

Testimony

Of

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Senate Committee on Banking, Housing, and Urban Affairs

May 13, 2009

Senator Brown, I am Larry Farrell, President and CEO of the National Defense Industrial Association and on behalf of our 1,416 corporate members, and just over 53,000 individual members, I'm pleased to appear before the Senate Economic Policy Subcommittee today to emphasize the importance of Manufacturing to the health of the U.S. economy and Security of the Nation.

Based upon your request to cover topics of vital interest to manufacturing and in consideration of the reauthorization of the Defense Production Act slated for later this year, I will address five questions:

- Why should Congress care about manufacturing?
- How do manufacturers rely on credit?
- How are manufacturing supply chains intertwined and what happens when demand falls off?
- What strategic and security considerations regarding manufacturing should Congress know of?
- What policies should Congress consider in supporting American manufacturing?

Congress MUST care about manufacturing simply because of its enormous impact across all aspects of our nation, including economic, class, and security. While manufacturing has been declining as a percent of GDP since the 1950s, manufacturing still remains the largest productive sector in the overall US economy at 13.6%, and the U.S.

produces more goods than any other country – \$1.6 trillion worth, according to the Federal Bureau of Economic Analysis. However, the most critical benefit of manufacturing is not simply the size of the sector, but that manufacturing CREATES wealth by producing something of higher value from materials or common components. It is not a service sector that just transfers wealth between entities. And unlike other wealth creators, such as Mining or Agriculture, the jobs produced by manufacturing activities are generally high paying and represent an entry into the middle class for a large portion of the workforce. For all these reasons and more, Manufacturing has and must continue to represent the foundation of a strong economy, and thus needs active support by Congress.

How do manufacturers rely on credit?

Manufacturers rely extensively on credit, particularly for working capital. Thus, while access to credit for capital equipment or facilities is necessary, the lack of credit to buy supplies and meet payroll will more rapidly drive manufacturers out of business.

Manufacturers are obliged to purchase materials and supplies prior to being paid by their customer. This problem is exacerbated by the fairly long period between invoice and payment in the supply base, sometimes up to 120 days.

A recent comment by a lawyer for many small manufacturers in the Chicago area reveals the degree of the current situation: “Probably 30% of my clients are contemplating filing or have already filed for Chapter 11, not because their business volume has fallen below

previously viable levels, but rather because they can no longer get credit to borrow for their long established working capital needs.”

How are manufacturing supply chains intertwined and what happens when demand falls off?

Manufacturing is most productive when company resources, such as capital equipment or workforce, are being fully utilized to generate product, or wealth. When demand falls off, and company resources are not used to their fullest capacity, inventories rise and revenues fall... initially impacting employment and if the decline is too severe impacting the viability of the business. Diversity is one business strategy that can mitigate a downturn in specific business segments. A company that serves more than one market sector is less likely to face failure from a downturn in one sector. Even in today's business climate there are sectors that remain healthy, and many businesses that participate in these markets, such as the Defense and Energy sectors, remain viable. Therefore, supply chains intertwined among various market sectors will promote more viable and robust manufacturing and preserve jobs.

What strategic and security considerations regarding manufacturing should Congress know of? In today's global political environment, National Security includes an underlying requirement for economic strength and viability, which in turn requires an industrial base that generates wealth based upon manufacturing goods, not based upon the transfer of wealth.

What policies should Congress consider in supporting American manufacturing?

Above all else, Manufacturing requires a senior leader in the Administration, at a level sufficient to drive a national campaign advocating the government's policies. We recommend that Congress endorse an Assistant Secretary for Manufacturing, responsible for coordinating policy, strategic investment, and workforce development.

We strongly endorse the reauthorization of the Defense Production Act, with particular emphasis on:

- 1) Revitalizing the Interagency Task Force which administers the DPA, with a chairman designated by the President.
- 2) Increasing the level of funding available for DPA to approximately \$500M across all Departments (DHS, DOE, DOD, DOC etc.) in order to significantly impact the domestic industrial base.
- 3) Resuming the practice of loan guarantees under the Title III Authority, in accordance with OMB guidance.

We strongly agree with the 2006 Defense Science Board Recommendation that a stable funding profile should be established for the DoD ManTech program, returning the total program investment to one percent of the RDT&E budget. (This would represent a \$790M program, vice the \$200M in the FY10 Budget) .

We recommend the use of Manufacturing Readiness Levels early in the Development and Acquisition of Defense Systems, and particularly prior to Milestone B, as a 'Producibility Stress Test' to assess manufacturing feasibility and promote affordability.

Another policy need is to incentivize Sustainable Manufacturing, using a cohesive policy framework to include such legislation proposals as (S. 661) Restoring America's Manufacturing Leadership through Energy Efficiency Act. This would result in more local (US) manufacturing as the true impact of global sourcing is better understood in terms of economic, environmental and social costs.

A final approach to decrease the impact of the credit crisis is to encourage the practice of progress payments throughout the supply chain by reducing required threshold value.

While considering the manner in which to pursue these recommendations, I must note that an active Senate Manufacturing Caucus could provide effective leadership for all the issues I've just outlined. I urge you to revitalize this organization to advocate for manufacturing within Congress.

Chairman Brown and Members of Subcommittee, I'm honored to have had this opportunity to provide you a defense industry perspective on the critical nature of Manufacturing to our nation, and hope that you embrace the opportunity to strengthen the government's commitment to manufacturing in the economic and national security interests of the country.

