



The Federal Budget: Issues for FY2013 and Beyond

Mindy R. Levit
Analyst in Public Finance

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Summary

The federal budget is central to Congress's ability to exercise its "power of the purse." Over the last several fiscal years the imbalance between spending and revenues has grown as a result of the economic downturn and policies enacted in response to financial turmoil. In FY2011, the U.S. government spent \$3,598 billion (24.1% of GDP) and collected \$2,302 billion in revenue (15.4% of GDP), resulting in a budget deficit of \$1,296 billion (8.7% of GDP). The FY2012 deficit is currently estimated at \$1,079 billion (7.0% of GDP).

The Obama Administration released its FY2013 budget on February 13, 2012. In FY2013, the President's budget projects that the deficit will reach \$901 billion. Budget deficits are projected throughout the 10-year budget window. The President's budget proposes a variety of short-term tax and spending measures aimed at job creation, largely drawn from the American Jobs Act submitted to Congress in September 2011. These proposals amount to nearly \$350 billion in additional spending and tax cuts, including immediate funding for roads, rails, and runways; aid to states and local governments for teachers and first responders; school modernization; and a full-year extension of the Social Security payroll tax reduction and unemployment benefits.

In August 2011, the Budget Control Act of 2011 (BCA) placed limits on spending via discretionary spending caps and included provisions for additional spending cuts in the amount of \$1.2 trillion. In January 2013, the additional cuts are scheduled to take effect via an automatic process. In his FY2013 budget, President Obama proposes replacing the automatic cuts with prescribed spending cuts and tax increases. The largest of these proposals includes allowing the 2001/2003/2010 tax cuts for singles making over \$200,000 and households making over \$250,000 to expire; savings generated from changes to Medicare, Medicaid, agriculture, and other mandatory programs; and placing caps on spending on Overseas Contingency Operations (OCO).

The FY2013 budget also included other tax proposals including changes in the estate tax parameters, limits to the value of itemized deductions for married taxpayers with incomes over \$250,000 and single taxpayers with incomes over \$200,000, and eliminating various tax expenditures. The Administration also released a framework for corporate tax reform, which included a reduction in the corporate tax rate combined with an elimination of certain corporate tax expenditures. The Administration is committed to reform that would not add to the deficit.

On March 21, 2012, the House Budget Committee reported the budget resolution (H.Con.Res. 112, 112th Congress) by a vote of 19-18. It was agreed to by the House on March 29, 2012, by a vote of 228-191. The resolution provided for a FY2013 deficit of \$797 billion, or approximately 5.0% of GDP, falling to \$287 billion or 1.2% of GDP in FY2022. Like the President's budget proposal, the House budget resolution specifies a replacement of the BCA's automatic cuts. The budget resolution replaces the majority of the cuts in FY2013 with \$261 billion in deficit reduction over 10 years to be achieved via reconciliation. In order to proceed with the consideration of FY2013 appropriations bills, both the House and the Senate took action to "deem" enforceable levels of discretionary spending for FY2013 because no agreement has been reached on the budget resolution.

CBO, GAO, and the Administration agree that the current mix of federal fiscal policies is unsustainable in the long term. The nation's aging population, combined with rising health care costs per beneficiary, seems likely to keep federal health costs rising faster than per capita GDP. This report will be updated as events warrant.

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The federal budget is central to Congress's ability to exercise its "power of the purse." Federal budget decisions also express Congress's priorities and reinforce Congress's influence on federal policies. Making budgetary decisions for the federal government is a complex process and requires balancing competing goals. Recent economic turmoil has strained the federal budget as a result of declining revenues and increasing spending levels. As the economic recovery continues, the budget process will allow the President and Congress to negotiate priorities and refine spending plans.¹

The federal government faces very large budget deficits, rising costs of entitlement programs, significant spending on overseas military operations, and low revenue levels. The enactment of financial intervention and fiscal stimulus legislation in FY2008 and FY2009 may have helped to bolster the economy, though they increased the budget deficit.² While the economy is growing again, unemployment remains elevated and government spending on "automatic stabilizers," such as unemployment insurance and income security programs, remains higher than historical averages.³ This suggests that the recession's effects on the budget will likely remain for several more fiscal years.

In addition to the current challenges, concerns remain about the federal government's long-term fiscal situation. Work on improving the budget outlook resulted in the enactment of the Budget Control Act of 2011 (BCA; P.L. 112-25), which contained provisions to reduce the budget deficit by about \$2 trillion over the next decade.⁴ However, the rising costs of federal health care programs and the effects of the baby boom generation's retirement, which present serious challenges to future fiscal stability, have yet to be addressed. Operating these programs in their current form may pass on substantial economic burdens to future generations. To avoid this would require additional government action and public sacrifice at levels greater than those needed to counteract the recent economic downturn.

Overview

Budget Cycle

A single year's budget cycle takes roughly three calendar years from initial formation by the Office of Management and Budget (OMB) until final audit.⁵ The executive agencies begin the

¹ For more information, see CRS Report 98-721, *Introduction to the Federal Budget Process*, coordinated by Bill Heniff Jr.

