

# *Special Report*

## **COORDINATING AND FUNDING THE WAR ON TERROR**

by

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## **Introduction**

Prior to September 11, 2001 the line delineating national defense expenditures and other expenditures in the federal budget was reasonably clear. And civil expenditures that became defense expenditures in time of war or national emergency were well understood. For example, the Coast Guard, as a peacetime component of the Department of Transportation, came under Navy direction, while the National Guard, nominally under command of state governors, was federalized. Plans were also in place to make available private sector maritime assets for national security as needed. (1)

On the other hand, not considered a defense expenditure was airport security (2), security for public utilities such as power plants, including nuclear, water supply sources, communications and transportation infrastructure, including seaport security, security for public buildings and monuments, and other likely, high visibility federal, state and local terrorist targets.

## **Post September 11, 2001**

What has become a general rule since 9-11 is that as one goes down the list of likely terrorist targets, from most likely to less likely, the issue of funding to protect such targets gets more contentious. Thus, as more federal funds have been budgeted for war on terror expenditures, together with the uncertainty as to future federal deficits, the tendency at the federal level is to assign more funding responsibility for homeland security at the state and local level to state and local governments. And as might be expected, state and local governments have not gladly acquiesced with regard to funding their new responsibilities. (3) They point out, for example, that local police, firemen and medical facilities will be the first line of defense should a terrorist attack occur and that significant federal funds should be made available to train and equipment these agencies. (4)

Following the September 11, 2001 terrorist attacks on New York City and Washington, D.C., a *cabinet level* position was created by President George W. Bush—the White House Office of Homeland Security. While it was billed as a cabinet level department it was not formally designated a “cabinet” position which would require Congressional approval. (5)

Creation of the Office of Homeland Security was generally applauded by the Congress and public but it left many unanswered questions. In this respect, there are over 45 different agencies involved, one way or another, in homeland security, including the Federal Bureau of Investigation, the Central Intelligence Agency, and uniformed service intelligence agencies, all of which can be expected to jealously guard their turf. (6) Thus does a vexing question arise as to what extent will the Office of Homeland Security have the authority to coordinate the activities of these and other agencies? At present the Office does not have a budget, which as every student of business administration knows, is an absolute requisite to successful management of any enterprise.

Former Speaker of the House of Representatives, Newt Gingrich, stated the problem in this way.

Will Tom Ridge have a lot of access (to the President) for 90 days? Yes. Will he have a lot access for three years? It is impossible. No presidency could stand that unless we were under attack. So (the Office of Homeland Security) will become an office comparable to the drug czar, not comparable to the National Security Advisor, which is why, to be effective, he has to have line item power and he has to have a budget. (7)

Speaker Gingrich also recommended that a homeland security office should be an actual cabinet position and that office “ought to be built around the Federal Emergency Management Agency.” (8)

Even more contentious than the structure and authority of the Office of Homeland Security, is what constitutes a major homeland security need and what priority should it be given. The problem is that many agencies, federal, state and local, private sector businesses, and other private sector and quasi-government organizations will assert their importance to homeland security, using arguments, not unlike arguments used by watch-makers and the steel industry of centuries past with respect to *their* importance to national defense.

The case of the National Rail Passenger System, AMTRAK, is instructive in this respect and clearly shows the outline of debates still to come with regard to what is a homeland security need and how and whether it should be funded.

In 1970 Congress relieved the nation's railroads from providing rail passenger services that had been posting deficits for almost three decades. In its place, a for profit, national rail passenger service (AMTRAK) was created and was to be initially maintained with government subsidies. Since its creation, the system has never posted a profit while receiving billions of dollars in government funding. In 2001, the AMTRAK Reform Council, as mandated by law, made a series of recommendations concluding that the present rail passenger system could never achieve profitability with its present route structure and management organization. (9)

In his proposed FY 2003 budget, President Bush allocated \$521 million to temporarily keep AMTRAK's rail system in place. AMTRAK officials, however, argued that \$1.2 billion is needed to maintain and improve the system. In essence, they rejected the Reform Council's recommendations. Post 9-11 arguments for an expenditure of \$1.2 billion include:

\*Amtrak's passenger numbers have increased in the post 9-11 period as the public avoided airline travel and opted for alternatives. Moreover, they have shown a steady increase over the past five years.

