



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

July 27, 2001

H.R. 2510 **Defense Production Act Amendments of 2001**

As ordered reported by the House Committee on Financial Services on July 25, 2001

H.R. 2510 would extend the authorities of the Defense Production Act of 1950 (DPA) for an additional three years through September 30, 2004, and would authorize all necessary appropriations for that period. The DPA provides the President the authority to require preferential performance on contracts and orders to meet approved national defense requirements; and to allocate materials, services and facilities as necessary to promote the national defense in a major national emergency (Title I); authorizes loan guarantees, direct loans, and purchase guarantees for those goods necessary for national defense (Title III); and allows the President to void international mergers that would adversely affect national security (Title VII). These authorities are set to expire on September 30, 2001. CBO estimates that implementing H.R. 2510 would cost about \$85 million over the 2002-2006 period, assuming appropriation of the necessary amounts. Because the bill would not affect direct spending or receipts, pay-as-you-go procedures would not apply.

The bill would authorize the appropriation of such sums as necessary for direct loans and loan guarantees under Title III to correct for shortfalls in domestic industrial capacity. In recent years, the Department of Defense (DoD) has used the authority for purchase guarantees—that is, the authority to commit to buying a specific quantity of a defense good if a manufacturer cannot sell it elsewhere. Appropriations for purchase guarantees have averaged about \$20 million a year over the 1986-2001 period, ranging from \$29 million in 1986 to \$100 million in 1994 to \$3 million in 2001. No money was appropriated for this purpose in 1992, 1993, or over the 1996-1999 period. The Administration has requested an appropriation of \$50 million for 2002. Because of the sharp variations in annual funding, specific yearly amounts for the indefinite authorization are difficult to project.

Based on information from DoD and the historical average over the past 16 years, CBO estimates that extending the authorization would require about \$90 million in appropriations for the three-year period covered by the bill. Based on historical spending patterns, CBO estimates outlays from that funding would total less than \$75 million over the 2002-2006 period. In addition, the administrative support to carry out the DPA would require

appropriated funds of about \$4 million a year, split between DoD, the Federal Emergency Management Agency, and the Department of Commerce.

To date, no funds have been appropriated for other provisions of the DPA. As a result, CBO has no basis for estimating any additional costs that could be triggered by extending its authorization for three more years.

Section 4 of the Unfunded Mandates Reform Act excludes from the application of that act any legislative provisions that are necessary for the national security. CBO has determined that the provisions of the DPA would fall under that exclusion.

The CBO staff contact for federal costs is Sam Papenfuss. The CBO staff contact for the private-sector impact is R. William Thomas. This estimate was approved by Peter H. Fontaine, Deputy Assistant Director for Budget Analysis.