² Congressional Budget Office, *Estimated Impact of the American Recovery and Reinvestment Act on Employment and Economic Output from July 2011 Through September 2011, November 2011*, p. 2; U.S. Congress, U.S. House of Representatives Committee on Financial Services, *Federal Reserve programs to strengthen credit markets and the economy*, Testimony of Federal Reserve Chairman Ben S. Bernanke, February 10, 2009, available at <http://www.federalreserve.gov/newsevents/testimony/bernanke20090210a.htm>.

³ Unless stated otherwise, data used in this report are from Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2012 to 2022*, January 2012, available at <http://cbo.gov/publication/42905>.

⁴ For more information on the BCA, see CRS Report R41965, *The Budget Control Act of 2011*, by Bill Heniff Jr., Elizabeth Rybicki, and Shannon M. Mahan and CRS Report R42013, *The Budget Control Act of 2011: How Do the Discretionary Caps and Automatic Spending Cuts Affect the Budget and the Economy?*, by Marc Labonte and Mindy R. Levit.

⁵ CRS Report 98-325, *The Federal Fiscal Year*, by Bill Heniff Jr.

budget process by compiling detailed budget requests in the calendar year before the President's budget submission. Many agencies start working on their budgets during the spring and summer—about a year and a half before the fiscal year begins. OMB oversees the development of these agency requests. The President is required to submit a budget to Congress, which is based on OMB's work, by the first Monday in February or about 8 months before the fiscal year begins.⁶

Congress typically begins formal consideration of the budget resolution once the President submits his budget request. The budget resolution sets out a plan, agreed to by the House and Senate, that establishes the framework for subsequent budget legislation. Because the budget resolution is a concurrent resolution, it is not sent to the President for approval.⁷

House and Senate Appropriations Committees and their subcommittees typically begin reporting discretionary spending bills after the budget resolution is agreed upon. Appropriations Committees review agency funding requests and propose levels of budget authority (BA). Appropriations acts passed by Congress set the amount of BA available for specific programs and activities. Authorizing committees, which control mandatory spending, and committees with jurisdiction over revenues also play important roles in budget decision making.⁸

During the fiscal year, which begins on October 1, Congress and OMB oversee the execution of the budget. Once the fiscal year ends on the following September 30, the Treasury Department and the Government Accountability Office (GAO) begin year-end audits.

Budget Baseline Projections

Budget baseline projections are used to measure how future legislation would affect the budget picture. They are not meant to be predictions of the future budget outlook. Due to the nature of projections, slight changes in assumptions can lead to large effects in outyear totals. Therefore, it is important to understand what projections include and the assumptions on which they are based. Baseline projections are included in both the President's budget and the Congressional budget resolution.

The Congressional Budget Office (CBO) computes current law baseline projections using assumptions set out in budget enforcement legislation.⁹ Forecasts based on these assumptions typically yield higher revenue estimates and may understate discretionary spending levels. More specifically, CBO baseline projections incorporate certain assumptions: that the 2001/2003/2010 tax cuts fully expire after 2012 (as current law specifies), that one-year "patches" to the

⁶ The contents of the Presidential budget submission are governed by 31 U.S.C. §1105. For reasons why the budget may be delayed, see CRS Report RS20179, *The Role of the President in Budget Development*, by Bill Heniff Jr.

⁷ Congress does not always complete action on a budget resolution. In years when Congress is late in adopting, or does not adopt, a budget resolution, the House and Senate independently may adopt "deeming resolution" provisions for the purpose of enforcing certain budget levels. The last time Congress agreed to a budget resolution was for FY2010. The FY2010 budget resolution was agreed to on April 29, 2009. For more information, see CRS Report RL30297, *Congressional Budget Resolutions: Historical Information*, by Bill Heniff Jr. and Justin Murray and CRS Report RL31443, *The "Deeming Resolution": A Budget Enforcement Tool*, by Megan Suzanne Lynch.

⁸ For more information on the appropriations and authorization process, see CRS Report R42388, *The Congressional Appropriations Process: An Introduction*, by Jessica Tollestrup.

⁹ Many of the rules governing the baseline, contained in §257 of the Balanced Budget and Emergency Deficit Control Act, as amended, were extended or modified as part of the Budget Control Act of 2011 (P.L. 112-25).

alternative minimum tax (AMT) will lapse even though past Congresses have extended AMT patches year after year, that sharp reductions in Medicare's payment rates for physician services will take effect as scheduled, and that extensions of unemployment compensation and the payroll tax cut will expire per current law. Baseline discretionary spending levels are based on the caps currently in law, with adjustments for war funding and disaster spending. In addition to these current law assumptions, macroeconomic assumptions, specifically of GDP growth, inflation, and interest rates, will also affect the baseline estimates and projections, especially given the current economic climate. Baseline projections show substantial growth in receipts after 2012, when most of the tax cuts from 2001/2003/2010 expire. This results in budget deficits that would reduce the level of debt as a percentage of GDP, particularly after FY2013. In other words, these budget deficits would be fiscally sustainable. Under the baseline assumptions, budget deficits are projected to average 1.5% of GDP over the FY2013 to FY2022 period.

