

TRANSCRIPT
RET. MAJOR GENERAL ARNOLD PUNARO
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Arnold Punaro: We have to get more bang for the buck, for the taxpayers and the war fighters than we are getting now. In terms of the defense budget, even with all the talk of sequester and the Budget Control Act (BCA) agreements, if you look at the FY14 budget in constant dollars, and you look at the future year defense plan and you average it out, it is still higher than the highest peak of the Vietnam War, and the highest peak of the Reagan build-up. If you take a line and put it at the top of Vietnam and at the peak of Reagan, you have seven or eight years of budgets that are above those levels.

These are huge-base budgets. We are not getting the bang for the buck for the dollars we are putting in. Even though we have those large-base budgets, the force is 50% smaller than when Jimmy Carter was president. No matter how you measure it, if you want to measure Army divisions, if you want to measure Navy ships in the fleet, if you want to measure number of combat airplanes, if you measure the number of active duty personnel, guard and reserve, the output is smaller.

Why is that? Why are we not getting the bang for the buck? One reason is DoD's massive overhead and infrastructure. If you just look at the Office of the Secretary of Defense (OSD), the Joint Staff, the combatant commands and defense agencies, there are 250,000 people costing \$116 billion a year, relatively untouched by human hands in terms of any cutbacks.

The second reason is DoD's inefficient and ineffective acquisition process, where they basically spend with prior year obligations, \$400 billion a year on goods and services, supplies and equipment, and about the only charitable thing you can say about that output is "spend more, take longer, get less."

And then, third, of course, the personnel and benefits area where you have a former Chief of Staff of the Air Force, Ron Fogleman, saying the cost of the volunteer force, the life cycle and fully burdened cost, is not sustainable. We did a study in the Reserve Forces Policy Board that documented these adverse trends.

If you look at most of the fundamental reforms of the Pentagon, they have come from outside the Pentagon. The Nunn-Warner benefits package of 1980 to basically save the volunteer force that President Carter and his Pentagon opposed. The Goldwater-Nichols Law, the Special Operations law, keeping the stealth fighter alive when the Air Force tried to kill it. We don't have those kinds of voices on the outside that we had in the past to help the Pentagon reform itself and make some of the tough decisions.

And, finally, people always say — we have got to keep faith with the troops -- and that is absolutely correct. In the personnel benefits area, if you go back and look over the years, we have always grandfathered everybody. I remember in 1979 retirement pay was based on the last day in office, and we went from the last day to the high three. Of course, the Pentagon and all the benefits outfits said the free world as we know it will cease to exist. This is going to wreck recruiting, it is going to wreck retention. Everybody was grandfathered for twenty years. It did not affect recruiting, it did not affect retention. The high three went into effect in 1999 and saves \$2 billion a year.

So you do have to be fair, but keeping the faith does not mean you cannot ever change anything. Eighty percent of the people that serve in the military – 80 percent – never benefit from any of the life cycle retirement, healthcare or other benefits.

You have to be mindful of all the people that serve, not just the people that make it to twenty years.

Q: I would like to start with the third point that you make about the personnel costs. You and a lot of other people talk about the need to bend that curve in the long run. The Pentagon has proposed lowering the pay raise below the ECI, the little progress on ticking up Tricare fees. But these changes so far are relatively incremental. How do you see us getting over these huge political questions that are required to really make substantive change in the long-term curve? How do we get from the incremental changes that we are discussing in FY2013 to the long-term solutions?

Punaro: I think we get there the same way we went from the draft to the volunteer force. In 1970, President Nixon asked former Secretary of Defense Thomas Gates to chair a commission and make a recommendation on whether we should move from the draft to a different kind of force. We were in the peak of the Vietnam War, the draft was controversial, but on the other hand, there was no model out there for our country to adopt. We had been a draft force since World War II, when we had five million men under arms in World War II and fought Korea and Vietnam primarily with draftees.

The commission made the recommendation to go from the draft to the volunteer force which started three years later in 1973. And Gates said, "However, this new volunteer force will not be sustainable and will not survive over the long term if you don't make three fundamental changes." Number one, you have to move away from the twenty-year cliff retirement system. Number two, you have to move away from the up-or-out Defense Officer Personnel Management Act (DOPMA) promotion system. Both of those personnel management systems are rooted in antiquated World War I and World War II systems. And, three, you have to change pay and compensation from time and grade to skills and performance.

None of those changes have ever been made so why in the world do we wonder that the AVF is in so much trouble? I spent my first six years on the Senate Armed Services Committee staff working with Senator Nunn as Chairman of the Personnel subcommittee. We spent four years looking at DOPMA. None of these changes should be made overnight. None of these changes can be or should be made without thorough, deep, analytical work, which the department has not done in sufficient detail or any outside groups have done. There has been some. My comments are about the trends and why we need to make the reforms.

We know the demographic of the kids we want to recruit and retain for the next twenty years are not attracted to these very rigid up-or-out promotions systems and personnel management systems. It does not work now in industry and it is not going to work in the military. They know this at the one- and two-star level, but when it starts bubbling up to the top, it gets stopped.

The independent QDR several years ago recommended an outside commission. The Congress included the commission in last year's authorization bill. We need to make fundamental change here and hopefully the commission will agree and provide the necessary framework.

I argued against having an automatic pilot commission. In other words, the way the Pentagon had asked for it was a BRAC-like commission where the commission would make recommendations, then it would be put to an up-or-out vote in the Congress, which would probably have a better chance of passing, because it is either take it or leave it.

However, these issues are too complicated, too important, to leave it to one up or down vote. It is going to take 20 years when you talk about changing retirement, because you have to grandfather everybody in the system now. You also have to make changes in all the "valves" that affect personnel.

So I am satisfied that, at a minimum, we have in the law, this commission. The president has appointed Al Malden, a great retired Army officer, who served in the Clinton administration -- he is a very knowledgeable and a very thoughtful person. The president only gets one appointment. Congress makes all the other eight appointments. It remains to be seen if they put serious people on this commission, if the Department of Defense does their homework and does some serious analytical work. We will need all the outside analytical firms -- Rand, IDA, LMI, and CNA -- to work on all the key factors and analytics. And then we need to educate people.

Most people really do not understand that the all-volunteer force right now is on an unaffordable and unsustainable cost curve. Not only because of the fully burdened cost of an individual soldier, sailor, airman or Marine, but the life cycle cost where we pay people for sixty years to serve for twenty years. Where the military retired payout of the Treasury is \$100 billion a year. Where the retirees and their dependents are 5.5 million of the \$52 billion-a-year health care system, with active-duty at 3.3 million. You start adding all that up and within the next two or three years if the cost trends continue, particularly as the force gets smaller, you are going to be spending more for retirees and their benefits than you spend in the appropriation for the entire active duty military, guard and reserve.

I apologize for that long answer, but actually the reason we cannot just push a switch and fix this overnight is, first of all, we do not want to have unintended consequences for the world's finest military. We have the world's finest military because of the quality of the people that we recruit, and the training and the technology we give them. So these reforms have to be done in a very thoughtful, very deliberate way. Congress has to be involved, the force has to be involved. So, I would say that is the only process that is the right process to work for the long term.

Q: Can I follow up and ask you to talk about what you think the Pentagon's role in that ought to be, in particular, I guess, OSD P&R. It seems like on a practical level they are inclined to play a somewhat passive role just for fear of creating some kind of a political ...

