



How to Fix the Pentagon's Misused War Spending Account

By Rick Berger and Mackenzie Eaglen

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Key Points

- The use of “fake Overseas Contingency Operations (OCO)” funds is a product of the arbitrary Budget Control Act (BCA) spending caps and will not disappear until the caps do. The only honest solution is to eliminate those caps and begin budgeting based on real needs with real money in real accounts.
- The cynicism generated by the “fake OCO” and the attention given to that gimmick detract from discussions about the problems with enduring conflict costs in the “real OCO” budget.
- The generational nature of America’s current conflict against violent extremist organizations demands a fresh look at budgeting for these military operations. Congress should reform the “real OCO” budget over the next two years and phase in a new account once the BCA expires.
- Besides reforming OCO, lawmakers can simultaneously improve Pentagon planning, broaden public understanding of war costs, and strengthen congressional oversight over the use of military force and associated spending.

President Donald Trump’s \$750 billion fiscal year (FY) 2020 defense budget request includes \$165 billion in Overseas Contingency Operations (OCO) money. This fund was originally designed to separately account for the costs of ongoing operations in Afghanistan, Iraq, and elsewhere. Both Congress and successive administrations have misused this funding in two separate ways, particularly over the past decade.

The overall OCO spending should be broken down into separate budgets: “real OCO” and “fake OCO.” Policymakers have too often conflated the two. While both pots of money suffer from problems, devising policy solutions to fix those challenges

requires understanding the root cause of the issue in each type of spending.

The 2020 “real OCO” budget contains \$67 billion in funding to pay for ongoing US conflicts in Afghanistan, Syria, and elsewhere. However, the changing nature of current hostilities demands a hard look at whether some predictable conflict-related spending should be accounted for in the Pentagon’s normal, everyday “base” budget. The generational nature of America’s current fight against violent extremists means that some types of conflict spending, such as war-zone infrastructure, will endure no matter the annual tempo of operations. Debating the composition of the “real OCO” budget could lead to changes that simultaneously improve Pentagon

planning, broaden public understanding of war costs, and strengthen congressional oversight over the use of military force and associated spending.

The 2020 “fake OCO” budget contains \$98 billion in funding for the basic, everyday activities of the US military that do not relate to ongoing conflicts, such as overall military readiness and weapons modernization geared toward deterring Russia and China. The “fake OCO” budget exists because OCO spending does not count against the Budget Control Act (BCA) caps, which established an annual ceiling for defense spending. This exemption was originally intended to ensure that “real OCO” funding for current conflicts was shielded from cuts under the BCA. However, lawmakers and administration officials have agreed to abuse this exemption by using the “fake OCO” to circumvent the BCA caps and grease the wheels for spending deals. Because the “fake OCO” budget gimmick was invented in response to the BCA caps, the only honest solution is to eliminate those caps and begin budgeting based on real needs with real money in real accounts.

“Fake OCO”: Brought to You in Whole by the BCA Caps

Of the \$165 billion in the FY2020 war budget, only \$67 billion is actually “real OCO” money related to ongoing military operations. The Trump administration’s 2020 budget contains the most egregious use of “fake OCO” funding yet: \$98 billion of spending on items that have nothing at all to do with current wars. No reasonable criteria exist by which this \$98 billion should ever be in the OCO budget.

The White House forcibly stuffed this \$98 billion into the Pentagon’s war budget because OCO dollars do not count against the BCA spending limits.¹ It is a ploy designed to increase negotiating leverage in the upcoming fight about overall discretionary spending levels for the last two years of the BCA.² By using \$98 billion of “fake OCO,” the White House can say it is adhering to the BCA and taking the deficit seriously—but also fully funding defense.

There is no reason to believe this sleight of hand increases the chances of enacting Republican priorities given the negative reaction by members of both parties. This gambit instead detracts from the ability of defense hawks and the Pentagon to make a case for a budget that attempts to execute the

National Defense Strategy and its associated requirement of 3–5 percent annual real growth.³ Perhaps no single other budget issue has been given such extensive treatment since the release of the defense budget in March. Rather than discussing the threat of China and Russia or the National Defense Strategy, military officials have been stuck testifying about a budget gimmick. For instance, at a Senate Armed Services Committee hearing in March, the word “OCO” was mentioned more times than “nuclear,” and three senators spent precious time responding to the administration’s budget gimmick.⁴

