How the Cuts Would Fall

THE DEBT LIMIT and deficit reduction law enacted last week requires a joint committee to recommend and Congress to enact at least $1.2 trillion in deficit savings beyond the $917 billion estimated to be achieved through yearly caps on discretionary appropriations.

What Congress does will affect both a future increase in the debt limit and the possibility of severe, automatic spending cuts.

The joint committee is free to reach its deficit reduction goal by any combination of discretionary cuts, entitlement changes and revenue increases. In the event that Congress doesn't meet its goal, a "trigger" mechanism will require across-the-board percentage spending cuts, called sequester.

The cuts are designed to be highly unpalatable to lawmakers of both parties and would fall equally on defense and non-defense accounts, as well as on some entitlement programs.

This graphic shows how the automatic cuts would be triggered, how much would be sequestered each year and how the cuts would be distributed across government accounts. ■

1

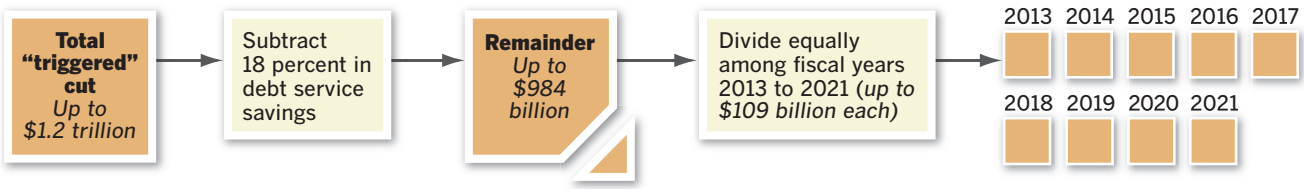
Congress can decide whether the automatic cuts will take effect or not, depending upon how much savings it achieves through the work of the Joint Select Committee on Deficit Reduction. If lawmakers enact at least $1.2 trillion in savings, the automatic cuts will be avoided. If they don't, automatic cuts will be triggered to make up the shortfall.

IF Cuts enacted by Jan. 15, 2012, are:	THEN Total automatic cuts are:	AND Future debt ceiling increase is:
$1.5 trillion or more	None	**$1.5 trillion**
At least $1.2 trillion but less than $1.5 trillion	None	**Amount of enacted cut**
Less than $1.2 trillion	Difference between $1.2 trillion and enacted cuts	**$1.2 trillion**
No legislation enacted	$1.2 trillion	**$1.2 trillion**

NOTE: Adoption of a balanced-budget amendment to the Constitution would allow for a $1.5 trillion debt limit increase, regardless of the amount of cuts enacted.

2

The amount of the automatic cuts is determined through a series of calculations that begins with the tally of savings enacted. Then, the total to be cut is adjusted to account for lower interest payments in the future that result from reduced spending. Finally, the cuts are divided equally over nine years, beginning with fiscal 2013.



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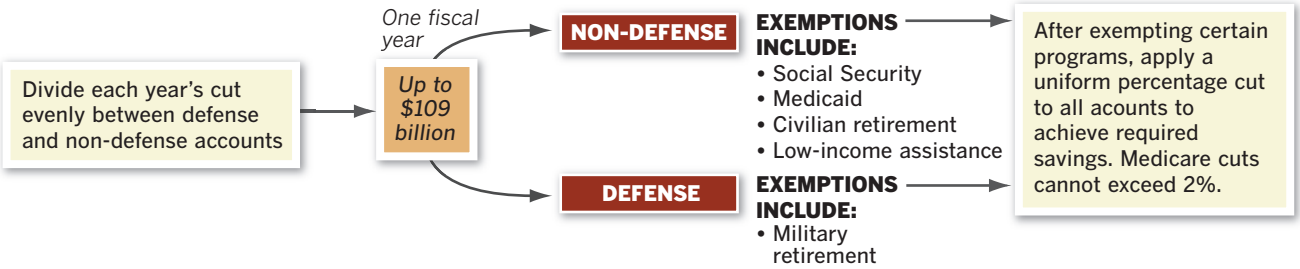
Each year's automatic cuts are first divided equally between defense and non-defense spending accounts. Then, cuts in certain programs are exempted or limited. A percentage cut is applied to all non-exempt government accounts. The first sequester will take effect Jan. 2, 2013. Future sequesters will occur when the president submits his budget.