Punaro: It would be a huge mistake for the Pentagon to take a passive role. That would be a huge mistake. In years past, when we dealt with the most complicated personnel issues, Personnel and Readiness was highly engaged, highly involved and had the cutting-edge people working over there -- people like Fred Pang and P.T. Henry, you had Dr. John White, David Chu -- and so the Pentagon has to be very engaged. They have to lead the analytical work. No commission and no Congress is going to be able to figure out how to make changes to the up-or-out promotion system or deal with the pay and compensation system, without strong input and strong involvement from the Department of Defense.

Q: Do you see any evidence that that is happening at this point?

Punaro: They are behind the power curve, and I am hoping now that the commission is cranking up, they will crank up as well. They have suffered from the fact that they have had a lot of personnel turnover in that shop in recent years.

Q: Vacuum at the top for the past couple of years.

Punaro: Well, they had people at the top but they have come and gone too frequently. I have a lot of respect for Jess Wright as the acting under right now. These key jobs are a bigger issue for government. When Dave Packard did the Packard Commission when Weinberger was Secretary of Defense (by the way, Cap Weinberger opposed the Packard Commission, he opposed their findings, but Reagan and the Congress adopted them anyway). Everybody says, "Today's acquisition system is what Dave Packard recommended." It is absolutely not what Dave Packard recommended, which was a streamlined process with minimal regulation and paperwork, and high quality civilian personnel that had immense experience in managing large, complex issues and organizations. That is what you need at the top of an outfit like the Department of Defense, the world's largest and most complex outfit, military and business.

Over the last several decades in all administrations, we have not been getting those kinds of people. So, people say, "How come they can't figure out how to run the IRS?" Well, look at who they put in charge of these outfits. So, we really need to go back to getting the very best talent in government that has experience in these areas, and you have to shut down the turnover. You cannot have vacancies at the top. The Air Force has had a vacancy in their top senior civilian acquisition executive for the last four years. And look at the problems they have had in their acquisition decisions.

Personnel and Readiness with the services and their personnel chiefs have got to be intimately involved in this whole reform project when it comes to these key issues of retirement, healthcare, pay and compensation, and up-or-out promotions system. And how do we make sure we have the finest military in the world 15 to 20 years from now, not just today. And if they are not, it is not going to work. And they are behind the power curve right now.

Q: Why?

Punaro: That is a tough question. I think it is a combination of factors. There is a tremendous reluctance on the part of our uniformed leaders to talk about reforming personnel systems, pays and benefits, when the troops are in harm's way. And, the troops are taking rounds and they are getting hurt every day. It is the bumper sticker factor since there is not a deep understanding of the issues. People worry about the bumper sticker factor and the problems it would cause for them.

Number two, I think, in a way, they hope it goes away. There are a lot of people that like the current system. There is a lot to like about the current system. You know, if you can retire at 20 years at age 43 or 45 and draw a pretty healthy base pay pension and have free healthcare until you die at age 85, that is a heck of a pretty good system.

A four-star general now, I have talked to them, they actually earn more in retired pay than they earned when they were serving on active duty. They do serve for 35 and 40 years and so they don't leave at age 45.

Eighty percent of the people that join the military never earn a nickel in retirement or healthcare benefits, 80%. Of the 20% that make it to career year 20, 75% percent retire at career year 23 or less. They are 43 or 45. The actuaries now say they live until 85, so you pay for 60 years to serve for 20 years.

So there are a lot of people that do not want to take on that system. Three, they also look and see that there has been no sentiment in Congress to make any of the tough calls or tough changes. So, if you are sitting there in the Pentagon, you are thinking to yourself —Why am I going to stick my head up, when there is shrapnel hitting around the foxhole? However, the point is that that is their duty and their responsibility. The service chiefs organize, train, and equip not just today's force but the force of the future. The combatant commanders are worried about today's readiness but the chiefs need to be worrying about 15 to 20 years from now. So, they are going to need to get a lot more engaged on this issue than they are and not get spooked by the bumper sticker.

Q: Do you think that the mood in Congress will change when the troops are out of harm's way?

Punaro: That is hard to say. When the founding fathers created our democracy, they created one that assumed that we would have three effective branches of government. Today, we have two, the executive and the judicial. Congress has become fairly ineffective, as an institution, not as individuals. The individuals there are terrific, particularly in the national security area, intelligence area, but as an institution, Congress is broken. It is not badly bent, it is broken.

If you look at what they are supposed to do, what their output is supposed to be, they are always – I call them Tuesday morning quarterbacks -- because they do not work on Mondays.

[Laughter]

Punaro: So, they are Tuesday morning quarterbacks. In fact you could call them Tuesday afternoon quarterbacks, because they basically work Tuesday afternoon to Thursday mornings. They are part-time legislators and full-time fundraisers.

The last time Congress passed all 13 annual appropriation bills prior to the beginning of the fiscal year was 1994, twenty years ago. The last time Congress passed a joint concurrent budget resolution, which they need to guide their own decision-making, was 1997. They have these three overlapping and duplicative processes, budget, authorization, and appropriation. A couple of years ago we went through eight continuing resolutions (CRs). I mean that is no way for Congress to exercise its constitutional responsibilities.

And, to do the kind of things we are talking about in the personnel area – again, Senator Nunn was chairman of the manpower and personnel – it took us four years to deal with DOPMA. You have to work a lot harder at these issues. You cannot deal with it in one hearing or two hearings two days a week.

And, I think, as hopefully the department and the commission educates the members of Congress in these areas, as the wars wind down, they may be more open to change. But, I think the more fundamental change that has to occur is, Congress has to go back to the regular order and doing what they are supposed to do, which is oversight and pass legislation. They are not doing that right now.

The authorizing committee passes the defense bills, so they are certainly an anomaly right now, and God love them, they have not missed yet in 61 years. But, they are one of the few authorizing committees that gets their work done.

Q: Does the current budget situation right now give you any hope that a lot of these reforms that you are talking about will actually get pushed through?

Punaro: It certainly should sober them up. I hesitate to make predictions in this area, because having been involved in most of them for 40 years, particularly when in 1987 the conservative supporters of a strong national defense, we had Graham-Rudman-Hollings. The military retirement was the largest unfunded liability in the federal government at that time. We thought we were going to lose it to Graham-Rudman-Hollings. So, Senator Nunn and Senator Warner, Les Aspin, Bill Nichols, we said —OK, we need to reform military retirement. Number one, we need to put it on a fiscally sound basis. Number two, we should encourage people to stay for longer careers. In other words, why do we want to let that battalion commander or that sergeant-major leave at 20 when we have just paid to train them to their highest state? Let's give them some incentives to stay longer.

So, we reformed the military retirement and we grandfathered everybody for 20 years. During the 20 years that everybody was grandfathered, it did not hurt recruiting, it did not hurt retention, it did not hurt anything, so none of the dire consequences.

Q: This is High-3.

Punaro: No, no, this is the fundamental reform of the military. High-3 was 1979. That went into effect in 1999. The change in the military retirement system was put in Graham-Rudman-Hollings, it was a major reform. If you left at 20 you got less than you ...

Q: So, that is '86 or something then, we are talking about, right?

Punaro: Yeah, '86 and '87. Seventeen years into it, three years before it went into effect, General Shelton and my former commandant, General Krulak – he and I had shouting matches in the Pentagon about this – said, —Oh my goodness. In three years there are going to be kids retiring that will get less the day they retire, than the person that retired the day before. We have not had enough time to get ready. They had 17 years. We had better change it back.

The chiefs pushed to change it back and the government had these huge surpluses and the Administration decided to give it to the retirees rather than give it to tax cuts for other folks. So, the law, Congress without a lot of debate, changed the law, flipped it back to the current system we are in today, which now, of course, we have this huge unfunded liability. The DoD accrual fund pays \$20 billion a year, but we pay out a hundred billion a year, so DoD covers 20% of the cost on a yearly basis. We are still borrowing money to pay for the unfunded liability.

