



National Security Update

The Impact of the Coronavirus on Future Defense Budgets

Our fourteenth IFPA *National Security Update* examines the potential impact of the coronavirus on future U.S. defense budgets and the need for the Department of Defense to prioritize its programs and technology development efforts in the new budget environment caused by the global pandemic. The pandemic coincides with and intensifies threats and challenges facing the United States. These include not only heightening tensions with China but also likely efforts on the part of other adversaries to take advantage of perceived U.S. vulnerabilities.

Topics addressed in our *National Security Update* series have included the Defense Department's approaches to access advanced technologies developed in the commercial high-tech sector; the FY2020 National Defense Authorization Act; hypersonic missiles; missile defense priorities; nuclear modernization issues; President Trump's Executive Order on Electromagnetic Pulse; the status of the Space Force; China's actions in the South China Sea and U.S. options; and the military applications of artificial intelligence. IFPA *Updates* may be accessed on our website at www.ifpa.org/.

Key Conclusions and Findings

- As of mid-June 2020, the global coronavirus pandemic has resulted in over 2 million confirmed cases in the United States and approximately 116,000 U.S. deaths,ⁱ and devastated the economy.
 - Over 42 million Americans have applied for unemployment benefits since March 2020. The current unemployment rate is 13.3%, a figure that may be greatly understated because many workers without jobs are not tallied because they have decided not to file for benefits.
- To date, the U.S. government (USG) has passed four stimulus relief packages totaling approximately \$3.3 trillion with another one likely later this year.
 - It is projected that the stimulus bills will add at least \$2.2 trillion to the current federal deficit and swell the \$24.6 trillion national debt. These levels would grow considerably if another stimulus bill passes, and even more so if a second round of the coronavirus emerges later this year and further stimulus relief is deemed necessary.
 - Even with the stimulus programs enacted so far it is estimated that it may take several years for the United States to recover from the pandemic. As the surprisingly positive May economic employment figures and other data show, however, our ability to forecast recovery times is deficient.
- Not surprisingly, the coronavirus pandemic and the \$3.3 trillion the U.S. government has spent so far to mitigate its economic impact are sparking debate about future USG discretionary spending including for national security and defense. Defense budgets,

already projected to be flat in the coming years, will face growing pressure to be scaled back.

- Democrats from the progressive wing have already called for defense cuts to the \$740.5 billion Fiscal Year 2021 defense budget request because of the pandemic.
- Pressure to cut future defense spending could increase if additional stimulus packages are required to combat the large-scale impact of the pandemic.
- Senior defense officials have repeatedly stated that DOD budgets must grow by 3% to 5% annually to meet modernization requirements and to implement the National Defense Strategy (NDS). This rate of growth was unlikely to be met even before the pandemic struck given the flat-growth projections of the Trump Administration's future defense budgets.
- Consequently, it is essential for the Department of Defense to prioritize the most important programs and technologies to be safeguarded and funded. DOD needs to develop a consensus regarding its highest priority efforts, a result which will shine a light on programs that could be eliminated or seriously scaled back in order to meet modernization requirements and NDS implementation. Highest priority programs include:
 - The Joint All Domain Command and Control, or JADC2, which links decision makers and weapon systems together in a seamless network with the capability to share data fluidly across platforms in all five domains (land, sea, air, space, and cyberspace). All domains are increasingly contested so such networks must be survivable with no single points of failure;
 - Long-range air-, sea-, and ground-launched strike systems, including hypersonic missiles, able to hit targets rapidly and accurately at great distances;
 - A modernized U.S. nuclear strategic triad including the nuclear command, control and communication system;
 - Missile defense, including space-based systems and boost-phase intercept capabilities, to protect the U.S. homeland, forward deployed forces, and U.S. allies;
 - Resilient satellite networks for sensing, data transport, and other missions;
 - Offensive and defensive cyber capabilities; and,
 - Key technologies: artificial intelligence and machine learning, robotics, advanced sensors, biotechnologies, autonomous systems, stealth, and quantum computing.
- Reaching a consensus on the defense systems/technologies that need to be prioritized/protected will be extremely difficult. The military services, Congress, lobbyists, and the defense industry all have pet programs which they will fight hard to maintain. Secretary of Defense Mark Esper wants to cancel legacy systems to focus on modernization and readiness.

