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## Uneasy Next Steps on Deficit

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The inability of the deficit "supercommittee" to strike a deal by its Nov. 23 deadline ensures continued friction for the next year about how to balance the government's books.

The Joint Select Committee on Deficit Reduction announced its impasse late on Nov. 21, just hours before it would have needed to submit a plan to give the Congressional Budget Office enough time to calculate the effects.

The collapse of the panel's nearly three-month effort to find a compromise on taxes and entitlement programs to cut \$1.2 trillion in projected deficits over the next 10 years leaves a range of federal programs, including defense, facing automatic spending cuts.

But the automatic cuts, known as a sequester, are not scheduled to go into effect until January 2013, giving Congress some time to find a solution.

In a Nov. 21 joint written statement, Sen. Patty Murray, D-Wash., and Rep. Jeb Hensarling, R-Texas, the committee's co-chairmen, agreed that the deficit is a serious problem but acknowledged failure to complete their mission of finding a bipartisan solution within the bipartisan, bicameral 12-member panel.

"Despite our inability to bridge the committee's significant differences, we end this process united in our belief that the nation's fiscal crisis must be addressed and that we cannot leave it for the next generation to solve," the statement read.

Hensarling and Murray said they "remain hopeful that Congress can build on this committee's work and can find a way to tackle this issue in a way that works for the American people and our economy."

### Blame Game

President Obama reacted with a jab at Republicans.

Despite "broad agreement" among Americans for a "balanced approach" that would encompass both additional revenue and entitlement cuts, "there's still too many Republicans in Congress who have refused to listen to the voices of reason," he said. "They continue to insist on protecting \$100 billion worth of tax cuts for the wealthiest 2 percent of Americans at any cost, even if it means reducing the deficit with deep cuts to things like education and medical research. Even if it means deep cuts in Medicare." He

also promised to veto any attempt to "get rid of" the automatic cuts without comparable savings in return.

"The only way these spending cuts will not take place is if Congress gets back to work and agrees on a balanced plan to reduce the deficit by at least \$1.2 trillion," Obama said. "That's exactly what they need to do. That's the job they promised to do. And they've still got a year to figure it out."

House Speaker John A. Boehner, R-Ohio, was less partisan in his initial statements after the committee made its impasse official, saying he was "confident the work done by this committee will play a role in the solution we must eventually find as a nation."

But Senate leaders were not reluctant to cast blame. Senate Majority Leader Harry Reid, D-Nev., criticized Republicans for seeking to privatize Medicare and for paying heed to "tea party extremists" and anti-tax activist Grover Norquist. Senate Minority Leader Mitch McConnell, R-Ky., faulted Democrats for refusing to accept any plan "that did not expand the size and scope of government or punish job creators."

Ultimately, the panel members, selected by congressional leaders of both parties, could not agree on how large a role increased revenue should play in deficit reduction. Republicans were willing to go only so far in putting tax increases on the table. Democrats demanded more if they were to agree to spending cuts, saying affluent Americans could and should pay a "fair share."

Sen. John Kerry, D-Mass., a member of the committee, said Republicans had rejected every revenue offer Democrats made. "They kept saying we can't do that amount of revenue. We can't do a trillion, we can't do 950 [billion], we can't do 650, we can't do 400. We can't do 250. That's where we're stuck, my friends," he said.

Republicans disputed that analysis.

"Like the proposals offered by other bipartisan commissions, our proposal offered a mix of spending cuts, revenue, and job-creating tax reform that would have lowered tax rates for all Americans and reduced our deficit by \$1.2 trillion," said Sen. Patrick J. Toomey, R-Pa., who earlier this month offered a plan that included \$250 billion in new revenue. "Unfortunately, our Democratic colleagues refused to agree to any meaningful deficit reduction without \$1 trillion in job-crushing tax increases." (Toomey plan, CQ Weekly, p. 2392)

The admission of failure was greeted with widespread disappointment among groups from the left, right and the middle.

Yet some others had been hoping the panel would fail, either because of their opposition to spending cuts or to tax increases.

Daniel J. Mitchell of the libertarian Cato Institute urged Republicans in a blog post last month to "take the sequester and declare victory." Robert Borosage, co-director of the liberal Campaign for America's Future, appeared before the Congressional Progressive Caucus with the message: "The supercommittee must fail."

### Automatic Cuts

Even before the joint committee's stalemate was officially declared, a battle was under way over the \$1.2 trillion in automatic spending cuts scheduled to be imposed as a result of the panel's inability to send deficit reduction legislation to the House and Senate.

