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Newsletter
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# The Debt Ceiling and the Road Ahead

The Budget Control Act of 2011 left all sides with plenty to argue about for the rest of the year. In addition to gradually increasing the debt ceiling, it's intended to bring down the federal budget deficit by an estimated $2.1 trillion over the next 10 years, focusing on spending cuts rather than increased revenues. The Act also sets the stage for more debate over how to achieve that $2.1 trillion reduction. Here are some of the key provisions of the debt ceiling legislation.

### The debt ceiling will rise in stages

The legislation increased the $14.3 trillion debt ceiling by $400 billion immediately, and by another $500 billion after September. The increases enable the Treasury to pay bills without interruption while additional discussion of deficit reduction measures takes place.

An additional $1.2 trillion to $1.5 trillion in borrowing authority, which is believed will take care of the Treasury's needs until 2013, will be available in 2012; the amount will depend on whether certain requirements are met. Though Congress could vote to disapprove the additional borrowing authority, that action could be vetoed by President Obama, which would prevent a rerun of last July's uncertainty.

### Discretionary spending will be cut

Caps on domestic and defense spending will cut an estimated $917 billion—roughly the same amount as the initial increase in the debt ceiling—from federal budgets over the next decade.

### "Supercommittee" will seek additional $1.5 trillion deficit reduction

A special 12-member joint select committee of Democrats and Republicans from both the House and Senate is charged with finding ways to reduce the deficit by an additional $1.5 trillion. The committee is directed to report its proposals by November 23, 2011; by December 2, it must submit legislation to implement those proposals. Both houses of Congress must vote on that legislation, which cannot be amended on the floor, by December 23.

### More spending cuts, 2012 debt ceiling tied to deficit reduction

The joint committee's deficit reduction proposals will determine the amount of an additional increase in the debt ceiling. If the committee's proposals are approved by Congress, the debt ceiling will be increased in 2012 by the amount saved by the deficit reduction measures (up to $1.5 trillion). If the committee cannot agree on how to cut the deficit by at least $1.2 trillion, or if Congress doesn't approve the committee's proposals, the new debt ceiling increase would be limited to $1.2 trillion.

To try to prevent gridlock on the committee, failure to agree on at least $1.2 trillion in deficit reduction would automatically trigger an additional $1.2 trillion in spending cuts beginning in January 2013. The cuts would apply to both defense spending, such as the Departments of Defense and Homeland Security, and to nondefense spending, such as payments to Medicare providers. However, Medicare cuts would be limited to 2% of the program's cost, and Social Security, veterans benefits, food stamps, and Supplemental Security Income (SSI) would be exempt.

### Balanced budget amendment would give authority to increase debt ceiling

President Obama also would be granted immediate authority to increase the debt ceiling by $1.5 trillion if Congress were to pass by year's end a constitutional amendment requiring a balanced budget. Such an amendment would not become effective unless ratified by three-quarters of the states.

### Grad student subsidized loans eliminated

Subsidized-interest Stafford Loans for graduate and professional students (other than those in state-required teaching or certification programs) will end after July 1, 2012, though unsubsidized loans will still be available. To compensate for the cuts, the Act also adds $17 billion in mandatory funds over two years for Pell Grants.

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