

2011-08 Newsletter - Summary Of Debt Ceiling Increase

Congress approved a bill on August 2 increasing the debt ceiling by \$2.1 trillion, averting default and limiting the downgrade of the federal government's AAA bond rating.

The legislative package not only raised the debt limit enough to keep the government operational through 2012, it also established an ambitious and complicated deficit reduction plan that includes spending cuts, a special "super committee" that will recommend further cuts in spending, enforcement triggers, and a vote on a balanced budget amendment to the U.S. Constitution.

Below is a summary of most of the agreement's major components (as of August 4, 2011):

Debt Ceiling Increase

The current \$14.3 trillion ceiling on federal borrowing would be increased by an amount between \$2.1 trillion and \$2.4 trillion - a sum presumed sufficient to allow the Treasury Department to operate beyond the 2012 election and into 2013.

The increase would come in two steps. The debt limit would be increased by \$900 billion immediately. Of that first \$900 billion, \$500 billion would be subject to a congressional resolution of disapproval. To block the increase, such a resolution would presumably have to be enacted over the president's veto, a step that requires two-thirds majority votes in both chambers.

A second increase of \$1.2 trillion to \$1.5 trillion would be available later. The size of the second increase would be determined by actions Congress takes to curtail growth in the debt.

If by early 2012 a joint congressional committee created by the legislation has recommended, and Congress has enacted, \$1.5 trillion in additional savings for fiscal 2012-2021, the second increase in the debt limit would be \$1.5 trillion. Alternatively, the debt limit would be increased by \$1.5 trillion if a constitutional amendment requiring a balanced budget is sent to the states for ratification.

If the joint committee recommends, and Congress enacts, savings of less than \$1.5 trillion, or if no additional savings are enacted, the second debt limit increase would be \$1.2 trillion. The second debt limit increase would also be subject to a congressional resolution of disapproval, which could be vetoed.

Spending Cuts - First Round

An immediate reduction in the deficit would be achieved by placing statutory caps on discretionary appropriations for fiscal years 2012 through 2021. The savings would amount to \$935 billion over 10 years, according to the Congressional Budget Office, when compared with spending levels estimated in January, or \$756 billion when compared with CBO's March estimate that took into account savings enacted as part of fiscal 2011 appropriations (PL 112-10).

The discretionary spending cap for fiscal 2012 would be \$1.043 trillion, which is about \$24 billion more than the amount set by the House-adopted budget resolution (H Con Res 34). The cap for fiscal 2013 would be \$1.047 trillion. For both years, a "firewall" would be erected between security (national defense, homeland security, and related activities) and non-security accounts - meaning

domestic programs could not be targeted to provide more security spending.

The caps for fiscal 2014 through fiscal 2021 would not segregate security and non-security spending.

Enforcement Mechanism for Spending Caps

If lawmakers did not adhere to the discretionary appropriations caps, a process for imposing across-the-board, automatic spending cuts from discretionary accounts would take effect after Congress adjourns for the year.

The automatic mechanism would be similar to the system of spending "sequesters" enacted as part of the 1985 Gramm-Rudman anti-deficit law (PL 99-177). Some spending, including military pay, would be exempt from the automatic cuts.

Spending Cuts - Second Round

The new joint committee could recommend specific ways to reduce the deficit by an additional \$1.5 trillion by 2021. The panel would be required to consider recommendations from regular legislative committees, and to report its recommendations to both chambers, subject to up-or-down votes without amendment.

The committee would be required to report by Nov. 23, and the House and Senate would be required to act by Dec. 23.

All of the federal budget would presumably be on the table, including entitlement cuts and revenue increases.

Enforcement Triggers for Panel Recommendations

Should the enacted recommendations from the joint committee not produce at least \$1.2 trillion in savings, a process for automatic spending cuts would be triggered to achieve the desired savings and spread spending cuts equally across nine fiscal years.

Any sequester would be equal to the portion of the \$1.2 trillion savings target that was not achieved. The first automatic cuts would take effect Jan. 2, 2013, and would fall equally on defense and non-defense accounts, including both discretionary spending and some entitlement spending.

Programs targeting low-income individuals and families would largely be exempt from the sequester, as they were under Gramm-Rudman. Medicare cuts would be restricted to no more than 2 percent of the program's outlays, and would only affect payments to providers, not beneficiaries.

Entitlement Cuts

The special joint committee would be likely to look closely at entitlement spending to achieve its deficit reduction goals. The spending cuts would be subject to tough negotiations over the next four or five months.

If a sequester was triggered, some restricted automatic cuts in Medicare spending might occur. It is unclear what other entitlement spending might be subject to a sequester.

Taxes

The proposal does not include immediate increases in revenue, although the joint deficit-reduction committee might consider revenue increases.

Earlier in the negotiations, Boehner proposed an increase of \$800 billion in revenue. Such an increase might come either from elimination of tax breaks for individuals or corporations, or a comprehensive overhaul of the tax code might be structured to yield a net revenue increase.

Balanced-Budget Amendment

The plan requires both the House and the Senate to vote on a proposed balanced-budget amendment to the Constitution by the end of the year. If two-thirds of both chambers voted to adopt this amendment - and send it to the states for ratification - the second debt limit increase would be \$1.5 trillion.