\*Amtrak revenues and ridership have increased while airline passengers and revenues have decreased. In December 2001, passenger miles on AMTRAK rose by 3.8%; domestic aviation passenger miles decreased by 13.2%

\*The United States requires a national passenger rail system. It is a matter for Congress to determine Amtrak's scope of operations and funding, not an appointed council. (10)

At no point, however, do AMTRAK supporters claim that with a \$1.2 billion grant the present rail passenger system will achieve profitability, only that an improved system will remain in place. (11)

Prior to 9-11 the conventional wisdom was that AMTRAK could not reach a Congressionally mandate goal of self sufficiency and that recommendations of the Reform Council be implemented. In the post 9-11 period, however, AMTRAK supporters, mainly Amtrak management, the National Association of Railroad Passengers, and rail operating unions, sensing a window of opportunity, have renewed their case for increased AMTRAK funding. Gone is the argument that given time and money AMTRAK could

achieve profitability. In its place is the unstated but implied argument that in the post 9-11 period the U.S. needs a rail passenger system as an alternative to terror targeted airline travel. Not stated is that with present and proposed airport security measures, air travel will again be the safest and preferred mode of long distance travel. Implicitly assumed is that those airline passengers lost to railroads after 9-11 will be lost forever—a heroic assumption at best.

## **Budgeting For Homeland Defense**

In December 2001, after an extended partisan debate, the Congress agreed to provide \$20 billion in FY 2002 for an anti-terrorism package. The figure was agreed to only after a number of tradeoffs between domestic programs, the defense budget, and funds to prosecute the war on terrorism took place. In his 2003 budget, President Bush requested \$38 billion for the war on terrorism. It is beyond certainty that the proposed amount and how it should be allocated will be vigorously debated and ultimately modified, giving renewed meaning to the axiom “The President proposes, the Congress disposes.”

A beginning to understanding how the budget for homeland security will be crafted is to appreciate the fact that as any budget is debated it will be subject to tradeoffs similar to tradeoffs made in defense and other cabinet level expenditures. For example, as the price for supporting a particular item in the defense budget, members of Congress representing districts where defense facilities exist, or where defense contractors are located, will trade their votes in return for funding weapon systems or retaining defense facilities in their districts with little regard to Department of Defense wishes. So too, will such tradeoffs take place in putting together a homeland security budget. Examples of where such tradeoffs might occur include funds to meet the threat of bio-terrorism, funds for local law enforcement, funds to provide vaccines for anthrax and exposure to radiation, funds for airport security, funds to pay for national guard units called to active duty—and the list goes on. There will also be inter-department tradeoffs such as fewer F-22 fighter jets at \$83 million a copy, for more funds for CIA agents in the field, or more funding for \$5 billion aircraft carriers which earned their keep in the Afghanistan conflict, and less for seaport and highway security.

Another consideration in developing a department budget is the likelihood and extent of cost overruns. As a general rule, and well documented, is that large cost overruns can be expected in (1) new budget categories, e.g. the creation of the Departments of Education and Energy in the 1960s and 70s, and (2), existing categories where funding has been significantly increased from one fiscal year to the next. Both of these conditions exist in funding the war on terrorism.

A third consideration that will impact on a homeland security budget is (1), an estimate of the duration of the conflict accepting the fact that as time passes there will be diminishing public support, and (2), the degree of uncertainty with respect to individual line items in a homeland security budget. In this respect, funding to maintain “X” number of national guardsmen for a fiscal year is relatively certain. How much to allocate to meet a bio-terrorism threat should the United States initiate a major military operation against Iraq, i.e., how much to increase vaccine stockpiles, expand medical capabilities, and protect food and water sources, is highly uncertain.

