to a more nuanced view of the pros and cons of various budget formats and how these relate to the prevailing theories in the field. For purposes of this essay, such insights are useful in establishing a framework that describes the key features and underlying assumptions of planning, programming, and budgeting (PPB)-style budget systems, such as the PPBE. They also provide a useful reference point for discussing the strengths and weaknesses of such systems in relation to other budget formats.

This essay shows that the budget theoretical perspective is useful in three important regards vis-à-vis the Commission's proposals in the innovation and adaptation area. First, it highlights the importance of considering ways to enhance decision-makers' ability and willingness to utilize administrative flexibilities. This insight is important because it suggests that the impact of the recommendations could be enhanced through several measures that could increase the ability and willingness of decision-makers to prudently utilize administrative flexibilities. Second, it highlights the importance of recognizing that changes to rules and procedures that govern administrative flexibilities are rarely neutral in terms of their effects on budget choices and budget participants' relative influence on the budget process. This lack of neutrality is important to recognize because it tends to create tensions that need to be managed to facilitate meaningful reform. This essay shows that examination of previous budget reform efforts provides lessons for how to reduce such tensions. Finally, it highlights several institutional and practical challenges that need to be considered when relaxing administrative restrictions. The central theme that emerges from these latter insights is that while the infusion of additional flexibilities into the PPBE system offers significant potential for combatting PPBE's problems in promoting innovation and adaptability, the materialization of such benefits hinges on several conditions that need to be addressed in ways where policy makers and DoD officials do not allow the perfect to get in the way of the good.

This essay is organized into eight chapters. The Introduction, this first chapter, is followed by Chapter 2, which provides an overview of the PPBE and its central features. Chapter 3 defines the scope and the goal of the essay. Chapter 4 introduces budget theory and its relevance for assessing the above suggested recommendations in the innovation and adaptability area. Chapters 5 through 7 apply a budget theoretical perspective to offer insight into the Commission's proposals in the innovation and adaptation area. Chapter 8 provides a summary and a discussion of the central insights generated from the budget theoretical perspective.

CHAPTER 2. BACKGROUND

The PPBE System is an internal framework that the Department of Defense (DoD) and Congress use to allocate resources among military departments, defense agencies, and other component units within the DoD.⁶ Its ultimate objective is to allocate scarce public resources effectively within the DoD. Or, as stated in the DoD's financial management regulation: To allocate resources in a way that provide the warfighter with "...the best mix of forces, equipment, and support attainable within fiscal constraints."⁷

To achieve this goal, the PPBE system is organized into four separate phases, which are also the source of the system's current name: planning, programming, budgeting, and execution. The planning phase is geared toward developing strategic priorities and service requirements. It places emphasis on acquiring an understanding of the intermediate and long-run consequences of present decisions and how these are impacted by changing conditions. The programming phase seeks to balance resources by examining alternative program options and selecting those programs that best meet established service requirements. The budgeting phase formulates, justifies, executes, and controls the budget. A central task of the budget phase is to translate program information into a format that aligns with prior budget request, authorization, and appropriation structures that have evolved over the decades in coordination and interaction with Congress. Finally, the execution phase centers on assessing how well available appropriations are being spent and on assessing how closely the appropriated funds (which have been obligated and expended) adhere to congressional authorizations and the goals specified by the President of the United States through the Office of Management and Budget (OMB), the Secretary of Defense, the secretaries of the military departments, and other subordinate authorities.⁸ The execution phase also includes assessments of whether actual outcomes align with the desired results that are attached to specific appropriations.

The most distinguishing feature of PPBE is that funds are categorized by *programs*. As such, it falls under the program budgeting classification. Program budgeting was introduced in the federal government in the 1960s as a part of what is sometimes referred to as the "the federal planning-programming-budgeting (PPBS) system experiment."⁹ This experiment sought to broaden budgeting beyond questions about inputs and activities, to also include questions about the central value produced by federal agencies. Toward this end, it required federal agencies to construct budgets around programs linked to fundamental missions. The experiment was formally terminated by President Nixon in 1969. However, it was preserved by the DoD, which saw it as a valuable framework for rationalizing decision-making within the DoD.¹⁰ The system was renamed from PPB to PPBE in 2003 to emphasize the importance of the execution phase in the budget process.¹¹

⁶ Congressional Research Service (2022). DoD Planning, Programming, Budgeting, and Execution (PPBE): Overview and Selected Issues for Congress. (R47178) Congressional Research Service (CRS). July 11, 2022. <https://crsreports.congress.gov/product/pdf/R/R47178>, p. 1.

⁷ Department of Defense (2021). Financial Management Regulation, DoD 7000.14-R, Department of Defense (DoD). https://comptroller.defense.gov/Portals/45/documents/fmr/Combined_Volume1-16.pdf, p. 7372.

⁸ Larkins, A. (2021). Planning, Programming, Budgeting, and Execution (PPBE): What to Know. June 22, 2021. <https://www.decisionlens.com/blog/ppbe-everything-you-need-to-know>.

⁹ Mikesell, J.L. (2018) Fiscal Administration: Analysis & Applications for the Public Sector, 10th Ed. New York: Harcourt Brace College Publishers. p 275. For a fuller account of the historical roots of program budgeting in the federal government, see Novick, David. (1968). The Origin and History of Program Budgeting. *California Management Review*. (11) 1 (Fall): p. 7-12.

¹⁰ Jones, L.R. & McCaffery, J.L. (2008). Budgeting, Financial Management, and Acquisition Reform in the U.S. Department of Defense. A Volume in *Research in Public Financial Management*. Information Age Publishing. Charlotte, NC.; West, W.F. (2011). Program Budgeting and the Performance Movement: The Elusive Quest for Efficiency in Government. Georgetown University Press., p. 9.

¹¹ Jones & McCaffery (2008); Mikesell (2018), p. 275.

