

Yesterday, President Joe Biden put forward an outline of his [Fiscal Year \(FY\) 2024 Budget Request](#) to Congress, laying out his funding and policy priorities and recommendations for the fiscal year that begins on October 1.

Not surprisingly, Republicans uniformly panned it, and Democrats embraced it.

In broad terms, the President outlined the need for US\$1.73 trillion in discretionary spending. He specifically asked for US\$886.4 billion in defense spending, which would amount to the highest-ever defense budget and a 3.3% increase over current levels, and US\$841.3 billion in nondefense funding.

With President Biden expected to soon announce his reelection campaign, he unveiled his proposed budget framework in the critical electoral swing state of Pennsylvania. The preamble to his request explained that he “ran for President to rebuild our economy from the bottom up and middle out, not from the top down – because when the middle class does well, the poor have a ladder up and the wealthy still do well.” The President’s request outlined many priorities of interest to his party’s base, which he describes as ultimately “giving families more breathing room.” For example, he called for an expansion of the Child Tax Credit, authority for Medicare to negotiate the prices of additional drugs, investments in behavioral health, funding to allow more states and schools to provide free meals to additional children, paid sick leave for all workers and a new discretionary grant program to provide free community college for certain students. As he has previewed over the past month, the President also called for a 25% minimum tax rate on billionaires, quadrupling the tax on corporate stock buybacks and a corporate tax rate at 28%.

There is a saying on Capitol Hill that “the president proposes, but the Congress disposes.” This is a simple way of saying that, ultimately, Congress has the power of the purse. As provided in the Constitution, “No money shall be drawn from the Treasury, but in Consequence of Appropriations made by Law” (Article I, Section 9). And in a divided government – such as the current one, with Democrats controlling the White House and the Senate, but with Republicans in the majority in the House of Representatives – most if not all of the president’s recommendations will be dead on arrival. As House Speaker Kevin McCarthy (R-CA) put it, “President Biden just delivered his budget to Congress, and it is completely unserious. He proposes trillions in new taxes that you and your family will pay directly or through higher costs. Mr. President: Washington has a spending problem, NOT a revenue problem.”

House Committee on the Budget Chairman Jodey Arrington (R-TX) and his staff have variously stated that House Republicans will release their own proposed budget framework before April 15, or in May, or that there is presently no set timeline – and it will include spending cuts targeted at about US\$150 billion or more. Assuming the GOP proposal clears the House, it will go nowhere in the Senate.

Differences over spending priorities will continue, at least in the short term, as the White House recognized in preparing the budget request. The interest behind the proposal, then, is not because the framework might become law, but because it sets into motion a series of actions that show how the parties are identifying their priorities for the 2024 elections – as well as potential areas of common ground between Democrats and Republicans that might exist in the future.

While the President put forward his proposal, political obstacles stand in the way of Congress passing a budget resolution.

Once a president submits his proposed budget request, Congress is, in theory, supposed to work towards passing a budget resolution, which provides lawmakers with a blueprint for all budget-related legislation, including the topline numbers governing discretionary spending for the upcoming fiscal year.

This starts with a little bit of legislating and oft times more than a little bit of political theater. During the process of developing the budget resolution, department and agency heads are called up to Capitol Hill to testify on the president’s budget request, opening an energetic dialogue between key figures of the administration and lawmakers from both sides of the aisle. Members can question administration officials during the live hearing, perhaps to gain headlines in the news or hits on social media for hammering an official with whom they disagree, or to call attention to their personalized interests that are aligned with the administration. Alternatively, lawmakers may submit “questions for the record,” sometimes supplied by stakeholders, that request a written response; these questions may be posed to shed light on the administration’s view of an issue, often more intricate, narrow or less publicized than those addressed during the live hearing.