- Members of Congress, however, will be unlikely to vote for doing away with legacy systems which would lead to job losses in their districts/states. Industry will also lobby against such cancellations.
- Among their arguments will be that cancelling such programs and the job losses that will ensue are not appropriate at a time when the coronavirus unemployment rate has already skyrocketed, the largest since the Great Depression.
- To overcome these obstacles, a concerted effort coupled with a strategically informed and compelling rationale must be developed and advanced by the current and next administrations, making the case for those systems, programs, and technologies that are most important to our national security goals and requirements.
 - The threats facing the United States did not disappear or abate following the pandemic. In fact, especially with regard to China where the pandemic started, they have increased. It would be surprising if the pandemic did not intensify the danger of miscalculation on the part of enemies.

Introduction

The enormous, and likely-to-grow, multi-trillion-dollar price-tag accompanying the U.S. government response to the coronavirus pandemic, combined with the pandemic's deleterious impact on the U.S. economy and the skyrocketing deficit, threaten to reduce USG discretionary spending levels including for national defense.

Secretary of Defense Mark Esper and his two predecessors, Patrick Shanahan and James Mattis, all stated that 3% to 5% annual increases in the defense budget were necessary to sustain modernization efforts and implement the 2018 National Defense Strategy.ⁱⁱ However, even if the pandemic had not occurred, after passage of the 2019 Bipartisan Budget Act (more below) the likelihood of such annual defense growth was remote.

Moreover, the Trump Administration's own projections indicate that future defense budgets will be flat or declining. The pandemic and its economic ramifications will make maintaining even a flat defense budget more difficult. For example, the government's several coronavirus stimulus relief packages currently exceeding \$3 trillion – with another one in the works – has already sparked calls by some Members of Congress for cuts to both the FY21 and future defense appropriations (more below).

In a defense budget environment constrained by the economic exigencies of the coronavirus pandemic, the leadership of both the executive and legislative branches will need to make difficult strategic and funding choices to keep the United States strong as it faces the growing threats posed by near-peer competitors China and Russia and by rogue states such as North Korea and Iran as well as by actors other than states such as terrorist groups.

Leaders, who will be facing flat or reduced defense budgets in the coming years, must reach a consensus and make informed decisions to prioritize and protect funding for the programs, weapon systems, and technologies needed to implement the NDS and sustain U.S. military superiority. Programs, systems, and technologies that do not make the priority list should be eliminated or drastically scaled back as necessary.

The Impact of the Coronavirus Stimulus on the Federal Deficit

The U.S. government economic-relief response to the pandemic has been bold, swift, and generous representing a World War II-level spike in federal spending. In March and April 2020 four bills,ⁱⁱⁱ totaling approximately \$3.3 trillion (~14% of U.S. GDP), were enacted to assist households, businesses, and state and local governments affected by the pandemic and subsequent economic downturn.

They included increased and extended unemployment benefits, grants and loans for businesses both large and small, and \$1,200 individual grants to most Americans. The current stimulus effort contrasts markedly with the \$840 billion level of support provided in the aftermath of the 2007-09 financial crisis.^{iv}

On May 15, 2020, the Democratic-controlled House of Representatives passed a fifth stimulus package, the Health and Economic Recovery Omnibus Emergency Solutions Act or Heroes Act valued at over \$3 trillion, a follow-on to the \$2.2 trillion CARES Act enacted in late March. It contains a second round of \$1,200 stimulus checks, \$200 billion in hazard pay for essential workers, six additional months of COVID-19 unemployment, and funding for state, local, and tribal governments among several other items.^v

However, Mitch McConnell (R-KY), the Senate Majority leader, has stated that the Heroes Act has “no chance of becoming law.” He recently indicated that another stimulus bill will probably be needed but it will have a much narrower scope than the House bill and include a liability clause to protect doctors and businesses from frivolous lawsuits.^{vi}

A Republican decision in the Senate on the funding level of the bill – reportedly Senator McConnell does not want it to exceed \$1 trillion – and its specific elements will likely not be completed until July or early August and will be influenced by the success of current state-reopening efforts and whether and to what extent the economic downturn begins to abate^{vii} (the recent decline in unemployment has given hope that the economy may be recovering at a more rapid pace than anticipated). If a fifth package is agreed upon by Congress and signed by the President, total coronavirus stimulus spending could range between \$4.3 and \$6.3 trillion.

