



# *SBLC WEEKLY*

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## ***DEBT CEILING***

(WARNING: the details are very sketchy. We will see how I did as the day unfolds. ☺)

A debt ceiling increase deal has been reached by the President and Congressional leaders.

It calls for the immediate enactment of 10-year discretionary spending caps generating roughly \$900 billion in deficit reduction including both defense and non-defense spending. The debt ceiling would be increased by a comparable \$900 billion. At the present time, not clear exactly what programs would be cut to meet those caps. During the negotiations a lot of proposals floating around.

A twelve person congressional bicameral bipartisan Committee would be convened to identify an additional \$1.5 trillion in deficit reduction. (Presumably each leader to name three) The Committee has the discretion to decide the mix to reach the goal and it might include entitlement reform and tax reform. The Committee is required to report legislation by November 23, 2011, which receives fast-track protections (no amendments, no filibusters). Congress is required to

vote on the Committee's recommendations by December 23, 2011. (IF the Committee includes tax reform, it is not likely to include the specifics. Congress would have to flesh out the details in 2012. The driver will be achieving the amount of revenues necessary within the window, presumably ten years. However, the more likely driver for tax reform if it is included, will be the expiring tax cuts at the end of 2012 (such as estate tax relief, marginal top rate cut) that have to be dealt with.)

If the Committee fails to produce a package that is approved by Congress, an enforcement mechanism (automatic sequestration is the phrase) will trigger spending reductions beginning in 2013 – split 50/50 between domestic and defense spending but not Social Security, Medicare beneficiaries, and low-income programs. (If the special Committee does not come up with a package, the expiring tax cuts will put pressure on Congress to deal with tax reform anyway. With automatic sequestration, the revenues upon expiration will be figured into the baseline and Congress would have to pass legislation to extend the tax cuts and make up the revenue in addition to what is needed to avoid

sequestration. It would sort of like needing double the amount.)

Apparently, there is something in the agreement on a balanced budget amendment to the Constitution to send to the States for ratification. This part is very sketchy. It might be as a second option to avoid sequestration if the special committee cannot agree or it might part of this initial agreement that Congress agrees to put the amendment to a vote or Congressional approval might be necessary before the President asks for the second increase in the debt ceiling. It is hard to imagine it could be used as an escape valve to avoid the second round of cuts since even though it might be required that Congress pass it, the States would have to ratify it, and nothing can be done to force that. Seems like that would be too easy an escape valve to use.

Not clear whether the agreement specifies the composition of the balanced budget amendment. Generally, proposals for such an amendment have included provisions that require total outlays not exceed total receipts; contain a spending limitation as a percentage of GDP; and require that tax increases be approved by a two-

thirds vote in both Houses of Congress for their ratification.

Initiation of the Constitutional amendment process by Congress requires two thirds approval of the amendment by both the House and Senate. (Note: An amendment to the Constitution would still have to be ratified by three-fourths of the States, something out of Washington's control.)

The President would be able to act to increase the debit ceiling by another \$1.2 to \$1.5 trillion next year. It is not clear whether the increase is tied to directly to the second phase deficit reduction actions. (My impression is not). Further not exactly clear how the increase would be implemented. The speculation is that he would ask for it and it would be enacted unless Congress voted to disapprove it (this is also where the balanced budget amendment action might come into play – or not.)

Finally, while the leaders and the President have a deal, this is no slam dunk, particularly in the House. With both Senate leaders on board, Senate passage seems more likely. In the House, the block that passes it, if it passes, will be made up centrists from both parties. Neither party will have their hard liners.

### ***WEEKLY***

While Congress is supposed to work this week and go home for the August recess, I am not sure how much they will do after the debt ceiling issue is resolved. Assume next Weekly after Labor Day. Of course, if actions warrant, I will send something out.