MANUFACTURED CRISIS: AVOIDING DEFAULT

EXPLAINER

CONGRESSIONAL PROGRESSIVE CAUCUS CENTER

Breaking Down the Debt Ceiling Deal

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Introduction

On May 28, 2023, the White House and House Republican Leadership released the Fiscal Responsibility Act of 2023, legislation to suspend the debt limit until January 1, 2025. While the bill prevents a default on the U.S. debt for nearly two years, it also cuts funding for non-defense programs, doubles down on onerous and unnecessary work requirements on families under the Supplemental Nutrition Assistance Program (SNAP) and Temporary Assistance for Needy Families (TANF); claws back funds intended to catch wealthy tax evaders; and weakens environmental protections. As of the time of publication, the Congressional Budget Office (CBO) has not released formal estimates indicating how the deal would impact the public, such as how many people might lose food or cash assistance as a result of this legislation.

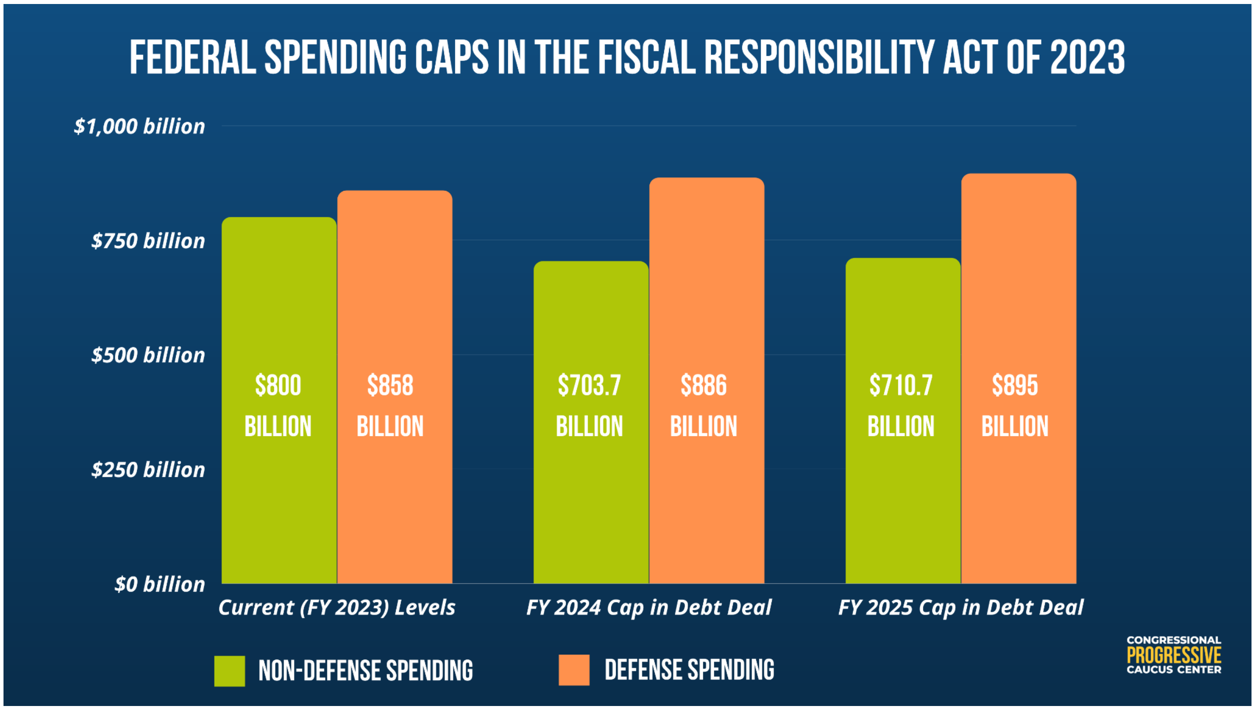
This explainer details key provisions in the bill, but is not exhaustive. For additional background regarding the debt limit, please see additional resources from the Congressional Progressive Caucus Center:

- Why the 14th Amendment Could Prevent Default — May 18, 2023
- Avoiding Default: A Timeline — May 15, 2023
- Debt Limit Crisis: A Look at the Limit, Save, Grow Act — April 27, 2023
- From Debt Ceiling Showdowns to Service Slowdowns: Understanding the Connection — April 17, 2023
- Manufactured Crisis: The Debt Limit in 2023 — April 11, 2023
- Manufactured Crisis: Understanding the Debt Limit — Nov. 29, 2022

Capping Federal Spending

The bill would cap federal defense (DOD) and non-defense (NDD) spending for Fiscal Years (FY) 2024 and 2025. The deal would reduce those caps by another one percent in the event Congress does not pass appropriations bills to fund the government by January 1, 2024 and January 1, 2025, respectively. Table 1 includes a breakdown of the NDD and DOD dollar amount by year:

Table 1



Unlike the Budget Control Act of 2011, in which both defense and non-defense spending saw equivalent cuts, and there was parity between how NDD and DOD increased yearly, non-defense spending would be more tightly constrained under this deal. The White House has suggested that an agreement with House Republicans to reallocate funding for the Internal Revenue Service (IRS) will attempt to offset the cap on non-defense spending next year and that "taking into account all agreed-upon adjustments," non-defense spending next year will be "virtually equal to 2023." This agreement to reallocate IRS funding is not enshrined in the bill text and is discussed further below.

Even flat funding for non-defense programs—which include education, public health, housing assistance, transportation, and more—will limit the government's ability to meet the public's needs. Moreover, given inflation, freezing current spending levels amounts to a de facto cut. Consequently, these programs and services' overall quality and reach could decline, potentially exacerbating poverty, inequality, and unmet needs among families. Vulnerable communities, including people experiencing poverty, people with disabilities, and older Americans, will feel these impacts disproportionately.

The deal contains additional spending limits through Fiscal Year 2029, which, in practice, the House and Senate Appropriations Committee would use to determine how to allocate federal spending throughout the government. Those limits are often referred to as 302(a) allocations. However, the White House has referred to these limits as "non-enforceable appropriations targets," suggesting that in the future the House and Senate might adopt different limits.

Taking SNAP and TANF Assistance Away from Families

The bill includes new, additional time limits—or work requirements—for individuals on SNAP and TANF. Currently, SNAP's able-bodied dependents without children (ABAWD) work requirements rule applies to 18-49-year-olds. More specifically, this rule subjects individuals to a 3-month time limit (every three years) for getting food assistance unless they can prove they are working 20 hours a week or 80 hours a month. The new changes, which expire in 2030 unless Congress acts, would expand these harsh and racist time limits from 49-year-olds to 54-year-olds. While the bill provides full work requirement exemptions for veterans, those experiencing homelessness, and those aging out of foster care immediately, it is worth noting that taking assistance away from some further exposes this policy and system failure.

Moreover, this policy change could impact hundreds of thousands of older adults, many of whom are women, non-custodial parents who support their children, are in poor health and are in low-income families, and are only receiving an $8 a day food assistance benefit by one recent estimate. Unfortunately, this ineffective and arbitrary time limit could push more families into poverty and cause more hunger. More specifically, current research shows that SNAP participation is reduced by 64 percent for 50-year-olds when work requirements are introduced. Finally, the deal makes additional changes regarding SNAP caseloads and ABAWD average monthly exemptions for states. Unfortunately, the effects of this change are not evident at the time of publication.

TANF's policy changes double down on the failed, existing work requirements structure. First, the legislation creates a new pilot program in up to five states for six years to measure "work outcomes" (as opposed to existing work participation rates) and requires the states and the Department of Health and Human Services (HHS) to negotiate metrics and targets. At the time of this publication, it is unclear which states would take up this pilot program. Moreover, the legislation further requires that all states measure "work outcomes," including employment and earnings. It is unclear how the states would administer this change and how it could further put administrative burdens on families and children.

