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Treasury: October 2012 Deficit $120 Billion

According to the Treasury Department, the federal government's deficit in October, the first month of FY 2013, was $120 billion, a 22% increase from the previous October. Of the $304 billion the federal government has spent to-date in FY 2013, 39.4% has been borrowed. If that rate of borrowing continues throughout FY 2013, the federal government will face its fifth straight trillion-dollar deficit. Before the last four annual deficits, each of which exceeded a trillion dollars, no annual deficit had exceeded even $500 billion. Using its "alternative fiscal scenario," CBO has projected that the federal government's deficit in 2013 will be $1.037 trillion.

In October, the federal government also collected $184 billion in revenues, an increase of $21 billion or 13% over the previous October. Overall spending in October was $304 billion, an increase of $43 billion or 16.4% over the previous October.

Fiscal Cliff Posturing Continues

The President still has not presented a credible plan (let alone actual legislation) to solve the looming debt crisis. House Republicans passed several bills earlier this year to address the "fiscal cliff:" H.R. 8, the Job Protection and Recession Prevention Act; H.R. 5652, the Sequester Replacement Reconciliation Act; and H.R. 6365, the National Security and Job Protection Act.

If no action on the "fiscal cliff" is taken before January 1st, the following will occur:

- The tax cuts from 2001 and 2003, extended in 2010, will expire.
- The Alternative Minimum Tax (AMT) will hit 34 million households in 2013
- The temporary employee-share payroll tax cut will expire.
- Sequestration will occur for FY 2013 spending.
- Extended unemployment benefits will expire.
- Medicare reimbursements to providers will drop by 27%.

Quote of the Week: *"I think it's absolutely clear that the fiscal path we are on is not sustainable, and for me, the best analogy is these deficits are like a cancer, and over time they will destroy the country from within."*

--Erskine Bowles, former Chief of Staff to President William Jefferson Clinton

Federal Government Nears Debt Limit

According to an analysis by the Bipartisan Policy Center, the federal government will reach the debt limit in the last week of December 2012. The current federal debt subject to the limit is $16.271 billion, $123 billion below the debt limit, currently set at $16.394 trillion. Once the debt limit is reached, the Treasury Department will have several options, known as "extraordinary measures," to extend the timeline before it is truly no longer able to borrow additional funds. During negotiations over the debt limit in the summer of 2011, those "extraordinary measures" extended the ability of the Treasury to borrow for well over two months. However, according to analysis by the Bipartisan Policy Center, the unavailability of one of the previously used "extraordinary measures" at this point in the year will prevent the Treasury from borrowing further after a date occurring sometime in the month of February.

House to Consider Deficit Reduction Bill

This week, the House is expected to consider H.R. 6429, the STEM Jobs Act. This legislation previously did not pass the House on suspension in September of this year, but is expected to reach the floor under a rule this week. Through its elimination of the Diversity Visa Program, the legislation is expected to decrease direct spending by $1.3 billion, decrease revenues by about $100 million, and reduce discretionary spending by almost $30 million—assuming reduction in authorization of appropriations—over the FY2012-FY2022 time period. RSC Member Rep. Goodlatte (R-VA) previously proposed eliminating the Diversity Visa Program in H.R. 704, the SAFE for America Act, a bill highlighted this year by the RSC Sunset Caucus.

Federal Government Borrows $24 Billion on Red Friday

On "Black Friday," November 23, the federal government borrowed over $24 billion to bring the national debt to $16.307 trillion. That amounts to a single-day increase in the debt of over $200 per American household, turning "Black Friday" into "Red Friday" for the American taxpayer. "Red Friday" was also the first time the national debt has exceeded $16.3 trillion. President Obama entered office with the national debt at $10.627 trillion. In less than four years, he has overseen an increase in the national debt of $5.683 trillion, an increase of 53% or over $49,450 per American household.

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THE WALL STREET JOURNAL.

Hope and Exchange: The feds blame the states for refusing to become ObamCare subsidiaries
Wall Street Journal Editorial

ObamaCare is due to land in a mere 10 months—about 300 days—and the Administration is not even close to ready, so naturally the political and media classes are attacking the Governors and state legislators who decline to help out. Mostly Republicans, they're facing a torrent of abuse in Washington and pressure from health lobbies at home.

