

REID DEBT LIMIT PROPOSAL

OVERVIEW

* Senator Reid's revised amendment provides a long-term solution to the default crisis that would avoid a downgrade of our credit rating and an economic catastrophe.

* The Reid Amendment is a compromise that addresses GOP priorities:

- 1) Its debt limit increase is matched dollar-for-dollar by spending cuts.
- 2) Its spending cuts have been approved by the Republicans.
- 3) It includes no additional revenues.
- 4) It includes the McConnell plan to allow Congress to reject debt increases.

* The Reid Amendment does not harm Social Security, Medicare, or Medicaid.

* By contrast, the extreme House plan is a short-term fix that threatens our credit rating and our economy, and guarantees a default crisis.

REID AMENDMENT

Summary

- * Statutory caps on security and non-security discretionary spending.
- * Savings from winding down the wars
- * Other spending savings from the Biden Group
- * Joint committee on deficit reduction with fast track vote on recommendations
- * McConnell scheme to tie debt increases to fast tracked resolutions of disapproval.
- * \$2.4 trillion in deficit reduction matches \$2.4 trillion increase in debt limit

Discretionary Spending

The Reid Amendment establishes statutory caps on discretionary spending that would apply for ten years. These caps would operate similarly to caps established with bipartisan support in the 1990s, and that proved effective in controlling spending. If Congress exceeds the caps, across-the-board cuts would enforce the limits.

Over the ten-year period covering Fiscal Years 2012 through 2021, total discretionary budget authority would be \$11.3 trillion, representing savings of \$1.2 trillion. The corresponding outlay savings are \$1 trillion.

Total discretionary spending in Fiscal Year 2012 would be \$1.045 trillion, or \$5 billion less than this year's Continuing Resolution. For Fiscal Years 2012 and 2013, the amendment

would establish separate caps (“firewalls”) for security (defense and veterans) and non-security spending. In FY 2012, security spending would be capped at \$606 billion, or \$3 billion below this year’s level. A \$1 billion increase in security spending would be allowed in FY 2013. Spending after 2014 would increase by about 2 percent per year, significantly less than projected by CBO.

The cap on non-security spending in FY 2012 is \$439 billion, a \$2 billion reduction.

War Savings

The Reid Amendment limits funding for ongoing wars (so-called “Overseas Contingent Operations”) that could be provided outside the discretionary spending caps. The proposed limits would produce budget authority savings of \$1.2 trillion and outlay savings of \$1 trillion.

Some Republicans have been critical of the Reid Amendment’s proposed savings on war funding. However, winding down the wars, which this year will cost about \$160 billion, will produce very real savings, as both the Office of Management and Budget and the Congressional Budget Office acknowledge. In fact, the overwhelming majority of Republicans in the House and Senate endorsed this approach when they voted for their budget earlier this year.

Other Savings

Farm Payment Reforms

The Reid Amendment reduces direct payments by lowering the level of base acres on which payments can be made from 85 percent to 59 percent.

Pell Grants and Higher Education Reforms

The Reid Amendment safeguards the Pell Grant and maintains the current maximum grant at \$5,550. The amendment would end graduate and professional students’ eligibility for subsidized Stafford loans, as proposed in the President’s Fiscal Year 2012 budget request. Graduate and professional students still would be able to receive unsubsidized federal student loans, and would continue to be eligible to apply for deferment, forbearance, or other loan repayment assistance.

Reducing Waste, Fraud and Abuse

The Reid Amendment would reduce waste, fraud and abuse by promoting efforts to improve enforcement in several areas. Specified levels of funding for such efforts would not be limited by the discretionary spending caps, in recognition of the savings that such funding can be expected to produce for the taxpayers.

The anti-fraud efforts promoted by the amendment include:

- 1) Continuing Disability Reviews and SSI redeterminations
- 2) Internal Revenue Service tax enforcement,
- 3) Health care fraud and abuse control, and
- 4) Unemployment Insurance improper payment reviews.

The government made an estimated \$125 billion in improper payments last year over all its programs. This is unacceptable and unaffordable. The Reid Amendment would be a significant step toward addressing this problem.

Joint Select Committee on Deficit Reduction

The Reid Amendment would establish a joint select committee to develop legislation to reduce the deficit. The committee's recommendations would be considered under fast track procedures that preclude any amendments and guarantee votes in the House and Senate.

The joint committee would include 12 Members appointed by the leaders of both parties in each house of Congress. Its goal would be to reduce the deficit to 3 percent or less of GDP. The committee would be directed to consider other bipartisan plans, such as those proposed by the so-called "Gang of Six." 7 votes would be required to approve recommendations.

McConnell Debt Limit Disapproval Process

The Reid Amendment includes a process developed by Senate Republican Leader Mitch McConnell that allows Congress to cast votes to reject debt limit increases.

Under the McConnell scheme, the President would be given the authority to increase the debt limit by a total of \$2.4 trillion, in steps. First, he would be authorized to increase the limit by \$1.2 trillion upon a certification that the debt subject to limit is within \$100 billion of the debt limit. \$416 billion of this initial increase (the amount Treasury believes would be sufficient to meet commitments through September) would not be subject to disapproval via an expedited joint resolution process. The remaining \$784 billion of the first \$1.2 trillion would be subject to disapproval if, within 55 days, the Congress has used the expedited procedures established in the amendment to enact a joint resolution of disapproval. To enact such a joint resolution, Congress presumably would be forced to override a presidential veto.

A second \$1.2 trillion increase in the debt limit could be authorized if the President certifies that the debt subject to limit is within \$150 billion of the debt limit. This additional \$1.2 trillion would be subject to disapproval if, within 15 days, Congress enacts a joint resolution of disapproval.

The fast track process established in the amendment would preclude a joint resolution from containing any language other than the actual disapproval of the debt increase. No amendments to that language would be in order. In the Senate, consideration of the joint resolution would be limited to not more than 10 hours.