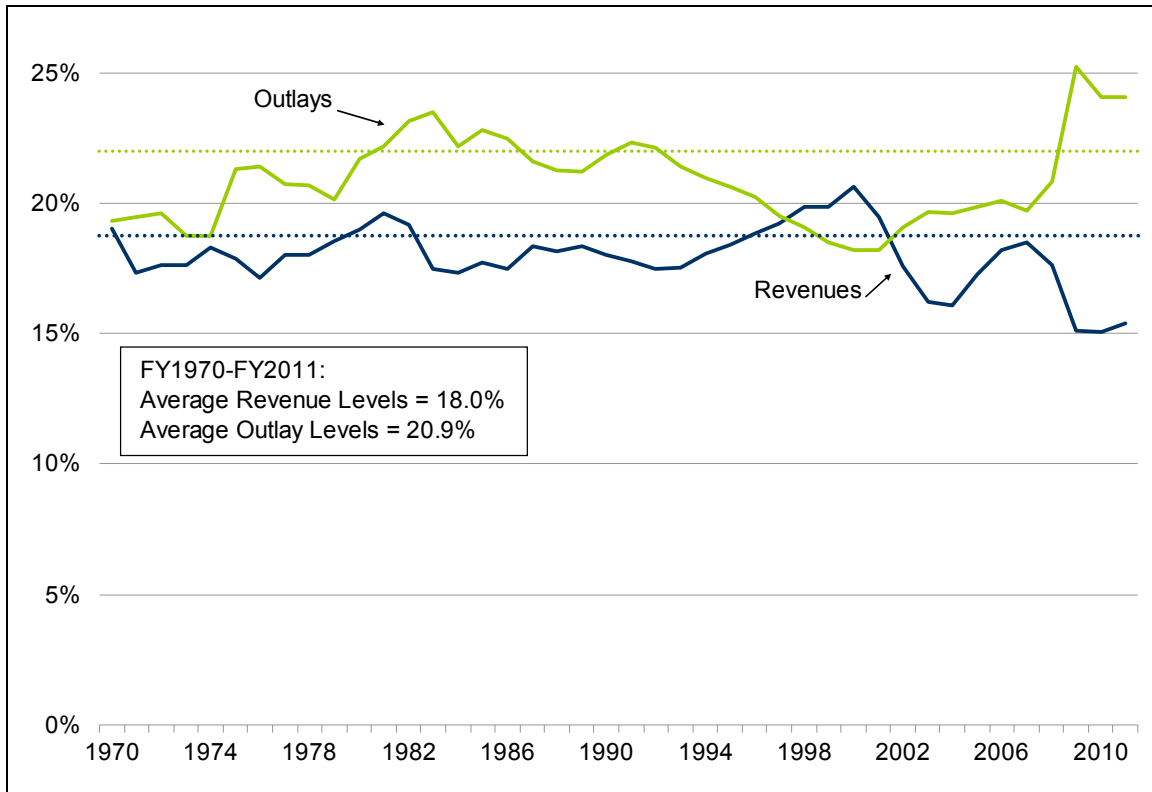
CBO also provided projections based on alternative policy assumptions, which illustrate the levels of spending and revenue if current laws continue, rather than expire as scheduled. If the 2001/2003/2010 tax cuts are extended, the AMT is indexed for inflation, Medicare payment rates for physician services remain the same, and the provisions of the Budget Control Act's automatic spending reduction process do not take effect, CBO projects budget deficits to average 5.4% of GDP over the FY2013 to FY2022 period. Cumulative budget deficits under the alternative fiscal scenario are projected to be \$7.9 trillion higher over the next decade (totaling \$11.0 trillion) than under the baseline scenario.

Beyond the 10-year forecast window, federal deficits are expected to grow rapidly unless major policy changes are made. This is a result of rapidly growing outlays largely attributable to health care costs and baby boomer retirements.

Spending and Revenue Trends

Over the last four decades, on average, federal spending accounted for approximately 21% of the economy (as measured by gross domestic product—GDP), while federal revenues averaged roughly 18% of GDP. Since FY2001, spending has exceeded revenues, resulting in budget deficits. Over the last several fiscal years the imbalance between spending and revenues has grown as a result of the economic downturn and policies enacted in response to financial turmoil. In FY2011, the most recently completed fiscal year, the U.S. government spent \$3.6 trillion and collected \$2.3 trillion in revenue. Relative to FY2008, FY2011 outlays increased by \$616 billion while revenues decreased by \$222 billion (in nominal terms). The trends in revenues and outlays between FY1970 and FY2011 are shown in **Figure 1**.

Figure I. Total Outlays and Revenues, FY1970-FY2011
(as a percentage of GDP)



Source: CRS figure using data from CBO, *Historical Tables*, available at <http://www.cbo.gov/doc.cfm?index=12699>.