So, will the reforms go through? Well, there is not a real good track record of being able to make these fundamental reforms and sticking with them. Again, you can't just change military retirement. You have to change the up-or-out promotion system and the pay and compensation system.

Let me talk about the pay and compensation system. When that SEAL Team 6 went down in the terrible helicopter tragedy, the commander was a person I knew, a friend of our family's, Commander Jonas Kelsall, because he was married to Victoria Jennings, who went to school with my daughter. Her dad and I, Jerry Jennings, he was a Marine and we served in Vietnam. We knew them pretty well. They had his memorial service in Falls Church and then they had a reception at

Clyde's and all the widows of SEAL Team 6 and all the other members came up for that. And I got to visit with many of them.

There was one SEAL that had three Silver Stars, two Bronze Stars with the "V", and five Purple Hearts. I figured he had been in about 16 years. He will get the exact same amount of money in retired pay that somebody that spent most of their career sitting at a computer terminal. That is wrong.

So, skills and performance, that is what the pay system ought to be based on. The military historically wants to pay the cook in the butter line and the tank turret mechanic the same thing, because that is easy for them to deal with. That has to change. So, the problem is you cannot just change military retirement, you have to change the promotion system, the retirement system, and the pay and compensation system.

Q: The whole personnel structure.

Punaro: Correct.

Q: You have majors who are hanging out for five years just to get to twenty.

Punaro: I would argue too that. Senator Nunn used to argue in the up-or-out system that if you find an aircraft maintenance squadron major that is the best they ever had and that is all he ever wants to be, why can't he stay for 25 or 30 years? Why do we have to have a system that assumes every officer has to compete and be trained and educated to be Chairman of the Joint Chiefs?

I went to a function last night, where they were talking about a retired senior general who did a couple of years on the outside and they say, "You know, he has moved 35 times in 40 years." And everybody clapped. Give me a break. These jobs are incredibly complicated. We should not brag about the fact that every two years we reassign them, whether we need to or not. But, that is what the up-or-out system drives you to do. And the PCS costs in the Pentagon are over \$4 billion a year.

They need to keep people in these jobs longer. These jobs require – the Navy nuclear senior position was an eight-year position. You cannot learn some of these jobs in 18 months and then you are gone in six months.

That is what Thomas Gates said when he recommended to Nixon that we go from the draft to the volunteer force. He said —It won't work if you don't make these three fundamental changes. □ And, we have not made any of the changes.

Q: OK, so that is everything we have not done. If you take where we are today and you say we have a once-in-a-generation opportunity because of the crunch in financing, what is actually a reasonable way forward to address each of these issues? Is it a single commission that is going to look at retirement, or is it going to be multiple commissions that look at all these things in isolation, or what? How do we actually get somewhere that will ...

Punaro: The first thing that has to happen is the Department of Defense has to do some serious, sober, analytical work on the three main valves that affect personnel. Pay and compensation, up-or-out promotion system, and retirement system, including healthcare. They have to do an objective, thoughtful analysis with help from the outside analytical firms.

Q: Would you agree that there is no, or the past three to five years, is there anything that you would point to, any product that the Pentagon P&R has done that would fit that criteria?

Punaro: I am not aware of any. Maybe they have done some but I am not aware of any major studies. There have certainly been plenty of commissions on the outside that have pointed out the exact same things I have been pointing out for at least five years.

You are going to have to have the experts from the outside help with the analytical foundations. When we did DOPMA, we had CRS do two years' worth of work on it. These are not areas that I would recommend that we flip a switch and try to change overnight. I think you need three to five years of detailed, objective, thoughtful analytical work by the Pentagon, by commissions, by Congress with hearings. You need all the stakeholders to come in because, first of all, these changes will be phased in over 15 to 20 years. You have to pretty much grandfather everybody in the system and you are going to be changing some of it as you go along.

By the way, people say —Well, Arnold, it is not worth the pain. It is just going to be so emotional and we are going to get so much grief and aggravation, and it does not really save any money. Actually, wrong. Because we are on accrual funding basis for military retirement – at least they saved that part of the '86 reform – and we are on accrual funded basis for part of the healthcare bill. If, for example and I do not know these are the right answers, but if, for example, just for analytical discussion, you went from a High-3 to a High-5. Again, you grandfather everybody for 20 years, so 20 years from say 2015, 2035 would be the first person to retire under the new system, but that person would be High-5 instead of High-3. You went from a 2.5 multiplier of their base pay to 2.0, and you move the retirement age out a number of years to recognize the fact when they set the retirement age for Social Security and Medicare and military retirement, people died at age 60. So, none of these retirement ages have really been adjusted.

You could save half of the sequester in the next 10 years just from the savings in the accrual funds that you do not have to pay in, because the formula would be changed 20 years out. So, you could actually take that money and buy real combat capability as opposed to basically paying for a retirement and medical care that Sec. Thomas Gates said is not going to work in the long run anyway. So those are the kind of things they ought to be looking at. There should be an incentive with the kinds of pressures on the budget now, to take a hard look at that.

But, you are correct. There is not a lot of backbone for this, I would say in either the executive branch or in the Congress, because they just take so much heat for it.

Q: It seems that an easier, maybe more politically feasible approach, would be – and not saying that what you are talking about is not needed, certainly it is – but, on the other aspects that you mentioned, contractors, Pentagon, civilians, the overhead ... what more in your mind, if you can go into some detail about what needs to be cut in terms of overhead, in terms of reliance on contractors?

Punaro: I would say in terms of the overhead, I do not think people realize how massive it really is. I just talked about the defense agencies, OSD, the Joint Staff, the combatant commands, and the GAO has come out with a couple of studies.

I testified before Congress a couple of weeks ago on a subcommittee that is looking at OSD. Remember, in July 2010, Secretary Gates had this big push on the overhead, particularly in OSD. "I am cutting the heck out of OSD." However, OSD today is larger than it was in July 2010.

I can tell you right now it is much larger than it was when Bill Cohen took this on in 1997. He asked me to chair a task force for him, called the Defense Reform Task Force, right after I left the Senate. And Doc Cook was still the mayor of the Pentagon. He was a good friend of mine. I helped him get the legislation through to modernize the Pentagon.

We took the Pentagon reservation back from GSA and then we started modernizing it. So I would go see Doc, my good buddy, who I had gotten \$2 billion to update the Pentagon. I said, "Doc, how big is OSD?" He said, "Oh, we only have 2,000 people." I said, "Oh, come on, Doc. I know it's bigger than that." "Oh no, that's it, 2,000." So I go back and see Jim Locher and said, "Hey Jim, 2,000." "Oh, yeah, right." How are we going to get the right answer, because Washington Headquarters Service (WHS), which Doc ran, the Director of Administration and Management, they are the keepers of the books.

So we found 3,000. The way we found it was we went around and looked at every door and figured out names and then we counted all their computers and we counted their Pentagon badges. We could not find the number of contractors and we could not find the number of guard and reserve. Cohen said, "Oh my - that is 30% larger. Cut it back to 2,000." When I looked at this for Gates in 2010, it was 5,000. So when you added in the number at OSD, the number of guard and reserve in military serving there and the number of contractors, it was over 5,000 people at OSD, spending \$6 billion a year. And so, they need to bite the bullet in their own backyard if you are the Secretary of Defense and you want the rest of the Pentagon to tighten their belt.