Coronavirus Defense Stimulus Funding

DOD received approximately \$10.5 billion as part of the CARES Act passed in March primarily for defense health programs in response to the public health threat together with funding for National Guard deployments to assist state prevention efforts.^{viii} Defense Secretary Esper has stated that the Pentagon plans to request additional stimulus funding from Congress to support the defense industrial base hit hard by the pandemic. DOD has already allocated \$3 billion of previously appropriated defense funding in expedited progress payments to contractors affected by work delays and breaks in the supply chain to increase cash flow to primary contractors and more vulnerable, smaller subcontractors.

House Armed Services Committee (HASC) Chairman Adam Smith (D-WA) has advocated for the Defense Department to assume a larger role in coronavirus relief efforts and would back funding for such endeavors in a future stimulus bill. He would not, however, support DOD funding in a stimulus package that was earmarked for the manufacture of weapon systems.^{ix}

Other members of the Democratic senior leadership have yet to reveal their views on this issue. However, it is likely that DOD stimulus funding, especially if it is not directly related to DOD coronavirus efforts as was the case in the CARES Act, will spark serious opposition from the progressive wing of the Democratic Party.

For example, in what will also reflect the progressive wing's perspective when Congress debates the size of the FY21 defense budget (more in a subsequent section), Representative Ro Khanna (D-CA), a member of HASC and the House Progressive Caucus leadership team, made his position known in several tweets: "The Pentagon shouldn't get any more COVID relief money. A single F-35 could pay for 2,200 ventilators. 1 nuclear warhead could pay for 17 million masks."^x

In contrast, Roger Wicker (R-MS), a senior member of the Senate Armed Services Committee (SASC) and Chairman of the Senate Commerce Committee, supports an additional cash infusion for the defense industry and believes that the government can play a vital role in helping military suppliers affected by work delays and breaks in the supply chain.

He stated that "As Congress considers new relief measures, I will work to include targeted funding to ensure that suppliers get the stable cash flow and contracts they need to endure this crisis. These awards should go toward projects the military has already identified as priorities and should not break the bank."^{xi}

Impact of the Coronavirus on the Economy

The coronavirus pandemic has infected over 2 million Americans and resulted in almost 116,000 U.S. deaths. The ensuing social distancing/lockdown measures enacted have dramatically disrupted economic activity in the United States resulting in a groundswell of job losses bringing an end to the longest U.S. economic expansion since World War II. Since mid-March, over 42 million Americans – roughly 25% of the pre-pandemic labor force – have filed for unemployment insurance, a level 10 times greater than before the coronavirus pandemic struck.

The job market discontinued its coronavirus-induced losses in May with the unemployment rate dipping unexpectedly to 13.3% (from 14.7 percent in April).^{xii} However, according to some estimates, the real unemployment rate is much higher because many people who have left the labor force and are not actively looking for jobs are consequently not accounted for in the unemployment figures.^{xiii}

A report by the Congressional Budget Office (CBO) estimates that the first four stimulus bills will increase the federal deficit by \$2.2 trillion in FY20, in effect increasing the USG's FY20 budget by 50%, expanding the already massive \$24.6 trillion national debt.^{xiv} Those figures would escalate considerably if the fifth stimulus bill described above is enacted later this summer, and even more so if the coronavirus resurfaces in the fall/winter necessitating an additional series of stimulus packages.

According to the CBO report, the roughly \$3.3 trillion in stimulus programs enacted by Congress since March will only "partially mitigate the deterioration in economic conditions." In fact, it could take the United States the better part of a decade to recover from the coronavirus

pandemic and economic shutdowns, although such projections are at best speculative and uncertain.^{xv}

Overview of the FY21 Defense Budget Request and Its Status in Congress

The Trump Administration sent its fiscal year (FY) 2021 budget request for National Defense to Congress on February 10, 2020, several weeks before coronavirus social distancing/lockdown measures were implemented in the United States. The budget request totaled \$740.5 billion in discretionary defense-related funding. This includes DOD-military (\$705.4 billion); Department of Energy defense nuclear activities (\$26.0 billion); and other defense-related activities (\$9.1 billion).^{xvi}