Federal Spending

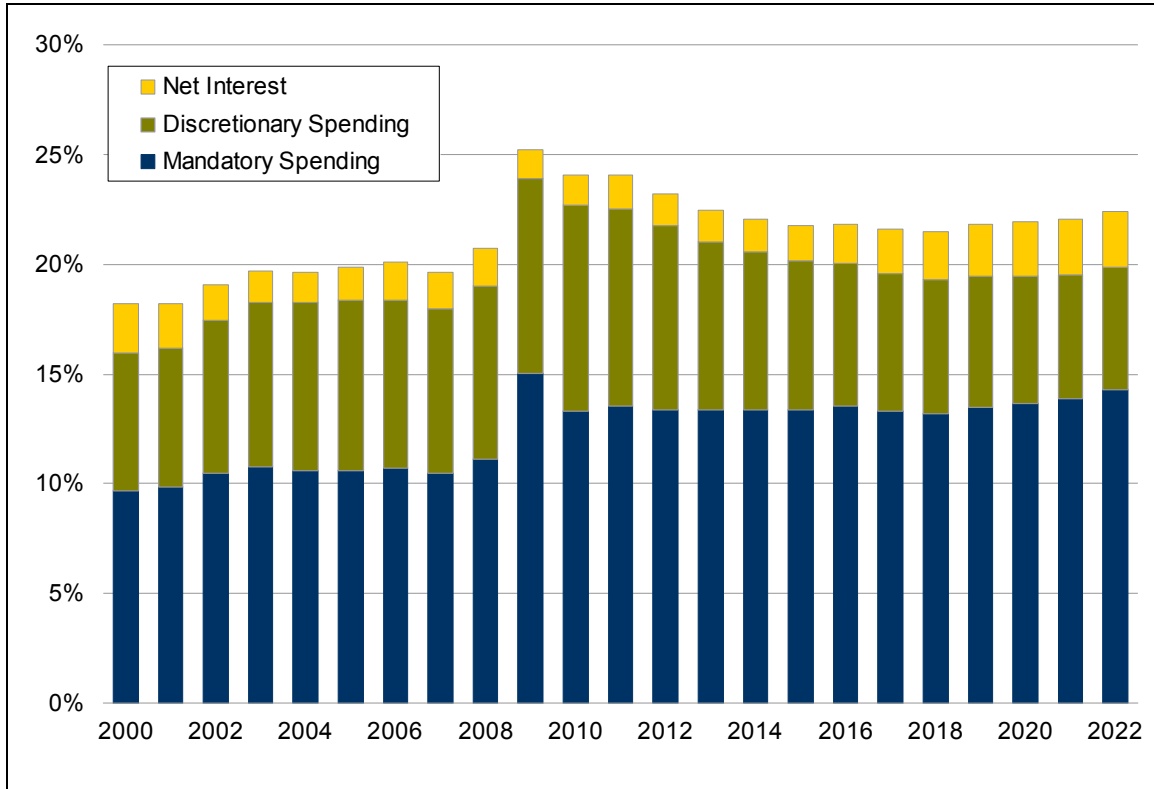
Federal outlays are often divided into the broad categories of discretionary and mandatory spending, and net interest. Discretionary spending is controlled by annual congressional appropriations acts. Mandatory spending encompasses spending on entitlement programs and spending controlled by laws other than annual appropriation acts.¹⁰ Entitlement programs such as Social Security, Medicare, and Medicaid make up the bulk of mandatory spending. Congress sets eligibility requirements and benefits for entitlement programs, rather than appropriating a fixed sum each year. Therefore, if the eligibility requirements are met for a specific mandatory program, outlays are made automatically. Net interest comprises the government's interest payments on the debt held by the public, offset by small amounts of interest income the government receives from certain loans and investments.¹¹

¹⁰ For more information on trends in discretionary and mandatory spending, see CRS Report RL34424, *Trends in Discretionary Spending*, by D. Andrew Austin and Mindy R. Levit and CRS Report RL33074, *Mandatory Spending Since 1962*, by D. Andrew Austin and Mindy R. Levit.

¹¹ Net interest is discussed in further detail below in the section "Deficits, Debt, and Interest."

In FY2000, total outlays equaled 18.2% of GDP. By FY2011, total outlays reached 24.1% of GDP.¹² Under the CBO baseline, total outlays are projected to be 22.4% of GDP in FY2022. Under CBO’s alternative fiscal scenario, outlays are projected to total 24.4% of GDP in FY2022. **Figure 2** shows the level of federal spending as a percentage of GDP, broken into the discretionary, mandatory, and net interest categories, between FY2000 through FY2022, as projected in the CBO baseline.

Figure 2. Outlays by Type, FY2000-FY2022
(as a percentage of GDP)



Source: CRS figure using data from CBO, *Historical Tables*, January 2012.

Notes: Data for FY2012 are estimates and data for FY2013-FY2022 are projections under the current law baseline.

In FY2011, discretionary spending totaled 9.0% of GDP. Since FY2000, discretionary spending as a share of GDP has increased 7.4% a year, on average, in nominal terms. Increases in discretionary spending over this period have largely been a result of military operations in Iraq and Afghanistan and, more recently, the funding provided in the American Recovery and Reinvestment Act of 2009 (ARRA; P.L. 111-5). On average, from FY2000 to FY2011, defense discretionary outlays grew 8.2% per year in nominal terms, while non-defense discretionary outlays grew 6.6% per year in nominal terms. By FY2022, according to CBO’s baseline projections, discretionary spending will fall to 5.6% of GDP, its lowest level ever.¹³

¹² Total outlays peaked at 25.2% of GDP in FY2009.