### **Proposed Budgets for National Defense and Homeland Security, FY 2003**

President Bush has proposed a federal budget of \$2.1 trillion for FY 2003. This budget includes \$379 billion for military spending (10 percent increase) and almost \$38 billion for homeland security, a \$18 billion increase over the \$20 billion anti-terrorism package passed by Congress in December 2001.

Equally important with respect to funding the war on terrorism is President Bush’s request for \$746 billion in discretionary spending in FY 2003. (Discretionary spending is that amount in excess of spending mandated by law) For example, the proposed Health and Human Services budget includes \$429 billion for mandatory programs and \$60 billion for discretionary spending. Of the \$746 billion discretionary spending authority requested, the Department of Defense and Homeland Security would receive \$391 billion. The Departments of Defense, Transportation and Justice would received 61% of the total. Other departments/agencies with significant increases are Health and Human Services, the Department of Energy and FEMA. (12)

Since the September 11, 2001 terrorist attacks on New York City and Washington, DC, approximately \$100 billion has been spent and/or requested to conduct the war on terrorism. If all of the estimated \$100 billion was spent as planned, with no cost overruns, it would be a unique event in the history of federal budgets. Thus, if it is granted that overruns will occur, the question becomes—in which categories are they more likely to occur and by what amount? In approaching this question, several assumptions must be made. Their basis in logic is left to the reader.

1. More *uncertainty* exists in construction, manufacturing and research projects when contrasted with “new people projects.” In this regard, personnel can be added to or let go as circumstances require (giving due consideration to federal and state civil service laws), while capital projects, on the other hand, are more difficult to scale back or abandon once started.

2. Funding new agencies/departments generates greater uncertainty with respect to stated goals than do existing agencies which are expanded. This is simply a matter of climbing the learning curve in terms of efficiency as time progresses.

3. As a general proposition, “discretionary spending” causes more uncertainty with respect to end results. Why? Simply because there will be more claimants. Many legislators that were not able to include their programs/projects under mandatory outlays, will get a “second bite of the apple” when discretionary spending is proposed for a department or agency. This will prove doubly true in the case of homeland security, a concept that can offer shelter to almost any past or present program with a congressional champion.

What then, if anything, can be predicted, based on past data, with respect to increased defense spending and homeland security funding?

Prior to 9-11, President Bush mandated a bottom up review of defense spending, believing that conflicts of the 21<sup>st</sup> century would be significantly different from previous conflicts and would require new and different capabilities. The commitment of U.S. forces in Afghanistan, however, reinforced the case for funding a number of older conventional weapons for use in 21<sup>st</sup> century wars, i.e., aircraft carriers, strike fighters, bombers, and specially trained ground forces. To the extent that these items are replaced and/or added to, then cost overruns should be manageable. To the extent that new “conventional” weapons are funded—the F-22 fighter jet and the DD 21 destroyer, then can larger cost overruns be expected.

President Bush’s FY 2003 budget also included over \$50 billion for information systems and information technology. Much of this funding will go to research, and as noted earlier, research projects are likely candidates for significant cost overruns.

In 1995, a report by The Standish Group International, Inc. titled “Chaos Report,” pointed out the likelihood of information system project cost overruns. Later findings by this group cite:

\*Forty percent of IT application development projects are canceled before completion.

\*Thirty three percent of the remaining projects are “challenged” by cost/time overruns or changes in scope.

\*Together, failed and challenged projects cost U.S. companies and government agencies an estimated \$145 billion per year.

Also noted, that according to project management analysts, 40 percent of all IS projects fail. (13)

## **Conclusion**

America's war on terrorism is and will be a costly undertaking. It will rely on both old and new technologies. In calendar years 2002-03, large cost overruns can be expected to occur and numerous management inefficiencies identified. This special report has attempted to point out the where and the why.