The request also includes \$69 billion for Overseas Contingency Operations (OCO) divided into three categories: Direct War Requirements (\$20.5 billion); Enduring Requirements (\$32.5 billion); and Base Requirements (\$16.0 billion), i.e., base defense budget requirements financed in the OCO budget to comply with the Bipartisan Budget Act of 2019 (more below).^{xvii}

Utilizing the National Defense Strategy^{xviii} as its guidepost, the Administration's FY21 defense budget request underscores that "Great power competition is the pre-eminent challenge facing the nation's security."^{xix} DOD budget documents state that China has one of the largest militaries in the world and is trying to negate U.S. military advantages with new capabilities in space, cyber, electronic warfare, undersea warfare, fighter aircraft, bombers, and other anti-access, area denial (A2/AD) assets. At the same time, China is also modernizing its nuclear delivery capabilities.

Likewise, Russia has invested in A2/AD capabilities to block an adversary from operating in Eastern Europe, upgraded its conventional forces and strategic nuclear forces and delivery systems, and augmented its cyber, space, electronic warfare, and hybrid warfare capabilities.^{xx} While great power competition is the highest priority, DOD must also deter and counter the threats to the United States by North Korea, Iran, and terrorism.^{xxi}

In brief, the FY21 defense request proposes to meet the objectives of the NDS by shifting DOD investments to deal with great power competition and preparations for "a potential future, high-end fight." The budget focuses on the following four broad areas to construct a more "lethal, agile, and innovative joint force" that addresses the demands of great-power competition as well as the challenges posed by regional threats. These broad areas include:

- Increasing military readiness and investing in the modernization of a more lethal force;
- Strengthening alliances, deepening interoperability, and attracting new partners;
- Reforming DOD for greater performance and accountability; and,
- Supporting service members and their families.^{xxii}

The Bipartisan Budget Act of 2019

In August 2019, President Trump signed into law the Bipartisan Budget Act (BBA) which raised the debt ceiling, boosted defense and non-defense spending, and permanently ended

sequestration and the mandatory, across-the-board cuts enacted in the Budget Control Act of 2011.^{xxiii} The BBA set defense funding at \$738 billion in FY20 and \$740.5 billion in FY21.

While the BBA did provide some budget certainty, the two-year defense-spending ceilings fall far short of the 3% - 5% annual growth that senior defense officials say is required to modernize U.S. forces and carry out the NDS.

The real problem becomes apparent in the Administration's FY21 request and the BBA's second-year ceiling. With inflation, the request of \$740.5 billion represents a flat or declining budget. The Administration's future defense budget projections also indicate flat budgets. The pandemic will make the enactment of even flat budgets much more difficult to attain.

The Status of FY21 NDAA Deliberations

Not surprisingly, the coronavirus pandemic has delayed action on the FY21 National Defense Authorization Act (NDAA) in both chambers of Congress. Passing the NDAA, which establishes funding levels and sets policies for DOD and the Energy Department's national-security programs, is one of Congress' highest priorities every year.

On May 26, 2020 Senators Jim Inhofe (R-OK) and Jack Reed (D-RI), the Chairman and Ranking Member of the Senate Armed Services Committee, announced the Senate's NDAA June timetable.

Senator Inhofe stated that "We've faced some unique challenges getting to markup this year, but, together with Senator Reed and the entire Armed Services Committee, in our traditional, bipartisan fashion, I am eager to move this year's NDAA closer to enactment for the 60th straight year." Senator Reed added that COVID-19 presents additional challenges and policy impacts as we craft the FY 2021 National Defense Authorization Act.^{xxiv}

The SASC subcommittees marked up the NDAA on June 8-9 and the full committee passed the bill with a 25 to 2 vote on June 11. The NDAA now goes to the Senate for a vote.

