

# *Buena Vista Investment Management, LLC*

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### DEBT SUPER COMMITTEE WILL DELIVER CUTS....OR ELSE!

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Another deadline is fast approaching in Washington D.C. Remember last spring when there was the threat of a shutdown. Then, there was the threat of default this summer during the debt ceiling debate. So here we go again, a major budget issue with a fast approaching deadline, and no agreement in site. Of course, there is still time, but reports do not make one optimistic about an agreement. However, this may be different than previous deadlines.

The difference is that if the Super Committee cannot reach an agreement, then mandatory cuts of \$1.2 trillion will automatically go into effect. The committee has until November 23rd; however there is a review process required, which means they would probably have to submit their report by this Monday. They are quickly running out of time which means "sequestration" will take place. What the heck is "sequestration" you may ask? Well, leave it to Washington to come up with their own unique way of describing a simple, but potentially unpleasant outcome. The Encyclopedia Britannica says the term refers to "the removal of property from a person in possession of the property". In today's context, it means budget cuts, plain and simple.

When this Super Committee was established back in August, one of the terms was that if they don't come to an agreement, than \$1.2 trillion in "automatic", across the board cuts will take place. These cuts are to be divided equally between defense and civilian programs, and would begin in fiscal 2013. At the Pentagon, the cuts would reduce defense related programs by \$600 billion over a 10 year period. Defense Secretary Leon Panetta has warned Congress that "these cuts could encourage aggression toward the United States.....they are devastating." Military pay is exempted from the cuts.

On the domestic front, \$600 billion will be also be cut over the next 10 years. Exempt from the cuts: Social Security and programs for low-income people, such as Medicaid. Medicare cuts would be limited. However, that means a greater burden will be on the non-exempt programs.

There is a great deal of debate from Republicans and Democrats regarding whether automatic, across the board cuts is a good outcome. Most politicians would prefer an agreement, however some say at least mandatory cuts are better than no cuts at all. There is still some hope an agreement can be reached, and if so, then the proposal will go to both houses of Congress for a simple yes/no vote, with no ability to modify any of the terms. So here we are again, fast approaching another budget deadline in Washington. Maybe they will surprise us and actually come up with an agreement. Either way, we will know the answer soon. Five days and counting.....