More egregious is the Joint Staff. How many people here think that the Pentagon closed Joint Forces Command? Well, the local congressmen thought they closed it. Guess what? They may have taken the sign off the door and furled the flag, but they put the thousand military people working there on the Joint Staff, so the Joint Staff is now twice as large as it was before. And what is sad about that is, when I bump into Marty Dempsey and Sandy Winnefeld, who I think are two of the finest military leaders we have in uniform today, you cannot even shame them. "Those aren't really Joint Staff, those are the JFCOM guys." I said, "Well, wait a minute, then don't say you closed JFCOM."

So, seriously, if you are in the military departments, the defense agencies and you do not see OSD and the Joint staff coming down, you are going to ask - "Why should I take any hits?" You ask people, "Who are the largest defense contractors?" Lockheed, Boeing. Wrong. Six of the top twelve are DoD's own defense agencies. DLA does \$48 billion of business a year with the Department of Defense, and they have \$7 billion - according to their admiral that runs it, who is a hard charger who wants to make changes - they have \$7 billion in excess inventory they do not really need.

These are huge businesses and they are not run like businesses. And, by the way, the civil service workforce - and I am not one that bad mouths the government worker. They come to work every day trying to do the best they can for the taxpayers and the country - yet, we put them in processes like the acquisition process where you cannot be successful. There are a hundred thousand more civilian employees in DoD than there were in 2000. There is room to reduce the civil service workforce over time in a responsible way.

Ash Carter put out a study a year or so ago, before he went to be deputy. He estimated there were 750,000 contractors. But, he said - We do not have high confidence in that number. They cannot really tell you. Congress is frustrated. P&R put out a study a couple of weeks ago, that they say 721,000. So, the contracting force is as big or almost as big as the civil service workforce.

But here is the problem with all that. We have 320,000 uniformed military personnel at an average fully loaded

cost of \$400,000 a year, working in inherently non-governmental jobs according to DoD's own report. So, we have these cutting-edge military folks doing jobs that either civilians could do, either defense civilians or contractors, who are by the way cheaper than the military. Or, maybe some of these jobs they should not be done at all.

So, there is plenty of fluff in the system. When we did the study for Cohen in '97, we found 31 layers of management. Guess what. They are all there today. This is why it is so hard.

Q: But why is it so hard? It is so hard because no secretary can actually have an effect?

Punaro: For whatever reason, the bureaucracy seems to be able to resist even the most dedicated civilian leaders. For example, I have tremendous respect for Michelle Flournoy. I think she is one of the finest defense leaders we have had. She wrote an op-ed in the Wall Street Journal after she left, about how she should have cut her shop and all the other cuts that could be made. Well, why didn't she cut it when she was there? She indicated that she did not have the authority she needed. Her hands were tied in terms of personnel levels.

So, the problem is the bureaucracy is more resilient than even the most powerful secretary. The reason I use Gates as an example is, I would say people thought he was pretty tough. He was a pretty tough customer. I called him a 'bureaucracy buster' with a backbone of titanium. But, OSD today is bigger than when he went after it in 2010.

So, when I briefed Sec. Cohen on our task force in 1997, after we had done about six months' worth of work. I said, "Mr. Secretary, here are the conclusions. We need to reduce the size of OSD, we need to get them out of the business of running programs. We need to streamline the management in the department. We need to reduce layers. We need to get them to focus on core functions. We need to beef up the human capital management, because we are not treating our civilian employees correctly."

Cohen said, "Oh my - this is great. This is just what I was looking for." I said, "Geez, Mr. Secretary, I am embarrassed to tell you, I wish these were my conclusions. These were not my conclusions, these were Eisenhower's conclusions in 1956."

[Laughter]

Punaro: So, secretaries of defense have been trying to attack this problem since 1956 and have not put much of a dent in the DoD overhead. As the tooth has come down, the tail has gone up. Sec. Hagel, if you read his National Defense University (NDU) speech, he is in the bullseye. I mean, he is flat on the right targets. I am hopeful maybe the resource reductions will force them to make some of these tough changes that they have not been able to make up until now.

Q: But, you just outlined the idea that we need three to five years of study.

Punaro: On the personnel stuff. We do not need that on the overhead and acquisition.

Q: OK, what do we need there?

Punaro: We need Congress to basically allow the department to make some of these tough changes. For example, reducing the number of bases and installations that we do not need. We know we have excess. We need the Congress to take off the restrictions on making the depots more efficient and effective. So, there are a lot of handcuffs on the department in terms of making some of these fundamental changes where Congress has got to be a full partner and a player.

I can understand why on the BRAC round right now they are pushing back. They say look at 2005 and 2005 in my judgment should not be the model for future BRACs. It was a dismal failure. I just happened to get Rumsfeld's book about Rumsfeld's rules, and there was one – because he was in charge of 2005 with our good buddy Ray Dubois – and here was Rumsfeld's rule that I would apply to his BRAC round in 2005. Here is what Rumsfeld said —It is possible to proceed perfectly logically from an inaccurate premise to an inaccurate and unfortunate conclusion. That is exactly what happened in 2005. It was not about reducing infrastructure and overhead and saving money, it was about transformation. They wanted to use it for transformation and it was a marked failure.

Only the Department of Defense could take 35,000 perfectly secure civil service personnel in Crystal City, and move them all 15 minutes down the road and build a \$2 billion tower with no parking and no access that could be taken out with one light anti-tank weapon and say that was a logical BRAC move.

So, the Pentagon, to get another round of BRAC is going to have to admit 2005 was a dismal failure. Two, they need to allow private industry and private concerns to come in right away to put business in the excess areas. Now if you excess something, state and local government gets the first crack. But, it takes them a decade to figure out whether they are going to do anything or not. If you had some of these places, private industry could come in and bring the economy back and keep some of the jobs. No, it is not going to be as many high-paying civil service jobs as you have now, but it certainly would be better than nothing being there.

So, the Congress is going to have to give up on some of the handcuffs they have put on the Pentagon. On acquisition reform, there have been hundreds of studies. I completed one from the Defense Business Board a year ago with nine recommendations and all the leaders seem to agree with them, and the change still does not happen. You have 154,000 people working in the acquisition workforce; you have tens of thousands of pages of laws, rules and regulations. Every one of those jobs is tied to each one of those people having some say-so. Admiral Winnefeld says the whole acquisition process is designed to keep one person from making a mistake. There is no common sense in the acquisition process – they could change that overnight.

But, again, you have to have some real backbone to do these things, and I am hoping that perhaps some of these reductions in resources will force them to make some of the fundamental changes that we have not seen yet.

Q: But you were talking about a knowledge base in Congress, and there is no comparison between the human talent that existed up there, compared to who is up there now. I mean, some of the people who are in chairman positions are staggeringly, irresponsibly unknowledgeable about the fields over which they have oversight.

So, how do you change the human capital calculation up there? And given some of the more recent things that have happened and you mentioned IRS, what is the likelihood that anybody is going to do anything? Where do we ultimately end up? Short of, I think, electrodes and, you know, light anti-tank weapons pointed at them all roped together on railroad tracks, how do you do that?

Punaro: I think in a lot of these areas, given the proposition that you put out there – I am not going to comment one way or the other on the individual members – but, the executive branch proposes, the Congress disposes. The executive branch has to bring a very powerful, compelling case to the Congress in all these areas we just discussed where they need legislation.

I probably over talked about the restrictions. There are a lot of these things OSD could do now. OSD, they could cut the size of OSD, the Joint Staff, the management layers, pare back the defense agencies today. They do not need anything from Congress to do any of that. They could change a lot of the acquisition. All of the nine recommendations we made, we made sure needed no changes in the law. They could do that today if they wanted to. So, I think Chuck Hagel is bound and determined to do that. I mean, again, I think if you read his speech, it is very familiar. Bill Cohen gave one and Don Rumsfeld gave one very similar. He is bound and determined, and I hope he has the military troops and his civilian leadership behind him on this. They are going to have to come to Congress and say, one, two, three, four, five, six, seven, eight, nine, ten, and put it up there and force Congress to deal with it, one way or the other.