The coronavirus pandemic also delayed markup of the NDAA by the House Armed Services Committee which had been slated to begin on April 30, 2020. Normally, the NDAA is approved each year by the HASC in late April or early May. In a joint press release on April 28, HASC Chairman Smith and Ranking Member Mac Thornberry (R-TX) stated that "The COVID-19 pandemic will certainly affect how the Committee marks up the FY21 NDAA and how the House considers it on the floor."^{xxv}

"At the same time, we remain committed to the principles that have guided the bill in the past – regular order through the committee, transparency, and bipartisanship."^{xxvi} Representative Thornberry says the NDAA should clear the HASC sometime in late June and brought to the full House shortly thereafter.^{xxvii}

Previous Impacts of Deficit-Boosting Events on Defense Spending

Historically, higher deficits have put long-term pressure on defense spending. For example, in the mid-1980s, after the federal deficit topped at about \$0.5 trillion in current dollars, Congress responded with the Balanced Budget and Emergency Deficit Control Act which established deficit caps and the sequestration enforcement mechanism. As a result, the defense budget

dropped by 19% between 1985 and 1991. Following the end of the Cold War through 1998, the defense budget fell an additional 18%.

Deficits during the 2008-9 Great Recession shot up to \$1.7 trillion in current dollars leading to the enactment of the 2011 Budget Control Act by Congress. The BCA reestablished sequestration and placed spending ceilings on the discretionary defense and nondefense budgets. Even with the many budget deals revising BCA ceilings, from fiscal years 2010 through 2015, the drawdown of U.S. forces in Iraq and Afghanistan coupled with the BCA saw defense spending tumble by roughly 22%.

This history indicates that a downturn in defense spending occasioned by the pandemic stimulus packages and consequent accelerating deficits could be on the horizon. As CSIS analyst Todd Harrison notes in an important opinion piece, the Pentagon should prepare for the likelihood of diminished funding but also should not take reduced budgets as inevitable nor abandon the National Defense Strategy. He states that what is required is “getting the DoD’s budgetary house in order so that if cuts materialize, it is ready to handle them in a strategically informed manner.”^{xxviii}

Perspectives on the Impact of the Coronavirus on Future Defense Budgets

It is not surprising that the economic fall-out from the coronavirus epidemic has caused a number of DOD officials, Members of Congress, and national security analysts to believe that the United States will be faced with flat or declining defense budgets in the coming years. Without doubt, the multi-trillion-dollar USG stimulus bills described above that have swelled the \$24 trillion national debt, coupled with dramatically reduced tax revenues resulting from the severe economic downturn and job losses, will intensify pressure to trim the federal discretionary-spending budget. No portion of that budget will be free from scrutiny, including defense.

DOD Perspectives

In presentations in May, Secretary of Defense Esper expressed great concern that the additional debt incurred by the USG because of the pandemic could result in smaller defense budgets during a critical time when China and Russia are strategic competitors of the United States. Consequently, Secretary Esper said the Pentagon is already looking at ways to find additional savings beyond the \$6.5 billion derived in FY19 from internal DOD process reforms and the sale of obsolete military equipment. This includes moving “in the direction of operational deployment as compared to permanently deployed foreign forces.”^{xxix}

With modernization and investment in the future systems as his focus, Esper stated that DOD is investing in more efficient weapons and technologies including artificial intelligence, hypersonic weapons and defense systems, space capabilities, cyber and directed-energy systems while at the same time deciding which systems to keep. “That means shedding the legacy force, and moving to a more modern force ... [with] completely revitalized strategic forces [including] all three legs of the nuclear triad, whether it’s the ground-based strategic deterrent, the new SSBNs or long-range strategic bombers.”

Esper concedes that cutting legacy programs to preserve funding for modernization requirements means accepting some near-term risk but this course of action is necessary

“given the trajectory that we see China is on, and we know where Russia may be going in the coming years.”^{xxx}

Congressional Views

As noted, the BBA set the defense spending limit for FY21 at \$740.5 billion which represents no real increase from the FY20 funding level. In the wake of the coronavirus, Members of Congress have voiced several opinions about future defense-spending ranging from the need to pass the FY21 NDAA at the agreed level to making significant cuts to focus on coronavirus recovery.

For example, in late May, 29 House Democrats sent a letter to leaders of the HASC calling for military spending in the FY21 NDAA to fall below last year’s authorized level of \$738 billion to focus on combating the coronavirus pandemic. Representative Mark Pocan (D-WI), who penned the letter with Representative Barbara Lee (D-CA), stated “I don’t get people calling me up saying what we really need to fight coronavirus is another F-35. Right now we do have a common enemy globally, and that’s the coronavirus.”^{xxxii}

This perspective reflects the views of other members of the progressive wing of the Democratic Party which, like the tweets by Representative Ro Khanna (D-CA) described earlier, declare that one F-35 or one nuclear warhead could fund 2,200 ventilators and 17 million masks, respectively.

