Budget Control Act of 2011

On August 2, 2011, the President signed legislation aimed at reducing the deficit, raising the debt limit, and avoiding default.

I. Highlights

The legislation:

- Extends debt limit to 2013.
- Makes a nearly $1 trillion down payment on deficit reduction.
- Expedited process for balanced deficit reduction in a longer term process for an additional $1.5 trillion in savings through **both tax and entitlement reform**.
- Employs a proven enforcement mechanism that will compel painful spending cuts (50 percent defense/50 percent non-defense) that should force Congress to act.

II. Details of the deficit reduction package (2012-2021)

A. Stage One

The debt limit was raised by $900 billion, $400 billion immediately (which should last through September 2011); the remaining $500 billion debt limit increase would take place unless both the House and Senate pass resolutions of disapproval and the President does not veto such resolutions. This increase of nearly $1 trillion is offset by a $10 billion spending reduction in 2012 and 2013 in **discretionary spending** (approximately 1 percent of such spending); there is no reduction of non-discretionary spending (such as Social Security benefits, etc.). The balance (nearly $1 trillion) of the discretionary spending cuts arises in the out-years (after 2013, and after the next round of elections) of a **ten-year plan**. Discretionary spending has a hard cap (ceiling) on the total amount of discretionary spending at approximately $1.04 trillion in 2012 and 2013. Caps continue in each of the out-years with separate caps established for security and non-security spending; for these purposes, security spending includes defense, state and foreign operations, homeland security, and military construction/veterans affairs.

B. Stage Two

1. Joint Committee

A joint, bipartisan committee (the “Joint Committee”), made up of 12 members (6 from each Chamber, equally divided between Democrats and Republicans, and appointed by the Majority and Minority Leaders in each Chamber), will be tasked with developing legislation to achieve at least $1.5 trillion in future deficit reduction (over the ten-year reduction period ending in 2021) by November 23, 2011. The committee’s legislation, which can include entitlements (non-discretionary spending) and revenues (tax increases), is guaranteed an up-or-down Senate vote, without amendments, by December 23, that avoids the Senate’s general 60-vote rule on closing debate.

Note:

> Tax increases, if recommended and enacted, would not, in our opinion, become effective until 2013. Such changes may well follow the recommendations of the Gang of Six in the Senate -- although none of its members were appointed to the Joint Committee -- and the Fiscal Commission (discussed elsewhere in these materials).

Note:

> The process is currently in Stage Two, with November 23 the cut-off date for the deficit reduction to be drafted and introduced. The members of the Committee are (1) from the Senate, Murray (D-Washington), Kerry (D-Massachusetts), Baucus (D-Montana), Kyl (R-Arizona), Toomey (R-Pennsylvania), and Portman (R-Ohio); and (2) from the House, Becerra (D-California), Van Hollen (D-Maryland), Clyburn (D-South Carolina), Camp (R-Michigan), Hensarling (R-Texas), and Upton (R-Michigan).

2. Outcomes

a. If the Committee's recommendations achieve at least $1.5 trillion and are enacted by Congress, the debt ceiling will be raised by $1.5 trillion.

b. If the committee's bill is enacted and produces between $1.2 trillion and $1.5 trillion, the debt limit will be raised dollar-for-dollar.

c. If the committee fails to produce a bill, its bill is not enacted, or it produces less than $1.2 trillion, the debt limit will increase by $1.2 trillion. This debt limit increase would be subject to a disapproval vote by the Senate and the House, which would, in turn, be subject to a Presidential veto.

d. If the Committee fails to report legislation that achieves $1.2 trillion in deficit reduction, or Congress fails to enact the Committee's recommendations, certain parts of appropriated funds in the budget are set apart and not spent (sequestration), on a pro rata ("across-the-board") basis. If the Joint Committee fails to come to a majority agreement on recommendations that achieve at least $1.2 trillion, or Congress fails to enact recommendations that produce at least that amount, sequestration is triggered, forcing across-the-board spending cuts. The sequestration will, with interest savings, make up the differential between the deficit reduction achieved by the joint committee and $1.2 trillion.

"Deficit reduction" is a slippery term, and Washington gives it several different meanings. Sometimes it means that the deficit is reduced from what it would have been had the action not been taken, i.e., merely reducing the annual deficit from, say, $500 billion to $400 billion, thereby reducing the aggregate national debt by $100 billion from what it would have been without the action; it does not mean necessarily that the national debt has been reduced in absolute dollars.

Note:

> Because spending reductions are the only recourse in the event no legislation is introduced, there will be no tax increase (revenue enhancers) if the Joint Committee cannot reach a consensus (defined as 7 of the 12 members). If both sides stay fixed on their ideological positions -- one insisting on tax increases, the other pledged not to support any such measures -- this scenario of no tax increases but automatic reduction in actual spending through sequestration is a likely outcome.

- If across-the-board cuts are triggered, 50 percent will come from defense spending, with the remaining 50 percent coming from non-defense spending. The spending cuts would apply to fiscal years 2013-2021, and apply to both discretionary and mandatory spending programs with important exemptions (below). **The amount of the defense spending cuts each year would be approximately $50 billion if sequestration is triggered.**
- If across-the-board cuts are triggered, the following will be exempt: Social Security; Medicaid; veterans' benefits and pensions; payments to federal retirement funds; civil and military pay; and the child nutrition, Supplement Security Income, and Women, Infants, and Children programs, among others.
- If across-the-board cuts are triggered, any cut to Medicare would be limited to no greater than 2 percent of the program's cost. Any such cut would come from payments to providers and insurance plans. There will be NO Medicare benefit cuts or increases in seniors' costs.

Note:

> The last time an enforcement mechanism like this was used -- with 50 percent domestic and 50 percent defense cuts -- the threat of defense cuts helped drive the 1990 bipartisan agreement under President George H.W. Bush that included both revenues and spending reductions.

C. Future votes on balanced budget constitutional amendment

As part of the compromise, both the House and Senate will vote on a balanced budget constitutional amendment before the end of the year. The debt limit increase is not contingent on *passage* of the amendment. Nor does it prevent a vote on an alternative version of the balanced budget amendment.