Despite the hearings about to take place, Senate Committee on the Budget Chair Sheldon Whitehouse (D-RI) has not committed his panel to considering a budget resolution. Past precedent allows senators to skip this step, and Democrats may decide President Biden's request will suffice. Notably, if they proceed without their own unique proposal, Democratic lawmakers – including those up for reelection in 2024 – would avoid taking some politically tough stances or difficult votes on fiscal issues, and it would allow all lawmakers to move more expediently to the appropriations process.

Not all Democrats agree with such an approach. Earlier this month, for example, moderate Sen. Joe Manchin (D-WV) spoke on the Senate floor to advocate for a budget resolution, calling on his fellow senators to put effort into the process: "It doesn't have to be this way. The American people deserve better. So, what should we do? First and foremost, the President and Congress need to do our jobs right now. No exceptions. No excuses. We need to pass a budget on time."

Sen. Manchin's words are likely not enough encouragement. Notably, Senate appropriations leaders are outlining an appropriations approach to proceed without a budget resolution. Senate Committee on Appropriations Chair Patty Murray (D-WA) and Ranking Member Susan Collins (R-ME) reportedly are working to set topline spending figures to proceed with crafting the government spending bills. In the absence of a budget resolution, the House or Senate may simply "deem" a topline funding level for the upcoming fiscal year as they pursue a bipartisan budget agreement.

On the other side of the Capitol, House Republicans immediately rejected President Biden's proposal, with House Committee on Appropriations Chair Kay Granger (R-TX) stating, "As we face growing threats at our border and around the globe, the President's proposal spends far too much on unnecessary programs at the expense of our national security. America simply cannot afford this misguided plan." The House GOP is working towards putting forward its budget resolution for FY 2024 by mid-April, although there are already whispers that this timeline may slip.

In his run for the speaker's gavel, Speaker McCarthy pledged to balance the budget within a decade. This could lead to some very steep funding cuts over time, which may foster disagreements within the full Republican Conference. The Committee for a Responsible Federal Budget [notes](#) that "the necessary cut [to all spending, in order to balance the budget in ten years] would grow to 78 percent if [politically perilous cuts to] defense, veterans, Social Security, and Medicare spending were off the table. These cuts would be so large that it would require the equivalent of *ending* all nondefense appropriations and *eliminating* the entire Medicaid program just to get balance."

The starting gun for appropriations season has been fired, and disagreements will be amplified as budget hearings get underway next week.

Within the congressional appropriations process, discretionary spending bills are considered through the 12 subcommittees of the House and Senate Committees on Appropriations. The Committees are responsible for accepting requests from all lawmakers in their respective chambers, conducting hearings and marking up the 12 bills. These bills have, in recent years, offered three notable areas for engagement: community project funding/congressionally directed spending, referred to colloquially as "earmarks"; programmatic funding, or the levels of funding for various government programs; and report language, or nonbinding language that provides additional context or directives to federal agencies on the policy or funding within the various appropriations measures.

In a regular-order scenario, each chamber's lawmakers would approve their bills through a floor vote, and the chambers would engage in a conference committee process to reconcile the differences. The president would then sign the bills into law or veto the legislation.

Because appropriations bills must be considered on an annual basis, the end of the fiscal year (September 30) puts a hard deadline on a relatively short process in legislative terms. If appropriations bills are not enacted on time, the federal government shuts down, discontinuing nonessential actions until funding is renewed. If lawmakers recognize their negotiations may not meet the fiscal year deadlines, they may enact a "continuing resolution," a stopgap funding bill that allows continued funding until lawmakers pass another continuing resolution or final appropriations bill.

Much has been made of the fact that, for the first time in history, four women lead the House and Senate Committees on Appropriations: House Chair Granger, House Ranking Member Rosa DeLauro (D-CT), Senate Chair Murray, and Senate Ranking Member Collins. While the women come to the negotiating table with different political leanings and experiences, there has been speculation that they may be more adept and collaborative than their predecessors in ushering the 12 spending bills through the process in a timelier manner. (While senators are interested in bringing the appropriations bills to the Senate floor for consideration – a feat that has not taken place in recent years – both Chair Murray and Ranking Member Collins have acknowledged already that the Senate will be more likely to consider smaller packages of bills, or minibuses, instead of the 12 individual bills to expedite their consideration. Both House and Senate Committees hope to begin marking up their bills in May.)

