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Honored guests, colleagues, ladies and gentlemen.

It's a privilege to speak to such a distinguished group of leaders from government and industry. Congratulations to General Duncan McNabb and the NDIA Logistics Division for organizing such a terrific conference.

Our incoming Deputy Secretary of Defense Bob Work was originally scheduled to give this keynote speech. Bob's absence underscores the lengthy confirmation process our political appointees must go through in today's difficult environment. The length of time from nomination to confirmation for our senior policymakers seems to increase each year and the Department suffers because of it. Bob has already waited over 63 days for confirmation, and the Senate is gone for the next two weeks. There are still 9 key DOD nominees pending on the Senate calendar, some of whom have been there since last summer.

Bob's confirmation couldn't come a moment too soon as there is no shortage of challenges facing the Department and the Congress. They are as serious as I've ever seen in my forty years of working in national security. I call the internal and external challenges that Secretary Hagel faces "Hagel's Headaches."

Inside of the Department, they can be summed up in three major areas.

The Ever Shrinking Fighting Force

First, is what I call the ever-shrinking fighting force. DOD's core mission is war fighting and the number of war fighting units continues to shrink. 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 our defense dollars that we should. This has directly translated into fewer war fighting forces. We're cutting Army divisions and Brigade Combat Teams, retiring tactical fighter/attack aircraft, and mothballing capital ships.

Changes to end strength and force structure in the FY15 budget continue the trend of smaller war fighting forces going back to 1980. Since then, active duty personnel have shrunk by 41.6%; active commissioned ships have shrunk by 45.7%; and our active fighter/attack aircraft inventory has gone down by 52.5%. And yet, the DOD topline has risen 29%.

The Army is slated to take the biggest hit to end strength under the current budget proposal, with a decrease from 490,000 today to 420,000 by FY19. The Marine Corps will have its end strength reduced

from 182,000 to 174,000 and the Navy did not fund the refueling of the carrier USS George Washington, without which our aircraft carrier fleet will go from 11 to 10.

If we continue on this path and don't reverse the adverse internal trends I will outline next, our war fighting forces will shrink even further than outlined above. Army divisions would shrink from 10 to 6; and Navy ships from 285 to 228, and fighter aircraft from 1493 to 1157. The remaining forces will be too small to address the threats we face, less ready, and less capable. This is not just my analysis. All of the major analytical think tanks agree that this is the course we are on without serious reform. In my view, this is a compelling case for change and one the Pentagon, Congress, and industry must work on together.

Management

Secretary Hagel's second major headache is management. He inherited a department with a massive overhead and a tooth-to-tail ratio that has not yet improved. DOD-wide spending went from 5% of the budget to 20% over the last decade; in FY 15, it is still 18%. In the acquisition area, DOD spends over \$400 billion a year on goods and services, supplies and equipment, and this can generally be characterized as "spend more, take longer, and get less." As recent Secretaries of Defense have noted, the costs of personnel have doubled for a smaller force. And the life-cycle costs of compensation for retirement and health care for retirees and their dependents will be greater than the entire appropriation for active duty, Guard, and reserve personnel in the next year. The cost of just pay and some benefits for active personnel has gone up 82% since 2001 for a slightly smaller force than the one in 2001.

The Department clearly is not operating as efficiently as it needs to be. In these tough fiscal times, it's not how much we spend but what we get for what we spend. We need to make sure we're getting the best bang for our defense buck for the warfighter and for the taxpayer. 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.

In the acquisition area, Frank Kendall and his team continues to aggressively push reform and Congress has joined him. Real progress has occurred in this area but it's not how far we've come, but how far we have to go. On overhead, the headquarters cuts that Secretary Hagel directed are very important from both a symbolic and substantive standpoint. But they only scratch the surface in the infrastructure and overhead area of which 75% is in the military departments. DOD has asked Congress to slow the growth of compensation, approve a new base closure round, and retire some weapon systems, but so far has gotten a resounding no.

Conduct and Culture

A third problem area is conduct and culture. We've all seen the headlines. Military officers and government officials accused of sexual assault, taking bribes, improperly spending taxpayer dollars, and

cheating. Ethics are consuming a substantial portion of the senior leadership's time and focus. I call these the "scandals de jour." Both the Secretary and the Chairman of the Joint Chiefs have felt compelled to appoint a senior ethics advisor. These are unneeded distractions from the real challenges that demand our senior leaders attention. While we have seen isolated scandals from time to time in years past, we have not seen the quantity or quality that is occurring now all at the same time. We need to understand if there are any common threads but also take decisive action and hold people accountable for their transgressions.

These are just the problems within the Department that the Secretary has to contend with. There's also a big world out there that is more unstable and threatening. No doubt this includes Egypt from last summer and Ukraine now and all the other hotspots, manmade and natural. The Secretary is planning for the rise of once and future military challengers like Russia and China; he's overseeing ongoing operations in Afghanistan; and he's managing long-time allies and partners. He also understands we have to avoid sudden shocks in the realms of cyber and terrorism.

Budget

As Secretary Hagel confronts all his migraine headaches, he does so in the context of downward pressure on the DOD topline. The topline dropped down in FY 13, will remain flat in FY 14 and 15, and will not increase in real terms over the FYDP.