And, I do not know what the answer is, if you cannot get Congress to deal with it. I will tell you right now, the sequester is not the answer. The sequester does not fix any of these things. The sequester makes every one of the issues we have talked about worse, not better. And, the main thing, which I think is under-reported right now is, because, first of all, the Pentagon is only now just beginning the FY13 sequester. So, while the sequester order came out on March 1, the Pentagon had until April 19 to submit their list of the programs, projects and activities they were going to cut. Then, it took a while for that to be reviewed. Bob Hale told me last week that they hoped to release it this week. The services now know what all their individual cuts are. So, in a way, they have not fully implemented the '13 sequester, and anybody that thinks in the last five and a half months of the fiscal year you can cut \$38 billion out of the Pentagon and not have it have an adverse impact, is just balderdash.

Our military readiness is going down every single day. To me, this is under-reported, and you have heard the chiefs talk about it, but the average person and the average congressman and congresswoman, many of them have never had to prepare a unit for combat or command a unit in combat. As you know, I had the privilege of commanding a Marine division for three years, and served in combat in Vietnam with draftees. And, the three things you look at to measure combat readiness, Army, Navy, Air Force, Marines, the quality of your people, meaning you have to have the right number of people in your unit, and they have to be trained in their military occupational specialty. And to be C1, you have to have a certain percentage and every commander strives to have that, because if you do not have the people and they are not trained, you are not ready.

Second is training, and they have to be trained to their mission essential task lists. That requires them to go to Fort Bliss; that requires them to go to Fort Irwin; that requires them to go to Twenty Nine Palms; it requires Air Force pilots to fly a certain number of hours. Then, you have to have the right technology and equipment. If the equipment is either not available or it is on maintenance deadline, then those are the three things that cause you to go from C1 to C3 without getting into the details of how you rate them, which is not combat ready.

We are watching the combat readiness of our frontline combat units – not the ones in Afghanistan, not the ones that might immediately be deploying in the next couple of months – but, we are watching the combat readiness of all the other units in our military degrade every single day. And within about two to three months, you are going to have a significant portion of our continental base United States forces that are not combat ready. I am not talking about a Navy ship that has been on deployment for twelve months that comes back and has planned reduction in readiness, or the Marine expeditionary unit that goes out for six months and comes back. I am talking about units that are supposed to be ready to go at a moment's notice in a dangerous world.

Once that readiness deteriorates, as is absolutely happening today, you do not get it back in two to three months by flipping a switch. It takes much longer and costs much more money, because you have to bring the personnel back in, you have to train them up, you have to go do the training iterations. Everybody cannot train on tank table eight at the same time, and you have to get the equipment off deadline. And, when your civilians are furloughed and there is a backlog in the depot it just does not happen overnight.

And the other thing is, we are putting the young troops in these units at greater risk because we are not supporting them in terms of the training they need, the technology they need and the caliber of the people that should be with them when they are going to go at a moment's notice. And they say, "Well, we are not going to send forces that are not combat ready." I guarantee you if we had a situation on the Korean peninsula our U.S. military would be ordered to go there, and they are going to say, "Well, gosh, we wish they could have been more ready."

Look at the unpredictability of the world we live in. I mean, the Boston Marathon, the first shots you saw on TV, there were uniformed personnel. Those were National Guard personnel, by the way. The notion that some in our active duty have that say, "Well, the active duty military can do the homeland mission. We do not need the Guard or Reserve as much anymore." No active duty unit would have been there 10 seconds after the bomb went off.

Oklahoma, hundreds and hundreds and hundreds of Guards' people are already there. The Title X Reserves can be put there, so this is another nonsense notion by some that say, "Well, let's just replace the Guard and Reserve with the active military." First of all, the 82nd Airborne ought to be ready for overseas contingencies, not homeland contingencies.

Military readiness is a very, very serious matter that has been flipped off because we are not making our neighbors wait on the tarmac at La Guardia for an hour and a half. Or, they are not in a gas line, or they are not inconvenienced. I can tell you without question, our enemies, particularly terrorists, they do not care how long people have to wait in line at La Guardia. They are not impressed with how large our defense agencies are. It is the combat readiness of our military forces that we need to put in harm's way in a dangerous world.

And, we are doing a tremendous disservice to young men and women of our military. They joined the military, they are volunteers, because they want to be part of the world's finest military. And I can tell you that if we allow this to happen, this is another reason you do not change the pay and personnel and benefits and retirement and healthcare, without a lot of thoughtful, deliberate, where they can see it is being done in a thoughtful, deliberate way. If they see that we are in this for the long term, in terms of the kind of training they are going to get and the technology they are going to get, the good ones are going to go somewhere else. So, it could have a compounding effect.

The chiefs have been beating their chest on the readiness issue. No one has been listening. But, it is real, and it is serious. And so, traditionally, we looked at vital interests, we looked at threats, we looked at requirements, we looked at strategy. And, that is how the Defense Department and Congress decided how much resources for defense. The sequester breaks that chain. It is abject failure. The sequester has nothing to do with vital interests, it has nothing to do with threats, it has nothing to do with military requirements, it has nothing to do with military strategy. And that is why I think it is having such an adverse impact.

Q: But members of Congress like it. It is saving money, it has helped lower the deficit as far as they are concerned. The gap is smaller.

Punaro: I do not care whether they like it or not. Just because they like it does not mean it is not having adverse impact on our national security.

Q: Is there a recipe, could the notional 10% aspect of the sequester be used as a level to achieve some of the objectives that you describe? If what you said was, instead of 10% across the board, these couple of categories are exempt and everything else you have no choice. If you said instead, Mr. President and Mr. Secretary of Defense, whoever, whatever level you wanted to go down, cut your department by this much this year, this much over five years. If you gave them the objective. I need your budget to be at this level by this time, wouldn't they come to the right conclusions on their own?

Punaro: If the executive branch and the Congress come to agreement on a long-term compromise and fix for our deficits, for domestic entitlements, for military entitlements, for discretionary spending and revenues, yes, you could get the Department of Defense a more logical, thoughtful, long-term top line and give them a longer period into which to make adjustments and plan for it and do it the right way. But, we do not have that now, and the cut is not 10%. In the last five and a half months, in the O&M, non-OCO budget it is 20 to 25%, and in the procurement budget, 16%.

But you are not going to get any kind of long-term compromise that only deals with the military budget. You have to deal with the domestic budgets, you have to deal with the entitlements, you have to deal with revenues, and you have to deal with the deficit. And so, that is the problem right now, is, and by the way, all three budgets, the President's budget, the House-passed budget and the Senate-passed budget, I believe are in bizarro world. I mean, they must be in a parallel universe because not one of them takes the sequester into account.

And so, here is the sequester, it is the law, and I do not blame the Pentagon. What is the poor Pentagon to do? They do not know from one day to the next what that budget level is going to be.

This is a reduction of a hundred billion level over ten years, that is in the President's budget. A lot of people do not realize, but when he submitted the FY14 Budget, he had the chained CPI, which saves a couple of hundred billion. He had some revenue enhancements mainly on the wealthy, that was \$500 billion. He had some increases in domestic discretionary, but he had about \$90 to \$100 billion cut in defense from the BCA level, particularly in the out years – not in '14, '15, '16, they were like \$8 billion – but in '18, '19, and '20. So, that is the level in the Obama budget, so the Pentagon has not even adjusted their program to the Obama budget request. So, that first number that you talked about, they have to do that just to meet the Obama top line.

