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The Budget Control Act of 2011



After a last-minute agreement finally brought the stalemate over the nation's debt ceiling to a close, President Obama signed the Budget Control Act of 2011 into law on August 2, 2011, enabling the U.S. Treasury to avoid defaulting on existing obligations.

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

Debt ceiling will be increased in stages

The \$14.3 trillion debt ceiling will be increased immediately by \$400 billion, and by another \$500 billion after September. The increases will allow the Treasury to pay bills without interruption after August 2.

Assuming deficit reduction measures are adopted by the end of the year, an additional \$1.2 trillion to \$1.5 trillion in borrowing authority will be available in 2012, which is believed to take care of the Treasury's needs until 2013. Though Congress could vote to disapprove the additional borrowing authority, that action could be vetoed, which would prevent a rerun of the recent uncertainty.

Immediate limits are imposed on discretionary spending

Caps on domestic and defense spending will cut an estimated \$900 billion to \$1 trillion--roughly the same amount as the initial increase in the debt ceiling--from federal budgets over the next decade.

Joint congressional committee will seek \$1.5 trillion in additional deficit reduction

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

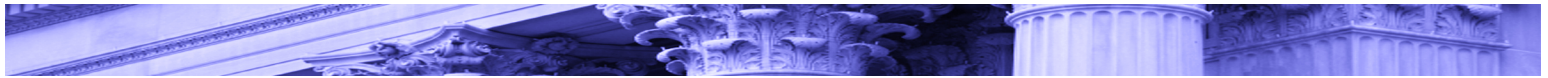
Additional spending cuts, 2012 debt ceiling increase tied to deficit reduction agreement

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. 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 broad-based 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 programs such as 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 also would need to be ratified by



three-quarters of the states.

Subsidized loans for graduate students 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. The Act also adds \$17 billion in mandatory funds over two years for Pell Grants to compensate for the funding gap.

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