In the budget field, *program budgeting* is often contrasted with other common budget formats, including traditional *line-item budgeting* and *performance budgeting*. These formats differ in two important ways, including their respective budgetary focus and how they classify expenditures.¹² A budget system's focus refers to the relative emphasis it places on the various functions it serves, including allocation, management, and control.¹³ The central focus of program budgeting is on supporting effective allocation of resources. Hence, the focus is on *outcomes and results*. Toward this end, it classifies expenditures according to some broad purpose that serves the overarching mission of the agency in question (i.e., by program). By contrast, the focus of traditional line-item budgeting is on *fiscal responsibility and control*. Toward this end, it organizes expenditures based on inputs. Finally, the focus of performance budgeting is on achieving production *efficiency and managerial control*. Toward this end, it organizes expenditures around tasks or activities.

In addition to classifying funds by program, the PPBE exhibits three distinctive features. First, the PPBE system seeks to be comprehensive in terms of considering all alternative means to accomplish established objectives.¹⁴ This feature is grounded in a belief that budget systems should be designed to support rational decision-making. As such, the PPBE is designed based on the assumption that decision-makers can:

1. clearly define goals and objectives;
2. comprehensively consider all alternative means to accomplish those established objectives;
3. predict all consequences of each alternative considered; and
4. select the alternative that allocates scarce public resources most effectively within the DoD.

Given these assumptions, the comprehensiveness feature of the PPBE calls for the creation of a budget system that produces and distributes timely, relevant, and understandable information about the performance of program alternatives, along with clear expectations on how such information should affect resource allocations.

A second distinct feature of the PPBE is that it exhibits a highly centralized authority structure, which contrasts to the military's concept of delegation with commander's intent.¹⁵ Grounded in the executive budgeting idea, such a structure was viewed to be necessary to address perceived problems of decentralization, including efficiency problems, local optimization, and challenges associated with holding individuals accountable. The executive budgeting idea posits that the executive is the only one within an institution who can "think in terms of the institution as a whole," and, as such, is "the only one who can be made responsible for leadership."¹⁶ Based on this logic, it is necessary for the executive to play a critical role in the preparation and submission of an institution's budget. Prior to its implementation, the various military departments had enjoyed a relatively high level of freedom in terms of formulating their budgets.¹⁷ The executive budgeting idea is also characterized by a belief that honesty and efficiency could be strengthened by imposing restrictions on administrators.¹⁸ The benefits of extending managerial discretion to managers were viewed to be limited. Such latitude was only afforded to the executives. At the time, thus, decentralization was largely viewed to be inconsistent with rationality.

¹² Mikesell (2018), p. 263

¹³ Schick, A. (1966). The Road to PPB: The Stages of Budget Reform. *Public Administration Review*, (26) 4: 243-258.

¹⁴ Schick (1966); Novick, D. (1954). Efficiency and Economy in Government Through New Budgeting and Accounting Procedures, (R-254), The RAND Corporation, February 1, 1954.; Novick, D. (1956). A New Approach to the Military Budget, (RM-1759), The RAND Corporation, June 12, 1956.; Smithies, A. (1955). *The Budgetary Process in the United States*. McGraw-Hill Book Co.; Burkhead, J. (1965). *Government Budgeting*. John Wiley & Sons, Inc.

¹⁵ See, for example, chapter 2 of Department of the Army (2022).

¹⁶ Cleveland, F.A. (1915). Evolution of the Budget Idea in the United States. *Annals of the American Academy of Political and Social Science*, LXII., p. 17.

¹⁷ Congressional Research Service (2022), p. 14.

¹⁸ Schick (1966)

The final additional distinctive feature of the PPBE system is that it views the core functions of budgeting as fully compatible, including allocation, management, and control.¹⁹ Hence, no apparent limitations were recognized with efforts to create a budget system that was able to support multiple budget functions.

¹⁹ Schick (1966)

CHAPTER 3. SCOPE AND GOAL

The core argument underlying the current PPBE reform efforts is that the PPBE system reflects an “industrial era” approach to resource allocation that is not sufficiently able to meet the demands of the environment within which it is applied.^{20, 21} This environment is characterized by continuous and rapid change in emerging threats and available technological opportunities. In its current form, the PPBE is criticized for being too slow and not agile enough to respond to such changes in a timely manner, and as a result is unable to sufficiently support defense modernization and demands for change.²²

The Commission’s interim report describes a series of suggested recommendations to address this central critique.²³ Several of these are aimed at improving the PPBE process in terms of promoting innovation and adaptability. This essay centers on a set of suggested recommendations that falls within this latter area. Specifically, the essay centers on a set of suggested recommendations that seeks to promote innovation and adaptability by relaxing rules and administrative procedures relating to:

- availability of funds (current appropriations);
- reprogramming during year of execution including modifications to internal reprogramming requirements and general transfer authority (GTA);
- simplification of new starts; and
- restrictions related to use of funds during Continuing Resolutions (CRs).

The Commission considers the expansion of these flexibilities to be a critical component in enabling the DoD to adapt to changing conditions and to capitalize on new and emerging technologies and innovations more effectively.²⁴ As noted in the introduction, the goal of this essay is to offer insight into the above suggested recommendations by analyzing them through the lens of budget theory.

²⁰ Congressional Research Service (2022), p. 18.

²¹ Over time, the PPBE system has been subject to a variety of critiques that (for a review of these see Jones & McCaffery (2008)).

²² Congressional Research Service (2022)

²³ PPBE (2023)

²⁴ PPBE (2023)

CHAPTER 4. BUDGET THEORY AND ITS CONTRIBUTIONS

Budget theory entails a multitude of different theories that historically have centered on offering insights into three central questions:²⁵

- What type of information should budgets include, and how should that information be presented/organized?
- What factors influence budgetary outcomes/decisions, and what factors should influence them?
- How can public budgeting be improved?

The resulting body of literature draws from several fields of study, such as political science, economics, and public administration.²⁶ Any attempt to fully account for the totality of this body of work would require a book length manuscript and as such is beyond the scope of this essay. However, it is possible to narrow down the field into several central theoretical areas that have come to dominate the field. These include rational decision-making theory, incrementalism, and theories related to the influence of bureaucratic rules, procedures, politics and economics on budget decisions and outcomes.²⁷ While each of these theoretical areas provides their own insights, perspectives, and explanations of budget phenomena, they are also highly complementary.

