



THE U.S. BUDGET AND SEQUESTRATION Facing a Fiscal Cliff *Background Information*

What is Sequestration?

Sequestration is automatic across the board spending cuts of approximately 10 percent of discretionary budgets (not entitlements) as required under the Budget Control Act of 2011. Scheduled to occur on January 2, 2013, \$500 billion dollars in cuts will come from the defense budget, which is already absorbing a ten-year \$487 billion budget reduction. The other half will come from other discretionary accounts. These cuts are required due to the failure of the Joint Select Committee on Deficit Reduction to agree on \$1.2 trillion in deficit reduction in November 2011.

Sequestration, along with the expiration of tax cuts and other provisions, is expected to cause a recession in the first half of 2013, which some have likened to falling off the nation's "fiscal cliff."

Impact of Sequestration:

Dr. Stephen Fuller, a noted economist at George Mason University, reported in **The Economic Impact of the Budget Control Act of 2011 on DOD & non-DoD Agencies** in July 2012 that sequestration would have the following impact on the national economy:

- 2.14 million American jobs at risk
- \$109.4 billion total loss of workers' wages and salaries
- 1.5 percent U.S. unemployment rate increase
- -\$215 billion reduction in growth of GDP in 2013

The study also included detail on the thousands of jobs across the economy that would be lost from sequestration including:

- 473,000 manufacturing workers
- 98,000 construction workers
- 82,000 in the retail trades
- 47,000 in education and health care
- Over 15,000 in state and local government
- 510,229 federal jobs from food inspectors to patent clerks to FBI agents to diplomats.

Sequestration would have a particularly dire impact on national security. Secretary of Defense Panetta has said that it would result in the smallest navy since the beginning of World War I, the smallest Army and Marine Corps since the beginning of World War II and the smallest Air Force in its history.

The aerospace and defense industrial base would be weakened and given the relatively high wages earned by U.S. aerospace and defense workers, consumer spending in communities in every state would decline.

Other vital aerospace programs would be affected. A study by **Econsult** concluded that sequestration could cost up to 132,000 jobs, sap \$80 billion a year from the nation's gross domestic product and strip almost two billion pounds of freight capacity out of an air cargo system that is already buckling at the seams.

NASA programs to revitalize our ability to go to the International Space Station would slow, extending our reliance on Russia for transporting U.S. astronauts to the International Space Station.

The budget sequestration will delay the 2017 launch of our next generation weather satellites, the Joint Polar Satellite System (JPSS), possibly leading to an extensive gap in weather satellite coverage that will reduce lead times and accuracy of hurricane, tornado and other severe weather forecasts.

On August 22, the nonpartisan Congressional Budget Office updated its findings on the outlook for the economy for the remainder of the year and into next year. ¹ In news reports, CBO Director Douglass Elmendorf said “In CBO’s judgment, the sharp increases in federal taxes and reductions in federal spending that, under current law, are scheduled to begin in calendar year 2013 are likely to interrupt the recent economic progress, resulting in what will probably be considered a recession.”

What experts are saying:

- “This mechanism [sequestration] would force defense cuts that, in my view, would do catastrophic damage to our military and its ability to protect this country.” ***Defense Secretary Leon E. Panetta***
- “The sequestration will put at risk all that we've accomplished in education and weaken programs that help children, serve families, send young people and adults to college and make the middle class American dream possible.” ***Secretary of Education Arne Duncan***
- “If sequestration is not stopped, it will be by far the most devastating budget cut to the FAA in its 54 years. The FAA is a critical safety organization that regulates our national air transportation system. Putting it at risk is folly beyond comparison.” ***Former Secretary of Transportation and Congressman Norman Mineta.***
- “The results are bleak but clear-cut. The unemployment rate will climb above 9 percent, pushing the economy toward recession and reducing projected growth in 2013 by two-thirds. An already weak economy will be undercut as the paychecks of thousands of workers across the economy will be affected from teachers, nurses, construction workers to key federal employees such as border patrol and FBI agents, food inspectors and others.” ***Dr. Stephen S. Fuller, George Mason University***

For more information, visit www.SecondtoNone.org

¹ An Update to the Budget and Economic Outlook: Fiscal Years 2012 to 2022, CBO, dtd. Aug. 22, 2012, at <http://www.cbo.gov/publication/43540>