¹³ The division between discretionary and mandatory spending was first put into place in FY1962.

Mandatory spending totaled 13.5% of GDP in FY2011, up from 9.7% of GDP in FY2000, as shown in **Figure 2**. Mandatory spending levels have been elevated mainly as a result of increases in outlays in income security programs.¹⁴ Though the economic recovery is expected to lower mandatory spending on certain programs over the next few fiscal years, the growth in mandatory spending is projected to resume by the end of the decade due to increases in certain entitlement programs. As a result, under current law, CBO projects that FY2022 mandatory spending will total 14.3% of GDP, higher than the FY2011 level.

In FY2011, mandatory spending totaled 56.3% of total outlays, discretionary spending totaled 37.4% of total outlays, and net interest comprised 6.3% of total outlays. Social Security, Medicare, and the federal share of Medicaid alone constitute 43.4% of all federal spending. Because discretionary spending represents roughly one-third of total federal outlays, some budget experts contend that any significant reductions in federal spending must include mandatory spending cuts. Other budget and social policy experts contend that cuts in mandatory spending would cause substantial disruption to many households, because mandatory spending funds important parts of the social safety net.¹⁵ Nevertheless, there is widespread agreement that action is needed to bring down anticipated high debt and deficit levels to restore long-term fiscal health.¹⁶

Federal Revenue

In FY2000, revenues equaled 20.6% of GDP. In FY2011, federal revenue collection totaled 15.4% of GDP, one of the lowest levels since FY1950.¹⁷ Revenue collection has remained depressed over the last few fiscal years as the result of the economic downturn and several tax relief provisions. The longer term revenue outlook depends on the speed of economic recovery and the legislative actions of Congress on certain expiring tax provisions and potential tax reform. Under the CBO baseline, revenues are projected to total 21.0% of GDP in FY2022. The increase in revenue levels in the baseline is largely due to the assumptions that certain tax provisions expire as scheduled under current law, resulting in increases in tax rates and higher revenue collection.¹⁸ Under CBO's alternative fiscal scenario, revenues are projected to total 18.3% of GDP in FY2022.

Individual income taxes have long been the largest source of federal revenues, followed by social insurance (payroll) and corporate income taxes.¹⁹ In FY2011, individual income tax revenues totaled 7.3% of GDP. Payroll tax revenue accounted for 5.5% of GDP²⁰ and corporate income tax

¹⁴ Mandatory spending peaked in FY2009 at 15.0% of GDP.

¹⁵ For more information, see CRS Report R41970, *Addressing the Long-Run Budget Deficit: A Comparison of Approaches*, by Jane G. Gravelle and CRS Report R41778, *Reducing the Budget Deficit: Policy Issues*, by Marc Labonte.

¹⁶ In various reports, the Congressional Budget Office, the Government Accountability Office, and the Administration agree that the federal government's budget is on an unsustainable path. For more information, see the section of this report titled, "Long-Term Considerations."

¹⁷ In FY2009 and FY2010, revenue collection totaled 15.1% of GDP.

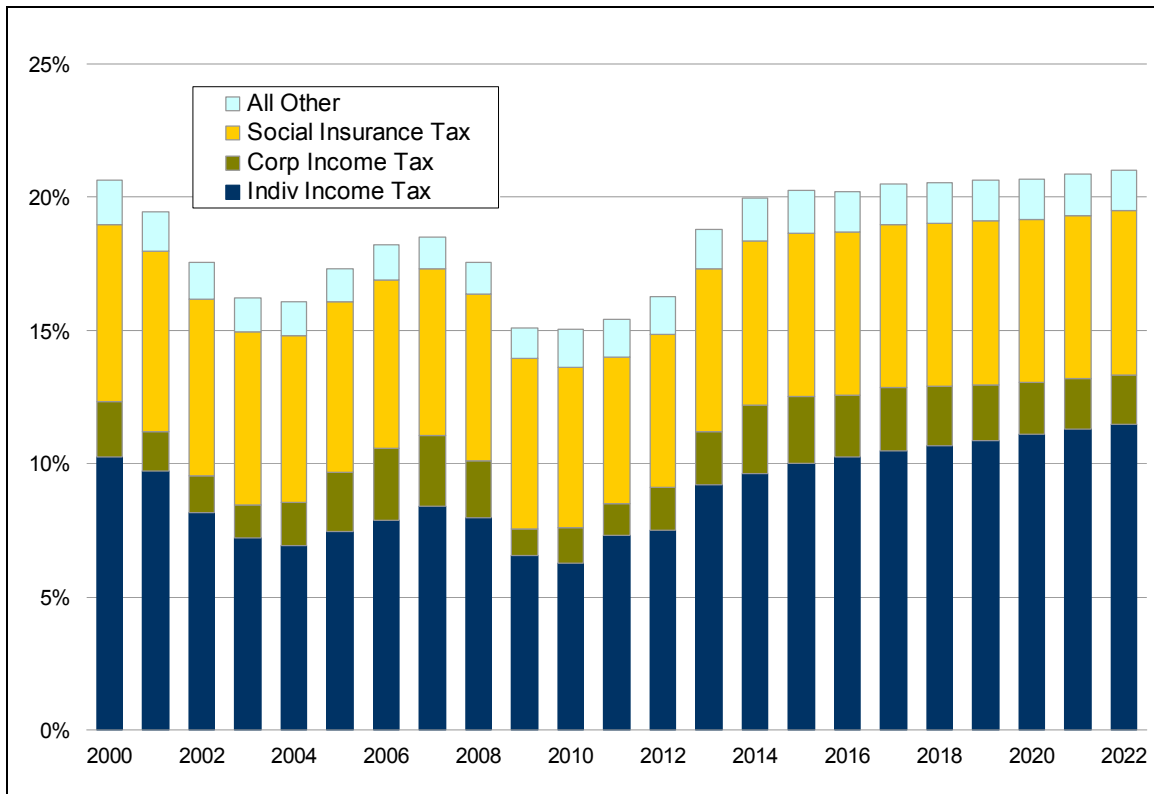
¹⁸ For more information, see CRS Report R41591, *Tax Reform: An Overview of Proposals in the 112th Congress*, by James M. Bickley.

