

The Economy

Will Sequestration Cost U.S. Jobs?

Sequestration, the term used by Congress to represent a trillion dollar cut from the U.S. budget over the next ten years, will do more than reduce government spending. According to a recent study by a George Mason University economist, the cuts will also cost the economy 2.14 million jobs producing a sharp jump in both federal and private sector unemployment.

The new law known as the 2011 Budget Control Act will also reduce the country's GDP (2Q) by \$215 billion in a time when the economy is growing by a weak 1.5 percent, down from 2.5 percent in the First Quarter. Similarly, the cuts will decrease personal income by almost \$110 billion. That too comes at an inopportune time as personal spending, the mainstay of the economy, is stalled out.

Congress, which passed the measure less than a year ago, is obviously having buyer's remorse, especially in an election year. Coupled with the possible expiration of the Bush tax cuts, the impact of sequestration could blow a hole in the economy, pushing the nation back into a recession even as some economists predict that will happen regardless.

Of special note is the looming impact on defense sector jobs that would accompany the 2013 \$56.7 billion in cuts for the Department of Defense. The study estimates the DOD cuts would mean the loss of almost 326 thousand jobs, mostly in the private sector but including more than 48 thousand civilian DOD employees. Cuts of \$59 billion for non-Defense agencies could mean the loss of more than 420 thousand jobs with an estimated 229 thousand consisting of federal workers.

The study concludes that, "As a consequence of sequestration, GDP growth in 2013 will be reduced by two-thirds and unemployment will increase by as much as 1.5 percentage points, raising the current national rate above 9 percent." Hardest hit would be California, Virginia and Texas.

One fact that is likely preying on the minds of Congress is a little-reported provision of the law that says layoff notices must be sent to contractor employees two months prior to the effective date of the cuts. Inconveniently, that would mean thousands of workers would be getting possible pink slips about a week before Election Day. What are the odds that Congress will find a way to quietly vacate that provision within the next few months?

Sen. Kelly Ayotte (R-NH), ranking member of the Armed Services Readiness Subcommittee, said she hoped the prospects of such job losses would be a "clarifying event" and an "eye-opener." She added. "It's important that we not play chicken with national security or our economy" (or prospects for re-election?).