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Debt Limit Deal May Save a Lot Less Money Than McCarthy Claims

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The debt limit deal cut by President Joe Biden and House Speaker Kevin McCarthy would reduce the federal budget deficit by about $70 billion in fiscal year 2024 and by some $1.5 trillion from 2023 through 2023, according to estimates released by the Congressional Budget Office Tuesday evening.

Cuts to discretionary spending would amount to $1.3 trillion over the next 10 years, while mandatory spending would dip by $10 billion and revenues would decrease by $2 billion. Interest costs would fall by $188 billion, the nonpartisan budget scorekeeper said.

Why conservatives are furious: The CBO analysis helps explain why so many conservatives are irate over the bipartisan deal, suggesting that the balance between additional borrowing and deficit reduction has been flipped from the Limit, Save, Grow Act passed by House Republicans last month. That bill would have raised the debt limit by $1.5 trillion and would have reduced deficits by $4.8 trillion over 10 years, according to the CBO. The compromise bill would raise the debt limit by some $4 trillion while cutting deficits by $1.5 trillion.

Some deficit-raising provisions: Some parts of the deal would add to the deficit, CBO says. A $1.4 billion cut in funding for the Internal Revenue Service would wind up reducing government revenues by $2.3 billion, for a net increase of $900 billion to the deficit. “The actual loss in tax revenue could be much larger,” NPR’s Scott Horsley notes, “since the Biden administration is planning to ‘repurpose’ another $20 billion of the $80 billion that had been set aside for the IRS as part of the Inflation Reduction Act.” That shift in funds was agreed to as part of the debt limit deal.

In a surprise to Republicans, CBO also says that changes to the federal food stamps program would increase spending by $2.1 billion over 10 years rather than cut costs as GOP negotiators had intended.

The agreement phases in work requirements for beneficiaries between the ages of 49 and 54, but it also creates new exemptions from work requirements for veterans, people who are homeless and 18-to-24-year-olds who were in foster care when they turned 18.

CBO said that the new work requirements on their own would reduce spending on food stamps by $6.5 billion from 2023 through 2033. But the new exemptions would increase spending by $6.8 billion over that time. Factoring in the timing of all the changes in the deal raises the total additional spending to over $2 billion. On net, CBO projects that between 2025 and 2030, about 78,000 people would gain benefits, representing a 0.2% increase in the total number of people on food stamps. The changes to work requirements are then set to expire on October 1, 2030, with the age limit reverting from 54 to 49.

McCarthy dismissed the CBO numbers on food aid. “Come see me in a year, and I’ll show you how much we actually saved,” he told reporters. “You watch — a lot of people are going to get jobs now.”

Making sense of the numbers: Overall, the amount of deficit reduction that will result from the bill will depend on the actions of this and future Congresses. Donald Schneider, deputy head of U.S. policy at Piper Sandler and a former chief economist for House Ways and Means Committee Republicans, said the CBO projections were a bit of a “choose your own adventure” story.

The final tally will depend to a large extent on what happens after 2025. McCarthy has been touting the deal as providing $2.1 trillion in deficit reduction, calling it “transformative spending reform” in a Wall Street Journal op-ed this week. But it’s highly questionable whether lawmakers will adhere to the spending caps particularly those proposed after 2025.

The deal includes hard, enforceable spending caps for the next two years, and the savings from those caps total about $245 billion through 2023. Extrapolating out the lower spending under those caps reduces outlays over the next decade by about $1.1 trillion.

Adding in the four additional years of non-enforceable spending caps included in the deal would cut outlays by another $550 billion. Looking at budget authority rather than outlays, the total savings could come to about $1.9 trillion. And adding in the CBO’s projected savings on debt service, the total climbs to $2.1 trillion, which is where McCarthy gets the number he’s been touting.

In other words, McCarthy’s total relies on the highly questionable — let’s call it doubtful — assumption that six years of spending caps are kept in place, even though the deal does not include any enforcement mechanism beyond the first two years.

“It’s important to note that only the first two years of discretionary caps are semi-binding. The remaining four years are a gentlemen’s agreement that can be easily waived. I say semi-binding because the caps agreement leaves loopholes large enough that Congress could drive a truck through them,” Chris Edwards, a federal-budget expert at the conservative Cato Institute, told The Washington Post.

The Post’s fact checker, Glenn Kessler, concludes: “Even without firm numbers in place, we can safely say that McCarthy is blowing smoke” when he calls this “the largest cut” Congress has ever voted on.