



Opening Statement of Chairman Graves
Sequestration: The Threat to Small Businesses, Jobs, and the Industrial Base
Committee on Small Business
September 20, 2012

Good afternoon. Thank you all for being with us today. I call this hearing to order.

We are all acutely aware that the current level of Federal spending cannot be sustained. Our national debt already exceeds \$16 trillion and continues to grow. Federal debt held by the public will reach 73 percent of GDP by the end of this fiscal year—the highest level since 1950 and about twice the share that it measured at the end of 2007, before the financial crisis and recent recession.

This type of spending cannot continue. We all hoped that the “Super Committee” would agree on a thoughtful plan to curb government spending to ensure America’s fiscal security. Unfortunately, this did not occur and today we are facing the possibility of indiscriminate, across-the-board cuts on January 2, 2013, also known as sequestration.

I am committed to cutting spending, and getting our Nation back on a fiscally sound course. And, I’m willing to make tough decisions. But I question the wisdom of using sequestration’s crude cuts rather than deliberate, targeted cuts. I think we all agree the patient is sick, but I’d prefer that the surgeon use a scalpel rather than a meat cleaver. The sweeping, unfocused cuts of sequestration are certain to have unintended negative consequences, including for America’s small businesses.

Earlier this week, I heard from Perry Casto, the President and CEO of Allied Associates International, Inc. This year SBA named Mr. Casto the Virginia Veteran Small Business Champion of the Year. He told me that if sequestration becomes a reality, it would, in one fell swoop, destroy his company. I’d like to enter his full statement into the record. Unfortunately, Mr. Casto’s story isn’t unusual. As we will hear today, small firms will be uniquely harmed by sequestration. It is estimated that over half of the private sector jobs lost to sequestration – nearly 960,000 jobs – will be small businesses jobs. Surely that was not Congress’ intent.

To better understand the effects of sequestration, today we’re going to focus on government contracting and the Department of Defense (DoD) for three reasons. First, DoD spends more on government contracts than any other agency. Second, the Small Business Act places special emphasis on the role of small businesses in defense contracting, since a strong small business segment is vital to the health of our industrial base and our national defense. Third, DoD is taking the greatest cut of all agencies, as an additional \$55 billion will be cut from DoD’s budget in January, on top of the \$487 billion previously cut this Congress.

Today's witnesses will discuss how sequestration may irrevocably harm the industrial base, especially in areas such as research and development, manufacturing, and aerospace. They will talk about the lack of certainty that small businesses are already facing due to sequestration, at the prime and subcontract level. They will also talk about the loss to the government. Without strong small business participation in procurement, we will have less competition and innovation in contracting, which will result in higher prices for the government.

However, while we are talking about DoD, all agencies are facing similar challenges – unfocused cuts rather than smart cuts. For example, this Committee has identified about \$100 million in potential savings at SBA, and previously shared that information with the Super Committee. However, the \$75 million SBA will lose due to sequestration lacks focus, and this may put key lending programs at risk. In contrast, the General Services Administration – an agency not known as of late for sound fiscal decisions – will only lose \$21 million, with a quarter of that coming from the very Inspector General who uncovered the GSA spending scandals.

As we seek to return our fiscal house to order, I believe today's hearing will help inform the debate. Again, I want to thank each of our witnesses for taking the time to be with us today. I look forward to hearing your testimony. I now yield to Ranking Member Velazquez for her opening remarks.