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Legislative Bulletin…………………………….………….July 30, 2011

Contents:

Key Conservative Concerns

- **Higher debt ceiling increase than spending cuts:** The legislation reduces spending by **$927 billion** over ten years (not including budget gimmicks described below which will not save taxpayers one penny). The legislation increases the debt ceiling by **$2.4 trillion.**

- **$1.2 trillion war funding gimmick:** The legislation places caps on war funding over the 2012-2021 period that cap spending that was not going to be spent anyway.

- **$500 Billion budget gimmick:** The Senate sponsors of the legislation claimed that the bill saves $2.7 trillion. According to CBO, even counting the war funding gimmick described above, it only saves $2.2 trillion. The difference is that the Senate sponsors decided to calculate their savings from a six month old January 2011 baseline, which *double counts spending cuts that have already become law*.

- **Does not meet the principles of "cut, cap, and balance":** The legislation does nothing to condition any debt limit increase on a Balanced Budget Amendment. Further, the legislation envisions half-trillion-dollar deficits through the ten year window, since it creates a deficit commission only charged with reducing the deficit to 3% of GDP.

- **New spending for IRS:** The legislation allows the IRS to receive spending outside of the caps that amounts to $13.6 billion over ten years.

H.R. 2693—Budget Control Act of 2011 (Representative Dreier, R-CA)

Order of Business: The bill is scheduled to be considered on Saturday, July 30 2011, under a motion to suspend the rules and pass the bill. *This bill is the same as Senator Reid's debt limit increase proposal.* The intent of bringing the bill up is to show that it does not have the votes to pass the House.

Summary:

Debt Ceiling Increase

The legislation provides for an increase in the debt ceiling of up to **$2.4 trillion** (the largest such increase in American history).

Discretionary Spending Limits

First-Year Cut: The non-emergency discretionary cap for FY 2012 would be $1.045 trillion, which is a **$5 billion** reduction compared to FY 2011. The House's appropriations process has been on course to reduce such spending by $31 billion, a number which many RSC Members felt was insufficient (The RSC budget would have reduced this spending by $71 billion). Per the bill, the discretionary cap for FY 2012 is **$26 billion** above the current FY 2012 House appropriations plan.

Discretionary Spending Limits: The bill sets discretionary spending caps that increase gradually over the FY 2012-2021 period. According to CBO, the total spending cut compared to the baseline is $839 billion over ten years. However, the spending cap rises from $1.045 trillion in FY 2012 to $1.228 trillion in FY 2021. This is measured as a cut because CBO's baseline assumes growth with inflation, instead of using zero baseline budgeting.

The numbers by year are as follows:

- **2012** $1.045 trillion
- **2013** $1.047 trillion
- **2014** $1.068 trillion
- **2015** $1.089 trillion
- **2016** $1.111 trillion
- **2017** $1.134 trillion
- **2018** $1.156 trillion
- **2019** $1.180 trillion
- **2020** $1.203 trillion
- **2021** $1.227 trillion

War Funding Gimmick: The legislation puts caps on war funding in the amounts of:

- **2012** $126 billion
- **2013-2021** $450 billion

These numbers are equivalent to the President's budget request over the next ten years. CBO's budget projections currently assume war funding at current levels (consistent with how they are required to estimate future discretionary spending under law). However, no one is advocating a policy that would actually cause war funding to meet these spending levels. Therefore, the caps propose to prevent spending in excess of what was never going to be spent anyway.

On the other hand, should the nation actually face a national security emergency requiring war funding in excess of these caps, the caps will certainly be breeched.

Either way, the caps will be almost completely irrelevant to total federal spending over the next ten years.

More Funding for the IRS: The legislation allows more spending for the IRS above the discretionary limits described above. According to CBO, the bill allows $13.6 billion of extra funding for the IRS above the baseline over ten years for tax compliance spending.

Sequestration: The bill enforces the discretionary caps via sequestration. This means that if Congress exceeds the discretionary spending limit for a year, OMB would be directed to make automatic spending reductions of an amount needed to meet the cap. The President would have the option of exempting military personnel pay from the sequestration.

Other Mandatory Spending Cuts

The legislation reduces net mandatory spending by $41 billion over ten years. Items of note:

- **Pell Grants/Student Loans:** The legislation provides more money for the Pell Grant program and offsets this extra spending by eliminating subsidized loans for graduate loans.
- **Agricultural Spending:** The bill reduces payments to agricultural producers by $11.1 billion over ten years.
- **Spectrum Provisions:** The bill saves $13 billion over ten years from extending and expanding the FCC's ability to auction the electromagnetic spectrum.

Joint Select Committee on Deficit Reduction

The legislation creates a Joint Select Committee on Deficit Reduction (with procedures for expedited consideration in both houses) charged with reducing the federal deficit to 3% of GDP or less. The committee would consist of six Republicans (3 appointed by Speaker of House, 3 appointed by Minority Leader of Senate) and six Democrats (3 appointed by Minority Leader of House, 3 appointed by Majority Leader of Senate).

There would be no restrictions on the committee's ability to propose tax increases. The committee's goal would be to reduce the deficit to 3% of GDP (still more than $600 billion by end of the decade), which means that the country would still be far away from a balanced budget.

<u>Additional Background</u>: This past spring, the RSC proposed a "cut, cap, and balance" solution to the debt ceiling impasse. The RSC proposal (expressed in a letter signed by 103 Members) proposes that in order to enact any debt ceiling increase, we must first:

1. Enact discretionary and mandatory spending cuts that would reduce the deficit in half next year;

2. Implement statutory, enforceable total-spending caps to reduce federal spending to 18% of GDP; and

3. Send to the states a Balanced Budget Amendment with strong protections against federal tax increases and including a Spending Limit Amendment. For more information on the RSC plan, see www.cutcapbalance.com

The House passed H.R. 2560, the Cut, Cap, and Balance Act on July 19, 2011 by 234 to 190, which was based heavily on the principles in the RSC's cut, cap, and balance letter.

RSC Bonus Fact: Prior to this legislation, under a Democrat Congress, the debt limit has been increased six times since September 2007. The increase during this period amounts to $5.329 trillion or *59.4%* (from $8.965 trillion to $14.294 trillion).

Committee Action: The legislation was introduced on July 28, 2011, and has not been considered by any committee.

Administration Position: The Administration has expressed support for this plan.

Cost to Taxpayers: The legislation reduces federal spending by $927 billion over ten years (not counting the war funding gimmick) and increases the debt ceiling by $2.4 trillion over ten years.

Does the Bill Expand the Size and Scope of the Federal Government?: The legislation raises the debt ceiling by $2.4 trillion, which increases the size of the federal government. The legislation also creates a deficit reduction commission which might lead to expedited consideration of tax increase proposals. The legislation's non-war spending caps, assume spending that is **$26 billion** *more* than the current House 302(a) allocation, and just **$5 billion** below last year. On the other hand, the legislation cuts spending by $927 billion (compared to the baseline) over ten years.

Does the Bill Contain Any New State-Government, Local-Government, or Private-Sector Mandates?: No CBO report with this information is available.

Does the Bill Comply with House Rules Regarding Earmarks/Limited Tax Benefits/Limited Tariff Benefits?: No committee report with this information is available.

Constitutional Authority: According to the sponsor: "Congress has the power to enact this legislation pursuant to the following: Clause 2 of section 8 of article I."

Clause 2 is the ability of the federal government to borrow money on the credit of the United States.

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