¹⁹ For more information, see CRS Report RL32808, *Overview of the Federal Tax System*, by Molly F. Sherlock and Donald J. Marples.

²⁰ Payroll tax revenue has declined over the last fiscal year largely due to a reduction in the employee payroll tax rate from 6.2% to 4.2%, which began on January 1, 2011.

revenues equaled 1.2% of GDP in FY2011. Overall, federal revenues increased very slightly relative to their FY2009 levels. **Figure 3** shows revenue collections between FY2000 through FY2022, as projected in the CBO baseline.

Figure 3. Revenue by Type, FY2000-FY2022
(as a percentage of GDP)



Source: CRS figure using data from CBO, *Historical Tables*, January 2012.

Notes: Data for FY2012 are estimates and data for FY2013-FY2022 are projections under the current law baseline.

Deficits, Debt, and Interest

The annual differences between revenue (i.e., taxes and fees) that the government collects and outlays (i.e., spending) result in the budget deficit (or surplus).²¹ Annual budget deficits or surpluses determine, over time, the level of federal debt and affect the growth of interest payments to finance the debt.

²¹ Most economists use data on federal outlays to track larger budget trends, while most program analysts use budget authority to track changes in specific program areas.

Budget Deficits

Beginning with FY2009, annual budget deficits as a percentage of GDP have been sharply higher than deficits in any period since FY1945. The total deficit in FY2011 was \$1,296 billion, or 8.7% of GDP. The total deficit, according to some budget experts, gives an incomplete view of the government's fiscal condition because it includes Social Security surpluses (which are held in Treasury trust funds until used to pay future benefits).²² Excluding off-budget items (Social Security benefits paid net of Social Security payroll taxes collected and the U.S. Postal Service's net balance), the on-budget FY2011 federal deficit was \$1,363 billion. The FY2011 total deficit was slightly lower as a percent of GDP than the FY2010 deficit (\$1,293 billion or 9.0% of GDP) and lower than the FY2009 deficit (\$1,413 billion and 10.1% of GDP).²³

Occasional deficits, in and of themselves, are not necessarily problematic. Deficit spending can allow governments to smooth outlays and taxes to shield taxpayers and program beneficiaries from abrupt economic shocks in the short term, while also temporarily boosting GDP when the output gap is large. Persistent deficits, however, lead to growing levels of federal debt that may lead to higher interest payments and may also have adverse macroeconomic consequences in the long term, including slowing investment and lowering economic growth. Since the debt cannot grow faster than GDP forever, large deficits will eventually need to be reduced through increases in taxes, reductions in spending, or both.

Federal Debt and Debt Limit

Gross federal debt is composed of debt held by the public and intragovernmental debt.²⁴ Intragovernmental debt is the amount owed by the federal government to other federal agencies, to be paid by the Department of the Treasury. This amount largely consists of money contained in trust funds, such as Social Security, that has been invested in federal securities as required by law. Debt held by the public is the total amount the federal government has borrowed from the public and remains outstanding. This measure is generally considered to be the most relevant in macroeconomic terms because it is the debt sold in credit markets.

Changes in debt held by the public generally track the movements of the annual on-budget deficits and surpluses.²⁵ Whether or not the movements of gross federal debt will follow those of debt held by the public depends on how intragovernmental debt changes.

Congress sets a ceiling on federal debt through a legislatively established limit. The debt limit also imposes a form of fiscal accountability that compels Congress, in the form of a vote authorizing a debt limit increase, and the President, by signing the legislation, to take visible action to allow further federal borrowing when nearing the statutory limit. The debt limit,

²² From an overall budget perspective, these surpluses are used to offset other federal spending, thereby decreasing the current budget deficit while increasing the amount of Treasury securities held in the Trust Fund.

²³ U.S. Office of Management and Budget, *Budget for Fiscal Year 2013, Historical Tables*, Table 1-3, available at <http://www.whitehouse.gov/omb/budget/Historicals/>.

²⁴ Gross federal debt is also referred to as total debt or total public debt outstanding. Intragovernmental debt is also referred to as intragovernmental holdings or debt held by federal government accounts.

