



United States
General Accounting Office
Washington, D.C. 20548

Comptroller General
of the United States

B-221952

June 24, 1986

The Honorable Jack Brooks
Chairman, Committee on Government
Operations
House of Representatives

Dear Mr. Chairman:

In your letter dated December 17, 1985, you requested our comments on H.R. 3886, "to amend title 31, United States Code, to require that in the President's budget for a fiscal year the economic assumptions pertaining to inflation for major weapons system programs of the Department of Defense (DOD) be the same as those for the rest of the budget". This amendment would eliminate the exception granted by the Office of Management and Budget allowing the use of higher inflation rates in budgeting for major weapon systems. While we believe the exception is not justified, the proposed legislation may not be the most effective measure in that it only addresses one problem associated with inflation budgeting. In fact, members of Congress are currently discussing broad-based proposals that would affect DOD's entire inflation budget and accounting system.

Recently, we reviewed DOD's budget and found that between fiscal years 1982 and 1986 DOD received \$44.5 billion more than was needed to cover inflation. DOD received \$14.2 billion of this amount by projecting inflation for major weapon systems at 1.3 times the anticipated increase in the Gross National Product deflator. Our review of this special multiplier was included in our reports, entitled Potential for Excess Funds in DOD (GAO/NSIAD-85-145, Sept. 3, 1985) and Potential for Excess Funds in DOD--March 1986 Update (GAO/NSIAD-86-76, March 7, 1986).

We found inadequate justification for the multiplier. Our recommendation that DOD's special inflation multiplier be eliminated was aimed at bringing the funds more in line with what DOD needs to carry out its programs and activities. In fact, under current economic conditions, the multiplier is clearly excessive. Current data indicate that inflation for major weapon systems has fallen well below inflation in the general economy. As recent experience has shown, when inflation suddenly falls, DOD receives an inflation dividend.

The Administration responded to our recommendation by setting the special multiplier at 1.0 in DOD's fiscal year 1987 budget request. This action will eliminate a portion of future inflation dividends.

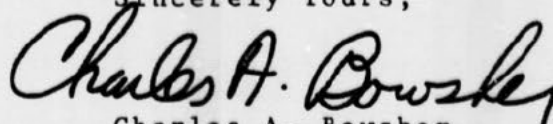
Legislation such as H.R. 3886 would permanently eliminate the multiplier; however, it could also take away flexibility that might be needed in the future if economic conditions change. We believe that legislation for areas where continual monitoring and corrective actions are needed will likely prove to be an inefficient strategy. Clearly, if H.R. 3886 is to be considered further, it should require DOD to monitor inflation dividends or shortfalls that occur and report the most recent information to the Congress at the critical stages of the budget deliberation process. DOD should submit one such report at the beginning of the fiscal year on the total authority available for obligation to cover inflation during the current fiscal year and outyears, broken down by appropriation account. Subsequent reports during the fiscal year should document by appropriation account all noneys appropriated to DOD for the current fiscal year and outyears that are in excess (or fall short) of sums needed to cover inflation.

The fiscal year 1986 DOD Authorization Act required DOD to provide reports on both inflation and unobligated balances. Also, both the House and Senate versions of the Concurrent Resolution on the Budget for fiscal year 1987 would require DOD to report on excess inflation appropriations. We plan to review the usefulness and accuracy of information in these reports.

We share your concern about inflation estimates and the need for improvement in DOD's budgeting and accounting systems. We will continue to study these issues as part of our goal to build an effective financial management structure that provides reliable, consistent information for policy formulation and management control.

We are sending these comments to the Chairman of the Senate Committee on Governmental Affairs in response to an identical bill, S. 1921. Please let us know if we can be of further assistance.

Sincerely Yours,



Charles A. Bowsher
Comptroller General
of the United States