Rational decision-making theory is often used as an entry point for describing budget phenomena. It depicts budgeting as a tool that aids rational decision makers with allocating and managing scarce public resources in a manner that maximizes social and economic welfare. It has often been applied as a basis for criticizing the traditional line-item budget format. More specifically, using rational decision-making theory, scholars have criticized this format for being irrational because of its focus on inputs, instead of on what is being achieved (i.e., outputs and outcomes), its shortsightedness, and for not aligning well with program goals. Within this discourse, PPB-style budget systems have often been viewed as a main alternative for improving public budgeting.²⁸

However, the contribution of rational decision-making theory is often limited by the strong assumptions upon which it is built. As noted above, these include assumptions that decision-makers can (1) clearly define goals and objectives; (2) comprehensively consider all alternative means to accomplish those objectives; (3) predict all consequences of each alternative considered; and (4) select the preferable alternative that maximizes social and economic welfare. Given the rigid nature of these assumptions, reforms grounded in the rational decision-making paradigm have often failed to live up to expectations.²⁹ Moreover, such deliberations and supporting analysis takes significant time, especially for a very large and diverse agency such as the DoD, whose budget constitutes about 3 percent of U.S. Gross Domestic Product (GDP).³⁰

²⁵ Nice, D.C. & Fisher, P.I. (2016). *Public Budgeting*. Birkdale Publishers.

²⁶ Khan, A. & Hildreth, B. (2002). *Budget Theory in the Public Sector*. Quorum Books.

²⁷ Nice & Fisher (2016)

²⁸ Wildavsky, A. (2002). *Budgeting and Governing*. Routledge, p. 9.

²⁹ Radin, B.A. (2011). Federalist No. 71: Can the Federal Government Be Held Accountable for Performance? *Public Administration Review*, Supplement to Volume 71 (December): 128-134.; Moynihan, D.P. (2006). Managing for results in state government: Evaluating a decade of reform. *Public Administration Review*. 66(1), 77-89.

³⁰ The DoD appropriations in FY 2023 were \$797.7 billion, compared to a GDP of \$26.24 trillion. [Defense FY23 Summary.pdf \(house.gov\)](#); [GDP forecast U.S. 2033 | Statista](#).

The addition of the above-mentioned alternative theoretical perspectives contributes toward a more complete set of explanations of budgeting phenomena. They have often evolved as a direct response to the limitations of rational decision-making theory and as such center on building theory under conditions when one or more of the rationality assumptions are relaxed. One of the most influential contributors in this regard is Aaron Wildavsky who early on in his career questioned the normative focus of the budget field, which at the time was defined through V.O. Key's fundamental question: "On what basis shall it be decided to allocate X dollars to activity A instead of activity B."³¹ Wildavsky argued that, for budgeting research to become more meaningful, it should focus on explaining what individuals in the budgeting process *did* and *why*, rather than what they *should* do.³² Wildavsky's contributions helped reshape the budgeting field and the subsequent theories that emerged from being predominantly normative to becoming descriptive.

One of the most prominent theories that evolved was *incrementalism*. It is grounded in studies that have shown that budget decisions tend to focus on making relatively small changes to current budgets. According to incrementalism, this is a result of time and capability constraints that prevent budgeters from comprehensively considering a full range of budget information and decisions. As a result, decision-makers tend to rely on current budgets as a basis for making decisions about an upcoming year's budget. Given the presence of multiple constraints on the budget process, incrementalism suggests that the budget process tends to focus on justifying increments to established line-items and new spending proposals, at the expense of examining what is being accomplished through overall spending. An early contribution to the incrementalism perspective was Charles E. Lindblom's, who depicted decision-making as an evolving process, within which decision-makers muddle through decisions in a way that minimizes the need for analysis.³³ As such, it is closely aligned with traditional line-item budgeting.

Wildavsky also played an important role in introducing politics into explanations of budget decisions and outcomes. In brief, he viewed budgeting as a framework of interaction that made decision-making in political environments possible.³⁴ Insights into the role of politics in budgeting have given rise to a series of important streams of research that help to explain budget outcomes, such as the influence of various stakeholders on budget outcomes.³⁵ These theories often suggest that budget outcomes reflect the relative influence that stakeholders impose on the budget process.³⁶ Here, it is important to note that politics includes internal differences between stakeholders within the DoD as much as (or possibly more than) in Congress.

Another important stream of research centers on decision-makers' responses to bureaucratic rules and procedures.³⁷ This stream of research suggests that bureaucratic rules and procedures tend to serve certain types of budget choices and that they determine the relative influence that various participants impose on the budget process. It also highlights that rules and procedures may not always have as much impact on budget decisions and outcomes as reformers may hope.³⁸

³¹ Key, V. O. (1940, December). Lack of a budgetary theory. *American Political Science Review*, 34(6), 1137-1144.

³² Wildavsky, A. & Caiden, N. (2003). *The New Politics of the Budgetary Process*. 5th Edition (Longman Classics Series).

³³ Lindblom, C. E. (1959). The Science of "Muddling Through." *Public Administration Review* Vol. 19, No. 2 (Spring, 1959), pp. 79-88.; Lindblom, C.E. (1979). Still muddling, not yet through. *Public Administration Review*, 39, pp. 517-526.

³⁴ Wildavsky & Caiden (2003).

³⁵ Patashnik, E.M. (2000). "Budgeting more, deciding less." *Public Interest*, (winter): 65-78.; Fisher, Patrick (2009). *The Politics of Taxing and Spending*. Boulder, CO: Lynne Rienner Publishing.

³⁶ Wildavsky, A. & Caiden, N. (2003).

³⁷ Dye, Thomas. 1966. *Politics, Economics, and the Public: Policy Outcomes in the American States*. Rand McNally.; Wilensky, Harold. L. (1975). *The Welfare State and Equality*. University of California Press; Lowery, D. (1985). "The Keynesian and Political Determinants of Unbalanced Budgets: U.S. Fiscal Policy from Eisenhower to Reagan." *American Journal of Political Science* 27:428-460.

³⁸ Nice & Fisher (2016).

A final perspective is that economics drive budgets because it affects the scarcity of government funding. As scarcity of funding goes down, opportunities for government expansion goes up.