²⁵ In FY2009 and FY2010, the increase in the deficit was larger than that of debt held by the public due to the nature of the obligations incurred as a result of the government conservatorship of Fannie Mae and Freddie Mac and the TARP program.

however, can hinder the Treasury's ability to manage the federal government's finances when the amount of federal debt approaches this ceiling. In those instances, the Treasury has had to take unusual and extraordinary measures to meet federal obligations, leading to inconvenience and uncertainty in Treasury operations at times.²⁶

At the end of FY2011 (September 30, 2011), federal debt subject to limit was approximately \$14,747 billion, of which \$10,127 billion was held by the public.²⁷ The debt limit currently stands at \$16,394 billion, as a result of the provisions of the Budget Control Act of 2011 (P.L. 112-25).²⁸

Net Interest

In FY2011, the United States spent \$227 billion or 1.5% of GDP on net interest payments on the debt. What the government pays in interest depends on market interest rates as well as on the size and composition of the federal debt. Currently, low interest rates have held net interest payments as a percentage of GDP below the historical average despite increases in borrowing to finance the deficit.²⁹ Some economists, however, have expressed concern that federal interest costs could rise sharply once the economy recovers, resulting in future strain on the budget.³⁰ Net interest payments, under the CBO baseline, are projected to rise to \$624 billion or 2.5% of GDP in FY2022.

Budgeting in Tough Economic Times

The economic downturn increased the deficit as a result of elevated levels of spending related to "automatic stabilizers," like unemployment compensation and the Supplemental Nutrition Assistance Program (SNAP), and subsequent policy actions taken by the federal government to address the recession. Federal spending tied to means-tested social programs has also been increasing due to persistently high levels of unemployment, while federal revenues have fallen as individuals' incomes and corporate profits dropped. The pace of the economic recovery could continue to affect deficit levels.

Federal Responses to the Economic Downturn

The federal government responded to financial turmoil with an extraordinary set of measures in 2008 and 2009, including two major economic stimulus measures and a variety of programs within the Federal Reserve, Treasury, and Federal Deposit Insurance Corporation (FDIC).

²⁶ General Accountability Office, *Delays Create Debt Management Challenges and Increase Uncertainty in the Treasury Market*, GAO-11-203, February 2011.

²⁷ U.S. Office of Management and Budget, *Budget for Fiscal Year 2012, Historical Tables*, Tables 7-1 and 7-2.

²⁸ For further details, see CRS Report RL31967, *The Debt Limit: History and Recent Increases*, by D. Andrew Austin and Mindy R. Levit.

²⁹ Since FY1970, the U.S. spent an average of 2.2% of GDP on interest payments.

³⁰ Carmen M. Reinhart and Kenneth S. Rogoff, "The Aftermath of Financial Crises," *American Economic Review*, vol. 99 (2009), no. 2, p. 10; Alan Auerbach and William Gale, "The Economic Crisis and the Fiscal Crisis: 2009 and Beyond An Update," Tax Policy Center, September 2009, available at http://www.taxpolicycenter.org/UploadedPDF/1001284_economic_crisis.pdf.

In February 2008, Congress enacted a \$152 billion package (P.L. 110-185, Economic Stimulus Act of 2008) to stimulate consumption by sending refunds to taxpayers and letting firms depreciate capital investments more quickly. Another effort to jump-start economic growth came in the form of a second stimulus package signed into law by President Obama on February 17, 2009. The American Recovery and Reinvestment Act of 2009 (ARRA; P.L. 111-5) included provisions that are now estimated to total \$831 billion in increased discretionary and mandatory spending and reduced tax revenue over the FY2009-FY2019 period. CBO estimates that over 90% of ARRA's direct impact on the deficit will have occurred by the end of FY2011.³¹ ARRA contains support for state and local governments in the form of increased transportation project, Medicaid, and school funding; funding for health care information technology; extended unemployment benefits; as well as tax cuts and rebates among other provisions.³²

In addition to these stimulus efforts, various governmental bodies, through legislative and existing authority, engaged in numerous financial stability programs. These programs included the conservatorship of government-sponsored enterprises Fannie Mae and Freddie Mac and the Emergency Economic Stabilization Act of 2008 (EESA; P.L. 110-343), which authorized the purchase of troubled assets through the Troubled Assets Relief Program (TARP). The Federal Reserve created a variety of lending facilities to provide financial institutions with loans in exchange for various types of collateral. The FDIC used its standing authority to resolve failed banks and administer the federal guarantees on individual deposits, in addition to carrying out a broad guarantee program on debt issued by banks and supporting joint interventions in large banks.³³ Though these financial interventions had significant budgetary impact particularly in FY2009 and FY2010, they are not projected to have a major impact on the budget deficit going forward.

Budget Deficit Estimates for FY2012

The January 2012 CBO baseline estimated the FY2012 budget deficit at \$1,079 billion or 7.0% of GDP, lower than the FY2011 (8.7% of GDP) deficit. Spending, though lower than its FY2009 peak, remains several percentage points above the historical average, while receipts remain well below their historical average (see **Figure 1**). The decline in the estimated budget deficit for FY2012, relative to FY2011, is mainly due to increases in tax revenue expected under current law with the expiration of the payroll tax reduction on February 29, 2012 and the deceleration of business tax depreciation for new equipment.

