Debt Ceiling Legislation

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Thus far this year the debt ceiling debate has been all about the drama devoid of substance. That changed on Wednesday when House Speaker McCarthy unveiled draft legislative language for a debt ceiling bill he intends to bring to a vote over the next couple of weeks. What is in it?

Cutting to the chase, the bill would raise the debt limit by $1.5 trillion or suspend it until March 31, 2024, whichever comes first. Were that all it does, it would constitute a "clean" debt limit increase as the president has repeatedly demanded. In keeping with many past debt limit bills, however, there are attached several policy riders.

From a budgetary point of view, there are five key provisions. Four are backward-looking attempts to do a course correction on disputed policies: (1) sweep unobligated balances from COVID-19 response bills so they cannot be spent, (2) rescind the dollars dedicated to hiring new Internal Revenue Service agents, (3) put a hold on both the president's student loan forgiveness and the Department of Education proposed rule for income-driven repayments, and (4) repeal the clean energy tax credits in the Inflation Reduction Act. The fact sheet puts the budget savings on these somewhere between $857 billion and $1.8 trillion over the next 10 years. The extremely broad range of estimates stems from the clean energy tax credits, which some analysts have estimated will be much more expensive than the original Congressional Budget Office estimates.

The final budgetary provision is controls on annual discretionary spending. Spending in fiscal 2024 would be cut back to fiscal 2022 levels and then permitted to grow at only 1 percent annually over the budget window. This is estimated to reduce spending by $3.6 trillion.

All told, the budget savings range from $4.5 trillion to $5.4 trillion. Observant readers will note that the deficit reduction exceeds that proposed by President Biden in his tax-and-spend budget.

There are also three additional policy riders on the legislation. The bill imports wholesale H.R. 1, the recently passed energy bill designed to "tap our abundant natural resources, cut red tape for project permitting, reduce our dependence on China and foreign adversaries, and lower the cost of gas and utilities." It also has the full text of the REINS Act, an effort to rein in excessive and expensive executive regulation. It, too, has passed the House in the past, but neither bill had a hope of passing the Senate as stand-alone legislation. (It won't pass the Senate in this bill, either, but that is getting ahead of the story!) The final policy rider is to strengthen work requirements in social safety net programs.

Objectively, the budgetary impacts of the proposed legislation are exceedingly modest compared to the scale of the federal spending problem. The federal government will spend roughly $80 trillion over the next 10 years, only $20 trillion of which is discretionary spending. $10 trillion is interest costs and, thus, untouchable. But the real money is in mandatory spending ($50 trillion) and especially Social Security ($18 trillion) and health programs ($22 trillion). The latter two items are half of the projected spending and strictly off-limits. Congress and the administration are not being serious about fixing the federal budget until that changes.

To be fair, fixing the budget is not the goal of the bill. It is intended as a step forward in the politics of getting to ‘yes’ on the essential task of raising the debt limit. All indications are that it is exactly that: progress. It will be big progress if it garners 218 votes on the House floor in the near future.