

# A Back-of-the-Envelope Assessment: The Potential of Federal Budget Sequestration for the Pennsylvania Economy, 2013-2022

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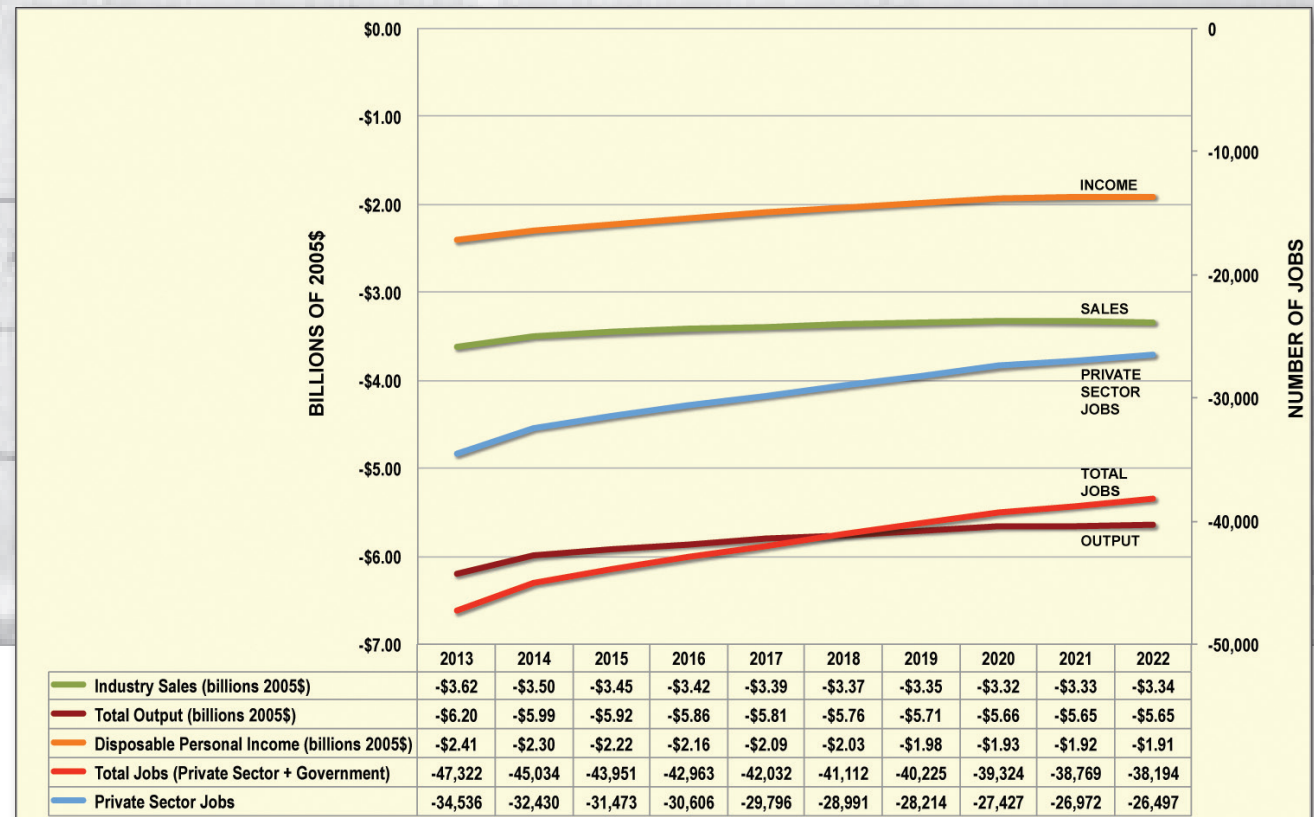
The Budget Control Act of 2011 requires a \$1.2 trillion reduction in federal spending over 10 years starting in January 2, 2013, to be split between defense and nondefense spending. The process for making automatic spending cuts required by the Act is called “budget sequestration,” a fiscal policy tool which was specified in the Gramm-Rudman-Hollings Deficit Reduction Act of 1985. Many Americans are worried that the U.S. economy could fall into recession next year if nothing is done to avoid driving off the fiscal cliff that sequestration has created.

In the entire U.S. economy in FY 2013 alone, sequestration will cut \$54.7 billion from defense spending, \$38.6 billion from non-defense and certain discretionary programs, and \$16.1 billion from non-exempted and mandatory programs such as Medicare payments to providers.

What could sequestration mean for the Pennsylvania economy?

We applied the Pennsylvania Policy Insight Economic and Demographic Model to analyze budget sequestration scenarios provided by our partners, Regional Economic Models, Inc., from Amherst, Massachusetts.

We calculated that, between 2013 and 2022, federal budget sequestration would result in an average reduction in Pennsylvania of: 47,000 total jobs, including 30,000 private sector and 12,000 government jobs; \$5.8 billion in total economic output; \$3.4 billion in industry sales; and \$2.1 billion of after-tax personal income.



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