Pocketbook Issues - The Fiscal Cliff and How Its Job Losses Will Impact You

This is our third story on how the debates in Washington, DC over the "fiscal cliff" and the debt ceiling will impact your finances personally. Links to prior reports can be found at the end of this article.

December 5, 2012 - As of today, Congress and the President have exactly 26 days to fix the looming fiscal cliff before automatic tax increases and spending cuts kick in. And at the time of this writing, it looks very much like an agreement will not be reached in time. If that does turn out to me the case, virtually everyone in the United States will see their taxes go up. And at virtually the same time that happens, millions of Americans are likely to see an unwelcome New Year's present show up in their company mailbox: A pink slip. These won't just be going to government workers. In fact, more than 1 million of them are likely to go to people that work in jobs that have little or nothing to do with the government. So, the question is, how does this scenario impact you and your family?

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There are a number of reports now available on projected job losses if Congress and the White House can't reach an agreement on the fiscal cliff. All of them have two things in common. First, they all agree that there will be massive layoffs beginning in 2013 if an agreement can't be reached. Second, they all agree that that those layoffs will stretch into the millions.

Without a doubt, some of the reports available are partisan in nature. They have been funded by industries that stand to lose money, or political groups that have a particular cause that is near and dear to their hearts. So when reviewing these types of documents, it is probably best to use the same information that members of Congress are using themselves. Enter a report from the Congressional Research Service, a government agency that does research for Congress.

Even this report is a bit confusing. It doesn't simply lay out in table format the number of jobs that would be lost. Instead, it cites data from other reports, and it does it in paragraph form. But if you start to dig through the numbers, the conclusion that the reader pretty well has to come to is that job losses from going over the fiscal cliff would come to approximately 2 million jobs lost in 2013 alone. So the question is, what kind of jobs would be lost and where would they be located?

The answer to that question is not as simple as you may think. To understand the estimates, first you need to understand the way the federal government defines the jobs it is talking about. And in the CRS report, it defines the kind of jobs impacted in three ways; direct jobs, indirect jobs and induced jobs.

"Direct jobs" are either jobs working directly for the federal government or jobs working for direct contractors of the federal government (e.g. - someone working for a defense contractor). Indirect jobs are those that may be subcontracted out. A good example of this might be a company building a ship that signs a contract with another company to provide navigation equipment. Since the shipbuilder is the one with the government contract, its employees have direct jobs. The employees of the company making the navigation equipment don't actually work directly with the government so they have indirect jobs.

And then there are "induced jobs". These are jobs created by both direct and indirect employees and the companies they work for when they spend the money they earn in their local communities. So, if a defense contractor caters a luncheon, the money they spend with the caterer helps pay for an induced job. And as both direct and indirect employees spend their money on groceries, homes, entertainment, etcâ€¦ they also create or pay for induced jobs.

So now, let's take a look at some of the numbers covered in the CRS analysis.

- The data from the CRS suggests that the overall job losses would be split almost equally between defense and non-defense spending. So roughly 1 million jobs lost due to each type of budget cut.

- The data also suggests that about half of the total job losses will come from direct and indirect employees and the other half from induced employees. That means that virtually anyone could lose their job as a result of going over the fiscal cliff.

Here are some very rough numbers for job losses by industry:

- Department of Defense - From 907,000 to 1,211,000 lost jobs

- Military - From 102,000 to 135,000

- Civilian - 50,000 to 66,000

- Defense contractors - 91,000 to 117,000

- Defense subcontractors - 135,000 to 176,000

- Induced jobs - 376,000 to 516,000

- Department of Education - 80,500 lost jobs

- Teachers - 27,400

- Head Start - 30,600

- Other direct jobs - 22,500 (Note: no estimates for indirect and induced jobs)

- FAA - 40,000 to 132,000 lost jobs

Note: FAA estimates include direct, indirect and induced jobs. These may be low as FAA cuts impact both passenger and air cargo travel. Data in the CRS report states that the cuts could force a cut back in both kinds of air travel by as much as 10% and that civilian aircraft manufacturers could have reduced sales of 2%.

- National Institutes of Health - 33,700 direct, indirect and induced job losses

- Social Security Administration - 500,000 jobs lost in 2013, rising to 767,000 job losses by 2021

- Nurses, housekeepers, independent contractors, and medical residents - 212,000

- Other direct, indirect and induced - 288,000

(NOTE: estimates are that 20% of job losses would be in the hospital industry. Another 20% of job losses due to SSA spending cuts would occur in offices of physicians, dentists, and other health practitioners; medical and diagnostic labs and outpatient and other ambulatory care services; and nursing and residential care facilities.

As bad as all of this sounds, there is another rather startling estimate buried within the report. Employment in the defense industry isn't expected to return to current levels until 2022. And in areas of the report not dealing with defense, the report predicts job losses continuing through 2021.

The media keeps reporting that nobody on either side of this argument wants to hurt the middle class. But it is the middle class that will face virtually all of the job losses and tax increases if no agreement is reached. The clock is ticking. These job losses would place the U6 unemployment number at close to 16%. That's about the same unemployment rate that the country faced in 1931 during the Great Depression.

For our previous reports on the fiscal cliff and debates on government spending see the links below:

The Fiscal Cliff Q & A

The Home Interest Mortgage Deduction And What Its Elimination Would Mean To You

byJim Malmberg
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