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Military cuts could send Va. economy into recession

By: Carol Hazard – January 5th, 2013

Virginia will grow at a slower rate than the nation this year and the state could slip into a recession if sequestration — which would trigger severe cuts to the military — goes into effect in two months, a lead speaker said Friday at a 2013 Financial Forecast meeting in Richmond.

“Houston, we have a problem,” said speaker Christine Chmura of Chmura Economics & Analytics, a research firm in Richmond, referring to the major technical problems aboard the Apollo 13 moon flight in 1970 and relating them to the fiscal impasse.

“Something needs to be done to stop spending,” she said. “The fiscal cliff added a lot of uncertainty, and it’s already impacted growth.”

Virginia’s economy is fueled in large part by federal government contracts, so it could see significant contraction, she said.

“Sequestration could send Virginia into a recession, and Northern Virginia and Hampton Roads would be hit the hardest,” Chmura said.

About 700 bankers and business people attended the event at the Greater Richmond Convention Center. It was sponsored by the Virginia Bankers Association and the Virginia Chamber of Commerce.

Chmura predicts that Virginia employment will grow 0.9 percent this year, without sequestration.

But deep automatic spending cuts through sequestration would result in 156,000 lost jobs in the state, she said. And Virginia still hasn’t made up for all the jobs lost since the recession. It is 40,000 jobs short of peak employment in 2008.

Most job losses would be in professional business services, such as accountants and consultants.

Chmura predicts the nation’s economy will grow at 1.8 percent this year without sequestration and 0.9 percent with it.

Gov. Bob McDonnell, who arrived to a standing ovation at the event, said the federal government is broke and the federal governing process is broken.

The lack of clarity and leadership in Washington has created uncertainty and kicked the can down the road to bigger fiscal cliffs, he said.

As a result, McDonnell said, he has ratcheted back the state budget and put a premium on cash.

Daniel J. Mitchell, a senior fellow at the Cato Institute in Washington, the other lead speaker, said economic growth is about the use of labor and capital, and Congress has done a lousy job of mixing the two.

“Yes, we have a recovery, but it is a very weak recovery,” Mitchell said, blaming bigger government for slow growth.

Something has to be done about spending, he said. “Sequestration is better than nothing, even though Virginia would be disproportionately hit.”

This recovery has not seen the normal bounce-back that occurs in other recoveries. “That can be laid at the feet of what’s happening in Washington,” Mitchell said.

Mitchell said the nation is in trouble because of unsustainable entitlement programs and a faulty business model that relies on built-in expansions of federal government.
He blamed Democrats and Republicans under Presidents Bush and Obama for government expansions.

He said they have diverted resources from productive sources of the economy to the unproductive and created a sense of dependency and entitlement.

Mitchell’s golden rule, he said, is to grow the private sector faster than government.
The welfare state always starts with a noble idea, Mitchell said. A lot of people pitch in to help a few. But now too many people are riding the wagon and not enough people are pulling it, he said.

“How do you convince people that liberty is better than dependency?”