However, moderate/centrist Democrats, whose numbers include the many military veterans elected in 2018 which allowed the Democrats to take control of the House, can be expected to balk at defense funding cuts as they did last year in deliberations on the FY20 NDAA.

Republicans have dismissed the idea of lowering defense spending. SASC Chairman Inhofe stated that “I’d stop that with my dying breath.” HASC Ranking Member Thornberry thinks that most lawmakers on the Committee support the level of spending for the FY21 NDAA, i.e., \$740.5 billion, set last year in the Bipartisan Budget Act. Underscoring the need to pass the bill at that level, he stated that “The world is not going to be any safer on the other side of Covid. It may be more dangerous.”^{xxxiii}

HASC Chairman Smith also appears amenable to passing the NDAA at the level set in the BBA, although he will have to contend with the views of the progressive Democrats who, as noted, support defense cuts. In addition, if the House does not pass the NDAA at the BBA-approved level it will leave the Democrats – and Democratic presidential candidate Joe Biden – open to criticism that their party is weak on defense and ignoring the growing threats posed by our adversaries, especially China.

The 2020 Presidential Election and Defense Spending

Several analysts, including CSIS senior advisor Mark Cancian, believe that Congress will likely fund the FY21 defense budget at close to the Administration’s request. Cancian does not detect any real interest in or broad consensus within decision-making circles about near-term fiscal restraint. In part, this could be because even though the U.S. national debt is about \$25 trillion, the interest rate to service the debt has fallen to about 2.4% making it seem manageable (e.g., it cost \$574 billion in 2019 year to service the debt).

A new administration, no matter who wins November's presidential election, will submit the FY22 budget to Congress. If President Trump secures a second term, based on his Administration's current defense projections, the defense budget in the coming years will be flat in real terms.

If Democratic nominee Joe Biden prevails in the election, Cancian expects his FY22 budget proposal might reduce defense spending by 5% or \$35 billion but phased in over a five-year span.^{xxxiii} These calculations would likely change particularly if the Democrats win control of the Senate, or if the Democrats lose the House and the Republicans retain the Senate.

Conclusions

As of mid-June 2020, the global coronavirus pandemic has resulted in more than 2 million confirmed cases in the United States and approximately 116,000 U.S. deaths, and devastated the economy.

Over 42 million Americans have applied for unemployment benefits since March 2020. The current unemployment rate is 13.3%, a figure that may be greatly understated because many workers without jobs are not tallied because they have decided not to file for benefits.

To date, the U.S. government has passed four stimulus relief packages totaling about \$3.3 trillion with another one likely. It is projected that the stimulus bills will add at least \$2.2 trillion to the current federal deficit and swell the \$24.6 trillion national debt.

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Not surprisingly, the coronavirus pandemic and the approximately \$3.3 trillion the USG has spent so far to mitigate its economic impact is sparking debate about future USG discretionary spending including for national security and defense. Defense budgets, already projected to be flat in the coming years, will face growing pressure to be scaled back.

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Consequently, it is essential for the Department of Defense to prioritize the most important programs and technologies to be safeguarded and funded. DOD needs to develop a consensus regarding its highest priority efforts, a result which will shine a light on programs that could be eliminated or seriously scaled back in order to meet modernization requirements and NDS implementation. Highest priority programs include:

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Coming to a consensus on the defense systems/technologies that need to be prioritized/protected will be extremely difficult. The military services, Congress, lobbyists, and the defense industry all have pet programs which they will fight hard to maintain. Secretary of Defense Esper wants to cancel legacy systems to focus on modernization and readiness.

Members of Congress, however, will be unlikely to vote for doing away with legacy systems that would lead to job losses in their districts/states. Industry will also lobby against such cancellations. Among their arguments will be that cancelling such programs and the job losses that will ensue are not appropriate at a time when the coronavirus unemployment rate has already skyrocketed, the largest since the Great Depression.

To surmount these impediments, a concerted effort coupled with a strategically informed and compelling rationale must be developed and advanced by the current and next administrations making the case for those systems, programs, and technologies that are most important to our national security goals and requirements.

The threats facing the United States did not disappear or abate following the pandemic. In fact, particularly with regard to China where the pandemic started, they have grown.

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