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## REVIEW ESSAY

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### ***BUDGETING AND FINANCIAL MANAGEMENT FOR NATIONAL DEFENSE,***

**by Jerry L. McCaffery and L.R. Jones**

### ***BUDGETING AND FINANCIAL MANAGEMENT IN THE FEDERAL GOVERNMENT,***

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*Budgeting and Financial Management for National Defense.* Jerry L. McCaffery and L.R. Jones; Greenwich, Conn., Information Age Publishing, 2004, 476 pages, ISBN 1-59311-104-5

*Budgeting and Financial Management in the Federal Government.* Jerry L. McCaffery and L.R. Jones; Greenwich, Conn., Information Age Publishing, 2001, 472 pages, ISBN 1-931576-12-2

When thinking about management and policy problems, both theorists and management practitioners are tempted to make these problems “manageable.” They can do so by making simplifying assumptions about human behavior, by restricting the number of concepts in play, and by ignoring potentially significant uncertainties. And they can limit the size of the subject to an agency or program (e.g. in Behn’s *Leadership Counts* [1992]), or to a country of reasonable size (say, New Zealand?).

The two books under review, in contrast, cover budgeting and financial management for entities so large that they may be unmanageable. To paraphrase Everett Dirksen, \$400 billion or \$2 trillion is a lot of money. The U.S. Department of Defense (DoD) has, for both better and worse, global scope; it spends more each year than the combined militaries of most of the rest of the developed world. When compared to national governments in other developed countries, the U.S. national government is less imposing using the metric of spending as a percentage of GDP, but this government is still huge, particularly in the range of its activities. And the DoD is not the federal government’s only hard case; consider the not-so-simple roles of the newly created Department of Homeland Security. Any treatment of budgeting in DoD or the U.S. government must necessarily cope with tremendous complexity.

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These books excel in this regard, for the authors have the necessary background. Both teach at the Naval Postgraduate School, so they are insiders, albeit far removed from Washington. McCaffery is a teacher and author on budgeting, and a cofounder of the Association for Budgeting and Financial Management. Jones is an expert on financial management, including in the Department of Defense, and a cofounder of the organization that sponsors this journal. They rely heavily on primary sources--documents, extensive interviews with practitioners, and the knowledge of students at and visitors to their school.

The more recent *Budgeting and Financial Management for National Defense* is the more interesting of the two books, because of its potential use by two very different readerships. The first is obvious--anyone who works with DoD budgets should have this book close at hand. *National Defense* describes existing budgetary structures and processes, explains their historical development, and weighs the pros and cons of reform alternatives. The book is institutional memory in print; it should be invaluable particularly for the many military officers who rotate into postings having had little background in budgeting and finance.

The second readership should be those who advocate management reforms. Jones, along with Fred Thompson, previously wrote *Reinventing the Pentagon* (1994), which developed a coherent and plausible New Public Management (NPM) reform plan for the DoD. Little of that book's argument is evident in the present one, which is relentlessly practical. That shouldn't be surprising, for while McCaffery and Jones document that DoD budgeting has indeed changed over the past decade, these changes have generally not been along NPM lines. Perhaps DoD is (unfortunately) the acid test for any management reformer.

What will readers learn from *National Defense*? Much of the book describes the fine details that must be mastered to have a chance of understanding how the budget is developed, enacted, and executed. A chapter title summarizes the authors' general perspective: "Budgeting for National Defense: Complicated but Workable." McCaffery and Jones combine an affection for Wildavsky's incremental approach with an appreciation of DoD's Planning, Programming, Budgeting and Execution System as the epitome of a bureaucratic, multiyear allocation process.

