Sequestration and the Department of Defense Budget: Its Stunning Impact on the National and North Carolina Economies

What is Sequestration?

“Sequestration” is the fancy name given in Washington, D.C., to an extremely ugly and blunt form of congressional budget control. According to the Congressional Research Service, “[s]equestration is a process of automatic, largely across-the-board spending reductions under which budgetary resources are permanently canceled to enforce certain budget policy goals.”

It is a word you are going to be hearing very often, very soon. Sequestration will occur if Congress and the Obama Administration cannot reach agreement on alternative federal cost-cutting measures before the end of this year.

The Budget Control Act of 2011 (“BCA”) was signed into law on August 2, 2011. Among other provisions, the BCA provided for two major categories of federal spending reductions:

- Discretionary spending caps that became effective in Fiscal Year (“FY”) 2012; and,
- Automatic spending caps that will become effective on January 2, 2013, unless Congress and the White House agree on ways to reduce the deficit.

Ever since the BCA became effective, Department of Defense (“DOD”) leaders have warned that sequestration will have dire, even catastrophic, consequences on both our national defense and our struggling economy. Shortly after the BCA was passed, United States Secretary of Defense Leon Panetta described the sequestration cuts as a "doomsday mechanism."

Again in July of this year, the Secretary of Defense explained that the BCA's looming and drastic spending cuts threaten "the programs critical to our nation's security."

Senator Carl Levin (D-MI), Chairman of the Senate Armed Services Committee, said of sequestration: "I'm concerned about the impact sequestration could have on our national security, on our troops and their families. The armed services would have to reduce personnel strength - that means men and women in uniform lose their jobs. Training would be curtailed. Acquisition programs would be disrupted. Many are concerned that sequestration threatens to leave us with a hollowed-out military. I share those concerns."
This reduction in budget authority will result in decreased discretionary spending by the DOD and by non-DOD agencies totaling $1 trillion over a ten-year period. These cuts caused by sequestration are in addition to approximately $950 billion in federal spending cuts that have already been approved.

It is not only the nation's defense and its economy as a whole that will be affected. North Carolina's state economy also stands to be a very big sequestration loser. Senator Lindsey Graham (R-SC) described the effects of sequestration to a Fayetteville audience as follows: "You would be devastated. It would be like every major employer in my home state closing down at one time or cutting their business in half."

Thousands of defense-related jobs pump hundreds of millions of dollars into North Carolina's economy. If sequestration is imposed, it will mean the loss of jobs across our state. According to a recent George Mason University study, sequestration will devastate North Carolina's fragile economy: 11,895 job losses; $1.023 billion gross state product losses; and $500 million in personal earnings losses – all due to DOD cuts.

These cuts will be especially devastating to the economic vitality of the large portion of North Carolina that lies from Fayetteville east to the Atlantic Ocean. Aside from the other effects, the very future of Marine Corps aviation in North Carolina is tied to deployment of the F-35 Joint Strike Fighter. If sequestration is allowed to go forward, there is a real possibility that the DOD will reduce the number of F-35s it plans to acquire, thereby reducing the chances of the F-35s being stationed at Marine Corps Air Station Cherry Point in Craven County as currently planned. North Carolina's industry, military, and workers need the F-35 and other military programs to fuel our economic recovery and insure our future.

The following is our analysis of the negative effects sequestration will have on the nation and North Carolina.

**National Impact of DOD Spending Reductions for FY2012 and FY2013 under the BCA**

The estimated decrease in DOD spending is a total of $56.7 billion for just FY2013. If Congress fails to approve a FY2013 defense budget before January 1, 2013, then the sequestration cuts will be taken out of the FY2012 spending levels, which will continue until a FY2013 budget is passed. This estimate is composed of payroll reductions totaling $7.1 billion and procurement reductions totaling $49.6 billion. These pending reductions will reduce the U.S. gross domestic product ("GDP") by $94.5 billion.

A total of 1,090,359 jobs with a total labor income of $46.5 billion will be lost due to DOD budget cuts in FY2012 and FY2013 alone. This total includes:

- 325,693 direct job losses (including 48,147 civilian DOD employees) which reflects the impact of DOD procurement spending reductions on contractors providing scientific, engineering, and technical services;
- 282,426 indirect job losses among the suppliers and vendors that depend on DOD's primary contractors; and,
- 482,240 induced job losses among workers whose jobs are dependent on the payroll spending of the workers whose jobs are lost directly and indirectly.

Of the total job losses listed above:

- 37.1% will be manufacturing jobs;
- 32.1% will be professional and business service jobs;
- 9.8% will be federal sector jobs; and,
National Impact of Non-DOD Agency Spending Reductions for FY2012 and FY2013 under the BCA

Budget cuts impacting non-DOD agencies including Agriculture, Commerce, Education, EPA, Energy, Health and Human Services, Homeland Security, Housing and Urban Development, Interior, Justice, Labor, NASA, State, and Transportation for FY2012 and FY2013 are estimated to be $59 billion, including $33.8 billion in reduced federal payroll. These non-DOD spending reductions will reduce the GDP by $120.5 billion over and above the $94.5 billion lost as a result of the sequestration of defense funds.

