



Sequester: 'Collateral damage' of budget war may be huge

By Susan Davis February 24, 2013

WASHINGTON - Coming soon, the lines at airport security might get longer, the hours of service at Head Start centers might get shorter and the FBI might have fewer agents tracking down bad guys.

These are only a few of the potentially sweeping effects of the latest battle in the ongoing two-year budget war between President Obama and a divided Congress. Across-the-board spending cuts totaling \$85 billion start kicking in Friday if Washington doesn't act.

And that's only the beginning.

The cuts, which affect most reaches of the federal government except military personnel and the social safety net, would continue at a steady pace over the next decade to achieve \$1.2 trillion in deficit reduction to rein in a rising \$16.5 trillion national debt.

This "sequester," in Washington parlance, could hamper economic growth, drive up unemployment and test the military's ability to respond to security threats at home and abroad.

Likened to a "meat cleaver approach" by the president, the cuts were designed to be bad policy and so politically dangerous that lawmakers would never let it happen. They would find a more efficient and targeted way to cut the deficit.

They haven't.

The almost unthinkable outcome appears unavoidable.

Though Washington forged eleventh-hour compromises in recent budget fights to avoid a government shutdown, prevent a U.S. default on its debt and head off tax hikes for most Americans, there is no agreement this time on how to avert this deadline.

Deficit hawks argue automatic cuts such as these may be the only way to force spending discipline in a divided Washington, despite the potential damage to a lagging economic recovery.

"This is a bad idea whose time has come," said Douglas Holtz-Eakin, an economist who served in the George W. Bush administration.

Washington is in uncharted territory, having never tried to impose cuts this deep, and no one is really certain what the impact on government or the economy will be.

"Something like a sequester will be an education for all concerned," said Damon Silvers, a lawyer for the AFL-CIO, which opposes the sequester. "Both the public and the officials they elect will learn exactly what the role of the federal government is in their lives."

What happens after March 1?

There's no way to predict exactly how the cuts will affect the nation after Friday's deadline because cuts of this size and scope - implemented across nearly all facets of government except for military personnel accounts, Medicare and Social Security benefits and certain social programs - have never been done before.

The reason, according to Erskine Bowles, the former co-chair of the president's debt commission, is because they are "absolutely stupid" fiscal policy. But they could serve as a catalyst for compromise.

"I think it's really going to irritate a lot of people. You wait until these people have to wait three hours to get through security at the airports," he said, referring to impending cuts to the Transportation Security Administration.

The predictions about how this could play out range from shrugs to shrieks. The White House warns of dire consequences.

"The effect of the sequester would be severe, and it would go right to American families, middle-class Americans, people who receive vital health services. There are people working today who will lose their jobs if the sequester goes into effect," said White House spokesman Jay Carney.

Federal agencies sent warning notices to Congress. Among them:

The Pentagon has said the majority of its 800,000 civilian employees will be furloughed to make up for the shortfalls.

The Federal Bureau of Investigation says every employee faces a three-week furlough this year if the cuts are fully implemented.

The Agriculture Department said meat and poultry inspectors face furloughs up to 15 days, which could translate to \$10 billion in production losses and potentially higher tabs at the grocery store as supplies wane.

The Education Department said federal grants to states to pay for education for students with disabilities could be cut by as much as \$598 million, burdening states to cover costs for about 7,200 educators.

The Department of Housing and Urban Development said as many as 125,000 low-income families and individuals could lose federal rent assistance.

Transportation Secretary Ray LaHood warned Friday that closing 100 smaller air-traffic control towers will be required, creating flight delays nationwide.

Federal law generally requires 30- and 45-day notices before employees must take furlough, so the worst of the squeeze is not expected to be felt until April.

Some budget experts argue that the warnings are overblown and that the economy can sustain an \$85 billion spending cut through the fiscal year that ends Sept. 30, even if it causes some discomfort.

Terry Shopp, 62, an engineer from Carlisle, Pa., agrees. "I think the cuts are going to happen. It's such a small part of defense. (Lawmakers) just scream and yell," he said.

The U.S. Army War College and several military installations are located in Carlisle, so the community will probably feel some impact. "It will hurt our area, but they spend so much, you've got to start somewhere," Shopp said.

Benjamin Friedman, a defense expert with the libertarian-leaning Cato Institute, voiced skepticism that the world's largest military can't sustain a \$45 billion cut in its more than \$600 billion budget this year.

"I don't think you need to be a Nobel Prize-winning economist to see that it's not a huge impact," Friedman said. "Congress's behavior, and that they haven't rushed to cut a deal, is a sign that the impact isn't as great."