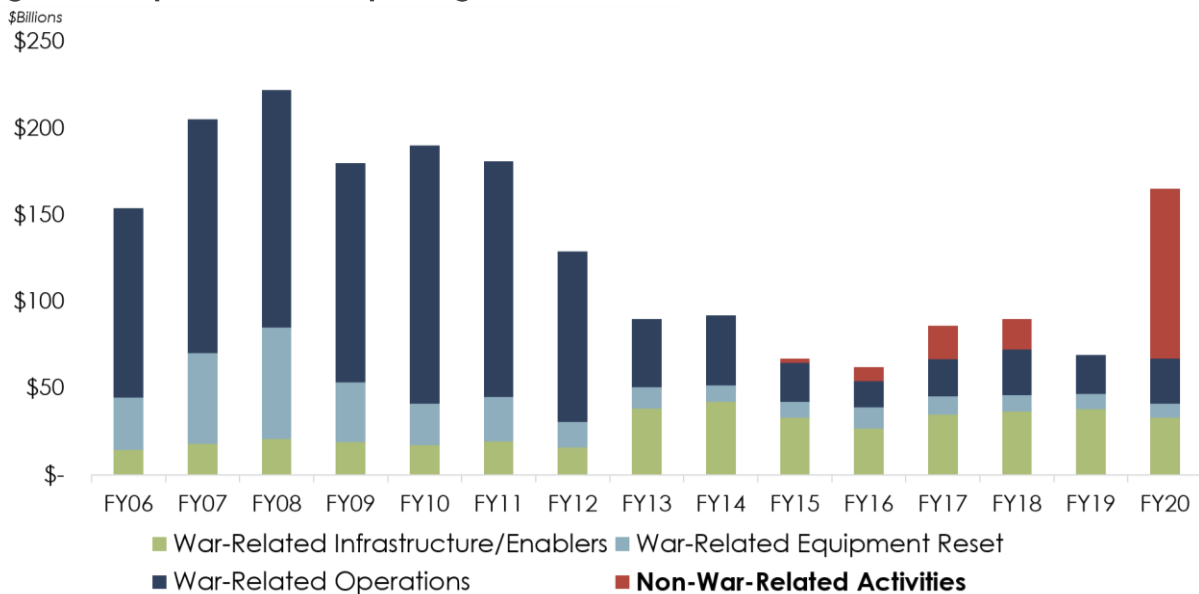
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The “fake OCO” budget also unnecessarily angers both Democrats and Republicans. Already, dozens of lawmakers declared this gimmick dead on arrival in Congress, with responses ranging from outright derision to befuddlement, even among the administration’s allies.⁵ Policymakers long ago embraced the idea of the entire OCO war budget as a slush fund, bereft of oversight, transparency, and limits.⁶ Yet the amount of time policymakers spend decrying this budget gimmick far outpaces its negative effects for transparency and good governance.

In reality, even “fake OCO” funding requests are delivered to Congress with nearly the same publicly available budget documentation as the rest of the defense budget, so there is spending transparency. Further, the vast majority of overall OCO spending over the past two decades paid for war-related expenditures. As shown in Figure 1, since the BCA was enacted in 2011, the “fake OCO” spending amounted to \$48 billion out of \$685 billion in overall OCO spending since then.⁷ This inappropriate stuffing of non-war-related needs into the war budget occurred primarily during FY2015–18, as Congress sought to slightly increase defense and nondefense spending above the BCA caps without adding to the total size of base-spending cap deals.

This inappropriate use of non-war-related spending also occurred in the State Department

Figure 1. Composition of OCO Spending over Time



Source: Congressional Budget Office, *Funding for Overseas Contingency Operations and Its Impact on Defense Spending*, October 2018, https://www.cbo.gov/system/files?file=2018-10/54219-oco_spending.pdf.

budget, when billions of dollars of FY2016–17 spending for international affairs activities received an OCO designation to artificially free up space for other nondefense domestic programs, in effect laundering that increase through the OCO budget.⁸ According to the Congressional Budget Office (CBO), no reasonable objective criteria existed to support this redesignation of base international affairs requirements as OCO spending.⁹ The Pentagon moved \$98 billion from the base budget to the OCO budget in its 2020 request in a similar fashion, wherein no serious objective criteria accompany the funds that were moved. Proof of that is found in the Pentagon’s own budget documents, which created a new and separate account designation in the war account as “OCO-for-base” spending, an outright admittance of abuse.

