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**“It was the best of times; it was the worst of times...”**

Generals Grass, Danner, Tonini, Hargett; former Chiefs; Adjutants General; distinguished guests; Soldiers, Airmen, industry representatives, family and friends of the National Guard; I am deeply honored to have the privilege of addressing your annual conference once again. As a U.S. Senate staffer starting in 1973, two of my frequent visitors were Major General Fran Greenlief, Guard Bureau chief and then the executive director of NGAUS and Lieutenant General Vern Weber, who succeeded him in both jobs. As I look back over the last 40 years, it is clear to me that NGAUS has played a powerful and successful role in advocating for a strong national defense. In the budget policy wars in the decades to come, NGAUS’s role will become even more important. And if I could choose only one outfit to be in my foxhole, it would be NGAUS led by Major General Gus Hargett.

It would have been hard to imagine that so much could change so significantly in the two years since I last shared my thoughts with all of you in Reno. As we examine the defense and security landscape that lies before us today, I can’t help but recall that great Charles Dickens masterpiece, “*A Tale of Two Cities*” and its opening lines: “It was the best of times; it was the worst of times.”

## The Best of Times

“How can these possibly be the best of times?” you might ask. Well, despite the doom and gloom in Washington these days, there is good news that gives us hope for the future.

In the wake of the National Commission on the Structure of the Air Force, that service has new leadership in Secretary Deborah Lee James and Chief of Staff General Mark Welsh. They have brought a renewed vision that the Air Force is a single armed force, not a collection of three disparate components. The Army, meanwhile, recently swore in General Dan Allyn, formerly Commanding General of Forces Command, as its Vice Chief of Staff. General Allyn has proven to be a strong believer in the One Army concept, as evidenced both by his own statements and activities and by those of his senior staff members who have appeared before our Reserve Forces Policy Board. This bodes well for what we all hope will be a similar revival of a one-team philosophy following a commission on the structure of the Army that the Congress is very likely to establish.

The language in the Senate and House mark-ups of the 2015 Defense Authorization Bill that seeks to create that commission is the product of the attempts by some to alter the Army National Guard’s role as a combat reserve of the Army and as an operational reserve for our nation. Our undeniably cost effective Reserve Components must be a part of solutions when it comes to decisions in this era of fiscal constraint. However, when the Army planned to take all of the Army National Guard’s attack helicopters despite reasonable alternatives offered by the Guard leadership, Senator Lindsey Graham of South Carolina, Senator Patrick Leahy of Vermont, Senator Dick Durbin of Illinois, and a strong cohort of their congressional colleagues stepped forward and declared that the Army had gone too far. All 4 defense committees agreed.

I am confident that the Army, working with the Guard leadership and the adjutants general, will get it right. With innovative and teambuilding leaders like General Allyn and Lieutenant General H.R. McMaster, who is designing the Army of the future – and who will address you next – the Army that stood unified against our nation’s enemies for more than a decade of war will remain unified into the future.

I had the privilege of meeting with General McMaster at Ft. Benning when my son Dan Punaro was commissioned as a 2<sup>nd</sup> Lieutenant in September 2013 and now proudly serves in the Delaware National Guard. General McMaster and I talked about the future of warfare. We are both “grunts.” We know history’s proven lesson that boots on the ground are required to ultimately prevail in any serious conflict and that the Guard’s combat formations are essential to our warfighting abilities today and far into future.

### The Worst of Times

Our nation desperately needs these leaders and many more like them as we face a wide array of tough challenges: ever-growing debt and deficit fueled by domestic and military entitlements; immigration; declining education; and decaying infrastructure. Add to those the rapidly deteriorating international situation - unrest, insurgencies, or open civil war in Iraq, Libya, Yemen, Egypt, Syria, Ukraine, East and Western Africa. One could very easily conclude that we are, indeed, in the worst of times.

While extremely complex, these challenges are not insurmountable. Nearly two and half centuries of American history have proven that a national leadership team – executive and legislative – that puts the best interests of our nation ahead of personal or partisan concerns could surely come together to work through these or any other crises we face.

Among the most daunting of those challenges is the sequester that has been so detrimental to military readiness and has broken the link in one of DoD's strongest chains – long-range planning that ties budgets and programs to threats and strategy. Despite last year's Bipartisan Budget Agreement that lessened the sequester's bite a bit, DoD has still absorbed over 70% of the sequester's deep cuts in 2013, 14, and 15 totaling over \$110 billion from previous plans. More critically, it did nothing to fix the sequester's full effects that are set to reappear in 2016 and run through 2021.

The sequester is accelerating something I have been concerned about for many years: "DoD's ever shrinking fighting forces."

