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Fears Over Sequestration Are Overblown

By Veronique de Rugy
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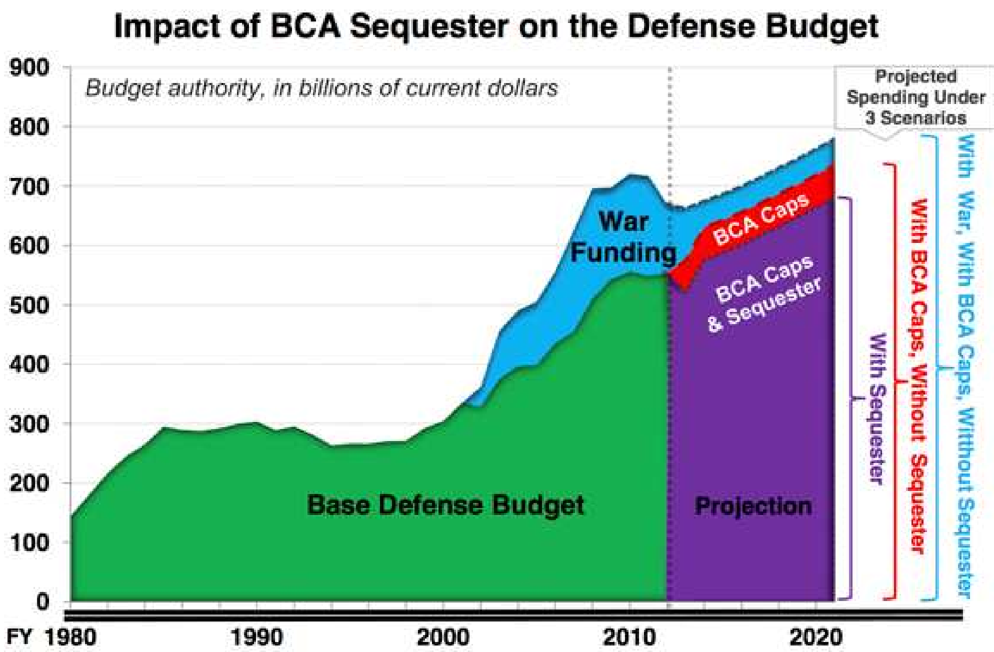
Late last Friday afternoon, the administration finally released its sequestration report, detailing the $1.2 trillion in possible cuts that will be made to future spending over the next 10 years, with almost half of the cuts coming from defense spending. As expected, every interest group targeted for a "cut" is out in force to protest the damages that the reduction would inflict on America.

This is nothing new. For weeks now, we have heard how cutting defense spending would mean fewer jobs for defense contractors, weaken the economy, and threaten the safety of Americans (no questions asked about whether this weaponized Keynesianism holds any water), or how cutting Medicare would mean that seniors will die. But these claims are sheer exaggeration.

Sequestration isn't an ideal way to address our spending problems, because it doesn't allow an agency to think strategically about what to cut. However, when you actually look at what sequestration means, you find that it is mainly a cut to the growth of spending. As I explained in my *Washington Examiner* piece on Friday, this is certainly true for defense spending.

The following chart is is based on the Office of Management and Budget, Congressional Research Service, and the Department of Defense. Also the projected budget authority with and without defense cuts are from the Congressional Budget Office. The chart is inspired by the August 4 *Congressional Quarterly* piece, "Wiggle Room for Cuts?," by Frank Oliveri.



Source: Office of Management and Budget; Department of Defense; Congressional Budget Office; CRS Report RL33110.
Data Note: War funding accounts for military and Overseas Contingency Operations (OCO).
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As you can see, with a few exceptions, after sequestration, the non-war defense spending is still growing. One important factor in weighing the effect of sequestration is that war spending is not capped to meet certain spending levels outlined in the BCA. In other words, Congress can set the level of war spending above and beyond what is needed, if they wanted to do so to offset the impact of the sequester and BCA caps. So while there is uncertainty about the application of the sequester on war spending (see this article in the *Hill*), it is guaranteed that there are preemptive measures policymakers can take to limit sequestration's effect, including propping up war spending to make up for losses in non-war accounts.

Of course, defense spending is a legitimate role of the federal government and America needs a strong military to defend itself. But that doesn't mean every dollar spent on defense increases our security and that every cut in defense spending leads to a reduction in security.

As for defense cuts supposedly causing job losses, I would say the following. First, this morning NATIONAL REVIEW ONLINE has a great piece by Robert Bryce on wind energy. The subtitle of his piece is "The 'our industry creates jobs' argument is the last refuge of a subsidy seeker." That applies to defense contractors — the Department of Defense is not a jobs program. Its role isn't to sustain defense contractors' profits independently of the security they are actually meant to provide. Private-sector profit margins or even private-contractor job losses shouldn't prevent sensible reductions in federal spending.

Second, there is little doubt that some defense jobs will be lost as a result of sequestration, but it won't be as many as claimed. The job-loss estimates come from incredibly faulty reports such as this one. I understand that catastrophic job losses make a convenient case against sequestration but that doesn't make them true. The above report in particular is packed full of mistakes, arbitrarily high multipliers (I just finished a review of the literature on defense-spending multipliers, to which I'll link when it is up), and obscure methodology and exaggerations. It is also paid for by the defense contractors that have a lot to lose from the potential cuts.

Moreover, in a recent research paper for the Cato Institute, the American Enterprise Institute's Benjamin Zycher reminds us that even in the worst-case scenario where contractor jobs would be lost, this reduction in employment in defense jobs is not a cost to the economy as a whole. It certainly represents a cost to the newly unemployed person, but it may not be a cost for the economy as a whole, since the public resources freed by the cuts may yield higher returns employed differently.

While sequester may pose a management challenge in the first year of implementation, all the alarmist projections exaggerate the impacts of the defense cuts (the same is true for non-defense cuts). Even after sequestration, and adjusted for inflation, defense spending would only revert to its 2007 level in real terms. In fact, after a near doubling in the defense spending in the last decade, it seems that at the core problem the Department of Defense may have is not lack of funding but inability to prioritize.

Moreover, with the national debt exceeding $16 trillion, a gross-debt-to-GDP ratio above 100 percent, and Moody's Investors Service warning of another potential credit downgrade, we need to cut through the rhetoric and face the facts. Defense sequester cuts simply do not warrant the fears they have prompted.