Furthermore, the changes in the Caseload Reduction Credit (CRC) and requiring very low-income families to prove that they are working could make it harder for states to meet these requirements. As a result, some states could respond to the changes by cutting families off of needed cash assistance. Significant research shows that cash assistance improves child well-being, reduces child poverty, and improves child outcomes through adulthood. Data also shows that removing direct cash assistance under TANF would increase poverty among vulnerable individuals and result in long-term economic and societal costs. In fact, if even 25 percent of families affected by work requirements lost access to TANF, the economic and societal costs could total $7.4 billion per year.

Taking Back COVID-19 Aid

The bill would take back approximately $30 billion of unspent COVID-19 aid that would otherwise be used for rental assistance, broadband, small business assistance, and more. As of April, $56 billion in COVID relief funding remained unspent. Funding for COVID vaccine development and vaccinations for the uninsured remains in place.

Repurposing Funding for Enforcing Tax Laws

While not delineated explicitly in the bill text, the deal would rescind $20 billion of the $80 billion that the Inflation Reduction Act allocated to the IRS to pursue rich tax evaders and provide improved customer service. The text itself only repeals about $1.4 billion. According to the White House, this $20 billion will supplement non-defense spending in FY 2024 and 2025 through the routine appropriations process. However, this assumes Congress will pass regular appropriations bills during those years rather than rely on continuing resolutions to fund the government. Analyses show that repealing IRS funding will cost the government money, making it harder for the IRS to enforce current laws and collect tax revenue. According to the Congressional Budget Office, every $1 investment in IRS enforcement earns the government between $5-$9 in return.

Greenlighting the So-Called Dirty Deal

The bill includes provisions that roll back bedrock environmental and public health laws, namely the National Environmental Policy Act (NEPA). Normally, under NEPA, proposed major projects must undergo a detailed environmental review, including a public comment period, an exploration of alternatives, and the option for judicial review to ensure compliance and address concerns, a comprehensive process aimed at preventing or mitigating harmful environmental impacts. The bill would limit NEPA review by allowing polluters to conduct their own environmental review, codifying various provisions of the Trump administration's 2020 NEPA regulations, and charging a single lead agency with developing an environmental review document—with deadlines of one year for producing environmental impact assessments and a two-year maximum for environmental impact statements. These changes will cut out community input and cause projects to be approved without fully accounting for the environmental impacts. The bill also includes provisions undermining the Endangered Species Act (ESA) and other essential environmental laws.

The bill would also fast-track the review process for specific energy and infrastructure projects. For example, it approves all permits for the Mountain Valley Pipeline. This proposed natural gas pipeline would span hundreds of miles across West Virginia and Virginia while blocking judicial review of those permits. The Mountain Valley Pipeline is expected to lead to "annual emissions of over 89 million metric tons of carbon dioxide equivalent." Fast-tracking projects and undermining NEPA review could lead to inadequate scrutiny of projects' environmental impacts, ultimately threatening the environment and public health.

Miscellaneous Provisions

Student Loan Repayment. The bill would end the student loan payment pause, requiring borrowers to begin repayment 60 days after June 30. The Biden Administration had planned to end the pause on September 1.

Administrative PAYGO. The bill applies Pay-As-You-Go (PAYGO)—which requires new spending to be offset by spending *cuts*—to certain administrative actions, including executive actions. However, the bill allows the Office of Management and Budget (OMB) to waive PAYGO and protects OMB's action from legal challenges. These PAYGO provisions expire after 2024.

Next Steps

The House will begin considering the bill on May 30 when the House Rules Committee sets the terms for debate on the House floor. A vote in the full House is expected on May 31. The Rules Committee will decide on both timing for floor consideration and whether amendments may be offered, though negotiated agreements of this nature typically do not allow for amendments. Two hundred eighteen House members must vote yes for the bill to advance to the Senate, where 60 votes are required for passage. Once the Senate approves the measure, President Biden may sign it into law. Congress and the President have until June 5 to act on the debt limit and avoid a catastrophic debt default.