Will the economy suffer?

Sucking billions in federal spending from the U.S. economy this year could further weaken a lagging economic recovery, where annual growth has averaged 2% since 2009. But it does not appear to be enough of a drain to put the economy back into recession, according to forecasters.

IHS Global Insight, an economic forecasting firm, predicts the sequester would slow 2013 economic growth to 1.5%, down from the projected 2%, and about 400,000 fewer jobs would be created. The impact would continue through 2014 when the cuts are projected to trim another half a percentage point from economic growth.

Sequester opponents maintain that the risks for economic growth are too great and that job growth - not austerity - is the remedy for a lackluster economy with an unemployment rate hovering around 8%.

The sequester is "the economic equivalent of bleeding the patient," said the AFL-CIO's Silvers.

The sequester doesn't fix the underlying fiscal problem, as far as economists and rating agencies are concerned, because it doesn't touch entitlement spending or the long-term solvency of programs such as Medicare.

Standard & Poor's and Fitch Ratings, two of the private agencies whose ratings of U.S. Treasury bonds are closely watched, say they want a credible long-term plan to reduce the deficit and rein in growing health care costs.

"It's all this for nothing as far as the deficit is concerned. It's attacking the wrong problem," said Robert Bixby, executive director of the Concord Coalition, which advocates for fiscal responsibility.

How did we get here?

The sequester - like the three major budget fights before it - is self-inflicted.

Obama and congressional Republicans continue to hold opposing ideas about how to grow the economy and how much of a threat the \$16.4 trillion debt - and annual \$1 trillion deficits - are to the United States.

"It just seems like there's no compromise in our government," said Ellen Rosinski, 62, a homemaker from Muncie, Ind., who worries about how defense cuts could affect the nation's safety. "You do have to get a grip on (the debt). You do have to live within your budget, every family does. But it's got to be a compromise."

Since 2010, when Republicans took control of the House of Representatives, the GOP has led the charge for deficit reduction, with some success. According to a report from the non-partisan Congressional Budget Office released last week, Congress has trimmed \$1.13 trillion in discretionary spending over 10 years as a result of legislative action.

A 2011 budget deal set up a special panel of lawmakers to find \$1.2 trillion in deficit reductions over a decade. To force them to act, the law included the sequester as a penalty for inaction. The bipartisan panel missed its deadline for compromise, and the sequester will kick in after a two-month delay from its original start date of Jan. 1.

What happens next?

There is a core philosophical divide between Republicans and Democrats over taxes and entitlements. Obama and congressional Democrats say they want to keep programs such as Medicare and Social Security intact, offering modest changes to save costs and reduce growth rates. Democrats insist that more revenue - tax increases - will have to play a role in reducing the deficit and reforming entitlements.

After conceding \$620 billion in higher tax rates to stave off the 'fiscal cliff' in January, Republicans have closed the door on raising any more revenue and advocate only for more spending cuts as an alternative to the sequester. There is broad agreement within the GOP that more substantial changes are required for Medicare and Social Security to sustain their long-term viability.

There is no expectation that Congress will compromise before Friday. The prevailing view is the cuts are here to stay for the short-term. "I think they're both willing to risk it for the month of March," Bixby said. "There may be a lot of collateral damage, innocents who get caught in this stalemate."

Beverly Hart, 69, works at a Colorado food bank and is concerned about how the cuts could affect the most vulnerable Americans while Washington stalemates. "There's so many different programs out there that I'm afraid are going to be impacted by these budget cuts for people who are really really struggling. To think that some of these cuts are going to affect them more, I am just so upset about it." Hart said she supports the president's position for more taxes.

The Senate will vote on a Democratic alternative this week to replace the sequester through 2013 with a mix of spending cuts and higher taxes on the wealthy - the president's prescription. It will fail because Republicans oppose it. Obama will travel Tuesday to Virginia, where he will call on Congress to implement his 50/50 plan of taxes and revenue to replace the cuts.

The next budget deadline facing Washington is March 27, when funding for the federal government runs out and a renewed shutdown threat arises. It is precisely the kind of budgetary deadline that has forced Congress to compromise in the past.

In the meantime, lawmakers will wait and see what effects Washington's untested budget cutting measures mean for the nation.

"Americans are extremely resilient and we'll pull through this," said Rep. Austin Scott, R-Ga., whose congressional district includes several military installations and could take a significant economic hit because of defense cuts. "I think you'll see neighbors helping neighbors if we need to, and we understand

that the deficit is robbing our children of the American Dream, and we're going to pull through this and we're going to do it together."

USA Today