Although most expressions of concern have focused on the \$492 billion in defense cuts that will be triggered in a sequester, some lawmakers also suggested that the corresponding \$492 billion in cuts to domestic programs and some mandatory spending will also be contested before the automatic reductions begin in January 2013. There would also be \$216 billion in interest savings.

"If sequestration goes into effect, as it will now, we have to ask ourselves, are we willing to live with that?" Murray told reporters. "And if we're not, is there a way to have a shared sacrifice moving forward?"

In a warning that it will be difficult to modify the automatic cuts, Reid said that in the absence of a "balanced plan" to reduce the deficit, "I will oppose any efforts to change or roll back the sequester."

Although supportive of the sequester, McConnell challenged Obama to "ensure that the defense cuts he insisted upon do not undermine national security, as Defense Secretary Leon E. Panetta has warned."

The sequester, which was meant as a threat to press the committee to reach a bipartisan compromise, actually made the panel's job more difficult, said Sen. Rob Portman, R-Ohio, also a member of the committee.

While the automatic cuts were important to show the markets that deficit reduction would take place, "I do think it made . . . it easier to avoid making some of the tougher decisions on the mandatory side and on the revenue side," Portman said.

There was no major reaction in the bond markets, although lawmakers may be nervous about a stock market slump. Standard & Poor's, the rating company that downgraded U.S. Treasury bonds following the debt ceiling debate last summer, announced Nov. 21 that its ratings and outlook were unaffected. The company said, however, that it expects the "caps on discretionary spending as laid out in the Budget Control Act of 2011 to remain in force. If these limits are eased, downward pressure on the ratings could build."

But while the market may have been satisfied with no deal, affected constituencies expressed concern. Defense hawks in particular are unhappy with the scheduled Pentagon cuts.

House Armed Services Chairman Howard P. "Buck" McKeon, R-Calif., said Nov. 21 that he will introduce legislation to prevent cuts that "will do catastrophic damage" to national security. The military, which already plans to trim its accounts by \$450 billion over the next decade, cannot bear further cuts, he said. (Pentagon cuts, p. 2498)

McKeon's comments echoed similar statements in recent weeks by Senate Republicans. In a joint statement, John McCain of Arizona and Lindsey Graham of South Carolina said they are "working on a plan to minimize the impact of the sequester" on the Pentagon.

#### Last-Ditch Efforts

Members of the panel engaged in several hours of last-ditch negotiations over the weekend of Nov. 19-20 as well as during the day on Nov. 21. A meeting that began with Kerry, Portman, and Sen. Jon Kyl, R-Ariz., grew to include other panel members including Murray; Rep. Fred Upton, R-Mich.; Rep. Chris Van Hollen, D-Md.; and Sen. Max Baucus, D-Mont.

GOP aides said some of the deficit reduction proposals that were discussed by the committee might have a future life as Congress makes fresh attempts to brake the growth of a \$15 trillion federal debt.

With the books closed on the joint committee, Congress now must turn to several pressing issues that could have been resolved as part of a deficit reduction package, including the upcoming expiration of a legislative fix that has prevented scheduled cuts in Medicare payments to doctors.

"This in no way absolves Congress of our responsibility to address the imminent crisis in Medicare financing," said Rep. Allyson Y. Schwartz, D-Pa., who had urged the joint committee to adopt a permanent solution to a 27 percent cut in Medicare payments set to occur at the end of the year. "In fact, we must act quickly on a long-term proposal rather than simply postpone these cuts as Congress has done for far too long."

The current Social Security payroll tax reduction is also expiring at year's end, as are a provision that limits the reach of the alternative minimum tax and an extension of federal unemployment benefits. (Expiring tax provisions and programs, pp. 2496-2501)

At a speech in New Hampshire the day after the joint committee announced its failure to reach agreement, Obama pushed forward with his agenda, announcing that the Senate would vote the week of Nov. 28 on whether to extend the payroll tax cut. But for now, GOP opposition seems likely to doom it, as it would be offset by a surtax on millionaires, which Republicans have vigorously opposed as a means to pay for other Democratic-sponsored programs.

"Congress has a very simple choice next week: Do you want to cut taxes for the middle class and those who are trying to get into the middle class? Or do you want to protect massive tax breaks for millionaires and billionaires?" Obama asked.

The Senate vote would be the latest effort to consider one part of a broad jobs package proposed by Obama and largely rejected by Republicans. A vote to take up the extension is likely to fall short of the 60 votes needed to break a GOP filibuster.

Sam Goldfarb, Alan K. Ota, Joseph J. Schatz, Ben Weyl and Frances Symes contributed to this story.