

# Fact Sheet: Bipartisan Debt Deal: A Win for the Economy and Budget Discipline

## Bipartisan Debt Deal: A Win for the Economy and Budget Discipline

- Removes the cloud of uncertainty over our economy at this critical time, by ensuring that no one will be able to use the threat of the nation's first default now, or in only a few months, for political gain;
- Locks in a down payment on significant deficit reduction, with savings from both domestic and Pentagon spending, and is designed to protect crucial investments like aid for college students;
- Establishes a bipartisan process to seek a balanced approach to larger deficit reduction through entitlement and tax reform;
- Deploys an enforcement mechanism that gives all sides an incentive to reach bipartisan compromise on historic deficit reduction, while protecting Social Security, Medicare beneficiaries and low-income programs;
- Stays true to the President's commitment to shared sacrifice by preventing the middle class, seniors and those who are most vulnerable from shouldering the burden of deficit reduction. The President did not agree to any entitlement reforms outside of the context of a bipartisan committee process where tax reform will be on the table and the President will insist on shared sacrifice from the most well-off and those with the most indefensible tax breaks.

## Mechanics of the Debt Deal

- Immediately enacted 10-year discretionary spending caps generating nearly \$1 trillion in deficit reduction; balanced between defense and non-defense spending.
- President authorized to increase the debt limit by at least \$2.1 trillion, eliminating the need for further increases until 2013.
- Bipartisan committee process tasked with identifying an additional \$1.5 trillion in deficit reduction, including from entitlement and tax reform. Committee is required to report legislation by November 23, 2011, which receives fast-track protections. Congress is required to vote on Committee recommendations by December 23, 2011.
- Enforcement mechanism established to force all parties – Republican and Democrat – to agree to balanced deficit reduction. If Committee fails, enforcement mechanism will trigger spending reductions beginning in 2013 – split 50/50 between domestic and defense spending. Enforcement protects Social Security, Medicare beneficiaries, and low-income programs from any cuts.

## 1. REMOVING UNCERTAINTY TO SUPPORT THE AMERICAN ECONOMY

- Deal Removes Cloud of Uncertainty Until 2013, Eliminating Key Headwind on the Economy: Independent analysts, economists, and ratings agencies have all

made clear that a short-term debt limit increase would create unacceptable economic uncertainty by risking default again within only a matter of months and as S&P stated, increase the chance of a downgrade. By ensuring a debt limit increase of at least \$2.1 trillion, this deal removes the specter of default, providing important certainty to our economy at a fragile moment.

- Mechanism to Ensure Further Deficit Reduction is Designed to Phase-In Beginning in 2013 to Avoid Harming the Recovery: The deal includes a mechanism to ensure additional deficit reduction, consistent with the economic recovery. The enforcement mechanism would not be made effective until 2013, avoiding any immediate contraction that could harm the recovery. And savings from the down payment will be enacted over 10 years, consistent with supporting the economic recovery.

## **2. A DOWNPAYMENT ON DEFICIT REDUCTION BY LOCKING IN HISTORIC SPENDING DISCIPLINE – BALANCED BETWEEN DOMESTIC AND PENTAGON SPENDING**

- More than \$900 Billion in Savings over 10 Years By Capping Discretionary Spending: The deal includes caps on discretionary spending that will produce more than \$900 billion in savings over the next 10 years compared to the CBO March baseline, even as it protects core investments from deep and economically damaging cuts.
- Includes Savings of \$350 Billion from the Base Defense Budget – the First Defense Cut Since the 1990s: The deal puts us on track to cut \$350 billion from the defense budget over 10 years. These reductions will be implemented based on the outcome of a review of our missions, roles, and capabilities that will reflect the President's commitment to protecting our national security.
- Reduces Domestic Discretionary Spending to the Lowest Level Since Eisenhower: These discretionary caps will put us on track to reduce non-defense discretionary spending to its lowest level since Dwight Eisenhower was President.
- Includes Funding to Protect the President's Historic Investment in Pell Grants: Since taking office, the President has increased the maximum Pell award by \$819 to a maximum award \$5,550, helping over 9 million students pay for college tuition bills. The deal provides specific protection in the discretionary budget to ensure that there will be sufficient funding for the President's historic investment in Pell Grants without undermining other critical investments.