In the remainder of this essay, we show that the above theoretical areas, when used in combination, offer three sets of insights that are useful vis-à-vis the Commission's proposals in the innovation and adaptation area. First, they suggest that it is important to consider ways to enhance decision-makers' ability and willingness to utilize administrative flexibilities. This insight is important because it suggests that the impact of the above recommendations could be enhanced through several measures that could serve to increase the ability and willingness of decision-makers to prudently utilize administrative flexibilities. Second, they suggest that changes to rules and procedures that govern administrative flexibilities are rarely neutral in terms of their effects on budget choices and budget participants' relative influence on the budget process. This lack of neutrality is important to recognize because it tends to create tensions that need to be managed to facilitate meaningful reform. Finally, they highlight several institutional and practical challenges that need to be considered when relaxing administrative restrictions.

CHAPTER 5. UTILIZATION OF ADMINISTRATIVE FLEXIBILITIES - ABILITY AND WILLINGNESS

The PPBE process encompasses a massive number of rules and procedures that govern decision-making within the DoD and Congress. These include but are not limited to rules and procedures that are imposed on the Department through DoD Comptrollers and the Financial Management Regulation, as well as rules and procedures that govern the relationship between the DoD and Congress and the legislative processes and authorities within Congress. The above suggested Commission recommendations, if implemented, would relax some of these rules and procedures. The premise is that the resulting flexibilities would further enable innovation and adaptability within the DoD for mission effectiveness.

However, to become meaningful, relevant decision-makers within the DoD need to utilize the expanded flexibilities in a productive manner. This presumes that they are both *able* and *willing* to do so. If this presumption holds, the expanded flexibilities would improve DoD's allocative efficiency. That is, they would contribute positively toward the goal of allocating resources in a way that provides the warfighter with "...the best mix of forces, equipment, and support attainable within fiscal constraints."³⁹

Historically, administrative flexibilities within the PPBE system have played a relatively limited role within the DoD.⁴⁰ And while flexibilities have been added to the PPBE system more recently, the core historical features of the PPBE system have largely remained unchanged since its inception. As discussed earlier in this essay, the PPBE is grounded in the rational decision-making paradigm and the executive budgeting idea. Within this grounding, the benefits of extending managerial discretion to managers were perceived to be limited. Discretion was largely afforded to very senior executives (DoD leadership).

This chapter highlights *central lessons learned from examinations of previous reform efforts that have sought to delegate authority and expand administrative flexibilities*. Most important, it draws from a rich academic body of research that has sought to make sense of the merits of the widespread reforms that took place in the 1980s and 1990s, under the name New Public Management (NPM).⁴¹ An important feature of these reforms was to "empower" managers through increased administrative flexibilities and to formally shift the focus of accountability systems (including budgeting and financial accounting and reporting systems) from compliance to results.⁴² The expectation of the NPM doctrine was that a simultaneous adoption of accountability for results and added administrative discretion (e.g., decentralization of financial management and human resources (HR)) would result in a more efficient, effective, and result-driven public sector.

While the NPM movement saw its demise in the early 2000s, the reforms gave rise to a flurry of academic studies that came to influence the academic discourse in the budgeting field in the ensuing years.⁴³ This body of research drew attention to the importance of embracing a broader set of perspectives when analyzing the merits of various budget reform efforts, by re-introducing considerations of the limitations and faults of human action into the analysis. The NPM movement had been grounded in the rational decision-making paradigm and as such had minimized the importance of such considerations, including limitations of decision-makers' *ability* and *willingness* to utilize administrative freedom and flexibilities in a prudent manner. The following sections discuss these two considerations, along with approaches that may serve to enhance them.

³⁹ Department of Defense (2021), p. 7372.

⁴⁰ Schick (1966)

⁴¹ See Moynihan (2006); Radin (2011); Stalebrink, O.J. (2007). An investigation of discretionary accruals and surplus-deficit management: evidence from Swedish municipalities. *Financial Accountability & Management* 23 (4): 441-458.; Moynihan, D. P., & Sanjay, K. P. (2010). The big question for performance management: Why do managers use performance information? *Journal of Public Administration Research and Theory*, 20(4), 849-866.

⁴² Osborne, D. & Gaebler, T. (1992). *Reinventing Government*. Addison Wesley.

⁴³ Dunleavy, P., Margetts, H., Bastow, S. & Tinkler, J. (2006). New Public Management Is Dead—Long Live Digital-Era Governance. *Journal of Public Administration Research and Theory*, 16(3): 467-494.

5.1.1 ABILITY TO UTILIZE ADMINISTRATIVE FLEXIBILITIES

The normative framework upon which the rational decision-making paradigm is built depicts budgeting decisions as rational choices grounded in full access to information and a complete ability of decision-makers to predict the consequences of alternative means to maximize social and economic welfare. Under these assumptions, decision-makers would be fully capable of utilizing administrative flexibilities. However, budget scholars have historically drawn attention to three fundamental challenges that interfere with this idealistic view of decision-making. The first challenge relates to limitations in decision-makers' cognitive abilities. Among budget scholars, consideration of such limitations became prominent in the 1950s in the aftermath of the release of Herbert Simon's book "Administrative Behavior,"⁴⁴ which placed the subjective nature and cognitive limitations of the individual decision-maker at the center of the analysis. It argued that the best an individual can do, given his/her cognitive limitations, is to identify a satisfactory course of action, commonly referred to as "satisficing." Descriptive studies tend to support this view. They often suggest that decision-makers operating in budgeting contexts get overwhelmed by the complexity of the budget process and proceed through it with a limited understanding of what is happening.⁴⁵

The second challenge relates to decision-makers' abilities to handle the magnitude of data, information, and decision options they are expected to address as part of the budget process. Based on her examinations of the federal budget process, A. M. Rivlin (1981) concludes that decision-makers often do not have adequate time to carefully consider relevant budget choices. She states: "The biggest problem is that governmental leaders make so many decisions that they cannot take time to make them well."⁴⁶ Moreover, since time is scarce, central authorities must be selective in the alternatives they consider.⁴⁷ In other words, they are only able to consider a portion of the items that requires their attention. This challenge is particularly profound in the context of budget systems that place emphasis on evaluation and results, such as the PPBE. Because such systems require evaluation of alternatives, they are naturally information- and decision-heavy.⁴⁸

A final challenge that has been highlighted in examinations of previous reform efforts is that decision-makers often lack adequate expertise and experience to fully utilize administrative flexibilities. Based on examinations of the Program Assessment Rating Tool (PART) and the Government Performance and Review Act (GPRA), Radin (2011) concluded that both the GPRA and PART experiences indicated that public servants in general did not have adequate expertise to productively apply the basic reform tools that had been adopted, thus compromising the impact of those reforms.^{49, 50}

⁴⁴ Simon, H.A. (1947). *Administrative Behavior: A Study of Decision-Making Processes in Administrative Organization*. The Free Press.

