Remarks by Major General Arnold Punaro, USMC (ret)
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Based on what I knew Chairman McKeon and Undersecretaries Kendall and Hale would cover in detail, I wanted to provide more of a strategic framework for decision-making. Historically, the Defense Department and the Congress focused on the threats and vital interests and the validated requirements for the military strategy to protect and defend our nation at home and abroad and, when necessary, to preempt and destroy our enemies. The level of resources — the defense topline with its underlying programs — were derived from these key factors thru a very deliberative and thorough process.

As those threats and vital interests increased, decreased, or changed, the topline flowed up or down such as the drawdown following Vietnam, the build-up during the Reagan Administration, the drawdown following the end of the cold war, and the build up after 9/11 over the last 12 years. Today, the defense budget has grown to be larger in constant FY14 dollars than the peak of the Vietnam War with 500,000 troops on the ground in combat or the peak of the Reagan buildup when we had 2.4 million military personnel under arms.

Further, when following this successful and time-tested approach to vital interests, threats and strategy, the Pentagon exceled at long-term planning with Congress rewarding it with stable and predictable toplines with the highly detailed plans beneath for research and development, procurement, operations and training, the size of the force and the missions we expected these forces to accomplish. Budgets and plans that allowed industry to develop and strategies to follow coherent and growth oriented plans. Sure, adjustments to these plans would occur in the Executive branch and Congress from year to year but these were at the margins and not fundamental course corrections.

In stark contrast, the Budget Control Act of August 2011 with its automatic sequester provision — the sequester that no one wanted to happen and very few predicted would happen — is divorced from vital interests, threats, military requirements, military strategy or rational decision-making. It is married to abject failure by the Congress and other elements of the body politic to do their job. Yes, the deficit must be reduced, yes, entitlements including those in the military must be reformed, and yes, we need to reduce discretionary spending as well as reform the tax code — but you can't put those fundamental decisions on automatic pilot or cruise control. The sequester is causing fundamental, adverse changes in our national security no matter what you read and hear from the talking heads. And the sequester is not affecting the primary drivers of the deficits — mandatory spending — entitlements, domestic and military.

If we use a starting point of the Fiscal Year 2012 topline and future year defense plan, the Budget Control Act of August 2011 reduced this topline by 10% over 10 years — or $489 billion from projected spending. It is worth nothing that only in Washington is a decrease in a projected increase a cut — since the DOD base budget has since stayed constant for the last three years between $526B-$530B — 270% higher than the Carter Administration but with a fighting force 50% smaller.

But not for long—now that the sequester has been implemented for FY13 thru FY21, this lower BCA topline will be reduced another 10% or $500 billion. If you consider the protected areas of the budget like military personnel and warfighting funds, my back-of-the-envelope is the percentage cuts will be closer to 18%,

To avoid this requires a change in the law that does not appear to be to be politically viable despite the fact that the Administration budget, the Cong. Ryan budget plan in the House, the Senator Murray budget plan in the Senate all remove the sequester and peg the FY14 defense budget at the BCA level for the base budget at $526 billion.

The FY14 Overseas Contingency Operations is being finalized but will only be slightly less than the FY13 request of $88 billion as they heavy up on O&M due to shortfalls and increased costs due to inability to use the Pakistani land routes. The total FY14 budget request will be approximately $606 billion.

But it’s like they are all working in a parallel universe called “bizarro world” since these are budget levels that are tied to hope and not reality.

The administration budget, if adopted, would de-trigger the sequester because it eliminates $1 trillion in deficit spending over the remaining years of the BCA by increasing revenues, changing the CPI index for the cost-of- living adjustments to entitlements and by decreasing the defense budget by $100 billion starting in FY15. The Ryan Budget has a very different path to finding the $1 trillion in deficit reduction with no revenues but deep cuts in domestic spending and entitlements. The Murray budget has some revenue increases, some spending cuts including defense and but very little on entitlements.