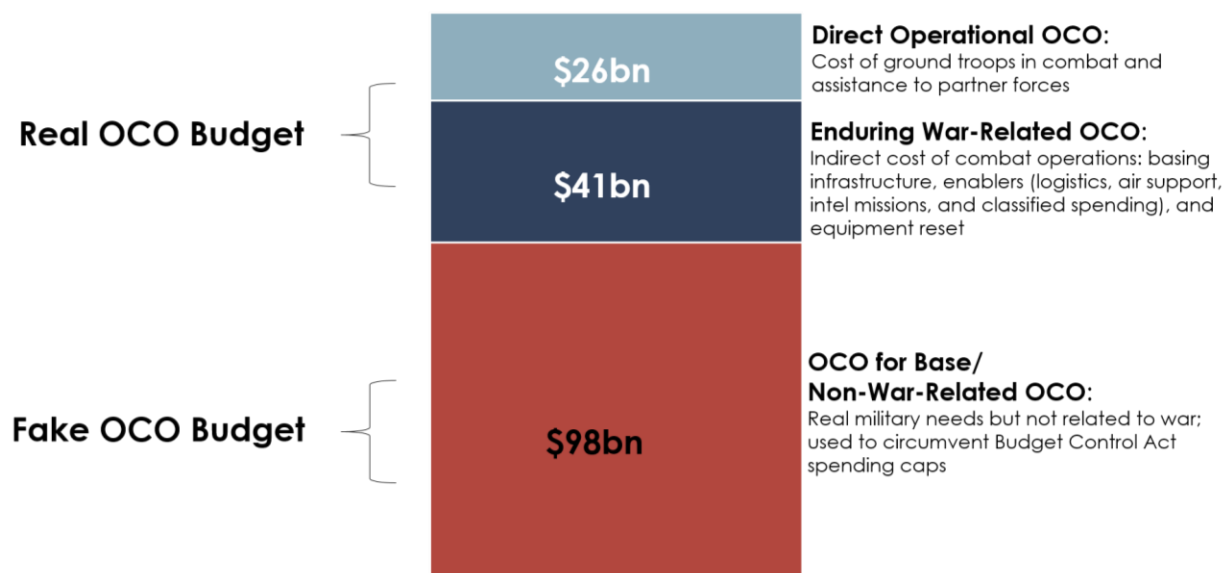
How can Washington fix such “fake OCO” gimmicks? The non-war-related spending shoved into the war fund is real Pentagon spending, but it is not connected to current conflicts and belongs in the core base defense budget. Congress and administrations have agreed on a bipartisan basis to this misuse to alleviate the pressure on discretionary spending created by the BCA caps. It is simple: The BCA caps are creating this blatant misuse of the OCO account, and this bad behavior will not go away until the caps do.

Current Pentagon leadership does deserve credit for adding transparency to this gimmick by clearly labeling the “fake OCO” in budget documents, a simple improvement that was long overdue in past budget requests and appropriations bills alike.¹⁰ But the fundamental problem of “fake OCO” usage will always remain political in nature. Republicans and Democrats alike appreciate the gimmick because it allows them to achieve their mutual priorities—higher defense and nondefense discretionary spending—without directly accounting for the money in their deals to amend the BCA caps.

Since the BCA’s enactment, every negotiation about raising the caps has revolved around the “parity principle,” in which each additional dollar for the military is matched by an additional dollar for domestic discretionary spending. Just this month at the Peter G. Peterson Foundation’s “Fiscal Summit 2019,” House Budget Committee Chairman John Yarmuth (D-KY) said the same sticking point is holding up the latest negotiations yet again.¹¹

“Fake OCO” helps lawmakers negotiate deals in which both sides can claim to have achieved parity and therefore victory. Republicans get more defense spending, but they do not have to swallow the accompanying rise in domestic social program spending that would follow under the parity principle. Democrats similarly like pumping up the State Department’s “war” account, as it artificially expands

Figure 2. Breakdown of “Fake OCO” and “Real OCO” in FY20 Budget



Source: US Government Publishing Office, *A Budget for a Better America: Promises Kept. Taxpayers First.*, 2019, <https://www.whitehouse.gov/wp-content/uploads/2019/03/budget-fy2020.pdf>.

the amount of domestic discretionary funds available under the BCA caps for key social programs run by the Departments of Health and Human Services, Housing and Urban Development, and much more.