## **3. ESTABLISHING A BIPARTISAN PROCESS TO ACHIEVE \$1.5 TRILLION IN ADDITIONAL BALANCED DEFICIT REDUCTION BY THE END OF 2011**

- The Deal Locks in a Process to Enact \$1.5 Trillion in Additional Deficit Reduction Through a Bipartisan, Bicameral Congressional Committee: The deal creates a bipartisan, bicameral Congressional Committee that is charged with enacting \$1.5 trillion in additional deficit reduction by the end of the year. This Committee will work without the looming specter of default, ensuring time to

carefully consider essential reforms without the disruption and brinksmanship of the past few months.

- This Committee is Empowered Beyond Previous Bipartisan Attempts at Deficit Reduction: Any recommendation of the Committee would be given fast-track privilege in the House and Senate, assuring it of an up or down vote and preventing some from using procedural gimmicks to block action.
- To Meet This Target, the Committee Will Consider Responsible Entitlement and Tax Reform. This means putting all the priorities of both parties on the table – including both entitlement reform and revenue-raising tax reform.

#### **4. A STRONG ENFORCEMENT MECHANISM TO MAKE ALL SIDES COME TOGETHER**

- The Deal Includes An Automatic Sequester to Ensure That At Least \$1.2 Trillion in Deficit Reduction Is Achieved By 2013 Beyond the Discretionary Caps: The deal includes an automatic sequester on certain spending programs to ensure that—between the Committee and the trigger—we at least put in place an additional \$1.2 trillion in deficit reduction by 2013.
- Consistent With Past Practice, Sequester Would Be Divided Equally Between Defense and Non-Defense Programs and Exempt Social Security, Medicaid, and Low-Income Programs: Consistent with the bipartisan precedents established in the 1980s and 1990s, the sequester would be divided equally between defense and non-defense program, and it would exempt Social Security, Medicaid, unemployment insurance, programs for low-income families, and civilian and military retirement. Likewise, any cuts to Medicare would be capped and limited to the provider side.
- Sequester Would Provide a Strong Incentive for Both Sides to Come to the Table: If the fiscal committee took no action, the deal would automatically add nearly \$500 billion in defense cuts on top of cuts already made, and, at the same time, it would cut critical programs like infrastructure or education. That outcome would be unacceptable to many Republicans and Democrats alike – creating pressure for a bipartisan agreement without requiring the threat of a default with unthinkable consequences for our economy.

#### **5. A BALANCED DEAL CONSISTENT WITH THE PRESIDENT'S COMMITMENT TO SHARED SACRIFICE**

- The Deal Sets the Stage for Balanced Deficit Reduction, Consistent with the President's Values: The deal is designed to achieve balanced deficit reduction, consistent with the values the President articulated in his April Fiscal Framework. The discretionary savings are spread between both domestic and defense spending. And the President will demand that the Committee pursue a balanced deficit reduction package, where any entitlement reforms are coupled with revenue-raising tax reform that asks for the most fortunate Americans to sacrifice.

- The Enforcement Mechanism Complements the Forcing Event Already In Law – the Expiration of the Bush Tax Cuts – To Create Pressure for a Balanced Deal: The Bush tax cuts expire as of 1/1/2013, the same date that the spending sequester would go into effect. These two events together will force balanced deficit reduction. Absent a balanced deal, it would enable the President to use his veto pen to ensure nearly \$1 trillion in additional deficit reduction by not extending the high-income tax cuts.
- In Securing this Bipartisan Deal, the President Rejected Proposals that Would Have Placed the Sole Burden of Deficit Reduction on Low-Income or Middle-Class Families: The President stood firmly against proposals that would have placed the sole burden of deficit reduction on lower-income and middle-class families. This includes not only proposals in the House Republican Budget that would have undermined the core commitments of Medicare to our seniors and forced tens of millions of low-income Americans to go without health insurance, but also enforcement mechanisms that would have forced automatic cuts to low-income programs. The enforcement mechanism in the deal exempts Social Security, Medicaid, Medicare benefits, unemployment insurance, programs for low-income families, and civilian and military retirement.