To date, there does not appear to be a majority for any compromise that could get through both the House and Senate and be signed by the President. Some observers thought that the need to increase the debt ceiling again would have created some pressure for a compromise (recall the last debt ceiling pressure brought us the BCA and sequester). However, increased revenues and an improving economy have postponed this debate until late fall after the beginning of the new fiscal year so there are no near-term pressure point.

Without compromise, we are looking at another Continuing Resolution to start the new fiscal year as has been the case for the last decade and the sequester for FY14 and beyond will still be in effect. This would continue the greatest level of uncertainty and unpredictability about the resources for national security in the last 50 years.

The other reality is that DOD will be making most all the FY13 real cuts in the last five months of the current fiscal year.

The level of sequester reduction for FY13 for DOD is now fixed at $38 billion after some positive adjustments downward — the initially projected $48 billion cut was reduced first in the American Taxpayer Relief Act in Jan 2013 by $6 billion and then another $4 billion was reduced due to accounts that did not meet sequester thresholds once the final appropriation passed at the end of March. This $38 billion will be reduced primarily from the base budget, from small parts of the overseas contingency accounts, and from $4.4 billion in unobligated balances. So why do we hear that the sequester is not having any impact.

First, OMB and DOD just finalized the numbers. While the sequester order was issued on March 1, 2013, DOD did not have to submit their detailed cuts to the 2,500 program, project and activities until April 19th. Those cuts had been under review and have not yet been released publically which I hope will occur shortly. DOD also just now decided on the level of possible civilian furloughs. They first said 800,000 U.S. and foreign civilian employees would be furloughed for 20 days to save $5 billion and then it was 14 days and now Sec. Hagel understandably wants to hold that number down to the lowest number of days possible. The level for around 600,000 employees is previously indicated now set at 11 days. That will save a little under $2 billion of the $20+ billion required O&M cut.

But let's not be lulled into a false sense of security. They still have to cut $38 billion overall. DOD had already reduced the Operations and Maintenance support to non-deploying U.S. based units and decreasing their warfighting readiness while protecting the O&M for those fighting overseas. We can expect O&M budgets, except those areas that are protected, to be reduced 20% to 25% in the last five months of the fiscal year. We should expect the thousands of program, project and activities in the investment accounts to be reduced at least 16% in the last five months of the fiscal year. O&M is where service contractors derive most of their revenues and investment accounts are where the large primes derive their manufacturing revenues.

The widely reported earlier percentages of only a 7% cut were annualized over a twelve months period and consistently understated the adverse impacts which are occurring after DOD has spent over 50% of their annual funds and has exempted $140 billion in military personnel spending and protected most of the O&M supporting the wars.

The notion that the sequester is not having an adverse impact on our national security capabilities is balderdash. The economists and pundits who are saying the sequester is not so bad have never had to command a unit in combat or get one ready for combat.

As a former Marine Corps Division commander and a platoon commander in Vietnam, you never want to see your warfighting readiness reduced due to lack of funds for training or equipment maintenance or personnel qualifications. In our military, we rate the warfighting readiness of a unit based on a C scale: C-1 is combat ready, C-2 is combat ready with some deficiencies and C-3 is not combat ready. You measure the number of personnel needed in your units and whether or not they have their military occupational specialty training. You measure the equipment and supplies on hand and whether or not it's on deadline or ready. And you measure the training of the unit to meet its mission essential task lists. The sequester is reducing all of those elements in our non-deploying conus based combat units and their readiness over the next several months is going from C-1 to C-3—something that is very negative and increases risk in a dangerous and unpredictable world. Dangerous to our nation and dangerous to our troops.

The fact that lower readiness does not impact the daily lives of our citizens by making them wait on airplanes or in line for gasoline is why some say the sequester does not have an impact. You don't determine warfighting readiness by civilian wait times. Our enemies are not impressed with how long you wait to take off at LaGuardia airport.

At the same time DOD is reducing the $38 billion, DOD is working on a substantial reprogramming of non-sequester FY13 funds to move over $9 billion dollars into accounts where it is needed more than where it was appropriated.