Although there is consensus on the overall goal to move appropriations bills, there will not be easy agreements on the funding for various programs and projects, or policy direction provided across all 12 measures on issues ranging from abortion to immigration. Any disagreement over funding or policy can be a setup for gridlock.

For example, Chair Granger has significantly curtailed congressionally directed spending in House spending bills, including a new prohibition on earmarks in three bills: Defense, Financial Services and Labor-Health and Human Services-Education (Labor-HHS). The Senate, however, has not substantially changed its earmark guidance from the 117th Congress, continuing to consider earmarks on the Financial Services and Labor-HHS bills.

The lack of earmarks in the Labor-HHS bill may present more challenges than the restrictions in other bills, as the annual health and education spending bill has traditionally been more controversial due to its sweeping jurisdiction, including abortion, pandemic response and gun violence. Without some “earmark grease” to help the bill move through the chamber, its momentum may be slowed the most.

House Republicans will use their budget resolution to enact significant cuts to their spending bills, with a promise from Speaker McCarthy that appropriations will be reduced to at least FY 2022 spending levels. It remains to be seen how House Republicans will balance the call for spending cuts with overall defense spending. Given current world events, including those in Russia, Ukraine and China, some Republicans are asking for robust military appropriations. Notably, President Biden’s request includes the largest defense budget in history. Chair Granger is a defense hawk and has called her opposition to cuts in the Defense bill “hard core.” Separately, House Committee on Armed Services Chair Mike Rogers (R-AL) is leading work on the annual defense authorization bill, and he has stated it will be “as big as it needs to be” to ensure our country’s national security needs and priorities are met. In this environment, we expect House Republicans to push for an even bigger increase in defense spending than requested by the President.

The expected House floor procedure could get particularly dicey this year. Speaker McCarthy has promised his conference stand-alone votes on all 12 spending bills, unlike the previous few cycles in the House and the small packages of bills Chair Murray and Ranking Member Collins are expecting in the Senate. Speaker McCarthy also agreed to “open rules,” or unlimited amendments on the bills, during full House consideration, which – if implemented – would be a time-intensive process open to potential poison-pill language additions.

The debt ceiling is inextricably linked to spending decisions, and partisan rhetoric is on the rise from both sides of the aisle.

As we described in our State of the Union [analysis](#), the debt limit (or debt ceiling) is the total amount of outstanding debt that the US Department of the Treasury can incur. On January 19, Treasury Secretary Janet Yellen notified Congress that the federal government’s outstanding debt was projected to have reached the statutory limit. She therefore indicated that the Treasury Department had commenced using “extraordinary measures” to avoid breaching the debt ceiling. Current estimates vary as to when the Treasury Department will run out of borrowing room, with some organizations figuring the “x date” could occur as early as June, with other leading financial experts identifying dates later in the summer. But a lot will happen before then.

Yesterday, on a straight party-line vote, the House Committee on Ways and Means approved H.R. 187, which would establish a debt prioritization payment scheme intended to ensure that the US government would not default on its debt. The proposed legislation, which will undoubtedly languish in the Senate, would modify the Treasury Department’s debt authority when the debt ceiling is reached to issue debt to pay principal and interest on the public debt and to pay Social Security and Medicare benefits. Once these obligations have been funded and consistent with Treasury Department’s existing authority, the bill directs the Treasury Department to fund Department of Defense and veterans’ benefits before all others. Finally, the bill would prohibit the agency from paying the following unless all other obligations of the federal government have already been met: payment for government travel; compensation for official union time; compensation to the President, Vice President and Executive Branch appointees; and pay for Members of Congress.

