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House passes bill to increase debt limit and reduce future budget deficits; Senate vote expected by August 2

Overview

The House today voted 269 to 161 to approve legislation (S. 365) that provides for an increase in the current $14.293 trillion federal debt limit and deficit reductions totalling at least $2.1 trillion between 2012 and 2021, according to the Congressional Budget Office. The Senate is scheduled to vote on the legislation on Tuesday, August 2, the date after which the Treasury Department has warned that the federal government would be unable to meet all its financial obligations.

Under the House-passed legislation, a debt limit increase and accompanying deficit reductions would be provided for in two phases:

- In phase one, the legislation provides a $900 billion debt limit increase to cover federal borrowing needs through the end of 2011, while caps on discretionary spending and other provisions will reduce budget deficits by $917 billion between 2012 and 2021. Of this $900 billion phase one debt limit increase, $400 billion would be provided immediately, and the remainder would be subject to a Congressional "resolution of disapproval" that the President could veto (thus leaving the debt limit in place assuming the veto is sustained).

- In phase two, the legislation would provide for a second debt limit increase of between $1.2 trillion to $1.5 trillion, with the precise amount of debt limit increase authorized in this second phase tied to the amount of additional deficit reductions to be implemented under the legislation. This phase two debt limit increase also would be subject to a resolution of disapproval that the President could veto.

It is expected that the cumulative debt limit increases provided for under the legislation will allow the federal government sufficient borrowing authority to meet its financial obligations through the end of 2012.

The legislation does not include any tax provisions in the first phase, but there is no restriction on including tax provisions as part of the second phase of deficit reductions.

The legislation also requires Congress to vote a joint resolution proposing a balanced budget amendment to the Constitution before the end of 2011. Approval of a constitutional amendment would require a two-thirds vote of the House and Senate. The debt limit increases provided for under the legislation do not depend on Congress approving a balanced budget amendment. If approved by the House and Senate, such an amendment would have to be ratified by three-quarters of the States to become effective.

Phase two deficit reductions depend on new joint select committee

The legislation provides for the establishment of a "joint select committee" of Congress that is directed to propose $1.5 trillion in additional deficit reductions by November 23, 2011. The proposed joint select committees would be charged to report deficit reduction legislation under expedited, protected procedures to the House and Senate for an up-or-down simple-majority vote in each chamber by December 23, 2011. If passed by Congress, such deficit-reduction legislation would have to be signed by the President to become law.

The legislation provides the joint select committee with broad authority to draft legislation that will achieve the proposed deficit reduction savings. If the joint select committee considers any revenue provisions, the legislation requires use of the current-law CBO baseline, which assumes that expiring tax provisions, including the 2001/2003 individual tax cuts, will sunset as scheduled. Thus, the sunset of Bush era individual tax provisions would not count toward the deficit reduction goal of the joint select committee.

The following chart highlights some of the key dates and procedures for consideration of deficit reductions before the end of 2011.

Joint Select Committee Structure and Timeline	
Membership	12-member joint select committee members to be appointed within two weeks of legislation's enactment. Three members to be appointed each by the House Speaker, House Minority Leader, Senate Majority Leader, and Senate Minority Leader. One co-chair to be appointed by the House Speaker and one co-chair to be appointed by the Senate Majority Leader. Co-chairs to appoint a staff director.
Recommendations of House	Each House and Senate Committee (including the tax-writing committees) may transmit nonbinding

and Senate committees	recommendations by October 14, 2011 to the select joint committee "consistent with the goals" of the legislation.
Hearings	The select joint committee "may hold such hearings ... the joint committee considers advisable."
Report of the joint select committee	By November 23, the joint committee shall vote on a report and legislative language that includes estimates by the Congressional Budget Office.
Voting by the joint select committee	Simple majority of the 12 joint select committee members required to report out the legislation.
Transmit report	By December 2, submit report and legislative language to Congressional leaders and the President.
Expedited House and Senate committee consideration	The joint select committee bill may be referred to House and Senate committee(s) which must report the legislation without amendment by December 9. Discharge motion in order if House and Senate committees fail to report legislation without amendment. Committees may report legislation with favorable, unfavorable, or no recommendation.
Vote on passage	Simple majority vote in House and Senate no later than December 23. No floor amendments permitted.

Trigger mechanism if joint select committee process fails to achieve deficit reductions

The legislation provides a trigger mechanism by which automatic spending reductions would be implemented if enacted legislation originating from the joint select committee does not result in at least $1.2 trillion in deficit reductions. These automatic spending reductions would be spread evenly over fiscal years 2013 through 2021 - half would come from defense spending and half from nondefense spending, including both discretionary and direct spending. Several direct spending programs would be exempt, including Social Security and other retirement programs, Medicaid, and certain programs benefitting low-income individuals. The legislation would limit Medicare cuts to reductions of no more than two percent in payments to providers.

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