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A significant cut in the defense budget would have a similar effect on our budget, undoubtedly leading to a reduced payroll and even more austere financial measures in order to survive in these times.”

Millipart Inc., Glendora, Calif.

## Overview

Dramatic cuts in defense spending under the Budget Control Act of 2011 (BCA)<sup>1</sup> will have a significant, negative impact on U.S. jobs and economic growth. A new report, **Defense Spending Cuts: The Impact on Economic Growth and Jobs**,<sup>2</sup> looks at the combined impact of the BCA budget caps and the law's across-the-board cuts under sequestration. The report concludes that:

- 1,010,000 private sector jobs, including 130,000 manufacturing jobs, will be lost in 2014.
- GDP will be almost 1 percent lower by 2014.
- Total job losses will increase the unemployment rate by 0.7 percent.
- California will experience the largest job losses in 2014 (148,000), followed by Virginia (115,000) and Texas (109,000).
- Certain industries will be hit particularly hard, with the aerospace industry losing 3.4 percent of its jobs, the ship and boat industry losing 3.3 percent of its jobs and the search and navigation industry losing 9.3 percent of its jobs.

## Negative Impact on Economic Growth

Under the budget caps and sequestration, real defense expenditures will decline progressively from 2012. The report finds that, compared to the status quo, real defense spending will be 9 percent lower in 2015 and almost 11 percent lower by 2022. The impact of these cuts will have a negative impact on economic growth, especially in the short run. By 2014, GDP will be almost 1 percent lower with both the budget caps and sequestration.

## 1 Million Jobs Lost Across the Country and the Supply Chain

Based on the findings in the report, peak job loss will occur in 2014, with the spending cuts from the budget caps and sequestration costing the U.S. economy 1,010,000 private sector jobs, including 130,000 manufacturing jobs. With the additional loss of over 200,000 military jobs in 2014, including civilian workers, the total loss will be over 1.2 million jobs, and the unemployment rate will increase by 0.7 percent.

The impact on employment from cuts in defense spending includes both the loss of jobs at defense contractors due to a decrease in purchases for equipment, supplies and services, as well as the additional job loss at the firms that supply the direct defense contractors.

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<sup>1</sup> Pub.L. 112-25, S. 365, 125 Stat. 239, enacted August 2, 2011.

<sup>2</sup> Inforum, April 2012.

“ We derive over 50 percent of our annual sales from the defense Industry. Right now we are struggling to keep our employees working to provide the necessary equipment to the Defense Department for it to remain effective. Defense is a large part of the workforce here in Texas and these cuts will have a major impact on the entire metroplex area.”

