

**Testimony**

**Of**

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Chairman Brown, I am Larry Farrell, President and CEO of the National Defense Industrial Association and on behalf of our 1518 corporate members, and just over 67,800 individual members, I'm pleased to appear before the Senate Subcommittee on Economic Policy today to emphasize the importance of Manufacturing to the health of the U.S. economy and Security of the Nation. The Manufacturing Division of NDIA has recently published a white paper entitled, *Maintaining a Viable Defense Industrial Base*, which I urge you to review in addition to my testimony today.

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. Additionally, manufacturing multiplies each dollar spent into an additional \$1.37 of economic activity, higher than any other sector. 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 higher paying and represent an entry into the middle class for a large portion of the workforce. For all these reasons and more, manufacturing is, and must continue to be, 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 Roger Stelle, a lawyer for many small manufacturers in the Chicago area, reveals the degree of the current situation: “Many 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?**

America relies on the development and implementation of advanced manufacturing technologies to maintain a globally competitive industrial base, which is strategically vital due to the 13 million jobs contained within the sector. Our industrial base provides these advanced manufacturing technologies through innovation and application of technologies that promote both performance and affordability. National security requires a manufacturing sector based on assured sources to safeguard our economy and national defense and provide trusted sources of supply to meet the demands of our citizens and warfighter.

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. Considering that agriculture is 3% of GDP and is represented by a department with a cabinet position, a segment representing 13.6% of GDP such as manufacturing should have greater visibility than a Deputy Assistant Secretary within the International Trade Administration of the

Department of Commerce. We recommend that Congress endorse an Assistant Secretary for Manufacturing within Commerce in a new top level department, responsible for coordinating policy, strategic investment, and workforce development.

We strongly endorse the reauthorization of the Defense Production Act (DPA) 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 Department of Defense (DoD) Manufacturing Technology (ManTech) program, by returning the total program investment to one percent of the RDT&E budget. (This would represent a \$790M program, vice the \$200M in the Fiscal Year 2010 Budget). Furthermore, we endorse the four strategic thrusts of the "DoD Manufacturing Technology Strategic Plan," submitted to Congress in March 2009 by the Undersecretary of Defense for Acquisition, Technology and Logistics which emphasizes investment in advanced manufacturing technology.

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

The average age of the US manufacturing workforce exceeds 52 years. Policies are needed to attract, educate, and retain future generations of skilled workers. The Federal Government must help encourage and promote manufacturing as a respected and desired career path.

Another policy need is to incentivize Sustainable Manufacturing, using a cohesive policy framework to include legislation such as S. 661 'Restoring America's Manufacturing Leadership Through Energy Efficiency Act', currently under consideration by the Senate Committee on Energy and Natural Resources. Timely enactment of this legislation would result in more local (U.S.) 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 for which progress payments can be made.

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.