⁴⁵ Greider, W. (1982). *The education of David Stockman and other Americans* (1st ed.). New York, NY: Dutton., p. 33; Nice & Fisher (2017).

⁴⁶ Rivlin, A.M. (1981). Congress and the Budget Process. *Challenge*, 24(1): 31-37.

⁴⁷ Schick (1966)

⁴⁸ Schick (1966)

⁴⁹ Radin (2011)

⁵⁰ PART and GPRA have their own limitations, but it is beyond the scope of this essay to discuss them.

5.1.2 WILLINGNESS TO UTILIZE ADMINISTRATIVE FLEXIBILITIES PRUDENTLY

Another determinant that will impact the extent to which the above suggested recommendations lead to meaningful reform is decision-makers' *willingness* to utilize administrative flexibilities prudently. Normative insights into this question are often drawn from agency and public choice theories, where politicians are viewed as motivated by self-interest and as such are assumed to utilize administrative freedoms for their own benefit.⁵¹ Within the administrative branch, such behavior takes the form of budget-maximizing within which bureaucrats seek to increase their budgets in order to increase their own power.⁵² The same might be said of individuals with an agency who have their own parochial missions in mind. Among elected officials, it takes the form of vote maximization. Hence, the perceived concern is that people do not always act in the public's interest. As such, controls may be necessary to keep administrators and elective officials in check. The need for such controls could partly be offset through incentives that align the interests of public officials with the interests of the public.⁵³

Descriptive studies of the motivations and behaviors of civil servants and elected officials tend to depict a somewhat more encouraging reality than agency and public choice theories describe. Radin (2011) notes: "One understated and underappreciated story is the dedication and intelligence that resides in many parts of the civil service."⁵⁴ Examples of dedicated civil service are depicted by Lewis (2019), who highlights the dedication and contributions of administrators within the National Weather Service.⁵⁵ However, Lewis also notes that such dedication across government agencies varies widely. One common explanation of such variations can be attributed to Simon's observation that individuals' loyalty and identification to their organization are important determinants of governance and administration.⁵⁶ Simon also observed that individuals are able to distinguish their decision-making role within an organization from that which exists in their personal life.

Another common theme relating to officials' willingness to utilize administrative flexibilities prudently relates to civil servants' tendency to resist risk-taking even when risk-taking holds significant potential for resulting in superior outcomes. Such risk-averse behavior has been found to be grounded in the organizational culture within which public servants operate. O'Barr and Conley (1992) explain that the low level of risk tolerance can be attributed to a civil service culture that "attract[s] people who care more about security than achievement" and that places a premium on managing blame, as opposed to maximizing outcomes.⁵⁷ Here again, aligning incentives with prudent risk taking may help.

5.2 COPING MECHANISMS

The above discussion highlights several challenges that may prevent relevant decision-makers from productively utilizing administrative freedoms. The budget field suggests at least three potential routes for addressing and coping with such challenges. Several of these are aligned with recommendations described in the Interim report.

⁵¹ Buchanan, J.M., & Tullock, G. (1962). *The Calculus of Consent: Logical Foundations of Constitutional Democracy*.

⁵² Niskanen, William A. (May 1968). "Nonmarket Decision Making: The Peculiar Economics of Bureaucracy." *The American Economic Review*, 58 (2): 293–305.

⁵³ Eisenhardt, K.M. (1989). "Agency Theory: An Assessment and Review." *The Academy of Management Review*, 14 (1): 57–74.

⁵⁴ Radin (2011)

⁵⁵ Lewis, M. (2019). *The Fifth Risk: Undoing Democracy*. W.W. Norton & Co.

⁵⁶ Simon (1947)

⁵⁷ O'Barr, W.M. & Conley, J.M. (1992). Managing Relationships: The Culture of Institutional Investing. *Financial Analysts Journal*, 48:5, 21-27., p. 23.

First, as noted above, a formidable challenge faced by many decision-makers involved in the budget process is that they often do not have adequate time to fully consider decision alternatives. The budget field identifies several measures for coping with such problems. Focusing on congressional committees, Rivlin suggests the adoption of what may best be described as a partial segmental style approach to budgeting.⁵⁸ Under such an approach, less time-sensitive programs would be considered on a rotating basis under a separate extended budget schedule (e.g., biannual). The underlying logic is that all programs and issues do not need to be addressed annually. Such an approach could potentially be applied to free up time for consideration of more time-sensitive programs. It would also allow Congress to focus on accountability-related issues in one year and allocation-related questions the next (although this does not account for the fact that congresses change every year, and they are reluctant to commit to decisions that impose on subsequent congresses).⁵⁹ Urgent matters can be handled midyear (one of the Commission's considerations). The implementation of the previously mentioned PART initiative applied a similar approach.⁶⁰ Similar to the Commission's suggested proposal, Rivlin also suggested limiting the decision burden imposed on congressional committees by consolidating and/or eliminating programs (another approach raised by the Commission, Congress, and the DoD). An added benefit of such reductions is that they might also reduce potential areas of conflict (assuming the consolidation is less contentious), and as such hold potential for speeding up the budget process. Conflict in political systems tends to be closely correlated with the number of decisions and alternatives that are being considered.⁶¹ As such, the PPBE system is particularly prone to conflict.

A second challenge discussed above is that public servants may not have adequate expertise to capitalize on the above flexibilities. As noted by Radin, reform effort has historically often failed to provide adequate training in conjunction with the implementation of reforms.⁶² This suggests that it might be prudent to assess the need for adequate training programs to accompany PPBE reform. Training—and even cognizance and reflection in policy and processes—simply takes time.

