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January 10, 2022

The Honorable Betty McCollum
Chairwoman, Subcommittee on
Defense
Committee on Appropriations
United States House of Representatives
Washington DC, 20510

The Honorable Ken Calvert
Ranking Member, Subcommittee on
Defense
Committee on Appropriations
United States House of Representatives
Washington DC, 20510

Dear Chairwoman McCollum and Ranking Member Calvert,

On behalf of the National Defense Industrial Association (NDIA) and its membership across all sectors and sizes of the defense industrial base, I am this letter for the record in support of your 12 January 2022 hearing on the impact of continuing resolutions (CR) on defense. We wish to express grave concern about a potential full year CR and delineate some of the impacts that would result. The analysis below comes from a draft NDIA white paper on the impacts of a full year CR; we will incorporate into it the findings of your hearing before the paper's release next week and will ensure your staff receives it.

As Secretary of Defense Austin stated, a full year CR would be "an unprecedented move that would cause enormous, if not irreparable, damage to a wide range of bipartisan priorities—from defense readiness and modernization, to research and development, to public health." The timing of a full year CR could not be worse as our country navigates a near-perfect storm of a worsening strategic environment, urgent catch-up defense modernization, surging inflation eroding defense buying power, and a defense industrial base in the midst of COVID, supply chain, and workforce disruptions.

For two decades, as the U.S. focused on counterterrorism, China and Russia invested in technological and capability advances to gain an advantage over us. With this growing strength, they are now increasingly aggressive. The U.S. is in a race against time to invest in the capabilities, force structure, and posture needed to deter further aggression and prevent escalation to a major conflict. A full year CR would stop key investments for a year; some of these delays may be unrecoverable. Congress has authorized significant increases to the Pacific Deterrence Initiative, the European Deterrence Initiative, and the Ukraine Security Assistance Initiative. Stopping this funding in the face of a Russian build-up on the Ukrainian border while China is taking increasingly aggressive acts towards Taiwan risks signaling a lack of seriousness and competence to counter their actions—we risk further emboldening their aggression.

A full year CR would cut $36 billion in Congressionally intended growth from the Department of Defense (DoD), stop new programs from starting, prevent increased procurement, and leave resources misaligned to needs. Critical investments a full year CR would delay include space capabilities, hypersonic weapons, artificial intelligence and autonomy, and nuclear force modernization. We estimate over 300 new starts would be cancelled in Fiscal Year 2022 (FY22) by a full year CR in RDT&E, Procurement, and Military Construction accounts. Funding misalignments include lack of funding for the military and civilian pay raises, causing these must-pay bills to come at the expense of change-of-station moves; incentive and special pays; flying hours and readiness training; facility maintenance and modernization. A long-term CR will cancel key Congressional priorities for FY22 essential to deterring aggression, such as the Pacific Deterrence Initiative (PDI).

This potential reduction in planned funding level is being made worse by rising inflation. When the FY22 President's Budget (PB) was developed, inflation was expected to be around two percent. The planned growth in funding top-line in the PB submission, along with offsets from the Middle East, would nearly cover this inflationary cost growth, leaving DoD with an almost neutral budget in real (inflation-adjusted) buying power terms. But inflation has risen significantly since that time. The December 10, 2021, Consumer Price Index (CPI) report found 6.8 percent overall inflation in the U.S. economy. When applied to DoD spending categories, this amounts to over $40 billion in inflationary cost growth DoD will experience in FY22. In other words, even the NDAA enacted funding level of $740 billion would not fully cover inflation and result in a decline in real buying power. When the $36 billion top-line reduction of a full year CR is combined with the dramatic increase in inflation, DoD would take the equivalent of an over $75 billion buying power cut compared to what Congress originally intended when establishing the NDAA funding level of $740 billion.

There would also be significant impacts on the defense industrial base, a sector that has seen thousands of companies depart in the last decade and, according to NDIA's annual Vital Signs Report, fewer and fewer new entrants to the defense market. The previous two years have been especially difficult. COVID has disrupted production lines, development programs, and the defense industry workforce. Supply chain disruptions and workforce disruptions are now adding further complications—this turmoil has taken a toll. According to the Wall Street Journal, defense industry stocks are at their lowest valuation in eight years. An unprecedented full year CR would add another burden on an already heavily burdened sector. The most obvious impact is lost revenue. This effect will be spread out over several years because DoD takes time to first obligate and then outlay funding. This loss of revenue translates to reduced economic activity across the country. For example, we estimate that the prevention of 78 RDT&E and Procurement new starts for the AF will have an impact in at least 15 states, including Arizona, California, Colorado, Georgia, Florida, Maryland, Michigan, Missouri, New Mexico, New York, North Carolina, Oklahoma, Texas, Utah, and Virginia.

The long-term impacts could be particularly damaging in the technology sector. In many crucial areas of capability development, such as space and AI, the commercial sector is the primary driver of technological advancement, and DoD's race against time includes improving incentives for this sector to focus on national security challenges. But these companies already find the government hard to work with and a questionable investment. Time is running out to seriously bring the technology sector into the national security space and a full year CR would burn another year we can't afford to waste.

There are other, less direct impacts on the defense industrial base beyond these effects. For example, when there is uncertainty about if and when a program will start, companies may be forced to delay key internal investments in plant, equipment, and workforce training. Once funding does arrive, these deferred investments may have to be done in a hurry, or production may have to begin without these cost-saving investments reducing efficiency and raising costs to the taxpayer for the required military capability. This can be particularly pronounced in Multi-Year Procurements (MYPs).

Ultimately, it is our defense industrial base—the best and most innovative in the world—that provides the products, services, and capabilities that keep our warfighters advantaged against any foe. Damaging it now will necessarily be felt by our warfighters in the future.

NDIA and our members appreciate the subcommittee holding this critical hearing and hope the testimony and information shared will lead Congress to pass full year funding and negate the worst impacts of a full year CR.

Very respectfully,

Herbert J. Carlisle
General, USAF (Ret)
President and CEO
National Defense Industrial Association