If the debt prioritization bill were to become law, Chinese bondholders would be assured of payment before the federal government could make payments to farmers, fund school lunches or reimburse hospitals providing healthcare services to seniors. With the recurring White House theme of “Joe’s got your back,” one can easily begin to imagine how the administration and congressional Democrats will react. Continuing [their trend](#) of quoting Taylor Swift lyrics, this zinger might be among the first: “You play stupid games, you win stupid prizes,” followed by “You should’ve thought twice before you let it all go.”

Democrats would like to vote on a “clean” debt ceiling increase, but House Republicans have advocated for spending cuts in exchange for their support. For his part, President Biden has welcomed a discussion with Republicans on spending cuts, but he has rejected their strategy of using the nation’s borrowing cap as a bargaining chip. That may not matter. Both debates are happening at the same time, and there is some Republican effort to align the “x date” with the end of the fiscal year, allowing for congressional consideration of the debt ceiling and appropriations simultaneously.

In his floor speech earlier this month, Sen. Manchin highlighted the various problems he saw in these fiscal discussions: “My Democratic friends don’t want to say a word about our out-of-control spending and are outright refusing to even talk to Republicans about reasonable, responsible reforms. They want to pass a ‘clean’ debt ceiling bill without a commitment to fix anything. My Republican friends refuse to offer any specifics, and some have recklessly threatened default, which is something that absolutely has to be off the table. We will never solve this problem by each party running in the opposite direction. We will only be able to change course by coming together, embracing common sense, and finding common ground.”

In early February, House Committee on the Budget Chairman Arrington released a statement on "[The Debt Limit and Fiscal Restraint](#)," noting Republicans "will not give President Biden an unlimited line of credit" and that "President Biden must acknowledge the spending crisis he helped create and responsibly negotiate with House Republicans on a new budgetary framework oriented around fiscal restraint." Chairman Arrington listed several actions that could reduce federal spending, such as recapturing unobligated COVID-19 funds, reducing fraud in the Child Tax Credit and Supplemental Nutrition Assistance Program, canceling Environmental Protection Agency programs from the Inflation Reduction Act and ending President Biden's student loan relief program. He also called on the administration to "Stop Woke-Waste," citing various policies and funding provided in last year's spending bills with which he and others in the GOP disagreed: "\$1.2 million for 'LGBTQIA+ Pride Centers,' \$1 million for a space for 'gender-expansive people of color,' \$3.6 million for a Michelle Obama Trail in Georgia and \$750,000 for 'Transgender and Gender nonconforming and Intersex (TGI) immigrant women in Los Angeles.'"

The political bomb-throwing over Medicare spending will continue to flare around all discussions on fiscal issues, with each party attempting to show they support the program more than the other. During his State of the Union address, President Biden alluded to Florida Republican Sen. Rick Scott's plan to sunset all federal programs after five years, including Medicare, and Republicans vocally rebuked him. Since that time, Sen. Scott has updated his plan to make exceptions for Social Security and Medicare, and Republicans have attacked the administration's proposals on Medicare Advantage oversight and overpayments as cuts to the program.

Earlier this week, President Biden published a New York Times [op-ed](#) to further trumpet his priorities, writing, "For decades, I've listened to my Republican friends claim that the only way to be serious about preserving Medicare is to cut benefits, including by making it a voucher program worth less and less every year. Some have threatened our economy unless I agree to benefit cuts. Only in Washington can people claim that they are saving something by destroying it. The budget I am releasing this week will make the Medicare trust fund solvent beyond 2050 without cutting a penny in benefits."

The release of the President's FY 2024 Budget Request is the opening salvo in a process that will stretch through the summer and likely into the end of this calendar year. Most Democrats and Republicans agree that challenging decisions regarding annual discretionary spending, as well as the full faith and credit of the United States – and indeed our national economy – must be made in short order. The question remains whether the political parties can navigate their way to an agreement in this era of divided government.

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