Cap deals also normally include half-hearted attempts to “offset” or pay for raising the base defense and nondefense caps, but since OCO funding does not count against the caps, it is left out of conversations about paying for new expenditures. This makes the size of the cap deals more manageable, another boon for lawmakers.

While the framework governing the federal discretionary budget remains uncertain following the BCA’s expiration in 2021, lawmakers and executive agencies alike will always look for new workarounds to spend money “off the books.” They should not. In devising a new structure for federal spending to replace the BCA, Congress should explicitly outlaw “fake OCO” spending. This change would decrease cynicism about the federal budget and force Congress to fully account for expanding the discretionary budget. While dozens of other budget gimmicks also require squashing, getting rid of “fake OCO” would represent a small step toward a more coherent, effective, and honest federal budgeting process.

“Real OCO”: How to Account for Enduring and Predictable War Spending

Unfortunately, the cynicism generated by “fake OCO” and the attention given to that gimmick detract from discussions about the problems with enduring conflict costs in the “real OCO” budget.¹² This section will pull apart the “real OCO” budget to explain what is in it and detail the complex set of questions and problems associated with enduring conflict-related costs.

The 2020 defense budget contains \$67 billion in “real OCO” money. (See Figure 2.) As explained below, enduring war-related spending is *most definitely* related to current wars. Day-to-day combat operations against the Islamic State, the Taliban, and al Qaeda, for example, could not happen without this enduring conflict-related spending. Many observers and analysts have incorrectly concluded that OCO spending for “enduring requirements” is not related to the wars in Afghanistan, Iraq, and Syria and should be accounted for in the base budget.¹³ The classification problem with “real OCO” is more complicated than that.

The crux of the issue is whether “enduring” expenditures for long-term war-zone infrastructure and enabling troops and contractors should be counted in the base budget or the OCO budget. It is not a small matter; such spending has hovered

between \$40 billion and \$50 billion each year over the past decade. So what exactly is in this “enduring” bucket of spending?

The largest portion of these “enduring” costs of conflict essentially covers the fixed infrastructure and support costs of being in Afghanistan, Iraq, and Syria *at all*, no matter the operational tempo. In other words, the Pentagon may not know how many missions in Afghanistan it will carry out in 2020 and the attendant costs of operational forces and food, fuel, and so forth. But it does know that it needs in-theater support personnel, about 75,000 of which support the fewer than 20,000 troops in hostilities in Afghanistan, Iraq, and Syria. These support forces are fundamental enablers of operations. They keep a certain level of (classified) intelligence missions running, provide logistics for the theater, and ensure air support arrives in a timely fashion. Their existence in the region undergirds the ability to carry out combat missions.

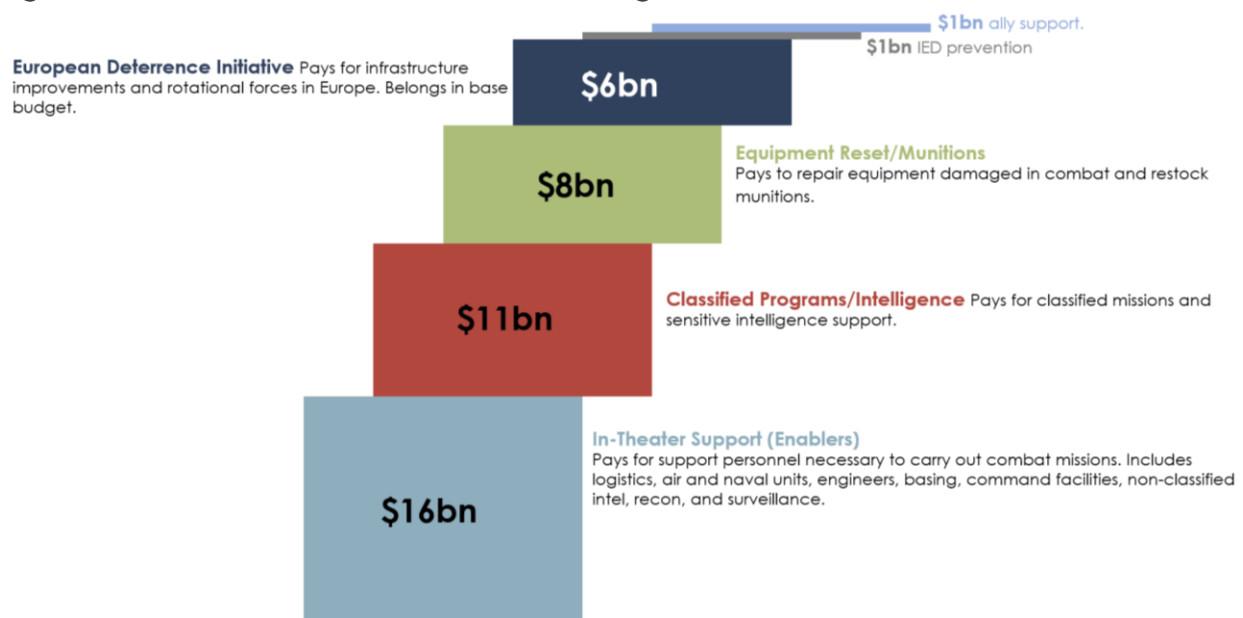
This level of in-theater support has been relatively stable during the current conflicts. For instance, if President Trump withdraws 2,000 troops from Syria and 7,000 more from Afghanistan, these “enduring” requirements and costs still will not change much. By way of analogy:

Calculating the cost is a bit like hosting a massive party in a very remote destination—once you decide to throw the party and bring 300 people, adding another 300 is cheap by comparison. Your DJ and band cost the same no matter the crowd size, and the planes ferrying your food and drink are coming on expensive flights whether you order one case of champagne or ten.¹⁴

The CBO classifies expenditures for in-theater support as “enduring requirements,” since those support troop levels are not linearly tied to the number of operational troops on the ground. Another way of looking at the costs of in-theater support, per the CBO, is that this bucket of spending will likely continue to exist even after combat operations end.¹⁵ (See Figure 3.) How long that in-theater support continues and how much of it will exist indefinitely for counterterrorism purposes are key unanswered questions about how to account for future enduring conflict spending.

In addition to the in-theater support costs, some of this enduring war-related funding—about \$10 billion a year, recently—pays to reset equipment used in combat operations, upgrade war-related weapons, and construct new bases and facilities. A portion of this budget line item has been used for

Figure 3. FY20 Breakdown of \$41 Billion in “Enduring War-Related Costs”



Source: Congressional Budget Office, *Funding for Overseas Contingency Operations and Its Impact on Defense Spending*, October 2018, https://www.cbo.gov/system/files?file=2018-10/54219-oco_spending.pdf.

procurement activities that are ostensibly tied to the wars, but perhaps not tied closely enough to be properly included.

For instance, CBO and defense analyst Russell Rumbaugh identified Navy fleet depot maintenance and Army tank recapitalization as two examples of this type of accounting problem.¹⁶ This portion of the account has also been misused in the past, such as when four F-22 Raptors were requested and appropriated in the FY2009 supplemental with the questionable justification that they would replace aircraft rendered unusable due to overuse in combat.¹⁷ In a similar case from 2014, the Pentagon asked Congress for permission to reprogram OCO money for F-35s to replace aircraft destroyed in the 2012 Camp Bastion attack. Congress denied that request.¹⁸ While “real OCO” spending to account for the wear and tear of combat on equipment is justifiable, there is decent evidence that the actual expenditures have been a bit too high for these activities, given their actual usage in current conflicts.

Lastly, the European Reassurance/Deterrence Initiative represents a special case among enduring war-related spending in that it actually should be in the “fake OCO” bucket. While theoretically defensible as emergency-type money given the rapid onset of Russian aggression in 2014, the money does not fund any typical war-related activities and should properly exist in the base budget, as many have already argued, including the Government Accountability Office and the current Supreme Allied Commander.¹⁹

While “fake OCO” has been explicitly designed to circumvent the BCA caps, the “real OCO” spending for enduring activities arguably also ended up serving as a relief valve for the defense budget. It is impossible to know exactly how putting enduring war-related funding in the base budget would have affected overall defense spending in an alternate universe. However, a few observations merit consideration.

For starters, the current practice of splitting the “real OCO” budget into direct and enduring costs originated after 9/11 and was followed by both the Bush and the Obama administrations before the BCA was enacted.²⁰ That essentially disproves the idea that enduring war-related funding in the “real OCO” budget was used as a slush fund in the same

way “fake OCO” spending has been. However, that does not mean tightening up the criteria for what can be included in conflict spending is any less important, given the examples above, such as F-22 fighters and tank recapitalization. The Obama administration did attempt to move some of these enduring OCO costs back into the base budget just before the BCA’s enactment.

