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Office of Government and Community Relations

Federal Relations Report

August 2011

"What we have done, Larry, also is set a new template. In the future, any president, this one or another one, when they request us to raise the debt ceiling, it will not be clean anymore."
Senate Minority Leader Mitch McConnell (R-KY) to CNBC's Larry Kudlow, August 1, 2011

Sen. McConnell went on to describe how he and his allies would use the next debt-ceiling request, from whoever occupies the White House in 2013, to extract further spending concessions.

If Congress were a reality TV show, another predictable dramatic interlude would be cheered by its producers. With public approval of Congress reaching an all-time low during the debt-ceiling "crisis," however, the show would likely be cancelled long before the next debt ceiling fight.

The debt ceiling deal President Obama reached with Congressional leaders involves a two-stage process, with triggers and automatic cuts should further agreements on deficit spending not be reached. The bill came to the president's desk on August 2, in time to ensure that the Treasury was able to pay the nation's creditors and make other required payments.

From the beginning it appeared that the only two likely outcomes of this impasse were going to be a government default or a deal that cut spending dramatically, because enough GOP lawmakers in both houses appeared to prefer default over the president's insistence on tax increases. In the end, to avoid the many cascading consequences of default, President Obama gave in on his demand for new revenues in the deal, although new revenues (including tax increases) are not entirely ruled out in the process that emerged.

The two stages of the agreement include a threat of sequestration—across-the-board spending cuts—to provide an incentive for Congress to make more strategic decisions instead.

For higher education, the agreement ends in-school subsidies for loans to graduate and professional students but does largely protect the Pell grant at its current maximum grant levels and its current levels of eligibility. For institutions like the University of Minnesota, most other priorities, such as research funding and other financial aid and education programs, are vulnerable to cuts the agreement forces Congress to make.

A two-stage process that only Congress could love

Stage one, debt ceiling increase: Under the agreement, the president may raise the debt ceiling by $900 billion immediately. Of that amount, $400 billion goes into effect now. The remaining $500 billion increase is effective at the end of 2011. Congress may pass a resolution disapproving it any time between now and then, but such a resolution is subject to a presidential veto. That will allow a large chorus of people to vote "no" with no real effect.

Stage one, deficit reduction: The agreement establishes caps on discretionary spending from FY 2012 to FY 2021. There are separate caps for security and nonsecurity spending, with firewalls between the two areas, for FY 2012 and FY 2013. The agreement includes spending by the Departments of Defense, State, Veterans Affairs, and Homeland Security, as well as intelligence and foreign aid spending. From FY 2014 on, one overall cap would apply to total discretionary spending. The caps would not apply to spending for the wars in Afghanistan and Iraq. The agreement also permits adjustments to the caps each fiscal year for designated emergency requirements and disaster relief.

With the effects of inflation, the cap is estimated to cut spending by $917 billion from Congressional Budget Office (CBO) baselines over ten years. (The level of spending will increase over these years, but at a rate lower than that projected by the CBO. Thus the unhappiness of some conservatives who wished to see real reductions to the size of the budget.)

Stage two, debt ceiling increase: The president may raise the debt ceiling up to an additional $1.5 trillion at the end of 2011 if Congress approves a package of equivalent deficit reduction measures, to be developed by a special joint Congressional committee.

Even if Congress does not approve such legislation, the president may increase the debt ceiling by $1.2 trillion, but this is to be accompanied by an equivalent across-the-board cut in mandatory and discretionary spending, with certain exceptions, to take effect in FY 2013. Also, Congress must vote on a constitutional amendment to require a balanced federal budget (but need not pass the amendment).

Stage two, deficit reduction: The special joint twelve-member Congressional committee created under the agreement includes three Democrats and three Republicans from each chamber, all to be appointed by Congressional leaders. The committee is charged with developing a package of $1.5 trillion in deficit reduction measures by Thanksgiving, 2011. These could include measures to produce additional revenues, including tax increases, but there is no requirement for additional revenues. Congress is to consider the legislation on up-or-down votes under expedited procedures specified in the agreement. If the legislation is approved by December 23, 2011, the debt limit may be raised by an equivalent amount, as noted above.

