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The Super Committee and the States...

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The Process...

- The Budget Control Act of 2011 raised the debt ceiling by \$2.1-2.4 trillion through a multi-step process.
- It cut \$917 billion over ten years by setting hard budget caps on discretionary spending (drawn from Gramm-Rudman). Cuts are shared equally between security and non security accounts for the first two years, but can be shifted after.
- Created the Joint Select Committee on Deficit Reduction (the "Super Committee") to recommend at least \$1.2 trillion of additional cuts and/or revenue measures including changes to mandatory spending (Medicare, Medicaid, & Social Security). The committee's recommendations will receive a fast track vote and can be approved by a simple majority in each chamber.
- If the committee fails, \$1.2 trillion in cuts will be made through automatic "sequestration", shared equally between security and non-security spending, beginning in 2013.



The Personalities...



Sen. Max Baucus (D-MT)



Rep. Jeb Hensarling (R-TX), Co-Chair



Sen. Rob Portman (R-OH)



Rep. Xavier Becerra (D-CA)



Sen. John Kerry (D-MA)



Sen. Pat Toomey (R-PA)



Rep. Dave Camp (R-MI)



Sen. Jon Kyl (R-AZ)



Rep. Fred Upton (R-MI)



Rep. James Clyburn (D-SC)



Sen. Patty Murray (D-WA), Co-Chair



Rep. Chris Van Hollen (D-MD)



The Plans...

- Baucus released a **\$3 trillion** plan in October relying on \$1.3 trillion in revenue increases , \$1 trillion in “war savings”, and \$400 billion and \$50 billion cuts to Medicare and Medicaid.
- Boehner responded with a **\$2.2 trillion** plan which cut Medicare by \$500 billion, Medicaid by \$185 billion, reduced inflation adjustments for Social Security, made additional discretionary cuts, and assumed that \$600 billion in new revenue from economic growth prompted by tax reform.
- Democrats countered with a **\$2.3 trillion** plan with \$1 trillion in each in cuts and revenue and \$300 billion in interest savings.
- GOP countered with a **\$1.5 trillion** plan with roughly \$800 billion in cuts and \$600 billion in revenue, including \$300 billion in new revenue by reducing deductions and another \$300 billion from selling public lands and raising fees, but requiring the Bush tax cuts to be extended and a top rate reduction to 28%.



The Politics...

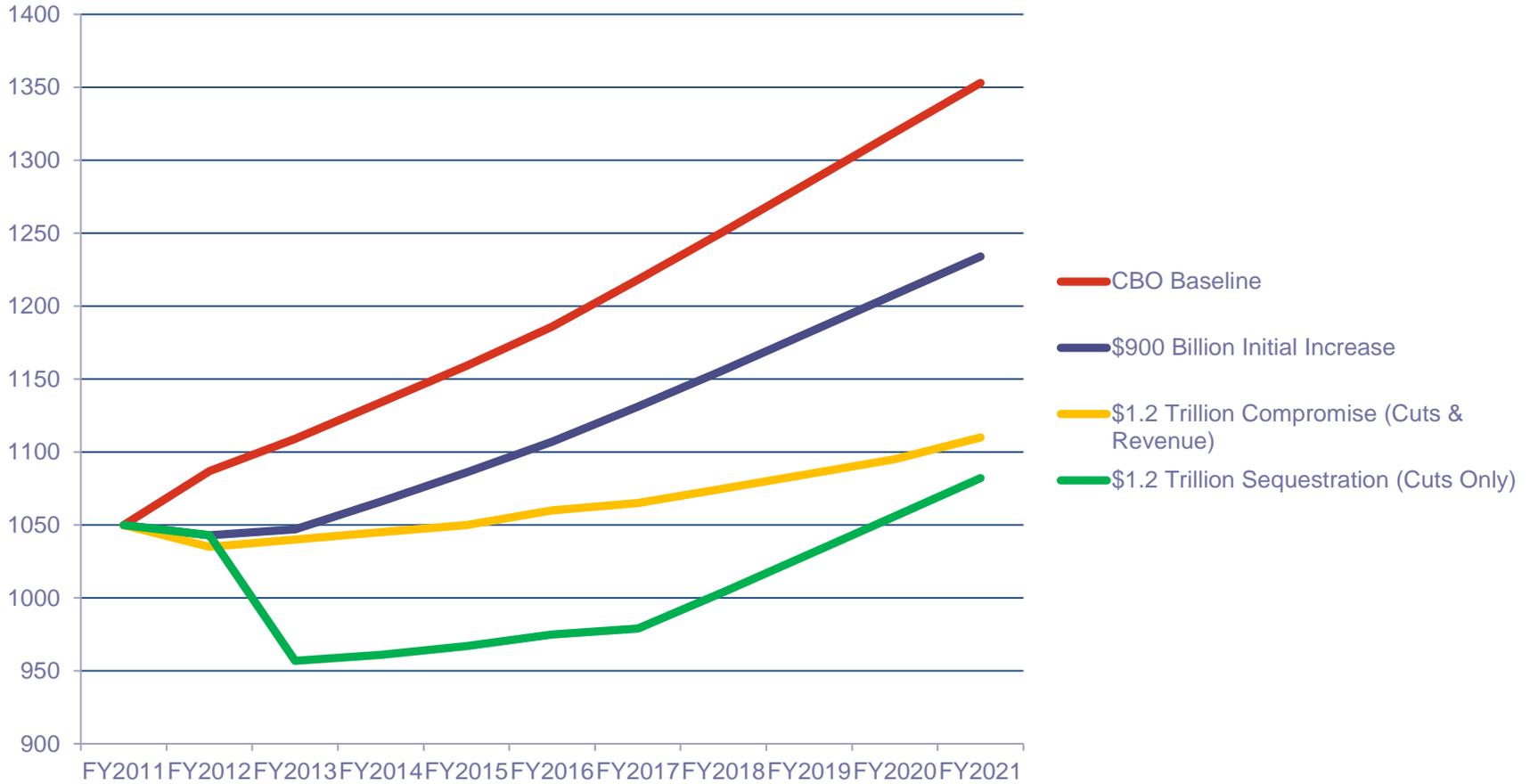
- The debate has pitched deficit hawks against national security hawks.
- The alternatives both sides have offered so far are as much about the 2012 election cycle as deficit reduction.
- Many pundits are betting on the process to fail, but sequestration provides a powerful incentive for action.
- Congress has the power to nullify the sequestration trigger, but it is politically unlikely and it would propel the nation into another debt ceiling showdown by February.
- 100 House members, including 40 Republicans (and 36 “Grover” pledge signers), sent a letter to the committee on November 2 asking for all options to be on the table.
- The odds of reaching a politically palatable \$1.2 trillion compromise have begun to increase.



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Impact on Discretionary Spending (Roughly \$1 trillion of the \$3.5+ Trillion Spent Each Year)





State Budget Impact...

- States will be severely squeezed whether the impasse is resolved through a Super Committee compromise or sequestration.
- State and local governments receive roughly 40% of all annual non-defense discretionary dollars (\$188 billion of \$500+ billion), covering dozens of program accounts from education to transportation. Discretionary spending is already set to drop by 10% over the next ten years and will plunge by 20% or more under sequestration should the Super Committee fail. However, Medicaid, TANF, and Highway Funds would be spared.
- A Super Committee compromise would lesson the burden on discretionary spending, to the benefit of school districts, first responders, and many other program accounts, but would inevitable include at least \$100 billion in Medicaid cuts over the next ten years, severely straining state general funds.



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