Absent the BCA, policymakers and lawmakers might have had a robust conversation about war accounting in 2011 or 2012 and created a new accounting system. However, the eight years of the BCA have ensured that debate remains on hold. With the impending expiration of the BCA caps in two years, it is time for Congress to push this debate to the forefront.

A New Regime of Budgeting for Enduring War-Related Spending

The future of the OCO budget depends on answers to two interlocking questions: Is the “real OCO” budget more about creating a separate funding source for truly unpredictable military contingencies? Or is it about providing transparency about the costs of war—particularly for lawmakers and the public—as argued in a 2018 Stimson Center report on war spending? The current OCO budget has not done either well.²¹

The inclusion of enduring war-related funding in the OCO budget belies the idea that each year’s OCO costs are unforeseen, since a large \$40 billion portion of that funding is essentially the fixed price of conducting any missions in the Middle East, South Asia, and North Africa. And yet, moving this funding to the base would drastically underestimate the actual cost of current wars, particularly if missions ramp up again in the future. Alternatively, moving enduring war-related spending back to the base budget would cause it to jump about \$40–\$50 billion overnight.

Then again, keeping enduring war-related funding in the OCO budget wreaks havoc on Pentagon planning because the OCO budget is created for only one year, whereas the Pentagon plans over five years with base spending. As such, OCO budget documents do not include the five-year planning detail of base budget documents, rendering congressional oversight more difficult.

Further, the current Office of Management and Budget (OMB) criteria for all OCO spending and the line between “operations” and “support” forces allow OCO purchases that are perhaps only tangentially related to war, such as additional Navy ship maintenance or Army tank refurbishing, as mentioned above. These criteria have not been updated nearly enough in response to the evolving nature of the wars and the expenditures in the OCO budget.

The result is a complex accounting problem attached to a broader policy debate on the nature of the generational conflict against violent extremists. And some of the bigger accounting problems are basically unlikely to be addressed soon. For instance, as CBO notes, the overwhelming public support for the military (if not always for the wars) led Congress to expand military compensation and benefits significantly. Almost all these increased costs for military personnel are (properly) borne by the base budget, but their real cause lies in the wars. How should this potential connection be accounted for?

Still, this accounting issue is not unique; it is part of a much larger conversation about rationalizing the composition of the defense budget. For instance, in years past, lawmakers, most prominently the late Sen. John McCain (R-AZ), fought to zero out the Congressionally Directed Medical Research Program, a pet-issue defense budget line item that more appropriately should be classified as a nondefense expense.²² Similar arguments have been made about classification *within* the defense budget: Why does the Air Force pay for classified programs run entirely by the intelligence community?²³ And why does the Pentagon cram everything possible into the Operations and Maintenance category, from training to fuel to civilian pay to health care?

The question of how to account for war spending demands a serious, robust public debate. Before the administration decided to use “fake OCO” money in FY2020, it had actually proposed to transfer the “enduring” portion of the “real OCO” budget back into the Pentagon’s core base budget.²⁴ The OMB and the Pentagon received much acclaim for this decision, but no real public debate has ever really occurred on the matter.

An informed, bipartisan discussion on war accounting could devise any number of elegant

solutions to simultaneously increase military planning horizons while enhancing congressional oversight. Just recently, in response to a request from the Armed Services Committees, the Government Accountability Office released a list of options to rectify this problem.²⁵ Those include moving enduring war-related costs to the base budget, creating new appropriations accounts or transfer accounts, and using legislative text to more carefully specify what OCO funding can and cannot buy.

The question of how to account for war spending demands a serious, robust public debate.