There is no doubt that we have the finest military in the world. But if we don't make some adjustments, it won't stay that way. I want to focus on two reasons why the world's finest military is at risk: (1) the fully burdened and life-cycle costs of the all-volunteer force; (2) the worsening of the so-called 'tooth-to-tail' ratio, due to DoD's excessive overhead and infrastructure; and (3) an inefficient acquisition system that can be characterized by "spend more, take longer, and get less."

#### Costs of the All-Volunteer Force & The Ever-Shrinking Fighting Force

Within the next couple of years, the life-cycle costs of compensation for retirement and health care for military retirees and their dependents will be greater than the entire \$140 billion annual appropriation for the military personnel account that includes all active duty, Guard, and reserve personnel. The main point is that we will be spending more on people who are no longer serving than on those who are. The cost of pay and some benefits for active personnel has gone up 82% since 2001 for a slightly smaller force than the one we had on 9/11. Health care costs have gone up 135%. On base dependent school costs have gone up 120%. There are those who

say: what's the problem – personnel costs have stayed approximately 30% of the budget. Wrong. The all-in costs of taking care of people are well over 50% of the budget and climbing. The Army and Marine Corps leaders tell us their all-in personnel costs exceed 65% of their budgets. Moreover, those who claim that these costs are not growing faster than historic norms neglect to mention the fact that our end strength has come way down, and I'll get to that in a minute.

And this does not include the costs of retired pay. We have 2.4 million retirees (only 1.2 million active duty) and their retired pay alone is \$100 billion a year. The retirees and their dependents also consume over 65% of DoD's \$52 billion dollar annual health care bill. If you add up the total costs of pay for active duty and retirees, their health care costs, veterans and other related costs, it's \$417 billion a year—that's 63% of combined DoD/VA budget. And this does not include the \$1.1 trillion dollar bill for the unfunded liability in military retired pay and health care that comes due in the next ten years. That's \$1.1 trillion that's in nobody's budget right now. These are clearly unsustainable trends. We know General Motors didn't start out to be a health care company that occasionally built an automobile. We can't let DoD turn into a benefits company that occasionally kills a terrorist.

Each of the last 3 Secretaries of Defense has understood the severity of the problem and they've been joined by every member of the Joint Chiefs of Staff. Unfortunately, few in Washington have listened to them and fewer still have decided to take an active role in solving it. All of the recent debate has centered on protecting "benefits" and not protecting "warfighting." I believe that we need to reframe the issue and dedicate ourselves to educating the people who can make a difference – and those who influence them like you in this audience. NGAUS must make key leaders and decision makers aware that we don't want the choice to be between highly trained and well-equipped riflemen or happy retirees. Terrorists and those who wish us harm are not deterred by a commissary card.

We need to get back to focusing on DoD's core mission, which is war fighting. With budgets larger in constant dollars than the peak of the Vietnam War or the Reagan buildup, we are clearly not getting the bang for the buck that we should. If you put historic defense budgets in FY15 constant dollars and map the active military end-strength against it, here are numbers any 4<sup>th</sup> grader can understand:

- During the Korean War, \$600 billion supported 3.5 million troops;
- In Vietnam, \$400 billion supported 2.5 million troops;
- In Desert Storm, \$550 billion supported 2 million troops;
- Today, \$600 billion supports 1.2 million troops.
- We are spending the same amount today as we did during the Korean War, but that amount supports 2.3 million fewer troops.

Accompanying these personnel decreases, we've cut Army Divisions and Brigade Combat Teams, retired tactical fighter/attack aircraft, and mothballed combatant ships. Since 1980, active duty personnel have shrunk by 42%; Army divisions have shrunk by 45%; Guard and reserve are down 35%; active commissioned ships have shrunk by 46%; and our active fighter/attack aircraft inventory has gone down by 53%. And yet, the DoD topline has risen 29%. We are spending more and getting less.

Under the sequester levels more cuts are coming. The Army is slated to take the biggest hit to personnel end strength, with a decrease from 490,000 today to 420,000 by FY19. The Guard is slated to go from 350,000 to 315,000. These levels are way too low to meet the threats we face. And if we don't reverse the adverse internal trends, our war fighting forces will shrink even further than outlined above. Army divisions will shrink from 10 to 6; Navy ships from 285 to 228; and fighter aircraft from 1,493 to 1,157. Guard maneuver units and combat squadrons

could be cut by up to 50%. At these levels, the remaining forces will be too small to meet the threats we face and at the same time will also be less ready, and less capable.

