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Impacts of the Debt Control Act of 2011

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IMPACTS OF THE DEBT CONTROL ACT OF 2011

The Debt Control Act, negotiated by Congress and the President in August 2011, calls for at least a \$2.2 trillion reduction in federal government spending through 2021. Although the details have been left resolved pending negotiations to be concluded in November, the Act does necessitate cuts of \$917 billion in the first tranche and additional cuts of at least \$1.2 trillion to follow. In this brief section, we estimate the potential impacts of these cuts on New Mexico's economy, using assumptions based on the general terms of a sequestering process that is to go into effect if negotiations fail to offer alternative budgetary outcomes³.

Existing Terms of the Debt Control Act

- First tranche of cuts includes cuts of \$21 billion in FY 2012; \$42 billion in FY2013; and cuts of \$107 billion per year until FY2021. Cuts are to be in discretionary spending, excluding Medicare.
- Second tranche sequestered funds will include \$133 billion per year until FY2021. Half of the funds will be drawn from each security and non-security discretionary spending, including Medicare.

³ In its baseline forecast, IHS Global Insight assumes that second tranche sequestering will be avoided through negotiations that will broader cuts in nondiscretionary spending as well as new revenues. This analysis considers the alternative.

Additional Assumptions

- First tranche cuts will affect New Mexico in proportion to the state's share of federal discretionary spending, excluding Medicare – 0.89 percent (\$6.8 billion of \$766 billion).
- Second tranche cuts in security spending will be taken in equal proportion from all categories of discretionary security spending, including Defense, Homeland Security, Defense procurement and other procurements (which include Energy Department procurements that fund much of the activities at New Mexico's national laboratories). A cut of \$600 billion (half of \$1.2 trillion) will require a reduction in security spending of 10.1 percent for each year of the period FY2013-FY2021. Thus, all categories of security-related funding in New Mexico will be cut by 10.1 percent, totaling \$499 million per year (10.1 percent of \$4.93 billion per year).
- Second tranche cuts in non-security spending will be taken in equal proportion from all categories of discretionary spending and Medicare as received by New Mexico. Thus, non-security cuts in the second tranche will include: Medicare (22 percent); federal employee wages, salaries and other labor income (20 percent); highway planning and construction (6 percent); and 'other discretionary direct payments and grants' (52 percent). In total, non-security funding in New Mexico will be cut by \$482 million per year during the period FY2013-FY2021.

Methodology

All data on federal funding was collected from the Consolidated Federal Funds Report. Cuts in federal funding categories were converted into IMPLAN industrial sectors and analyzed to estimate the total employment impacts in New Mexico by 2-digit NAICS sector.

Findings

- Total cuts in federal funding to New Mexico will increase from \$186 million in federal FY2012, to \$1.354 billion in FY2013, to \$1.928 billion per year for the period FY2014 through FY2021.
- Long-term cuts to federal payments to New Mexico are proportionately less than overall cut in federal spending. Cuts in payments to New Mexico will equal 7.0 percent, while cuts in total federal spending will equal 7.6 percent.
- Cuts in New Mexico will be somewhat below the national share because cuts will in some cases focus on programs in which New Mexico's participation is comparatively small. Programmatic cuts in New Mexico will be disproportionately high 'other procurements' (including Energy Department procurements that fund the national laboratories 19 percent versus 7 percent of all federal cuts) and highway constructional and planning (15 percent versus 5 percent). Cuts in New Mexico will be disproportionately low in defense procurements (2 percent versus 15 percent) and federal employee compensation (5 percent versus 14 percent).
- In all, New Mexico stands to lose more than 20 thousand full and part time jobs because of the direct, indirect and induced impacts of cuts in federal spending in the state. The cuts take full force in 2014, when the Budget Control Act takes full effect. Employment losses will be greatest in professional and business services, which include the national laboratories (5,420 jobs in 2014); health care (4,260 jobs in 2014); and government, including military (1,810 jobs). Other sectors will lose jobs primarily because of reduces wages and salaries, and thus consumer spending.
- Note that the previous analysis of the forecast under IHS Global Insight's pessimistic scenario did not explicitly consider the impacts of federal spending cuts in New Mexico. The incorporation of these cuts results in small reductions in job growth in 2012 and 2013, leaving overall growth rates in positive territory. However, in 2014 these cuts would shave fully 1.6 percentage points off employment growth, pushing the economy to a 0.5 percent loss in total employment. As these job losses are assumed permanent but not cumulative, employment growth will return close to existing rates.

Table 4

| Total Job Losses by Sector According to IMPLAN (by 1,000s) | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|-------------|-------------|-------------|-------------|-------------|-------------|
| TOTAL NONAGRICULTURAL | 1.95 | 3.79 | 20.70 | 20.28 | 19.44 | 18.25 |
| LOGGING AND MINING | 0.07 | 0.14 | 0.56 | 0.54 | 0.52 | 0.49 |
| CONSTRUCTION | 0.21 | 0.40 | 1.53 | 1.50 | 1.43 | 1.35 |
| MANUFACTURING | 0.05 | 0.09 | 0.51 | 0.50 | 0.48 | 0.45 |
| WHOLESALE TRADE | 0.04 | 0.08 | 0.39 | 0.38 | 0.37 | 0.35 |
| RETAIL TRADE | 0.18 | 0.36 | 1.66 | 1.62 | 1.56 | 1.46 |
| TRANSPORTATION, WAREHOUSING AND UTILITIES | 0.05 | 0.09 | 0.47 | 0.46 | 0.44 | 0.42 |
| INFORMATION | 0.02 | 0.05 | 0.26 | 0.26 | 0.24 | 0.23 |
| FINANCIAL ACTIVITIES | 0.13 | 0.25 | 1.28 | 1.26 | 1.20 | 1.13 |
| PROFESSIONAL AND BUSINESS SERVICES | 0.21 | 0.41 | 5.42 | 5.31 | 5.09 | 4.78 |
| HEALTH CARE, SOCIAL ASSISTANCE, AND EDUCATIONAL SERVICE | 0.53 | 1.03 | 4.26 | 4.17 | 4.00 | 3.75 |
| LEISURE AND HOSPITALITY | 0.16 | 0.31 | 1.70 | 1.66 | 1.59 | 1.50 |
| OTHER SERVICES | 0.09 | 0.18 | 0.86 | 0.85 | 0.81 | 0.76 |
| GOVERNMENT & NON NAICs (Including Military) | 0.21 | 0.40 | 1.81 | 1.77 | 1.70 | 1.59 |