Then the \$300 billion, to me, is the in-between figure between that level and the sequester level. The sequester level is \$500 billion. If Obama is down \$100 billion, the \$300 billion is the in-between. So, logical compromise is you come out somewhere in the middle which is the Senate budget resolution level, and so they are working on that one as well. So, I think the Pentagon is taking the steps they need to take. Chairman Levin and Mr. Inhofe, ranking member, have asked Hagel to submit to them a FY14 plan of how they would get the \$54 billion that would be required if they are sequestered. Whether they will submit that or not, I do not know but I understand they plan to.

This is another reason why they should be taking on the overhead. They should be getting acquisition efficiencies, rather than taking the easy way out, which is to cut the force structure, which is the size of the fighting military, and to cut the modernization accounts, which is the technology that we give our troops, because these other things are harder to get at, and have too much emotion in them.

I truly, truly, do not understand, and I actually do not have answer to your question. I do not know why the secretary of defense cannot cut his immediate staff and get away with it. I do not know. I mean, it just baffles me that a guy that powerful cannot say, "Today, we have 5,000 people, including military, Guard, and Reserve, contractors and civilians. By the end of the year I want that number to be 3,000." So I have suggested in my testimony to the Congress they ought to legislate end-strengths for the overhead accounts, OSD, like we did for the military end-strength in 1976. You know, every year the Congress authorizes the end-strength of the military and they have like a half of a percent up or down that they can go, and it is a snapshot as of September 30. If they cannot make the cuts themselves, Congress ought to basically say, "Okay, here's your cap."

Q: But, they cannot screw in a light bulb. So, I am not necessarily sure giving them even more authority with their inability to screw in a light bulb, is probably better.

Punaro: Well, you are not giving the Congress more authority, you are legislating and forcing the Pentagon to make some cuts they otherwise have not been able to make yet.

Q: You have spent time with Secretary Hagel to get him ready for the job and had some of these conversations with him. And it seems as though he has vacillated between, as folks would say —Getting it and saying the right kinds of things. □ And, then, occasionally not being as firm and one of our mutual friends sees that as the antibodies attacking him and trying to keep him from making progress. How do you think it is going to break, and when do you think he is going to have his breakout moment at some point? Because, the clock is ticking and most people give him another 14 months, tops, of efficacy before he – I mean, you know this town better than anybody. What is his window and how soon does he have to get out there?

Punaro: I do not share the view that he is not making some fundamental, tough choices already. I have a lot of confidence in sergeants. When you put a sergeant in charge of something in the Pentagon, good things happen. He got out in front of the drone metal issue. I think he has gotten out in front of the whole issue of the Uniform Code of Military Justice. I think by forcing the Pentagon to come to grips with these new budget levels, with this strategic review that was due in two months, was a bold departure from what had been the case for the last couple of years.

I think he is tough as nails. I do not see waffling on his part, but we will not know for sure until we see the results.

Now, some people say, "Well, this will feed into the QDR." The QDR is a paper drill; it is now a cottage industry in the Pentagon. It was created by the Congress for good reasons by Senator Lieberman and Senator Coats decades ago, but it does not really produce any meaningful results anymore. They are going to have to take the results of this management review and a small handful of senior leaders will sit down, including Secretary Hagel, the deputy, Christine Fox and CAPE, the J-8, the chairman, the vice chairman, perhaps the service chiefs and service secretaries. They are not going to have the huge bureaucracy making these decisions. These decisions are going to be made by the most senior leaders and I think they understand they have to make some tough choices. And, I think they will make them.

Q: So, this like FY15 budget proposal, for example.

Punaro: I personally think that this new roadmap they are developing right now could be used, if they get to the point where they believe the FY14 sequester is a fait accompli as many of us believe already. And, rather than basically have the FY14 sequester administered on them, the way the '13 is, in this mindless way where we are degrading our military readiness, they could get out in front of it and say, "Look, we don't want to make this deep a cut in '14. But if the Congress and the President aren't able to reach agreement to modify that, here is the way we would propose that we should take it, as opposed to further wrecking our military capability and readiness." So, I believe this review could be used for that purpose, should they get to the point where they think that is a viable course to do.

Congress is incapable of making those kinds of tough choices on reducing \$54 billion worth of spending. So, it is not going to happen in the Congress.

Q: It looks like the CAPE has done some reasonably hard analysis on the force mix question, active and reserve. And while they did not say what the force mix ought to be, they seem to come to the conclusion pretty clearly that in the whole range of circumstances, reserve troops are cheaper than active component troops. What are the policy implications of that? You and I have talked about that a few times, and you seem reluctant to say —Well, the obvious thing to do is to have less active components and more reserve troops. Can you say that now? Isn't that the logical conclusion?

Punaro: I would say that, if that is what the CAPE conclusion is, it is pretty consistent with the studies that we have just completed on the Reserve Forces Policy Board. It is consistent with the four separate, independent studies we did in the two and a half years I chaired the Commission on the National Guard and Reserves (CNGR). It is consistent with almost every analytical work that has been done over the last 20 years. And, it also is consistent with common sense, that the Guard and reserve is going to be a bargain for the

taxpayer, because you do not pay them to be on duty 365 days of the year, and they do not have the huge infrastructure tail that you have for the active duty forces, the schools and family housing, and hospitals and barracks and other facilities and large base operating support costs.

But, I think this is something, again, even though I believe I am fairly knowledgeable on the subject, I think the senior service leaders are the ones that have to come to grips with this issue. They have to look at the level of resources that is going to be made available to them. They have to look at what they think the likely missions are. And, that is why I think they need to look at all manpower, and we need to know the fully burdened costs of all manpower, active duty military, Guard and reserve, defense civilians and contractors. And, when you are talking about how do we want to do this mission, some of them are always going to be active duty. You are never going to replace a carrier battle group with the reserves. You are never going to replace the 82nd Airborne with the reserves. So, some of them are just always going to be active duty.

But, there are a lot that you could look and say —Well, wait a minute. This might be a great mission for the Guard and reserve, more of an insurance policy. Or, we do not even need the military to do this, this is something a defense civilian could do at a 25% lower cost, or a contractor at even lower cost. □ So, they need to look at all elements of manpower, not just the mix between active duty, Guard and reserve. That is why CAPE needs to come to grips, and they need to, as I said, our study said they do not have the data and sometimes you wonder if they want to know the data.

I give Christine Fox a lot of credit at CAPE. I think there has been some pretty significant transformation in that organization. They are pretty objective and pretty thoughtful, and my hope would be that if that is the conclusion in their study, that the people – and by the way you have this commission looking at the Air Force, headed by Lt. General Dennis McCarthy, former head of Assistant Secretary for Reserve Affairs, retired Marine Corp reservist, Les Brownlee, the former Acting Secretary of the Army – you have got some really, really good people on that commission.

I have read the Ash Carter speeches and Chuck Hagel's speeches. I believe they understand that when you look at what the Guard and reserve has accomplished in the last ten years, there have been over 850,000 of them mobilized and they have served well in the wars and they are most battle-hardened in our history. They are going to understand in this area of scarce resources that the guard and reserve should be relied on.

And again, I know this might be a cop-out in your view. I am not one that is advocating for cutting the size of the active military or increasing the size of the Guard and reserve. I think that ought to be determined by what are the missions we need our military to perform. However, if you are living in a constrained resource environment and the active duty military is going to get smaller and smaller and smaller, as I believe it will because of the cost of personnel and retirement and healthcare and the budget cuts, then we ought to be thinking about not losing that capability altogether, but preserving it in the Guard and reserve. But, I do not think it is an us-versus-them thing. But, it is also a cultural issue. The active duty military when times get tough, they revert to form and I think it was a serious mistake for them to pull the Guard out of the Sinai and out of the Kosovo rotations.