This is not just my analysis. Most of the major analytical think tanks from the left to the right have agreed for some time that this is the course we are on unless we make fundamental changes. The Independent National Defense Panel, chaired by former Secretary of Defense Bill Perry and retired Army General John Abizaid, just reported the same warning. In my view, this is a compelling case for reform and one on which the Pentagon, Congress, industry, and all in this room must work together to reverse the ever-shrinking warfighting forces.

There is one undeniable way to improve warfighting: that is more, not less, reliance on our very cost-effective reserve components! All of the recent, objective cost analyses have proven beyond a shadow of a doubt that the Guard and reserves are an extremely effective way of achieving operational bang for a much reduced share of the defense buck. After 13 years of responding at home and abroad, we have the most battle-hardened and operationally experienced Reserve force in our history. 887,000 Guardsmen and reservists mobilized to serve on active duty and 34,000 are currently deployed.

Just a couple of examples:

The RFPB just concluded a year long study of the DOD approach to cyber led by a prominent businessman Satch Pecori. I have just sent our report to the Secretary of Defense with four recommendations on ways to take advantage of the reserve components significant skill and cost and experience advantages because right now DOD does not include any reserve components in the newly formed Cyber Mission Force. In our government today, as we try to figure out how to deal with the situation in Ukraine, the top experts in the country with the most relationships is

the California National Guard—Ukraine’s partner state for 20 years. And retired Army LTG Dave Barno of the Center for a New American Security just completed a landmark paper on how to increase the use of the Guard and reserve in this era of fiscal constraint.

### The Need to Reduce Department of Defense Overhead

The second reason our war fighting forces are at risk is DoD’s massive overhead and infrastructure—the so-called “tooth-to-tail” ratio—which has never been good, but it’s getting worse. 42% of all DoD spending is for infrastructure. This is over \$200 billion, which is larger than the entire economy of Ireland. Defense-wide spending has gone from 5% of the budget in 2001 to 20% today.

Secretary Hagel, to his great credit, immediately recognized the imbalances within the Department and began a series of corrective steps, to include the strategic choices and management review. The 20% headquarters cuts that Secretary Hagel directed are very important from both a symbolic and substantive standpoint. But the total number of people working at OSD, the joint staff, the combatant commands, and the defense agencies is over 250,000 at a cost of over \$115 billion a year and nary a trigger-puller in the lot. And this only scratches the surface in the infrastructure and overhead area as 75% is in the military departments.

It is an undeniable fact that reforms are necessary – reforms in pay and benefits current and deferred, reforms in a wide array of defense programs, and cuts in overhead and infrastructure. The Reserve Components must be a part of the solution by taking their fair share of reductions, as long as those reductions are well thought out, make good sense from both fiscal and strategic perspectives, and don’t diminish our reserve components’ value as an operational reserve. The reserve components also have some overhead that could be trimmed. As an example, Reserve



Component Administrative Headquarters have grown over the last four years by 6%. There are 85 Reserve Component, non-deployable headquarters that administer to approximately 840,000 Reserve Component personnel and there are over 160,000 full-time personnel supporting the Reserve Components. As a percent of reserve end strength, the full-time support averages 20% but goes as high as 36% with costs that parallel the active force. We need to ensure the reserves remain a bargain for the taxpayer.

### The Need for Acquisition Reform

In the acquisition arena, DoD spends over \$400 billion a year on goods and services, supplies and equipment, and the process can generally be characterized as “spend more, take longer, and get less.” The Department clearly is not operating as efficiently as it needs to be and we cannot afford to continue to follow this path. In these tough fiscal times, what’s important is not what we spend but what we buy. We need to make sure we’re getting the best bang for our defense buck for the warfighter and for the taxpayer.

Under Secretary Frank Kendall and his team continue to push reform aggressively and Congress is working with the department. The incoming Chairman of the House Armed Services Committee Rep. Mac Thornberry is personally leading this effort in Congress with the leadership of both Armed Services Committees and they mean business. Real progress has occurred in this area but it’s not how far we’ve come that should be measured, but how far we still need to go.

No adversary is deterred by the excellence and frequency of our incurred cost audits. As some of you know, in addition to serving as the Chairman of the RFPB, I have the honor of serving as the Chairman of the National Defense Industrial Association, the oldest and largest of the national security organizations with over 1,600 member companies. The NDIA is taking the acquisition

reform issue head-on, helping the Department and Congressman Thornberry identify ways that it can skinny down the waste and use more of our money to buy more equipment and technology, not pay for more lawyers and accountants.

### The Need for Sustained Industrial Capability

Not only are we decreasing our war fighting forces, we are in some cases quickly and irreversibly drawing down the defense industrial base that provides the technology so essential to our warfighters. In case of an emergency, we can surge training by keeping some part of the force highly trained for no-notice contingency response and accelerating training for the remainder of the force as required. Our reserve components proved beyond a shadow of a doubt that we can surge personnel.