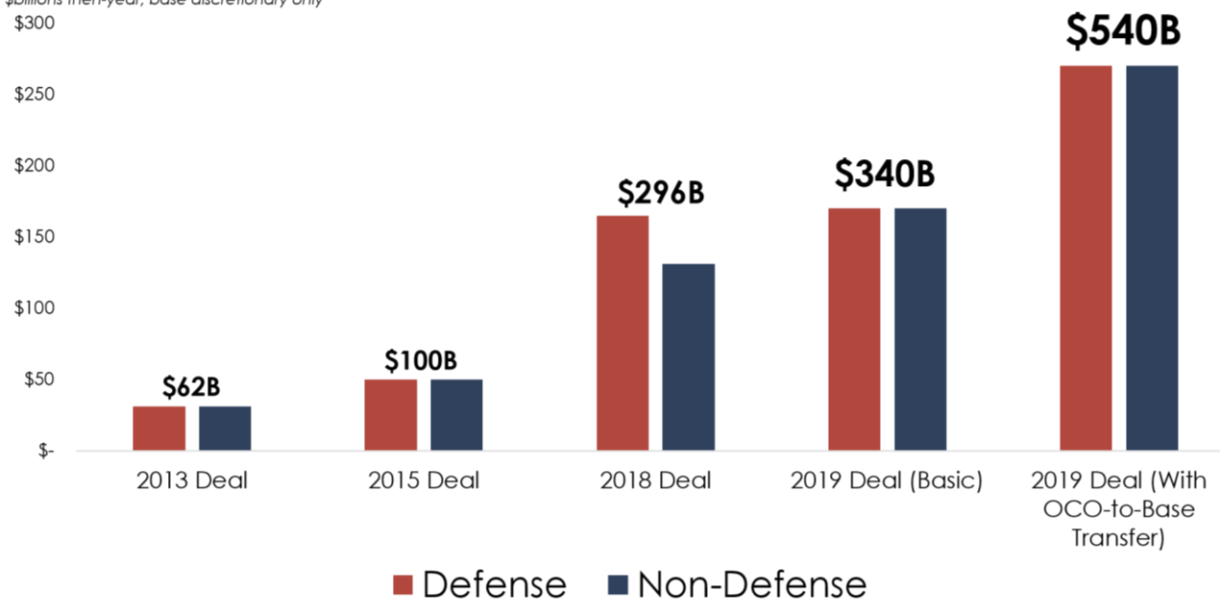
Benefits and drawbacks attend each option, necessitating careful review and negotiation. An optimal policy solution likely combines the above approaches. Certainly, at a minimum, European Deterrence Initiative funding should be moved back into the base budget, and Congress should pressure OMB and the Pentagon to more frequently update the criteria by which purchases and activities can be designated as OCO, as suggested by the 2018 Stimson Center report *Counterterrorism Spending: Protecting America While Promoting Efficiencies and Accountability*.²⁶

Some enduring war-related funding should probably migrate back to the base budget. But dropping the entire \$40–\$50 billion tranche back in at once ignores the fact that the current conflict against violent jihadi extremist groups is a generational one that defies traditional definitions of what constitutes “war.” For instance, were the Pentagon to return \$40 billion of the fixed infrastructure/support spending in Afghanistan and Iraq to the base budget only to ramp up those conflicts in the future, how would that be accounted for?

In other words, should the United States treat the current infrastructure in the Middle East as it did in Vietnam or as it did in Korea? In Vietnam, once combat operations ceased, the US military pulled out all the stakes, closing or transferring its support infrastructure in theater. In Korea, once combat operations ended, costs for US support infrastructure on the peninsula migrated from

Figure 4. Total Size of Two-Year BCA Cap Deals

\$billions then-year, base discretionary only
\$300



Source: Authors' calculations.

contingency funding accounts to the base budget in recognition of the fact that such infrastructure was part of a long-term US defense commitment. Arguably, the ongoing generational conflict with violent non-state actors shares more in common with the Korea model than with Vietnam, in that full withdrawal from the Middle East is highly unlikely for the foreseeable future, even if combat operations actually end for a time in Afghanistan, Iraq, and elsewhere.

One way to thread the needle would be to tighten the existing OCO account for more incremental war-related costs while some enduring war-related costs are migrated back to the base budget, but tagged with a new “war-related” identifier. This would improve Pentagon planning and congressional oversight while also maintaining a running tab of conflict-related spending.

Lawmakers should also consider whether a revamp of the “real OCO” budget should be accompanied by new methods of ensuring greater congressional involvement in American military operations abroad. The Authorization for the Use of Military Force, passed in 2001, inappropriately remains the governing authority for a significant portion of current US counterterrorism and counterinsurgency efforts. The lack of a forcing function—a sunset for war authorizations—has enabled Congress to shirk its duty for nearly two decades, even as the adversaries

and locations involved have changed dramatically. While congressional deadlines represent one form of forcing function, the power of the purse remains Congress’ ultimate power. Lawmakers might also consider whether holding separate votes to authorize and appropriate OCO spending might serve as an elegant solution to improve atrophied congressional interest in America’s use of force abroad.²⁷

Conclusion

Congress will largely ignore the administration’s counterproductive “fake OCO” gimmick, but that does not mean policymakers and lawmakers should ignore other needed discussions about how to use and account for spending on ongoing military operations and hostilities in the “real OCO” budget. A deliberate debate about the proper home for enduring war-related spending is needed given the upcoming expiration of the BCA, which brings two benefits.