Q: Well, there seem to be some interesting cross currents flowing behind the scenes over there. We had the Air Force last year proposing to take the brunt of their budget cuts out on the Air Guard, and then the Army just announced that it wanted to pull its National Guard troops out of future overseas rotations. And, then the CAPE study comes out, which sort of leans the other way. So,

would you say this is becoming a central, as the Chairman of the Reserve Force Policy Board, is this as central a discussion as you would like to see it at this point?

Punaro: It certainly ought to be a central discussion. I think if the Army leadership – I have great respect for General Odierno. He and I have met and talked on this, he is a very thoughtful, open-minded individual. If the Army had said, “We want to use active duty units for Kosovo and Sinai for the following five reasons,” and articulated rational reasons, okay. But, they said, “We are doing this but there is no change in policy. We are doing it to save money.” The problem is you do not really save any money by using active forces.

So, what they only wanted to focus on was the incremental costs, meaning, okay, here is the cost of paying the Guard when they are mobilized, and they did not compare it to the cost of having the Army units that would go there on duty 365 days. So, if they had said, “We are doing this because we want to have the active units do more rotations.” I would acknowledge this as an argument, “We want to have a larger active duty Army that we think we can otherwise justify, based on circumstances, and that is one reason we want to give the active army these guard missions.” You can accept that, but making something up and saying, “We are doing it because the Guard and Reserve are more expensive.” That is just nonsense, and that is what got the Air Force in trouble. I think that is what is going to get the Army in trouble. That is why we need CAPE, and that is why we need to work with the objective facts. Let the chips fall where they may.

Again, cost is not the only thing. We cannot make national security decisions just based on cost. And, so I am not one that says we ought to always go with the cheapest solution. I mean, we see that in the contracting area. Hillary Clinton spoke out against lowest cost, lowest technically acceptable contracts, as being a problem for some of their security, with their embassies.

Q: What you just said is what set off the alarm bells among the Reserve advocacy groups who fear being marginalized.

Punaro: That is right. They see us going back to the bad old days. Certainly, there will be a lot of people arguing against that. I believe Chuck Hagel and Ash Carter, and the people in the senior leadership positions get this issue. I believe they do. I believe the Army leadership, once they – I do not know how best to say this, once they accept the reality that they are not going to be able to keep the active Army at 490,000, they will not spend all their time and energy arguing for it. And by the way, I say that if that is what the active Army leadership believes is the right numbers, as far as I am concerned it is the right number. I am not enough of an expert to say what the right number is. But I do not think the resource level will permit that number. Once they quit fighting the problem, I think they might be more open-minded about how you really use the Guard and reserve. They are not there yet, though, they are not there yet.

Q: What do you think the number is?

Punaro: For the Army? I really do not know. I am not enough of an expert. I leave that to General Ray Odierno and the experts in the Army.

Q: Where do you think it is going to fall? What do you think is affordable? If the overall dollars available are coming down, and the costs are going up, where is it actually going to fall?

Punaro: If we stay in the sequester levels for defense, which is minus \$500 billion compared to the BCA, and we do not tackle the runaway costs of personnel and benefits and deferred compensation, and as we have more and more happy retirees, I think the active military is going to get smaller and smaller and smaller and smaller. It could easily go under a million people, which I think would be the wrong answer for our national security.

Q: How long would that take?

Punaro: It depends on how quickly the cuts come. I mean, if you have to cut \$150 billion in the next three years — as I said, I am not advocating this — but when you are looking for near-term money, the near-term money is in personnel. And the near-term money is in force modernization. You just say, “Okay, we were going to buy five Navy ships. Now we are going to buy one Navy ship.” The longer term savings in making fundamental changes in the way we recruit and retain people, and healthcare, to do those things responsibly takes longer. So, that is why, I think, the people in the Pentagon correctly are arguing for, “Give us a stable top line. Tell us what that top line is. Let us backload the deeper cuts into the out years to give us more time to make more intelligent decisions. And, let’s tie it to threats and let’s tie it to requirements.” That is the right way to do it, but if there is no compromise and you should talk to people that are much more politically astute than I am about whether or not there is going to be a compromise.

I was at a conference last week. Frank Kendall spoke, Bob Hale spoke, a number of other people, and I think it was Bob — I am not sure — and the audience was contractors, it was analysts. He has asked the question: “How many people believe for FY14 that we are going to be stuck with the sequester levels for the federal government?” Every single person raised their hand. These were CEOs of the big defense companies. So, I do not find anybody that thinks there is going to be a compromise that is going to get us out of the sequester.

And then, the question is when Congress goes to another Continuing Resolution, their unblemished track record of not doing their business on time since 1994, will they put it at the sequester level or current services level. You could see what they would do is just put sequester at a minus \$108 billion to discretionary levels. They would not make any of the cuts, they would not make any of the hard choices, they would just give them a lot less money.

First of all, the ‘13 cuts, 50% of the outlays from the ‘13 cuts will not even hit until ‘14 according to CBO. You will still be making the ‘13 cuts. You could see the ‘14 sequester cuts hit on October 1 instead of January 1. In other words, let us say there is no compromise and let us say Congress does a CR at current services level, which means the FY13 level, then the O&B issues a sequester order on January 1, and that is when it starts.

So, if you are taking the ‘13 cuts, which you have not made yet, and the ‘14 \$54 billion cuts, although some of it would go to DOE Nuclear, probably a couple of billion, probably take another couple billion out of unobligated balances, you are going to see the cuts in the active duty military will start right away and very quickly. They will not be able to do it over a three-year period and I think that would be ...

Q: So, you could see, say, 490,000 Army, 170,000 Marine Corp, are not unlikely numbers.

Punaro: Well, 490 is the budget number for the Army.

Q: But, it could get to 490 a lot faster. You're talking 450 or something.

Punaro: That is right. I am sorry. Unfortunately, they could have to get there a lot quicker and even lower, because that is where the money is. You will have already degraded the readiness of your combat forces. How much less ready are you going to make them?

I personally believe that in my heart, because I think it is so serious and I am not exaggerating. It just pains me as a retired military guy, somebody that spent my entire life working in government and working in the Congress and working in this system to have a strong military, to see the abject failure of our body politic put at risk our national security.

That is what is happening today. There is no getting around that. Anybody that says this is not hurting our national security is just flat lying. And, it could get a lot worse. And, unfortunately, people do not even think it is impacting anybody yet. I have neighbors, you know, there are a lot of people that work in government that live paycheck to paycheck. People say —Well, eleven days they are going to get a holiday. They don't work hard anyway. That is just wrong. That is an incorrect notion of the people that serve in our government. Again, the processes do not match up to the talent of the people there. The fact that things do not work that well is not because of the individuals, it is because of the system that we put them in.

And so, this is not just affecting our active duty military. And, by the way, if it gets that bad, maybe the President would not exempt military personnel in FY14, because if he exempted military personnel then the \$54 billion would be on all the other areas of the budget. So, who knows? People just think automatically they will exempt the military personnel. I do not know that that is the case. We would have to wait and see.

I hate to be such a Gloomy Gus, but the more I have talked here this morning the more pessimistic I have become.

[Laughter]

I wish I could be more optimistic. I would love to basically be Pollyannish and say, "Don't worry. It's all going to work out." I do not believe that to be the case, because of the lack of leadership that we have in our body politic right now. The political leaders and the Congress, I do not think have any interest in meaningful legislation. They are all into power and they want either for them to get the power from somebody else or make sure they keep it from somebody else.

Q: But, when it looked like all the airplanes were going to be delayed by three hours, they were able to rush something through, and ...

