

Cuts loom as debt deal waits

By Andrew Edwards
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Pick any area of federal policy — national security, health care, education, housing — and expect Washington, D.C., to cut spending on it next year.

The prospect of cuts is perhaps not too surprising given the fact the United States faces a \$16 trillion national debt. Circumstances may be forcing Americans of all political stripes and economic circumstances to accept some unpleasant combination of paying higher taxes and receiving fewer services from Uncle Sam in 2013.

And huge questions remain on whether reductions will happen in time to prevent the nation's economy from falling off the "fiscal cliff" of automatic spending cuts and tax hikes.

"The whole thing adds up to a fiscal contraction of \$600 billion, or 4 percent of GDP," UCLA Anderson Forecast senior economist Jerry Nickelsburg said.

As this point, Nickelsburg and his Anderson colleagues acknowledge the risk that Congress will be unable to cobble together a budget, but don't expect lawmakers to actually let the year end without taking some action to avoid an economic catastrophe.

"The Anderson Forecast view is there will be some compromise made after the election and we won't, a la 'Thelma and Louise,' go off the fiscal cliff," Nickelsburg said.

The timeline gives Congress less than two months to reach that compromise. Last Friday, the nation's lawmakers quit working until the campaign season wraps up.

If they fail, the Congressional Budget Office and others worry the result of automatic cuts and tax hikes will be a new recession.

"I can tell you right now, if

Sequestration

Automatic federal budget cuts set to go into effect in 2013 would strike \$55 billion each from defense spending and non-defense spending.

Although some cuts will prove necessary to reduce the federal deficit, economists and lawmakers say the automatic cuts were not intended to take place and could have serious negative effects if Congress fails to reach a budget compromise before 2013.

Potential cuts

- Termination of the F-35 program, a planned fighter jet for the Air Force, Marine Corps and Navy
- Separation of 100,000 military personnel
- \$99.3 million from special education grants to California
- \$139.6 million from grants to California school districts serving high numbers of disadvantaged students
- \$75 million from Head Start programs in California
- \$1.1 million from HIV testing and prevention programs in Los Angeles

Sources: Office of Management and Budget, House Armed Services Committee, Office of Sen. Tom Harkin

looking at a very deep recession," said Paul Granillo, the head of the Inland Empire Economic Partnership, a business advocacy group in San Bernardino and Riverside counties.

The Los Angeles County Economic Development Corp., another business advocacy group, is likewise worried. They anticipate 225,000 California jobs will be lost if the automatic cuts go through.

CUTS

From A1

The tax increases include the expiration of current payroll and Social Security tax reductions, as well as other cuts approved during the George W. Bush and Obama administrations.

The automatic cuts mean billions in automatic spending reductions across the range of federal activities — \$55 billion from defense functions and an equivalent amount from other federal operations, including a cut of roughly \$11 billion from Medicare.

The House Armed Services Committee, chaired by Rep. Howard "Buck" McKeon, has warned that the cuts could result in the termination of the F-35 Joint Strike Fighter jet program, the nation's smallest ground force since 1940 and layoffs and reduced research and development spending for the defense industry.

Another report from the office of Sen. Tom Harkin, D-Iowa, outlines several potential cuts. For example, Los Angeles service providers may lose \$11 million that would have funded HIV testing and prevention work.

Other potential cuts include \$140 million that would have otherwise gone to school districts with high numbers of pupils from low-income families, \$13 million that would have aided displaced workers and \$10.2 million from federal work study aid for college students.

Greater automatic cuts could add up to \$1.2 trillion over the next ten years.

The automated cuts, known in the parlance of American government as "sequestration," were never intended to actually happen. As the White House's budget office warned earlier this month:

"The specter of harmful across-the-board cuts to defense and nondefense programs was intended to drive both sides to compromise. Congress can and should take action to avoid it by passing a comprehensive and balanced deficit reduction package," the Office of Management and Budget said near the beginning of a 394-page report.

The Los Angeles County Economic Development Corp., along with the Inland Empire Economic Partnership and other Southland business groups, has written a letter to California's congressional delegation imploring them to reach a budget compromise that avoids sequestration.

The letter states "there is simply no greater immediate threat to our economic recovery and longer-term economic well-being than these looming sequestration cuts."

The LAEDC's letter also maintains the threat of automatic cuts has already discouraged companies from hiring.

At least one Southern California public agency is making plans for what may happen if the automatic cuts are made. Leaders of the Housing Authority of San Bernardino County say the cuts would amount to \$7 million of the \$11 million in funding it may lose next year.

"What we're told is that this is the worst-case scenario, but the way you see things not moving, we're anticipating that these will be our cuts," said Ana Gamiz, the housing authority's policy and community affairs director.

The agency serves some 30,000 people from Chino to Redlands and up to Barstow.

Regarding other programs, San Bernardino County officials are concerned about potential problems for Inland Empire defense contractors and federally-funded programs, but have yet to identify specific impacts, county spokesman David Wert said.

Los Angeles County supervisors adopted a motion Sept. 18 warning of potential losses of aerospace and other jobs while asking Congress and the president to adopt "a sensible long-term budget compromise."

Supervisor Don Knabe introduced the motion. His communications director, Cheryl A. Burnett, said county officials have not yet determined the exact nature of the cuts but are very concerned.

"While we do not have a breakdown for the county specifically, we know that California takes a disproportionate hit, and that will certainly translate down to Los Angeles, the largest county in the nation," she wrote in an email.