In this context, it might be noted that the war on terrorism is not unlike the shakedown cruise of a new kind of warship. By definition, problems will occur. Some components and systems, including personnel, will work better than others. Many will be abandoned or replaced as experience is gained. The important thing, however, is for the public to be patient and tolerant, not of overt waste or mismanagement, but of the inherent problems in fighting a kind of war few envisioned prior to 9-11. To paraphrase Winston Churchill: Democracy and the democratic process may at times seem insufferably inefficient but given the alternatives, it is still the best hope we have.

And while it would seem appropriate to conclude this paper with an estimate of the cost of cost overruns, failed, terminated, or revised homeland security programs, and failed personnel, it simply cannot be done. On the high side the estimate would be infinite. On the low side, based on historical data, 20 to 25 percent of appropriated monies. All that can be hoped for is that the American public will stay the distance as did the public in conflicts past.

## **NOTES**

1. The Voluntary Intermodal Sealift Agreement (VISA) establishes the order in which government-owned merchant ships and private sector maritime assets are called up in a war or national emergency. Approximately 100+ ships are enrolled in the program, 47 of which receive a government subsidy under the Military Sealift Program.

2. Prior to 9-11, airport security with respect to boarding passengers and their luggage was the responsibility of the individual air carriers. This was the first national security task to be federalized after the 9-11 attacks. Plans are to pass along costs of the program to airline passengers.

In March 2002, \$104.3 million was awarded to a private sector firm to recruit, test and hire 30,000 baggage screeners at U. S. airports.

3. In February 2002, the Department of Justice proposed shifting \$1.9 billion of department funds from local law enforcement, i.e., more local law enforcement officers and equipment, to other federal war on terror activities.

It should also be noted that allocating funds for the war on terrorism is not limited to dividing monies between federal and state governments but also intra-agency allocation of funds at the state and federal levels. For example, at the federal level while the proposed defense budget for FY 2003 has increased, significant funds have been taken from conventional military expenditures and allocated to newly identified needs in the war on terrorism. This reshuffling within DoD occurred at the same time the Defense Department was undergoing a bottom up review of defense needs in the 21<sup>st</sup> century as ordered by President George W. Bush in February 2001.

4. In a December 6, 2001 address to the National Conference of State Legislators, Director of Homeland Security, former governor Tom Ridge of Pennsylvania, said homeland defense costs will need to be shared and that the federal government is willing to “make a substantial down payment.”

(Ref: Robert Tanner, Associated Press, December 7, 2001)

5. In March of 2002, the distinction between cabinet and cabinet level departments surfaced when the Senate Appropriations Committee requested the Director of Homeland Security, Tom Ridge, to testify as to how he planned to coordinate and spend monies appropriated for the war on terrorism. The White House demurred in this request arguing that the office was not cabinet level, hence the director was not required to testify as would be the case with a cabinet secretary.

6. Other agencies/activities that are recognized as having a major role in the war on terror include Immigration and Naturalization Service, Coast Guard, National Guard, Customs (Treasury Department), Department of Energy (Nuclear Regulatory Commission), Center For Disease Control, and the National Institute of Health.

7. Genrich, Newt, “The Road Ahead: Securing the Home Front in the 21<sup>st</sup> Century,” *Heritage Foundation Lectures* (November 9, 2001)

8. *Ibid.*

9. *AMTRAK Reform and Accountability Act of 1997*, Public Law 105-134 105<sup>th</sup> Congress.

10. On Track On Line: Amtrak Budget & Legislative News (Last Update February 16, 2002)

11. On March 6, 2002, Senator Fritz Hollings, D-S.C. who chairs the Senate's transportation panel, introduced the National Defense Interstate Rail Act. It would provide \$1.3 billion for Amtrak's security needs and funding in FY 2003, \$7.5 billion for the next five years to develop high speed rail systems, and \$580 million yearly, until 2007, to subsidize the cost of 18 money losing, long distance rail routes.

12. Federal Sector Report Number 3 ( February 2002) *The P2C2 Group's Newsletter for Federal Agencies, Contractors, and Grantees.*

13. "When Bad Things Happen to Good Projects," *CIO Magazine* (October 15, 1997)