But if we allow our industrial base to degrade, we can't surge equipment. Cutting-edge technology – a key discriminator on the battlefield – takes years to research and develop. No amount of money can overcome lost time. You can't go on Amazon.com on Monday, order precision-guided munitions, and get them by Tuesday – or helicopters, or engines, or trucks, or radios, or just about any battlefield gear that is displayed here in the industry exhibits.

### OSD (P&R) Reorganization

I want to take a moment to address one specific reform measure that has been directed at the OSD staff level. The Under Secretary of Defense for Personnel and Readiness has proposed that OSD Reserve Affairs office be subsumed by a new organization under the P&R umbrella that will be called OSD Manpower and Reserve Affairs.

I served on the Senate Armed Services Committee Staff in 1984 that wrote the legislation that established OSD Reserve Affairs. Reserve Affairs was created because our reserve components did not have a strong or effective voice at the upper levels of OSD at that time.

Some believe that replacing the ASD for Reserve Affairs with an ASD for M&RA would be a step backward to a diminished voice for the Guard and Reserve. I do not agree with those apprehensions as the Reserve Components have made significant progress in the last 30 years. Today we have three-star Reserve Chiefs and a four-star Guard Chief who is also a member of the Joint Chiefs of Staff. These developments are a far cry from 1984. I believe that RC issues will continue to enjoy their rightful levels of visibility at the highest levels of the Department as long as we maintain three conditions that exist today.

First, we must ensure that civilian leaders with uniformed RC experience continue to have opportunities to rise to executive level positions in the Department. As long as we have civilian leaders like Under Secretary Jessica Wright, Assistant Secretary Jonathan Woodson, Acting Assistant Secretary Rich Wightman, and Acting Assistant Secretary Stephanie Barna, all of whom have served - or continue to serve - as senior officers in the Guard or reserves, I believe we can sleep well at night, knowing that our collective RC voice will be heard.

Second, we must ensure that key uniformed RC leaders are embedded across the critical elements of the OSD (P&R) staff. That, in fact, is exactly what the Undersecretary intends to do if the reorganization is enacted into law. Today, we have a cadre of very smart and professional RC officers and senior NCOs working in key positions on the OSD (RA) staff. As part of the reorganization, those staff officers and NCOs will be spread throughout the P&R staff, ensuring that any staff action or initiative that makes its way through the P&R organization - and has RC impacts - will have a critical set of RC eyes on it as it is developed.

Finally, we must continue to work to have the collective voice of the RC Chiefs heard at the senior levels of the Department. Of course, that's a little easier for the Guard because your Chief has a seat on the Joint Chiefs and, as a result, attends JCS Tanks, DMAGs, and SECDEF's Senior Leadership Council meetings. All of the RC Chiefs, however, have the opportunity to raise concerns or issues through their representatives on the RFPB, through their full-time staff members in the service M&RA staffs, and in a number of important and well-placed staff and policy bodies.

#### OSD Support

In closing, I need to let you know that the Reserve Components in general - and the Reserve Forces Policy Board in particular - enjoy a superb level of support from the Secretary of Defense Chuck Hagel and the Deputy Secretary of Defense Bob Work. That support is reinforced every day by the RFPB's sponsor, the Under Secretary of Defense for Personnel and Readiness, Jess Wright, the former TAG of Pennsylvania and by our new RFPB executive director Major General Walt Lord, Pennsylvania National Guard. As you may know, the RFPB, by law, is an independent body that provides advice and recommendations directly to the Secretary of Defense and we don't hesitate to give it. However, we rely on Under Secretary Wright and her office to provide day-to-day support for our full-time staff and to champion Reserve Component causes within the department. That support has been continuous and unwavering.

#### Parting Comments

One of the overarching themes expressed in "*A Tale of Two Cities*" is darkness and light as metaphors for evil and good. The darkness of which Dickens writes represents uncertainty, fear, and peril. The light represents hope for the future and a belief that, with turbulent times behind us, we can look forward to better times ahead. I am confident our nation will, with the leaders in

this room, deal with the fiscal, political, and social challenges head on and we will triumph through these worst of times and will set the conditions for the best of times ahead.

Thank you for inviting me to join you in this great city of Chicago. But, more importantly, thank you for what your Soldiers, Airmen, and Families do in service to our states and our nation and for your leadership that enables them to serve so well. God bless you and God bless the United States of America.

*Disclaimer: Major General Punaro's comments are strictly as a private citizen and former Chairman of the Commission on the Guard and Reserve and Staff Director of the Senate Armed Services Committee. They are not associated with any industry organization or the Department of Defense.*