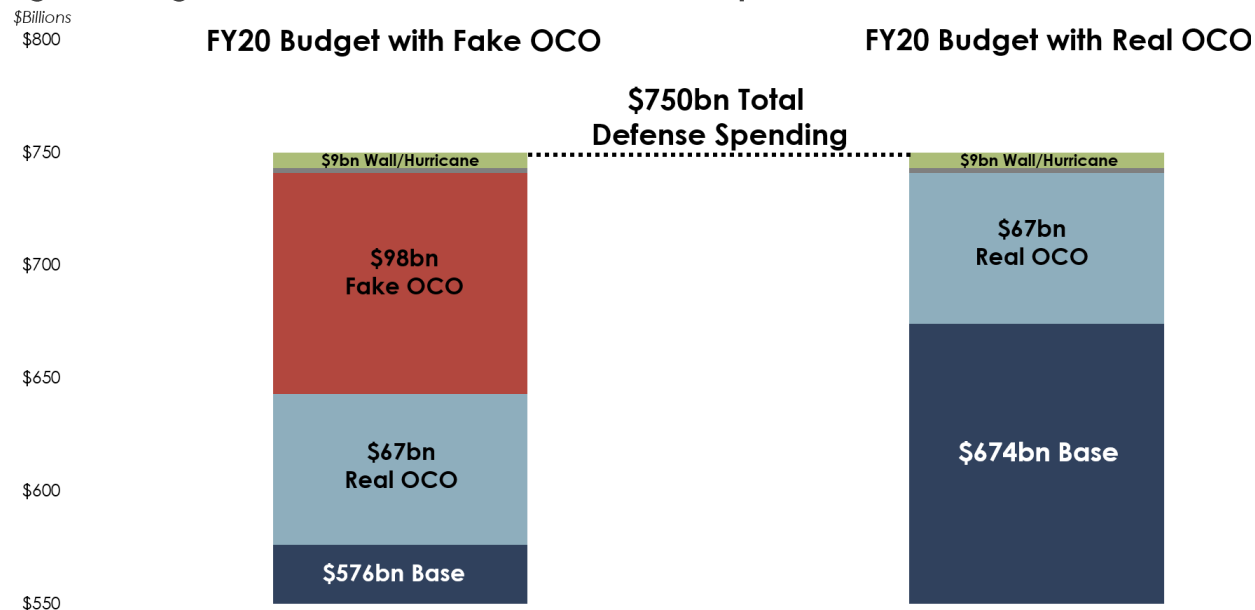
First, policymakers have not yet thought through the trade-offs and policy choices associated with this accounting problem. Taking time to do so will result in a better, more durable budget arrangement once the BCA expires. This is a complex problem and deserves careful study.

Second, making huge changes to accounting in the “real OCO” budget while still under the BCA is inappropriate, and it would distort the last two years

of a 10-year spending period for the purposes of analysis and transparency. Additionally, and perhaps more to the point, attempting to move \$40–\$50 billion in enduring war-related spending into the base budget will decrease the chances of an on-time two-year spending deal. As explained in the dissection of “fake OCO,” a higher base defense budget increase over the BCA caps means a commensurate increase in nondefense spending. This is no trivial matter; it is the difference between a cap deal about the size of the last one and a deal of more than \$500 billion. (See Figure 4.) A deal of such size would rapidly become unwieldy and collapse under its own weight on the floor of Congress.

Congress should reject the “fake OCO” gimmick and use the traditional base/OCO split to govern the 2020–21 cap deal negotiations (Figure 5). Already, the Senate Budget Committee has taken the lead by unveiling a FY2020 budget resolution with \$67 billion in “real OCO,” and the House Budget Committee, House Appropriations Committee, and Senate Armed Services Committee have essentially followed the same path. In addition, Congress must collectively take the lead on developing a suitable future arrangement for OCO accounting—specifically, enduring war-related funding—for enactment after the BCA expires.

Figure 5. Congress Should Maintain Traditional Base/OCO Split



Source: US Government Publishing Office, *A Budget for a Better America: Promises Kept. Taxpayers First.*, 2019, <https://www.whitehouse.gov/wp-content/uploads/2019/03/budget-fy2020.pdf>.

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