A third challenge highlighted above is that people may not always use administrative flexibilities as intended. This suggests that the adoption of expanded flexibilities needs to be carefully balanced with an appropriate set of controls and incentives.

A final challenge discussed above is that public servants tend to be overly risk averse, thus failing to properly utilize risk as a strategic tool to reach a sought after goal. One possible route for addressing this challenge would be to assess the need for changes to existing risk management structures and incentive structures.⁶³ Federal agencies have historically placed limited emphasis on proactively adopting and adjusting risk-management structures and processes. One possible route for addressing this would be to assess the need for changes to existing structures and processes.⁶⁴

⁵⁸ Rivlin (1981)

⁵⁹ Rivlin (1981)

⁶⁰ Radin (2011); Stalebrink, O.J. (2009). National performance mandates and intergovernmental collaboration: An examination of the program assessment rating tool (PART). *The American Review of Public Administration*, 39(6): 619-639.

⁶¹ Mikesell (2018); Nice & Fisher (2017), p. 85.

⁶² Radin (2011)

⁶³ See Girth et al. (2002) for approaches on aligning incentives. [Incentives for Motivating Workforce Agility and Innovation - The Acquisition Innovation Research Center \(acqirc.org\)](https://www.acqirc.org/publications/incentives-for-motivating-workforce-agility-and-innovation-the-acquisition-innovation-research-center-acqirc-org).

⁶⁴ Newcomer, K.E. & Kee, J.E. (2011). Federalist No. 23: Can the Leviathan Be Managed? *Public Administration Review*, Supplement to Volume 71: 37-46.

CHAPTER 6. ON THE LACK OF NEUTRALITY OF RULES AND PROCEDURES

Bureaucratic rules and procedures are rarely neutral in their application.⁶⁵ They tend to promote certain types of budget choices and affect the relative influence that various participants impose on the budget process. In the DoD context, the presence of such biases is exemplified by rules and procedures that inadvertently favor companies that have established relationships with the DoD and have the financial capacity and expertise to deal with DoD-specific processes. They also tend to favor existing and traditional programs and approaches.⁶⁶ The Commission's interim report highlights several causes behind this bias, including the fact that existing contractors are already in the program baseline, along with an existing incentive structure that discourages decision makers from venturing away from past decisions (e.g., it is hard to cancel existing programs that have prior funding and thus support). Moreover, while the PPBE system is more tolerant of alternative programs in the programming phase, consideration of new programs tends to decrease once PPBE enters the budgeting phase, which favors continuity, and changes in the year of execution is even harder. In addition, the incremental perspective suggests that consideration of new programs may be disadvantaged by the additional administrative burdens they create outside the programming phase. These barriers interfere directly with DoD's ability to sufficiently tap into innovations and emerging technologies that arise rapidly.

In political and bureaucratic processes—where stakeholders compete over scarce public resources—changes to rules and procedures are likely to disrupt the current status quo and as such lead to frictions that may impede the prospect of meaningful change. This level of tension is often exacerbated by a variety of factors such as low levels of trust, heavy work burdens, availability of resources, and political and bureaucratic fragmentation.⁶⁷ If effective, several of the above recommendations would likely disturb the current status quo for stakeholder who benefits from the current rules and procedures. As such, it will be important to consider opportunities to ease the potential tension that might arise from changes to rules and procedures.

Insights gained from examinations of previous budget reform efforts offer insights into at least two potential approaches that can ease such tensions. First, and perhaps the most important lesson learned is that the success of reform efforts that have sought to increase administrative flexibilities is dependent on senior executives' and central offices' willingness to delegate authority.⁶⁸ Examinations have often showed that executive agencies and the legislative branch tend to be rather unwilling to give up control, particularly of human resources and financial management. At the state and local levels of government, for example, Moynihan shows that increased flexibilities were typically confined to less significant object and line-item categories (e.g., they did not include expansions in HR discretion).^{69,70} The exception is when such flexibilities are accompanied by clearly defined goals, authorities, and responsibilities that allow senior executives and central offices to hold managers accountable.⁷¹ This point was also emphasized during the National Performance Review effort that took place in the 1990s.⁷² The presence of clearly defined goals, authorities, and responsibilities are therefore viewed as critical to this type of change because they allow for the exchange of reduced managerial restrictions against increased accountability for results.

⁶⁵ Dye (1966); Wilensky (1975); Lowery (1985)

⁶⁶ PPBE (2023) p. 29.

⁶⁷ NAPA (1992). *Beyond Distrust: Building Bridges Between Congress and the Executive*. National Academy of Public Administration.

⁶⁸ Schick (1966); Moynihan (2006)

⁶⁹ Moynihan (2006)

⁷⁰ Note that in the DoD, process limitations and lack of delegation can make harder for less-significant items to leverage such flexibilities.

⁷¹ Cothran, D.A. (1993). Entrepreneurial Budgeting: An Emerging Reform. *Public Administration Review*, 53 (5), 445-454.; Moynihan (2006).

⁷² National Performance Review (U.S.). (1993). *Creating Quality Leadership and Management Accompanying Report of the National Performance Review*. Office of the Vice President Washington, D.C. September 1993; Richardson, Elliot. *The Creative Balance: Government, Politics, and the Individual in America's Third Century*. (London: Hamish Hamilton, 1976).

This insight is likely to be helpful in addressing the challenge associated with overcoming the centralized and hierarchical nature of the PPBE process. As discussed earlier, the PPBE process is a highly centralized process that is governed by a massive number of bureaucratic rules and procedures that often impose significant constraints on decision-makers. As explained in the Interim Report, the PPBE process is a bottom-up process where budget requests “locks” as they move up through the hierarchy, thus preventing PMs and PEOs from revising their requests in response to new information and opportunities after such “locks” have occurred.^{73,74} Several of the above recommendations, if implemented would relax such rules and procedures. The same can be said of leadership’s inability to weigh in on decisions given that subordinates tend to lock in the myriad of decisions before it reaches the leaders.

