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Defense Industry Says Budget Cuts May Cost 2 Million Jobs

By Laura Litvan on July 17, 2012

Across-the-board cuts to federal programs may cost the U.S. 2.14 million jobs and reduce the gross domestic product by \$215 billion next year, according to a study funded by defense contractors lobbying to forestall the reductions.

The study of \$1.2 trillion in scheduled defense and domestic cuts over a decade found the unemployment rate may increase as much as 1.5 percentage points next year unless Congress and President Barack Obama act to prevent them from taking effect beginning Jan. 2. The nation's unemployment rate was 8.2 percent in June.

"This is going to spread over the economy and have other consequences," said Stephen Fuller, director of the Center of Regional Analysis at George Mason University in Fairfax, Virginia. Fuller produced the study for the Aerospace Industries Association, which represents Lockheed Martin Corp. (LMT) ([LMT](#)), General Dynamics Corp. (GD) ([GD](#)) and other major defense contractors.

Fuller had predicted 1 million jobs lost from defense cuts alone in an earlier study for the same trade group. His center has produced reports commissioned by business groups including the Greater Washington Board of Trade and the National Association of Industrial and Office Parks, according to its website.

The industry-backed studies of the budget cuts provide an alarmist view underwritten by defense contractors "trying to save their profits," said Chris Preble, vice president for defense and foreign policy studies at the Cato Institute in Washington, which advocates for limited government.

Pentagon Remains

"We're not shuttering the Pentagon," said Preble, who said the cuts would return defense spending to 2006 levels adjusted for inflation.

The industry study predicted far greater job losses than did an independent estimate in June by the Bipartisan Policy Center. It said about 1 million jobs would be eliminated in 2013 and 2014 from the cuts in defense and domestic programs. The industry-backed

study covered jobs that would be eliminated this year in anticipation of the cuts as well as next year.

Gordon Adams, a professor at American University in Washington, wrote today that the study was “flawed and hypocritical.”

‘This is a side show about the economy, not a straight-up argument about whether defense should be affected by deficit and debt reduction, and whether we can or need to continue spending the highest sums we have ever spent on defense, peacetime or wartime, since the end of World War II,’ Adams, who was an official in the White House budget office during the Clinton administration, wrote in a posting on the website of the Stimson Center, a policy research group.

Cheney’s Visit

A partisan fight over averting the automatic cuts, known as sequestration, is heating up on Capitol Hill.

Former Vice President Dick Cheney spoke to House Republican leaders today about topics including sequestration as the chamber prepares to vote tomorrow on a proposal requiring the Obama administration to explain how it would implement the automatic spending cuts. Cheney served as defense secretary under President George H.W. Bush.

Tax Increases

Democrats are insisting that Republicans agree to some tax increases as part of any deal to limit the defense cuts.

Senator Patty Murray of Washington, the chamber’s No. 4 Democratic leader, said in a speech at the Brookings Institution in Washington yesterday that while Democrats want a compromise this year, she would “absolutely” seek to continue the debate into 2013 if Republicans won’t agree to boost revenue. That would mean letting the budget cuts take effect temporarily along with tax increases as tax cuts enacted under President George W. Bush expire.

Murray was the Democratic co-chairwoman of the congressional “super committee” created last year to craft a plan to reduce the deficit by \$1.2 trillion over a decade. The effort collapsed, triggering the across-the-board cuts.

Marion Blakey, president of the Aerospace Industries Association, said the new study underscores the need for lawmakers to forge a broad debt-reduction deal. Everything from road construction to education to health research will take a hit, she said.

California, Virginia

“It’s an unemployment Armageddon,” she said.

The study said the five jurisdictions that would be hit hardest are: California, Virginia, Texas, Washington, D.C. and Maryland.

While there are few signs of compromise in Congress, some Republicans on the Senate Armed Services Committee say they are seeking a consensus on revenue increases that could be used to put off the sequester by one year.

One of those senators, Kelly Ayotte of New Hampshire, said today that she is hopeful lawmakers in both parties will form a group to negotiate a compromise. Rejecting the idea that tax increases would be a part of any deal, she said she approves of other potential “revenue raisers,” such as the sale of excess federal properties.

“Tax increases would hurt our economy right now,” she said.

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