But the real story is that Democrats are reaping the GOP buy-in they earned. Liberals wanted government to re-engineer the entire health-care system and rammed the Affordable Care Act through on a party-line vote, not stopping to wonder whether it would work. Now that implementation is proving to be harder than advertised, they're blaming the states for not making their jobs easier.

The current rumpus is over ObamaCare's "exchanges," the bureaucracies that will regulate the design and sale of insurance and where 30 million people (and likely far more) will sign up for subsidized coverage. States were supposed to tell the Health and Human Services Department if they were going to set up and run an exchange by October, but HHS delayed the deadline to November, and then again at the 11th hour to December.

Sixteen states have already said they won't participate. Another 11 are undecided, while only 17 have committed to doing the work on their own. Six have opted for a "hybrid" federal-state model. That means HHS will probably be responsible for fallback federal exchanges in full or in part in as many as 25 or 30 states.

The opposition isn't so much political as practical. Or rather, the vast logistical and technical undertaking to build an exchange helps explain why so many Governors resisted ObamaCare in the first place.

States have regulated the small business and individual insurance markets for decades (some well, others less so). Now they're supposed to toss everything out for a complex Washington rewrite, which is still being rewritten. The exchanges will also help enforce the individual mandate and premium increases. They'll also have to spend a ton of money. Ohio estimates it will cost $63 million to set up an exchange and $43 million to run annually, based on a KPMG study.

Most spending will go to information technology, in an era when many states still run Medicaid using paper forms and pneumatic tubes. These systems are supposed to allow consumers to review health plans online (or in person and by mail and fax), pick one and then ping HHS and the Internal Revenue Service to determine who is eligible for what subsidies. Private businesses spend years developing and refining such consumer software. States need to fund call centers to field queries and even hire "navigators" to actively encourage people to enroll.

The main problem is that states are being conscripted as federal contractors. HHS has declined to reveal basic operational details except to make clear that state-based exchanges won't really be run by the states. "No matter which option is chosen," as Scott Walker put it, "Wisconsin taxpayers will not have meaningful control over the health-care policies and services sold to Wisconsin residents."

So if things don't work voters will blame the Governors for decisions made in Washington. And when it turns out that ObamaCare's costs are underestimated and its benefits exaggerated, they'll have enabled an entitlement that many of their constituents oppose. The wonder is that any GOP leaders—ahem, Chris Christie and Rick Scott—are still playing Hamlet.

Partly that may be due to the insurance and provider lobbies, especially the hospitals. They're furious that states might spoil the deals they cut with the White House and frantic for new revenue, which will only flow with the subsidies. (Note that health industry stocks rallied on President Obama's re-election.) They're also generally more powerful at the local level and favor state-run exchanges as easier to manipulate. But Governors who give in are setting themselves up as political fall guys, just as the insurers will be when premiums inevitably spike.

We suggested at first that states could try to spin straw into gold, ignore HHS and try to adopt a marginally less destructive approach. One state that tried is Utah, which built an impartial insurance clearinghouse in 2009 based on "defined contribution, consumer choice, and free markets," as Governor Gary Herbert put it in a November letter to HHS.

Now he's asking Washington to accept "Utah's version of a health insurance exchange," even though it clearly does not comply with Affordable Care Act provisions. HHS claims it is trying to be flexible, so this will be a useful test.

But the main reason HHS and ObamaCare partisans are trashing the state hold-outs is that the federal government isn't any better equipped to make the plan a success. HHS's reputation as one of the most dysfunctional agencies is notorious. To take one example, an ObamaCare-mandated update to a major computer network called the System for Electronic Rate and Form Filing, which governs insurance approvals, has been delayed by months.

HHS's bandwidth is likely to be fried and its personnel overloaded by the workload of 25 exchanges or even 16. And the effort will be complicated by the serious legal questions and eventual lawsuits about the statutory authority of a federal exchange to dispense subsidies at all.