The fit isn't as awkward as one might think. This is because they clearly explain the limits of "workable." For example, on page 99, they replicate a Navy graphic that shows "a consistent, cascading reflection of strategies, goals, objectives, means, and results"--language that should be familiar to anyone who has read in management theory. They then discuss the extent to which practice meets this ideal, when instead the process more resembles weapons in search of a doctrine, as Kissinger once described DoD budgeting. While the book does mention the important role of threat perception and strategic response in framing the process, this aspect of defense budgeting is relatively underemphasized in the book. More attention is paid to institutional issues: e.g., relationships (often turfing) between committees, between services, and between operational commands; the changing design of revolving funds; why operations and maintenance is typically underfunded; why the president's Office of Management and Budget has such a weak role in defense budgeting; and budget execution strategies, such as "rule #1: spend it all."

There are some minor problems with the book. Some arguments are unrelated to a more general literature in political science and economics (e.g., the breakdown of iron triangles). And the first chapter is out of place--it describes how defense budgeting is different than generic federal budgeting, but is filled with military budgeting jargon that the novice reader will not understand. Read this chapter after having read some of the other early chapters.

Some readers may perceive a larger problem. The post-Vietnam DoD has a healthy culture of argumentation among career civil servants and military officers (political appointees are sometimes a different matter), and the authors of this book do a fine job in this respect. They are especially forceful and convincing in identifying leadership failures regarding obsolete and nonstandardized financial management systems. Yet their insider's dissent goes only so far. They cite the powerful internal critiques of whistleblower Franklin Spinney, but neglect the farewell speech warning from President Eisenhower about the dangers of the military-industrial complex. Given the size of the DoD budget, and the problems described in this book with DoD management, I think the burden of proof is on defenders of DoD to refute Ike. So if you are either an occasional or a general skeptic of DoD (as in its "plan" for Iraq), you may be unwilling to credit the military's intelligence as much as McCaffery and Jones do.

The second book, *Budgeting and Financial Management in the Federal Government*, was published in 2001 and covers budgeting and financial management in the U.S. federal government. It was written to serve as a textbook for the authors' students, and could certainly serve the same function for other professors who would like to concentrate on the federal government.

Compared to the other available text with this focus, Schick and Lostracco's *The Federal Budget: Politics, Policy, Process* (2000), *Federal Government* has much more text and discussion and fewer graphics. It is somewhat less readable, but also a more comprehensive source for detailed analysis on a range of issues, particularly for performance budgeting, financial management, and contracting and control. (And here they discuss some of the NPM material that is missing from the DoD book.) Indeed, the first appendix in the book reveals the executive branch background of the authors, where they advocate a professional curriculum which begins with an introductory course in management control, and don't get to budgeting until the fifth course. Schick and Lostracco's book, in contrast, is mostly about the politics of congressional budgeting. Jones and McCaffery also cover budget strategy, budget analysis and analysts, and budgeting under fiscal stress.

One of the difficulties of writing such a broad treatment is taking a consistent position, and here I would fault the authors somewhat. For example, McCaffery and Jones conclude an interesting chapter on the history of U.S. budgeting by claiming a record of success for representative government, but in a chapter on entitlement spending endorse rules-based strategies for control, including ones for a maximum deficit of 3 percent, expenditure growth no higher than GDP growth, entitlement increases funded only by dedicated revenues, and so on. They endorse Wildavsky's incrementalism as their theoretical base, but also reveal much admiration for technocratic budgeting approaches that are antithetical to incrementalism. I will qualify this criticism, however, with a recognition that studying politicians who sometimes cut

taxes and increase spending while complaining about the deficit creates an occupational hazard of inconsistency, to which I am not immune!

Of course, when this book was published, the medium-term performance of federal budget actors was surprisingly impressive. Even granting the beneficial effects of the stock market bubble, during the 1990s budget policies were oriented towards restraint, producing surpluses by the turn of the century that were unimagined just several years before. But in the four years since that time, budgetary outcomes have dramatically worsened, and not just because of uncontrollable factors like the economy or foreign attacks. Budget resolutions haven't been passed, appropriations bills have been larded with pork but still enacted late, and new entitlements created and massive tax cuts adopted after budget discipline procedures were intentionally discarded. To return to the opening of this review, though there may be questions about whether the federal budget is unmanageable, today there is no question that the federal budget is poorly managed.

### REFERENCES

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