A total of 1,047,349 jobs with a total labor income of $62.9 billion will be lost due to non-DOD budget cuts in FY2012 and FY2013. This total includes:

- 420,529 direct job losses including federal workers and professional and business service workers, reflecting the impact of federal contracts on contractors providing scientific, engineering, and technical services;
- 150,552 indirect job losses among the suppliers and vendors that depend on non-DOD primary contractors; and,
- 476,268 induced job losses among workers whose jobs are dependent on the payroll spending of the workers whose jobs are lost directly and indirectly.

Of the total job losses listed above:

- 49% will be federal jobs;
- 31% will be professional and business service jobs; and,
- 20% will be from all remaining job sectors.

Total National Economic Impact of the BCA in FY2012 and FY2013

The total economic impact resulting from BCA sequestration over the combined FY2012-FY2013 period will be staggering:

- Combined DOD and non-DOD agency spending reductions totaling $115.7 billion in FY2013 will reduce the 2013 GDP by $215 billion.
- These spending reductions will result in the loss of 746,222 direct jobs, including cutbacks in the federal workforce totaling 277,263 jobs and decreases in the federal contractor workforce totaling 468,959 jobs, affecting all sectors of the national economy.
- The loss of these 746,222 direct jobs and 432,978 jobs of suppliers and vendors (indirect jobs) dependent on the prime contractors will reduce total labor income in the United States by $109.4 billion.
- The loss of this labor income and the resultant impacts of reduced consumer spending in the economy will generate an additional loss of 958,508 jobs dependent on the spending and re-spending of payroll dollars associated with the direct and indirect jobs lost as a result of the BCA.

Impact on North Carolina for FY2012 and FY2013

State Job Losses
In North Carolina, the direct, indirect, and induced job losses resulting from BCA-mandated federal spending reductions during FY2012 and FY2013 alone, excluding impacts from cuts in entitlement programs, will be:

- 11,895 job losses due to DOD cuts; plus,
- 17,434 job losses due to non-DOD cuts,

for a total of 29,329 jobs lost across the state.

**Gross State Product Losses**

The North Carolina Gross State Product ("GSP") losses resulting from BCA-mandated federal spending reductions during FY2012 and FY2013, excluding impacts from cuts in entitlement programs, will be:

- $1.023 billion GSP losses due to DOD cuts; plus,
- $1.927 billion GSP losses due to non-DOD cuts,

for a total of $2.950 billion in GSP losses.

**State Personal Earnings Losses**

Statewide personal earnings lost due to job losses during FY2012 and FY2013, excluding impacts from cuts in entitlement programs, will be:

- $0.504 billion income losses due to DOD cuts; plus,
- $0.998 billion income losses due to non-DOD cuts,

for a total of $1.502 billion total income losses.

**Military Personnel Realignment and “BRAC”**

In addition, North Carolina will be subject to the impact of the projected personnel drawdown of the military forces as part of the sequestration process, as well as a possible 2015 base realignment and closure round, commonly called a "BRAC."

**Summary**

If the numbers set out above tend to take your breath away, you are not alone. They are staggering. Most everyone agrees that reducing the federal budget can be a good thing for the country. But indiscriminate and ill-advised cuts to national security create severe economic and defense problems. The continuing threats to our national security and the preservation of an estimated 11,000 jobs in North Carolina alone, including many well-paying, highly-skilled jobs, should make the avoidance of sequestration a priority for all of us.

As North Carolinians, we should urge our congressional delegation to engage in meaningful bipartisan efforts to stop this budgetary train wreck. Sequestration will hurt our economy, cut jobs in our state, and threaten future economic recovery measures. Defense spending derived from the men and women in uniform stationed at our eight military installations and the suppliers who make parts for various military programs, comprises nearly $22 billion of North Carolina's economy. This is a real economic impact we can't afford to lose.

Our military troops have seen multiple deployments to war zones; their families have suffered through the absence of loved ones; and now we are threatening those same people who serve our country - over 125,000
of them currently residing in North Carolina – with the possibility of forced unemployment. This should not happen. It is critical that we, as North Carolinians, voice our support for our military. It is in our economic and security interests to do so.

--

© 2020 Ward and Smith, P.A. For further information regarding the issues described above, please contact James W. Norment or Hugh R. Overholt.

This article is not intended to give, and should not be relied upon for, legal advice in any particular circumstance or fact situation. No action should be taken in reliance upon the information contained in this article without obtaining the advice of an attorney.

We are your established legal network with offices in Asheville, Greenville, New Bern, Raleigh, and Wilmington, NC.