Last year's Bipartisan Budget Agreement brought us stability for FY 14 and 15 and lessened the sequester's bite a bit, but DOD still absorbed over 70% of the sequester cuts in FY 13, 14, and 15. Moreover, it did nothing to fix the sequester that is set to reappear in FY 16. Nor did it do anything to fix the alarming trends in the internal composition of the budget. The tooth-to-tail ratio is not getting better; the fully burdened and life cycle cost of personnel continues to grow unchecked; and the acquisition system is still inefficient and costs more money for less product.

It's important to remember that the reductions imposed by the sequester apply to budget authority, that is the money that the Department is authorized to spend. The effects on outlays, the money the Department actually spends in a given year, happens in a non-linear fashion. From FY 12-16, DOD will lose \$118 billion in outlays from previous levels. In fact, outlays will continue to shrink through FY16—we won't see a real increase until FY17, and only then if the FY 16 budget is higher than the sequester caps. This is having a real impact on training and readiness, and our industry. So for the analysts that are saying we have hit bottom, we can breathe again, we are back to business as usual—they are wrong.

Industrial Base

So what does all this mean for the defense industrial base, particularly in the logistics area and what can and should we do to help Secretary Hagel, Secretary Kendall, Secretary Estevez, and the Congress?

The defense industrial base remains an essential element of our nation's war fighting capability. Our country has the finest military in the world for three principle reasons: (1) high quality people; (2) realistic and constant training; and (3) cutting edge technology. We could have the most talented people with the best training, but without the superior technology industry provides them, they would not be effective. We depend on the defense industrial base to provide this technology and equipment for our troops. This has been a fact for most of our history, but the industrial base really became known as the arsenal of democracy during World War II.

This tradition has been proudly carried on throughout the last 12 years of war as the industrial base has met the requirements from the war fighters. A prominent example was the industrial base's ability to produce the Mine Resistant Ambush Protected vehicle quickly. However, we were able to do this only because we had existing production lines and engineers already at work. When we needed better body armor quickly, it was the industrial base that delivered. Industry provided the war fighter with next generation drones, sensor technologies, precision weapons and navigation, and a range of other equipment. Many of these technologies and its associated equipment came out of investments industry made in research and development in years prior.

But the industrial base doesn't exist for its own sake or for the sake of shareholders. It's about the war fighter and battlefield effectiveness. Our troops do wonderful, unbelievable things. But they can't do everything we ask of them without the equipment from industry. As a Marine, we used to joke that Marines could do almost anything, but we couldn't walk on water. We needed ships to take us to the fight.

That's why I say it's about war fighting technology, how do we create it and how do we sustain it. I was privileged to serve in uniform in three conflicts. In Vietnam, we didn't have what we needed in individual war fighting equipment at the small unit level where I operated as an infantry platoon commander and we took casualties that could have been avoided.

NDIA's Role

So, what is our role at NDIA in this challenging environment?

We have a real opportunity to help Secretary Hagel and the Congress make positive reforms in key areas. Efforts are underway in both the Congress and DOD to look at ways to improve the acquisition system while maintaining a healthy industrial base. This is led by Vice Chairman of the House Armed Services Committee Rep. Mac Thornberry and the House and Senate Armed Services Committees leadership, and in the Pentagon by Under Secretary for Acquisition, Technology, and Logistics Frank Kendall, and his senior team, many of whom you will hear from in this conference. (Thank them.)

NDIA is working with Congress and the Department to find ways to get more bang for our defense buck. One area we're focusing on is charting a future for the defense industrial base. Brett Lambert, former Deputy Assistant Secretary of Defense for Manufacturing and Industrial Base Policy, is leading a study

for NDIA and will deliver a comprehensive report later this year. The study's purpose is to complement the Sector-by-Sector, Tier-by-Tier initiative begun by him and Under Secretary Kendall by providing data that would otherwise be difficult for DOD to collect through its own processes. We will hand off our data to AT&L and Congress and our hope is that this will become an ongoing dialogue, a living process for exchanging information between industry and government.

NDIA is also helping the Congress and the Pentagon look at ways to reform and improve the Defense Acquisition System. We got started on this late last year through our Procurement Division, but there are clearly a lot of Logistics Division equities too. We will be reaching out to get you all involved as well. Recently, NDIA received a written request for input from both the Senate and House Armed Services Committees, and we've also had outreach from AT&L asking for our input. We've just added Jon Etherton, one of the handful of true experts on the acquisition process, laws and regulations, to help lead this initiative. We'll have more to report on this initiative shortly as this study takes shape, but we want your views heard and taken into account.

Logistics

Everyone knows the old saying that amateurs talk strategy and professionals talk logistics. Logistics is critical to the war fighter and is an area that lends itself to close collaboration and partnership between government and industry. NDIA fully supports the government workforce that is our logistics partner. We need to ensure that the government-industry partnership continues as a productive relationship between the two so we get the best outcomes. We're all on the same team—supporting the war fighter.

Conclusion

Finally, DOD's budget outlook might be bleak by the numbers, but it's not all doom and gloom. Tough fiscal times are opportunities for real change because they force us to think smarter, not richer. And I have listed numerous positive initiatives from industry, Congress, and the Pentagon that are causes for hope.

We all need to keep our focus on the basics. Everything should support DOD's core mission—war fighting. All else is secondary.

Thanks to each and every one of you here today, particularly those who wear our nation's uniform and to those who serve in government, and those who have served.

Thank you.