The 62-page FY13 reprogramming will use all of DOD's $7.5 billion general transfer authority and has four parts — transfers within the FY 13 base, transfers within the FY 13 OCO, transfers from the foreign currency accounts to the defense working capital fund and transfers from the Afghan fund to the defense working capital fund. DOD is primarily replenishing the warfighting O&M accounts in Army and Air Force and Navy and then paying for substantial fuel inflation with the defense working capital fund. The cuts come mostly from the investment accounts and some military personnel accounts.

The reprogramming does NOT fix any of the FY13 sequester cuts. The reprogramming is also a zero sum game and Congress can object to both the source of the cuts and what they are increasing so it is unclear how the reprogramming will fare in Congress and they never get 100% of what is requested in any event. So they will have shortfalls here that will make their situation worse.

This brings us to what DOD is doing for the future while they implement the FY13 sequester reductions which they have stated publically they will live with.

They are testifying on the FY14 budget levels which does not take into account the sequester so Secretary Hagel has underway what is called in the building as the Strategic Management and Choices Review. It was initially designed to guide adjustments to the development of the FY15 future year defense plan but the results could be used to “adjust” FY14 budget at the point SecDef and Administration is willing to admit that there will be no compromise to avoid the FY14 sequester of $54 billion. Chairman Levin and Ranking Member Inofe have asked Secretary Hagel to provide Congress with a roadmap for this reduced level. While Sec. Hagel has outlined in his National Defense University speech the compelling need to reduce DOD’s massive overhead, reform its acquisition process, and get control of the unsustainably personnel, health care and retirement costs of the All-Volunteer Force. Most of these areas do not typically result in near-term savings and those that do face emotional and entrenched opposition. And while Sec. Hagel has stated “everything is on the table,” the cuts that yield near term savings with the least ability for interest groups to oppose are force structure (size and composition of the active military) and modernization (research and development and procurement).

We can expect the active duty military total which was headed to 1.3 million from 1.4 million (mostly in the Army and USMC) to get even smaller in each service—this not reflected in current FY14 budget or five year numbers in the just released Green Book. The unsustainable fully-burdened and life-cycle costs of the All-Volunteer Force has created a hobson’s choice between highly trained and equipped riflemen, airmen, sailors, and happy retirees. The body politic continues to side with happy retirees. So the active military will get unfortunately get smaller and smaller and smaller. And the number of retirees will get larger and happier.

And we can expect significant reductions in research and development of new technology and in the purchase of new equipment both in terms of programs and quantities. The five-year plan before sequester for procurement totals $524 billion total but a sequester would reduce this by around $15 billion a year or between 15 – 20%.

We can expect the defense civilian workforce (now around 750,000 in the U.S.) to decrease by at least 5% and probably closer to 10% — it has gone up 100k in the last ten years. The cuts could be deeper as a 10% cut would leave civilian personnel higher than in 2000. And the number of DOD contractors — currently estimated at 710,000 will decrease as programs and services are cut.

As I indicated in the outset, the current situation flows from abject failure. We need to get back to the time-tested approach of vital interests, threats, military

requirements and strategy and stable, predictable toplines that are tied to a realistic level of resources in this era of profound fiscal constraint.
This realistic level will be lower than current plans and should be part of a grand compromise that reduces entitlements, constrains spending, and increases revenues.

This lower level will still be quite substantial for industry as the federal government will still contract close to $600 billion or 54% of the FY14 discretionary budget. The addressable portion for most contractors is $350 billion ($240 billion for services and $114 billion for equipment).

The resulting defense topline also must result in more bang for the buck than we currently get since so much of the DOD budget is tied up in tail and not tooth. Contractors that bring efficiencies and effectiveness will be in strong demand.

The outcome can be changed if all of us here demand this of our political leaders in both parties. We all need to be caught trying.

If not, the sequester will continue to erode our national security and adversely impact the small, medium and large businesses that support it.