If Congress does not approve the legislation, an across-the-board sequester of $1.2 trillion from FY 2013 to FY 2021 is automatically implemented. Social Security, Medicaid, veterans' compensation, and military pay are exempted. Medicare is not exempted, although any cuts are limited and apply to providers only.

Implications for research programs

Under either scenario—enforced, across-the-board sequestration or voluntary, strategic cuts—federal research agencies are vulnerable to significant reductions. One concerned advocate for health research in Washington said, "These are horrifying cuts that could set us back for decades."

One victory for President Obama was that the agreement's potential automatic cuts would be divided evenly between defense and nondefense spending, unlike the FY 2011 budget process, which largely exempted defense spending from cuts. Nondefense spending cuts would be allocated between proportionally between nonexempt mandatory spending and discretionary spending. Thus nondefense discretionary spending, where much of the University's research budget comes from, would face a modest reduction compared with defense discretionary spending.

Another bright note for those whose programs rely on nondefense discretionary spending: in FY 2012, the agreement's overall cap on discretionary spending, $1.043 trillion, is actually $24 billion higher than the amount included in the budget resolution that the House approved in April.

Pell protected for two years, but at the cost of grad student benefits

The legislation provides $17 billion in additional funds to help fill the gap in funding for Pell Grants, $10 billion in FY 2012 and $7 billion in FY 2013. This leaves appropriators $1 billion to make up this year to protect the maximum Pell grant at $5,550 at current levels of eligibility.

Unfortunately, the maintenance of Pell is paid for in part by the elimination of the in-school interest subsidy for most graduate and professional students under the federal student loan program, beginning in July 2012.

This provision will have a real effect on students at the University of Minnesota, which had 14,353 grad students and 3,981 professional students enrolled in spring 2010, for a total of 18,334 students. Of those students, approximately 8,000 had subsidized loans worth nearly $65 million. At the current interest rate of 6.8 percent, a one-year loss in the subsidy would be $4.4 million, or approximately $550 per borrowing student per year, before compounding.

Here is a more dramatic example: a student who borrows $10,000 per year for each of four years of graduate school would end up owing an additional $7,300 in interest once she began paying off the loan.

The Obama administration signaled earlier this year that it favored sacrificing graduate student benefits to help save Pell by proposing the idea in the President's Budget Request for FY 2012. That prioritization virtually assured that graduate and professional students would be "thrown under the bus" in these negotiations.

Still, the situation could have been worse; according to rumors on the hill, one offer in the final days of negotiations would have eliminated the graduate loan subsidy and made major cuts to Pell in order to fund deficit reduction. A previous House offer would have eliminated subsidies for nearly all student loans. In today's Washington, higher ed advocates would do well to remember, nothing is truly ever "off the table."

On Campus and on the Hill

Prof. Marvin Marshak met with members of the Minnesota delegation and their staff in July to discuss the NoVA high-energy physics project.

Articles of Interest

Senate passes debt limit bill
Washington Post
August 2, 2011

Debt Ceiling Bill May Hurt Science
The Scientist
August 2, 2011

Debt-Ceiling Deal Sets Off Lobbying Frenzy
National Journal
August 2, 2011

Divide in state's delegation mirrors national split
Star Tribune
August 2, 2011

Short-term stability, but…
Inside Higher Ed
August 1, 2011

Debt Deal May Offer Only Temporary Reprieve for Student-Aid Programs
Chronicle of Higher Education
August 1, 2011

Why any debt-ceiling deal will squeeze the states
Washington Post
July 30, 2011

Rule Changes Proposed for Research on Humans
New York Times
July 25, 2011

Loans and the Deficit
Inside Higher Ed
July 18, 2011

Five myths about the debt ceiling
Washington Post
July 7, 2011

Sincerely,

Channing Riggs
Director, Federal Relations
University of Minnesota
612-624-8520
riggs035@umn.edu

Dan Gilchrist
Coordinator, Federal Relations
University of Minnesota
612-624-3304
dang@umn.edu