Williams-Pyro, Inc., Fort Worth, Texas

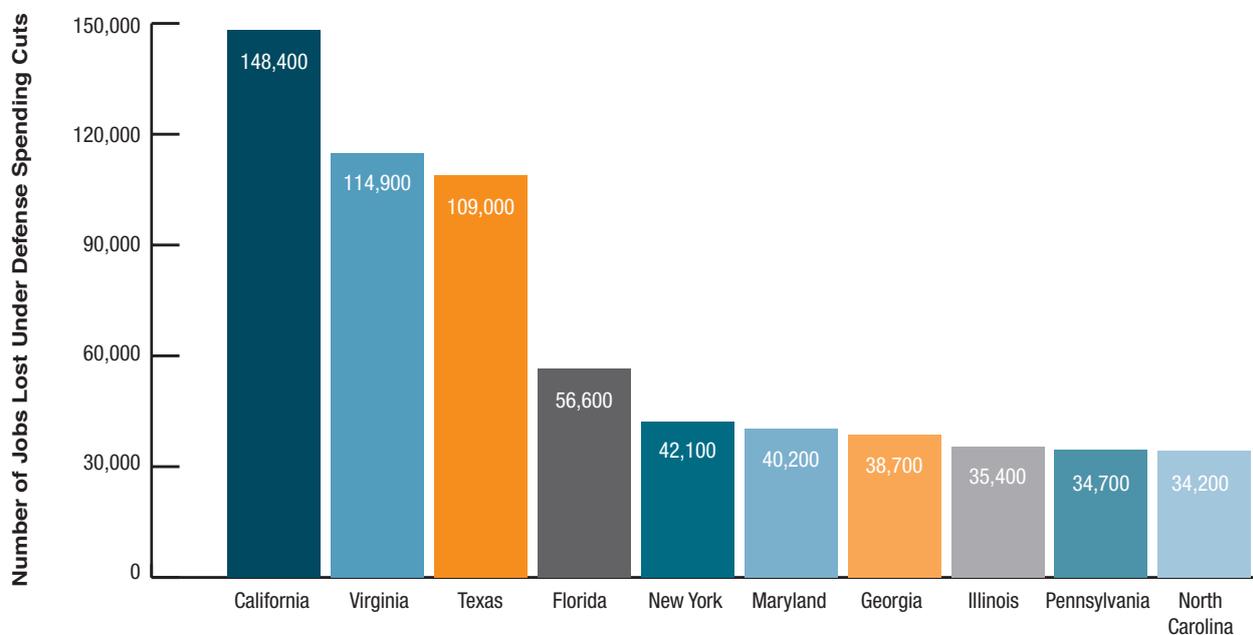


The total job numbers also reflect the impact of the “multiplier” effect across the economy since the job losses, including workers in the defense manufacturing supply chain and those employed in the military and as defense contractors, will result in lower disposable income and reduced consumer demand — creating a ripple effect across the entire economy. Despite recent growth, overall economic conditions remain weak compared to common measures of potential output and employment. Therefore, the initial multiplier effect on employment will be particularly large relative to its level under full employment.

## States Suffer Further Unemployment

The report also finds that the employment impacts of the cuts in defense spending will be felt in all regions of the country. The table below lists the **10 top states ranked by the magnitude of the job losses in 2014**. California will experience the largest job losses (148,000), followed by Virginia (115,000) and Texas (109,000). Rounding out the top 10 are Florida, New York, Maryland, Georgia, Illinois, Pennsylvania and North Carolina.

**Table 1: Employment Loss in Top 10 States, Ranked by 2014 Results**



## Troubling Consequences Industry by Industry

While job losses will spread among a wide range of manufacturing industries, many of these jobs tend to be at the direct and indirect suppliers of defense equipment and supplies. The largest job losses will be in the large nondurables (food, textiles, chemicals and fuels) and transport equipment sectors.



We produce high-technology, transparent ceramic materials that deliver improved transparency, durability and heat resistance for use in industrial, military, medical and aerospace applications. Our technology is leading-edge laser ceramics, missile domes, airborne sensor windows; something the Chinese have long been trying to 'borrow' and engineer. Eighty percent of our revenue could be impacted by defense budget cuts."

Nanocerox, Inc., Ann Arbor, Mich.

## The biggest proportional reductions will be within transportation equipment and instruments:

- Aerospace (3.4 percent by 2015, 2.3 percent by 2022)
- Ships and boats (3.3 percent by 2014, 1.7 percent by 2022)
- Search and navigation equipment (9.3 percent by 2016, 8.6 percent by 2022)

Related industries will also be impacted. Across the various service sectors, the maximum loss will be 1.0 percent or less. However, since these tend to be large employment sectors, this loss results in large absolute numbers of unemployed. The biggest losers in terms of job numbers in 2014 will be as follows:

- Wholesale and retail trade (226,000)
- Business services (182,000)
- Other services (157,000)

Business services, which include professional and computer programming services, and transportation services will lose many jobs through lower defense expenditures. By 2014, the peak year of total job losses, employment will be down about 0.3 to 0.4 percent in agriculture and mining, and construction employment will be reduced by 1.5 percent.

## Conclusion: Manufacturing Jobs on the Chopping Block

The National Association of Manufacturers (NAM) has long recognized the importance of the defense sector to our nation's innovation and economy. More than 115 years ago, the NAM was founded to promote trade and national defense. This commitment continues today. Manufacturers support important policies that promote the defense and aerospace industries and the broader manufacturing sector. Supporting them will help lift the entire economy.

In discussing programmatic changes to the defense sector during the current effort to address our nation's fiscal challenges, it is critically important that policymakers understand that deep cuts in defense expenditures will impair our national security, cripple a vital part of the manufacturing sector and have far-reaching negative effects on a broad spectrum of the U.S. economy. As illustrated in more detail above, **potentially deep cuts in defense procurement will have a massive ripple effect throughout the manufacturing economy**, affecting large defense contractors, tens of thousands of small and medium-sized manufacturers in the defense supply chains and over 1 million workers throughout the United States. It is critical that policymakers take action as soon as possible to avoid these negative impacts on our manufacturing sector and our economy as a whole.

**To view the full document, please visit [www.nam.org/defensereport](http://www.nam.org/defensereport).**