



Congressional Partisanship Permeates Super Committee Demise

Joint Select Committee on Deficit Reduction Co-Chairs, Representative Jeb Hensarling and Senator Patty Murray, released the following statement. 'After months of hard work and intense deliberations, we have come to the conclusion today that it will not be possible to make any bipartisan agreement available to the public before the committee's deadline. ... We are deeply disappointed that we have been unable to come to a bipartisan deficit reduction agreement, but as we approach the uniquely American holiday of Thanksgiving, we want to express our appreciation to every member of this committee, each of whom came into the process committed to achieving a solution that has eluded many groups before us.'

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Yogi Berra famously said: "It ain't over till it's over." Yesterday's collapse of the Joint Select Committee on Deficit Reduction or Super Committee and the public declaration that the membership could not bridge the partisan gulf seems to end the deficit reduction talks. But it probably ain't over on the macro budget level. Instead, the battle on deficit reduction is redrawn. The new line is clearly between 1600 Pennsylvania Avenue and Capitol Hill. President Obama's refusal to be drawn into the budget debate of the past three months may have been smart politics, but the Administration must now seize the initiative and display a willingness to lead or face complaints from all parties that there is no one to negotiate with. Of course, this also means the congressional leadership needs to accept the challenge.

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1101 14th Street, NW

Suite 350

Washington, D.C. 20005

202.466.3755

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The obvious outcome of the collapse is that automatic spending cuts begin to take shape January 3, 2012 when the Administration must, under the provisions of the Budget Deficit Reduction and Control Act (Act), outline where \$1.2 trillion in reductions will fall within domestic and defense spending programs. The first cuts that take hold will be \$55 billion for each of these program areas, beginning in January 2013. And, because Congress provided sequestration authority to achieve across-the-board spending cuts, there is no recourse or wiggle room short of amendment of the Act to preclude the indiscriminate cuts. Of course, at the same time, the cuts are a year away from reality. And a year is an eternity in the political universe that is today's Washington. So the actual impact of the cuts remains ethereal for the foreseeable future.

However, Congress may now begin to feel the political pain for its failure to reach an agreement on deficit. If it does, and it is a big "if", the failure may force an agreement over the next two months. This may be the case because the President has issued an unambiguous veto threat to any effort to rewrite the sequestration rules to avoid reductions in defense spending. Additionally, the third rail of the budget debate, tax rates, is now at risk with the expiration of the Bush era tax rates scheduled for the end of 2012. The apparent lack of sixty votes in the Senate to overcome a likely filibuster of any attempt to extend or make permanent the tax rates means that the political leverage may emerge to force consensus, if only temporarily. The irony of the situation that Congress will confront next month is that the failure of the Super Committee triggers spending reductions and tax rate increases that if implemented would result in halving the trillion dollar annual deficit almost overnight with even more reductions in the out-years.

For the short term, yesterday's budget collapse will have limited impact on federal program spending. As part of the Act, Congress agreed upon overall spending levels for fiscal year 2012 thereby allowing final budget decisions to be made within the next month. The only glitch that could emerge is the bane of every budget debate, unrelated policy riders. The President has indicated that he will veto any bill that contains such riders, throwing into question whether Congress will be forced to send the President a yearlong Continuing Resolution based on the budget allocations contained in the Act.

For domestic spending, the immediate consequence is reduction in fiscal year 2012 spending. But the reductions will not be a surprise. The amount that domestic discretionary spending is to be cut is a modest \$7 billion (within the context of a multi-trillion dollar budget). For water infrastructure programs, the reductions will likely be an incremental reduction in purchasing

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power, but the core programs ranging from state revolving loan funds to grants for water recycling will remain in place and serve to continue the policy debate on how to restructure federal commitment to rebuild the nation's water infrastructure in the coming months as the election year takes hold.

What lies ahead is uncharted terrain given the partisan conflict that permeates the policymaking process. It is clear that Congress is likely to remain at work for most of the month of December and perhaps until Christmas Eve. It is possible that the protracted budget process of fiscal year 2012 may extend an unforeseen opportunity to pick up the pieces of the Super Committee's failure, but the odds suggest otherwise.

Hearings

Senate

Date: December 8, Time: 2:30 p.m.

Committee: Energy & Natural Resources

Hearing: Domestic & Global Water Supply Issues

House

Happy Thanksgiving!



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