The second lesson is that the longevity of reforms tends to be dependent on broad involvement in the design and implementation stages. A general lesson from previous reforms is that they often have failed to lead to meaningful change, when adopted and implemented without sufficient buy-in from the relevant parties.⁷⁵ The interim report describes several efforts that suggest that broad involvement is encouraged not only in the development of the recommendations, but also during the implementation stages. Extant reform experiences also indicate that participation and buy-in will have to permeate the adoption and implementation of the above suggested flexibilities within the DoD as well as between the DoD and Congress.⁷⁶

⁷³ PPBE (2023), p. 28.

⁷⁴ While the report also notes that senior leader can intervene to correct for the resulting information asymmetries, such efforts are rare in practice.

⁷⁵ Gilmour, J.B. & Lewis, D.E (2006). “Does Performance Budgeting Work? An Examination of the Office of Management and Budget’s PART Scores.” *Public Administration Review* 66 (5): 742-752; Frisco, V. & Stalebrink, O. (2008). Congressional use of the program assessment rating tool. *Public Budgeting & Finance*, 28 (2): 1-19.

⁷⁶ Moynahan (2006)

CHAPTER 7. PRACTICAL AND INSTITUTIONAL CHALLENGES

The previous two chapters highlighted the importance of (1) considering ways to enhance decision-makers' ability and willingness to utilize administrative flexibilities and (2) recognizing that changes to rules and procedures that govern administrative flexibilities are rarely neutral in terms of their effects on budget choices and participants' relative influence on the budget process. This chapter adds to these insights by drawing attention to practical and institutional challenges that may interfere with these options and the suggested recommendations.

The first challenge relates to the stated need for clarity in goals. As discussed, an important lesson from earlier reform efforts is that senior executives and central offices tend to resist giving up control unless it is accompanied by clearly defined goals, authorities, and responsibilities that allow holding managers such as PMs and PEOs accountable. However, achieving such clarity in practice is often challenging and met with numerous limitations, the most important of which may be the practical difficulty of clearly defining goals. These means and ends are often unknown, difficult to articulate, and rarely agreed upon. Wildavsky notes: "[The systems analyst] looks down upon those who say that they take objectives as given, knowing full well that the apparent solidity of the objective will dissipate during analysis and that, in any case, most people do not know what they want because they do not know what they can get."⁷⁷ Wilson (1989) in his seminal book "Bureaucracy" offers some additional nuance to this challenge by arguing that the challenge varies across the types of government programs that are subjects of measurement, arguing that research and development (R&D) programs tend to be particularly challenging in terms of establishing meaningful goals and measures.⁷⁸

Another challenge that is likely to influence efforts to reform the PPBE is a tendency within the legislative branch to gravitate toward traditional budget practices centered on input control. Historically, the choice of budget format has been dictated by the availability of controls and a need for those controls vs. the need for a planning emphasis.⁷⁹ Alternative budget formats have often struggled to gain a foothold, despite the many limitations of the traditional budgeting format.⁸⁰ Hence if history is any guide, the prospect of more fundamental changes to the PPBE system may be limited. Smaller incremental changes are more likely. Perhaps the best we can hope for is for traditional budget structures to co-exist with the suggested recommendations. Moreover, a significant portion of the potential for meaningful change will likely have to result from PPBE process changes that are internal to the DoD.

⁷⁷ Wildavsky (1966)

⁷⁸ Wilson, J.Q. (1989). *Bureaucracy: What Government Agencies Do and Why They Do It*. Basic Books.

⁷⁹ New York Bureau of Municipal Research. "Some Results and Limitations of Central Financial Control in New York City." *Municipal Research, LXXXI* (1917), pg. 10.

⁸⁰ Wildavsky (2000)

The final challenge is grounded in one of the distinct features of the PPBE process: its view of the core functions of budgeting as fully compatible, including allocation, management, and accountability.⁸¹ A lesson from historical efforts aimed at replacing traditional budgeting with other budget formats is that it always involves tradeoffs.⁸² This was illustrated early in the history of budget reform, when the Municipal Bureau of New York suggested three separate documents, one for each function. After the demands of such an all-encompassing system were recognized, the Bureau retracted.⁸³ Wildavsky summarizes the options available with the following question: “Do we choose a budgetary process that does splendidly on one criterion and terribly on others, or a process that satisfies all the demands although it does not score brilliantly on any single one?”⁸⁴ This observation, along with the other challenges discussed above, suggests that the measure of success for the current PPBE reform efforts ought to be gauged based on the following two similar guiding questions: How do we make the imperfect good enough? How do we avoid the mistake of allowing the perfect to get in the way of good enough?

⁸¹ Schick (1966)

⁸² Schick (1966), Wildavsky (2000)

⁸³ Schick (1966)

⁸⁴ Wildavsky (2000), pg. 4

CHAPTER 8. SUMMARY AND DISCUSSION

In this essay, we have shown that theories generated in the academic field of budgeting offer insights into a set of potential recommendations that, if adopted, could improve the ability of the PPBE process to enable innovation and adaptability. More specifically, the essay shows that a budgetary theoretical perspective is useful in three important regards vis-à-vis the Commission's proposals in the innovation and adaptability area. First, it highlights the *importance of considering ways to enhance decision-makers' ability and willingness to utilize administrative flexibilities*. This insight is important because it suggests that the impact of the recommendations could be enhanced through several measures that could increase the ability and willingness of decision-makers to prudently utilize administrative flexibilities. In terms of their willingness, the essay highlights the importance of finding ways to *address the risk of non-prudent use of administrative discretion and low risk tolerance*. These two items pose a particular challenge because they require measures that may require public officials to engage in risk-taking. Realistically, such measures would most likely have to be adopted within an isolated set of funds outside traditional structures.⁸⁵

Second, this essay highlights the importance of recognizing that changes to rules and procedures that govern administrative flexibilities are rarely neutral in terms of their effects on budget choices and participants' relative influence on the budget process. The budget theoretical perspective suggests that *changes that relax restrictions* associated with the PPBE process *need to be accompanied with broad involvement in the design and implementation stages, and with clearly defined goals, authorities, and responsibilities*. The latter *allow senior executives and central offices to hold managers such as PMs and PEOs accountable* and to overcome the centralized and hierarchical nature of the PPBE process. A potentially important start for moving toward added clearer goals is to assess the need for additional detail to the Defense Planning Guidance (DPG).

