NATIONAL UNIVERSITY SYSTEM
INSTITUTE FOR POLICY RESEARCH

Policy Brief

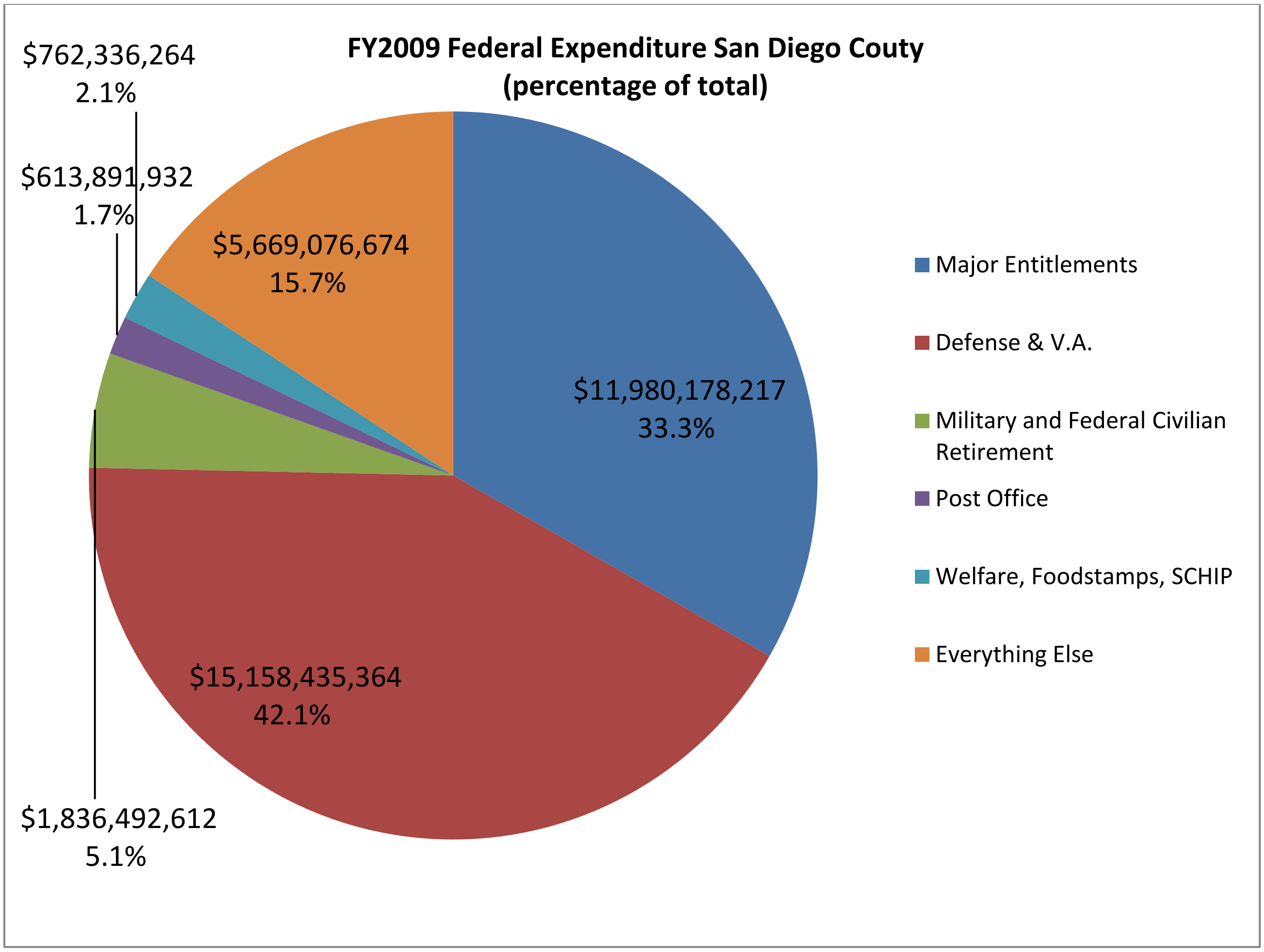
HOW THE NATION DEBT CEILING DEBATE COULD IMPACT SAN DIEGO

Sometime in early May 2011 the United States Congress will take up the question of whether to raise the ceiling on the U.S. National Debt. Most analysts believe that failure to raise the limits would have dire consequences. While the federal government enjoys certain short-term flexibility to avoid immediate default, failure to act by mid-summer would require critical choices about which federal obligations should or should not be funded.[1]

Using the latest U.S. Census Bureau's *Consolidated Federal Funds Report* (http://www.census.gov/govs/cffr/), the National University System Institute for Policy Research calculated that in 2009 $36 billion flowed from the federal government to San Diego County. This is equal to 21.0% of estimated Gross Domestic Product (GDP) or $11,795 for each resident in the County. This is similar to current estimates which peg federal spending in FY 2009 at between 22% to 23% of the United States GDP.

Similar to the nation as a whole, a significant amount of federal spending in San Diego is for entitlement programs, with 33% of federal funds expended in the County going for Medicare, Medicaid and Social Security. Another 42% of federal spending in San Diego is appropriated to the Department of Defense (DoD) and Department of Veterans Affairs.

[1] See, for example, "On Tim Geithner's 5 Magic Tricks To Keep The Government From Defaulting," Business Insider, January 14, 2011.



Source: 2009 Federal Funds Report; National University System Institute for Policy Research

Budget experts have suggested that in the absence of an increase in the ceiling, the federal government has about 60% of the revenue needed to meet present obligations.[2] Assuming the ceiling is not raised and that the interest on the National Debt is the first obligation met (so as to avoid an outright default) there would be approximately $21.6 billion available for federal spending in San Diego County.

At this level of revenues, significant almost unfathomable cuts would be required to match outlays to projected revenues. For example, the government would have enough revenue to meet obligations under major entitlement programs, meet civilian and military payroll and meet

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[2]. For example, see "Happy Halloween... On the 4th of July?"Federal Budget and National Debt, U.S. Politics, U.S. Economy," Brookings Institute, (www.brookings.edu/opinions/2011/0427_debt_ceiling_sawhill.aspx)

obligations to federal retirees. However, lack of funds would require the government to end all other government programs in San Diego County and 70% of DoD procurement contracts. Alternatively, if the ceiling were not raised and the government was forced to immediately "live within its means," the federal government would have enough funds to maintain defense spending in San Diego at current levels as well as meet the obligations it has to Medicare and Medicaid beneficiaries in the county. However, there would be no additional spending authority to fund programs such as Social Security.

It is an epic understatement to conclude that not only would a failure to raise the debt ceiling create major disruptions in global financial markets but the immediate rebalancing of the federal budget would negatively affect nearly every San Diego household. As this brief shows, a protracted dispute over the ceiling would threaten tens of billions of dollars in federal expenditures as the government scrambled to balance obligations to match the present revenues it is expected to collect. Over the long term the federal government must reduce debt to sustainable levels and balance its obligations and promises to revenues. Doing that in one fell swoop, however, would be tremendously disruptive to each and every San Diegan.