THE IMPACT OF FAA BUDGET SEQUESTRATION

AEROSPACE INDUSTRIES ASSOCIATION

As a consequence of the Joint Select Committee on Deficit Reduction's failure last year to come up with a deficit reduction plan in accordance with the Budget Control Act of 2011, sequestration of the federal budget is scheduled to begin with the FY 2013 budget and continue for eight years after that. Approximately one half – or $500 billion – would be cut from nondefense spending, including the Federal Aviation Administration (FAA).

Econsult Corporation was engaged by the Aerospace Industries Association (AIA) to conduct an analysis of the economic impact of sequestration to the civil aviation industry and to the national economy as a whole. Econsult estimated two scenarios of negative impacts generated from the sequestration, looking at employment, earnings, and lost tax revenue.

In the first Scenario, budget reductions primarily impact current operations and functioning of today's air transportation system. Econsult estimated that such reductions would lead to an annual decrease of 36.5 to 73 million in passengers, and 1 – 2 billion lbs. of air freight, which would lead to hundreds of thousands of jobs annually and tens of billions of dollars' worth of losses in output to the U.S. economy, with a loss in Federal and State tax revenue estimated to be up to $1 billion annually.

The second Scenario looked at the economic impact sequestration would have should it fall more heavily on research and development, which would primarily delay and scale down the implementation of the long anticipated Next Generation Air Transportation System (NextGen) initiative. The forecasted economic losses by 2035 could reach up to $80 billion, with employment losses growing to 1.3 million jobs.

In calculating the economic effects of these cuts, it is clear that these choices will have large economic impacts on the air transportation industry, and the national economy as a whole.

PRESS COVERAGE

"Automatic Cuts Would Hurt Air Traffic, Industry Says"

"The report predicted that the U.S. Federal Aviation Administration's $15.9 billion budget would be cut by $1 billion a year under sequestration, a 6.3 percent reduction from current levels.

"We forecast significant negative economic impacts generated by the sequestration," the report by Philadelphia- based Econsult Corp. said…

"There is a lot of uncertainty about how it will play out, but there is going to be a lot of pain unless they unravel this," [Ken Mead, a former Transportation Department inspector general], said. "A lot of this will be indiscriminate pain. They better get on with it. Time is running out."

Bloomberg, 8/13/2012

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