

# VILLAGE CARE PUBLIC POLICY OBSERVER

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## With Debt Ceiling Issue Resolved (for now) – What's Next?

Most of the nation and world markets breathed a huge sigh of relief (tea party members excluded) that the White House and Congress were able to finalize an agreement on extending the nation's credit line. Without that extension, the U.S. government, which spends more than it collects in revenue (forty cents on every dollar is borrowed), would have had to make painful choices about what bills to pay. Think of it as the equivalent of maxing out your credit card while also spending beyond your means. Without an extension of your line of credit, you have to make painful cuts, or find a way to make more money. What was surprisingly missing from this entire debate is the fact that the U.S. Congress, by passing a budget year after year (under both Democratic and Republican control) that spends more than it takes in, inherently knows it must extend the debt ceiling.

Treasury holders, Social Security beneficiaries, Medicaid transfers to the States, Veteran's benefits, Medicare payments, and more were all in jeopardy. Had the ceiling not been raised, the U.S. government would have started to run out of money, and would have been forced to make choices regarding which programs to pay and which not to pay.

The agreement that was reached includes fewer cuts than previous compromises that the White House had offered to House Republicans. Republican insistence on no new revenues, even elimination of some tax loopholes, may have actually "cost" them more in cuts - they could have achieved even larger reductions had they been willing to move on their revenue position. For the public health community, that is probably fortunate, at least for now.

Many advocates for Medicaid and Medicare remain leery about the future of these important programs. Previous iterations of debt negotiations included substantial cuts to both programs, and these recommendations came from both sides of the aisle, including the White House. For the near future, however, these programs were spared any cuts.

### **Basics of the Debt Deal**

Phase one: The agreement would immediately allow the federal government to borrow \$400 billion (avoiding default). The President would then have the ability to raise the debt ceiling by an additional \$500 billion, which would be necessary in the fall. While Congress could pass legislation to block the \$500 billion in the debt limit, this would be subject to a Presidential veto. The total \$900 billion extension of the debt limit will get the government through the end of 2012.

In return, the agreement includes a cut of \$917 billion over ten years, beginning in Fiscal Year 2012. That's \$91.7 billion a year. Consider this: the total budget for the U.S. Government in FY 2011 alone is \$3.456 trillion. The savings represent, roughly, two percent of the overall budget. For the next two years there are separate caps on discretionary non-security and security spending. In FY 2012, discretionary spending would be capped at \$1.043 trillion, which is \$7 billion below FY 2011 levels. In FY 2013, discretionary spending is capped at \$1.047 trillion, or \$3 billion below FY 2011. The combined \$10 billion in cuts would be split evenly between security and non-security spending. The agreement includes no details on exactly what discretionary programs would be cut. Examples of discretionary programs that could possibly be cut include programs at the U.S. Department of Health and Human Services such as Ryan White, Substance Abuse and Mental Health Services Administration (SAMHSA), the Centers for Disease Control as well as other agencies such as Transportation, Education, Housing, Agriculture. Social Security, Medicaid, and Medicare are entitlement programs and are exempt.

Phase Two: A bipartisan joint committee made up of 12 members, evenly split between Democrats and Republicans, will be created. They must come up with recommendations by Thanksgiving that include at least \$1.5 trillion in cuts to reduce the budget deficit. If the recommendations pass the joint committee and are adopted by Congress and signed by the President, then the debt ceiling will be increased by another \$1.5 trillion. The committee may examine all possible options to reduce the deficit, including cuts, changes to entitlement programs and tax reform. House Speaker John Boehner has already pledged that he will only appoint members to the joint committee that oppose revenue changes, but Democrats on the committee will almost certainly insist on them.

Alternatively, the agreement allows the debt ceiling to be extended by \$1.5 trillion if Congress passes a Balanced Budget Amendment to the Constitution with the necessary two-thirds majorities in both chambers and sends it to the states for ratification. Since passage of a Balanced Budget Amendment by such a majority is virtually unthinkable, the recommendations of the joint committee will play the most important role in the second phase.

If the joint committee's recommendations are not passed by Congress, then the debt deal triggers up to \$1.2 trillion in across-the-board spending cuts (called sequestration cuts) to both discretionary and entitlement programs starting in 2013, with authority for sequestration to continue until 2021. This will include half of the cuts coming from defense spending. Some programs, such as Social Security, Medicaid, Veterans

Administration benefits, payments to federal retirement funds, civil and military pay, Supplemental Security Income, among others, would be exempt from the sequestration cuts. If sequestration is triggered, the President would have the authority to extend the limit another \$1.2 trillion. The deal limits the cuts to Medicare to 2 percent, and are targeted exclusively to cuts in payments to providers.

The nation and advocates will now be closely watching appointments to this new bipartisan "supercommittee." The recommendations that this committee makes may very well shape the future of Medicaid and Medicare for future generations, and we can expect that public health and human service advocates will be fully engaged in seeking to influence the decisions that will have to be made.

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