Punaro: Because they got the heat from their constituents, and unfortunately, there is no lobby for military readiness. There is a lobby for every benefit known to man. There is a gun lobby, there is a benefit lobby, there is a Social Security lobby, there is a commissary lobby. There is no lobby for readiness.

Q: There are more lobby institutions for focusing on military topics than just about anything else.

Punaro: A lot of those people are not lobbying for good government or military readiness, they are lobbying for benefits for their members.

Q: So, they in effect, are they as much of the problem as anything else?

Punaro: No. You cannot fob off Congress's lack of decision-making on people on the outside. They are the ones that get elected, they are the ones that are responsible, they are the ones that ought to be held accountable, and they are not making the right decisions.

Q: But, they are responsive to pressure. And the only pressure that they get from military organizations, military advocacy organizations is, "Protect my guys." Every time the Pentagon has come up with a new iteration of raising Tricare fees, the Military Coalition goes ballistic.

Punaro: Yeah. The former Deputy Secretary of Defense in a previous administration told me a quote a couple of years ago he said, "Arnold, we have changed the saying from 'Praise the Lord and pass the ammunition' to 'Praise the Lord and pass the benefit'." We see that on domestic and we see that in defense, and that has to change, because we cannot have a strong national defense if over time all the money goes to people that are no longer serving.

Do not get me wrong. These are true patriots. When I talk to the retirees that have served 20, I do not begrudge them one nickel. That is the system. They earned it. They came in, did what they were supposed to do. The system said, "You get to retire at 20." Good on them. But, when you explain to them this long-term arithmetic, they go "Oh my goodness." Because these are patriots, they spent their career in the military. These closet patriots, some people used to call them, so their voices are not being heard.

I think that as the situation continues to deteriorate on the military readiness side, I believe the chiefs will become more outspoken on this issue. I believe as the war winds down, they will become more outspoken on the issue, and I believe the pressure on the Congress will increase. I am hoping that they will be able to do things in a thoughtful way.

The first thing we need to do right now, is come up with a compromise to get out from under this abject failure of sequester, because we need to buy some time for people to be able, not just on the defense side, but on the domestic side, to make rational, thoughtful decisions instead of back of the envelope decisions. The people that believe that it does not hurt anything if you cut defense by a trillion dollars over ten years, which is the amount of reduction from projected spending. Do not get me wrong, only in Washington is a decrease in a projected increase a cut. The base budget is still at \$526 billion, higher in FY14 constant dollars than the peak of Reagan and Vietnam.

So, what is really hurting us now is the automatic, adverse way that the O&M budgets are having to be cut, and they are taking it out of military readiness, because they are protecting the war fighting overseas and the Wounded Warriors and other troop programs and things like that. But, that is the most immediate thing, is for the body politic to come up with a compromise to buy us time to basically make these decisions in a more thoughtful and rational way. That is where the pressure ought to be, but you do not really see very much pressure on that front right now.

Q: So, if you ran a group of military newspapers, and you were concerned about that issue, what would you do?

Punaro: Well, I was quite impressed with your headline in the Marine Times, the headline, Rick Maze's story, that banner blared out "Obama is cutting your benefits, your retirement, your healthcare and everything else." I would basically try to focus my coverage more on the facts and substance. I have worked with many of you and I have worked with these papers. You are extremely responsible. You all have been out in front of this stuff for a long time. We need to focus more on the lack of leadership in the body politic in terms of the way they make decisions. I think we need to focus on the abject failures in the Congress. I think we need to focus more on what really is happening to the war fighting readiness of our military that could be called at a moment's notice to go into harm's way.

We need to go down and find that sergeant, that Marine sergeant or Army sergeant at Fort Bragg, a Marine sergeant at Camp Lejeune, and say, "Hey, Sergeant. Is it really as bad in your company as we think it is because you don't have the right people, they aren't trained, you don't have equipment, you don't have ammunition?" That is what I think we need.

I would focus on the people that are failing to make the right decisions, and I think it is primarily the Congress. It is not the leadership in – as much as I have suggested that I wish the Department of Defense would be more forthcoming on overhead and acquisition reform, and pay and benefits reform. They are light years ahead in their leadership roles than what we are seeing in the Congress, as an institution, not as individuals, as an institution.

Q: It seems like Congress has had its eye on this star-creep as well. It held hearings. Is that going to yield fruit?

Punaro: It is a bumper sticker cathartic thing to say, "Let's cut the number of admirals and generals." And maybe they have more than they need now, and Gates cut some. I do not know how many. But, I remember when Sen. Nunn was Chairman of the manpower and personnel subcommittee, and we were having serious quality problems in the volunteer force and we did some analysis and found out it took more admirals and generals in peace than it did in World War II. So, Senator Nunn decided to cut them. He said, "Arnold, we probably need to cut them." He asked me, "Well, what do you think we ought to cut?" I said, "Well, we probably ought to cut them about 5%, but to get to 5% we probably better start at 25%." He said, "Fine, let's do it." So, we did it.

Right after his subcommittee did the markup, Rose Johnson, his executive secretary, gets this call. She calls me over in the committee, "Hey, Arnold, Secretary of Defense Brown's office just called. They have to see Senator Nunn right away, and they are bringing the Deputy and they are bringing Davy Jones, the Chairman of the Joint Chiefs." I said, "Well, Rose, I know it is short notice, but we are probably going to war somewhere." So, when the SecDef calls and says he needs to see Senator Nunn on an urgent basis we just have to do it. Set it up, the three of them came over, we are in Senator Nunn's

office and, big round table sitting there, I was there; Senator Nunn was there, Harold Brown, Graham Claytor, Davy Jones. Harold Brown, who is a wonderful human being, a scientist, thoughtful guy. "Senator Nunn, we are here on one of the most serious issues I have ever had to come to the Congress about, and you are right about the need for increased defense spending, but this is probably the most serious thing I have had to deal with as Secretary, and Graham is with me and Davy Jones. I will let Davy speak in a minute." He says, "This cut you are making in the number of admirals and generals in the Department of Defense is just going to wreck our national security." They were spun up about this modest little cut in the number of admirals and generals.

The base force, I remember Colin Powell, because he was Chairman, I was the Staff Director, working the base force stuff. He says, "Yeah, Arnold, I think Cheney and I, we are going to cut the number of admirals and generals." He says, "I think we probably ought to cut them about 5%." I said, "Well, if you want to cut them 5%, you probably ought to cut them 25% and you will get 5%." He said, "Hey, that is a great idea." So, he cut them 25%, and of course, we are back up. So, we have cut them two times in our past history and they always seem to climb back up.

I think that is more symbolic than real, but they do have the large staffs. I think the Pentagon needs to take a real hard look at this whole pyramid structure and go to flatter structures. You do not need as many colonels and lieutenant colonels working in the rear with the gear. I mean, we have a division's worth of administrators in the military treatment hospitals, meaning enough people that are administrators. I am not talking doctors and nurses. We have two battalions of veterinarians.

And, by the way, the military treatment hospitals are operating at 50% below capacity. Bob Hale said in a public speech the other day, some of them are at 20 and 30%. Think about this. A civilian hospital that is below 88% gets closed because it is not economical. But, here we are with these huge Tricare bills where they are going to need more money, and yet our military treatment facilities, are staffed as if they were operating at 100%.

So, this is the kind of overhead I am talking about where the Pentagon has got to make some tough choices. Now closing a hospital is really, really painful. But, the point is it does not sound like a lot of people are using them anymore.

OK, all right. Thanks for having me and thanks for letting me go so long. I really appreciate it.

Q: It is always a treat. Thank you very much, sir.

[Informal Background Conversation]

[End of audio]