Third, this essay highlights that several institutional and practical challenges need to be considered when relaxing administrative restrictions. The central theme that emerges from these latter insights is that while the infusion of additional flexibilities into the PPBE system offers significant potential for combatting the system's problems in promoting innovation and adaptability, the materialization of such benefits hinges on conditions that need to be addressed in ways in which policy makers and DoD officials do not allow the perfect to get in the way of the good. This includes *addressing the sheer complexity of the defense budget when seeking to optimize and adjust at each stage of PPBE*.

In addition to these insights, the essay draws attention to three fundamental budgeting formats in the theoretical and applied literature: inputs, tasks, and outcome formats. *Outcome-based budgeting is the desired format generally used in PPBE* given that the defense budget exists solely to improve national security. Outcome-based programming is called "program budgeting" in the literature, but here the use of "program" does not necessarily mean "acquisition program" but refers to a larger concept of the activity that leads to an outcome. In this regard, portfolio- and mission-based budgeting aligns well with the intent of outcome-based budgeting and thus is supported by budget theory.

The other two formats focus more on fiscal responsibility/control and efficiency/managerial control, respectively, which may not optimally support the desired defense mission outcomes. Some portions of the DoD budget are actually input- or task/activity-based, which are not explicitly tied to agency outcomes but rather to intermediaries that can lead to outcomes. This further supports changes that better align budget elements with mission outcomes.

⁸⁵ Historically, however, Congress has been very reluctant to create and appropriate undesignated funds (pots of money) because they prevent Congress from controlling what these funds are used for. Perhaps mission- or portfolio-based budgeting could serve as a middle ground where Congress designates the uses at a strategic or operational level, but the DoD has some flexibility to apply them to needs within strategic or operational areas.

8.1 WILLINGNESS TO UTILIZE ADMINISTRATIVE FLEXIBILITIES

Decision-makers in the DoD need to be able and willing to use new budgeting or reprogramming authorities in recommended reforms. Decision-makers (especially at lower levels) need to be sufficiently trained and incentivized to properly use these authorities. Moreover, the frequency of changes in PPBE statutes, regulations, policy, and guidance aggravates training deficiencies in both staff and leadership. Finally, public servants tend to be overly risk-averse because of disincentives and the threats of personal punishments (e.g., many decision-makers take out professional liability insurance because they are worried that a mistake may lead to personal financial penalties).

Recommendations

- **Batch PPBE reforms:** Consider introducing discipline in the frequency of reforms by batching them so they only become effective periodically (e.g., every 3–4 years).
- **Improve PPBE training:** Explore ways to streamline processes for requesting above-threshold reprogramming.
- **Align incentives:** Conduct further applications of frameworks to align incentives and imbue them with prudent decision-making.⁸⁶
- **Balance accountability:** Conduct applied research to (a) assess and summarize the frequency with which DoD officials are held personally financially liable for mistakes made in good faith without intent of breaking a law, and (b) develop recommendations on how to balance actual with perceived liabilities—possibly to include education on the actual risks or whether changes to law would be prudent to indemnify public servants from financial penalties for mistakes when operating in good faith in their areas of responsibility and authority.

8.2 DECENTRALIZING SOME PPBE AUTHORITIES

Delegation of decisions is possible (e.g., similar to Commander's Intent), but this must come with mechanisms to hold lower-level decision-makers accountable for aligning to senior leader guidance.

Recommendations

- **Develop improved ways to define PPBE goals:** This may include additional details in the DPG but also developing additional actionable goals during execution to inform actions, such as reprogramming and making tradeoffs between expending funds on problems in development versus buying down future sustainment costs through improved designs.
- **Delegate more PPBE decisions:** Explore ways to shift decision authority down from senior DoD leaders by providing clearly defined goals along with PPBE authorities and responsibilities to reduce managerial restrictions by increasing accountability for results.
- **Delegate below-threshold reprogramming to PEOs:** Along with ideas to raise reprogramming thresholds, consider delegating below-threshold reprogramming authorities (e.g., to PEOs) rather than requiring significant reviews and higher-level approvals.

⁸⁶ See Girth et al., 2002, for approaches on aligning incentives. [Incentives for Motivating Workforce Agility and Innovation - The Acquisition Innovation Research Center \(acqirc.org\)](https://www.acqirc.org/publications/incentives-for-motivating-workforce-agility-and-innovation-the-acquisition-innovation-research-center)

8.3 ABILITY TO UTILIZE ADMINISTRATIVE BUDGET FLEXIBILITIES

The intent of PPBE is to consider all alternative means to accomplish established objectives, but PPBE is too large and complicated to predict the results of, or even consider, all options every budget cycle, resulting in slow PPBE and less-desirable coping mechanisms. This includes *incrementalism* (using last year's budget as the bulk basis for the next year's budget, which is more aligned with line-item budgeting focused on inputs) and *satisficing* (using simpler structures that are acceptable but not necessarily optimal).

Recommendation

- **Develop computational top-down budgeting:** Continue developing portfolio and mission-engineering decision processes. Explore computational and AI approaches that can build budgets from top-down guidance and portfolio/mission reviews.

8.4 BUDGETING FORMAT

Outcome-based budgeting generally used in PPBE still appears to be the best format, but more can be done to structure DoD budgets around outcomes instead of inputs and tasks/activities.

Recommendations

- **Keep PPBE budget formats focused on outcomes:** Retain PPBE's basic theoretical underpinning of outcome-based program elements.
- **Continue development of portfolio- and mission-based budgeting:** Strengthen PPBE's focus on outcomes (over inputs and tasks) by ensuring that budget documents clearly describe the connection between acquisition programs and other tasks/activity line items and agency outcomes. Moving to budget elements that are outcome-based (e.g., by mission or portfolio) should be explored to the degree that leadership intent, equities, and control (both by Congress and DoD leaders) are retained to a satisfactory level.
- **Restructure DoD budget elements that are input- or task-oriented:** With the basic format in mind, it would be useful to conduct a review of the entire current DoD budget to identify those that are formatted around inputs or tasks/activities and develop alternative outcome-based formats to replace them, improving both the focus on mission and stakeholder understanding of the need for these elements and their funding levels.

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