Under the President's budget, deficit estimates for FY2012 amount to \$1,327 billion or 8.5% of GDP. This is larger than CBO's baseline deficit estimate primarily due to the cost of short-term measures to stimulate job growth, including an extension of the payroll tax reduction for the entire calendar year, extending long-term unemployment benefits, extending the first-year depreciation deduction for certain property, and providing a temporary tax credit for new jobs.³⁴

³¹ The cost estimate for ARRA has changed since it was originally projected due to revised economic and technical assumptions and certain legislative changes. See source for additional notes. U.S. Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2012 to 2022*, January 2012, Box 1-1.

³² For more information on the provisions of ARRA, see CRS Report R40537, *American Recovery and Reinvestment Act of 2009 (P.L. 111-5): Summary and Legislative History*, by Clinton T. Brass et al.

³³ For more information, see CRS Report R41073, *Government Interventions in Response to Financial Turmoil*, by Baird Webel and Marc Labonte.

³⁴ Office of Management and Budget, *Budget for Fiscal Year 2013, The Budget*, Tables S-2 and S-9.

Budget for FY2013

The Obama Administration released its FY2013 budget on February 13, 2012. Congress has also begun its consideration of the FY2013 budget.

Obama Administration's FY2013 Budget

Consistent with the presentation of previous budgets, the Obama Administration provided three separate deficit projections.³⁵ First, OMB projected a Budget Enforcement Act (BEA) baseline, using methods that mirror those CBO uses to project its current-law baseline. The BEA baseline assumes that discretionary spending remains constant in real (i.e., inflation-adjusted) terms, the 2001/2003/2010 tax cuts expire at the end of calendar year 2012, and that the alternative minimum tax (AMT) will not be “patched.”³⁶ Many budget analysts believe such projections offer an overly rosy scenario of the long-term budget picture. Under this scenario, the FY2013 deficit is projected to total \$598 billion.

The Obama Administration also projected an Adjusted Baseline, which in its view, provides a more transparent and realistic reflection of the federal government's current fiscal situation.³⁷ They use this methodology as a basis for understanding how new policy choices would affect the fiscal outlook, essentially replacing the current BEA baseline. The Administration's Adjusted Baseline assumes that the 2001/2003/2010 tax cuts will be extended, that the alternative minimum tax (AMT) will be patched, effectively adjusting the exemption level for inflation, that the estate taxes will be extended at 2011 levels, and the spending limits set in the Budget Control Act are in place. This baseline also includes an adjustment for disaster costs. The deficit under this scenario is projected to reach \$772 billion in FY2013.

The final deficit projection, the Proposed Budget, illustrates the impact on the budget outlook if all of the policies of the Obama Administration are implemented. In FY2013, the Administration projects that the deficit will reach \$901 billion. Both the Adjusted Baseline and the Proposed Budget project deficits throughout the 10-year budget window. Under the Proposed Budget, the deficit would fall from 5.5% of GDP in FY2013 to 2.7% of GDP by FY2018, before rising to 2.8% of GDP from FY2019 to FY2022.³⁸

Generally, the deficit levels in the Proposed Budget scenario fall between the lower BEA baseline and the higher Adjusted Baseline figures. Critics argue that the President's budget makes the deficit worse in the short-term and takes credit for deficit reduction over 10 years that would happen automatically under the baseline.

³⁵ For details of these projections, see U.S. Office of Management and Budget, *Budget for Fiscal Year 2012, The Budget*, Tables S-1 (Proposed Budget) and S-7 (BEA Baseline and Adjusted Baseline).

³⁶ The tax cuts were enacted in the Economic Growth and Taxpayer Relief Act of 2001 (EGTRRA; P.L. 107-16) and the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA; P.L. 108-27) and extended as part of The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (P.L. 111-312). For more information, see CRS Report R42020, *The 2001 and 2003 Bush Tax Cuts and Deficit Reduction*, by Thomas L. Hungerford.

³⁷ In prior years, this scenario had been known as the Current Policy Baseline.

³⁸ U.S. Office of Management and Budget, *Budget for Fiscal Year 2013, The Budget*, Tables S-4 and S-6. In March 2012, CBO estimated that the President's Proposed Budget would result in a deficit of \$977 billion or 6.1% of GDP in FY2013. By FY2022, CBO projects a deficit of \$728 billion or 3.0% of GDP based on the President's proposals. Congressional Budget Office, *An Analysis of the President's 2013 Budget*, Table 1.

What Do These Baselines Reflect?

As stated above, the Adjusted Baseline assumes that certain policies due to expire will be continued. The President's budget views the Adjusted Baseline as the most realistic projection of the budget deficit and it is used as their benchmark to measure the impact of their budget proposals. The Proposed Budget, however, is the one that illustrates the resulting budget outlook if all of the policies proposed by the President were implemented. Whether or not a certain policy proposal increases or decreases the deficit depends on which baseline is being used as the starting point.

There are no real limits on what assumptions can be used to construct the Adjusted Baseline as opposed to the BEA baseline whose parameters were set by legislation. The Adjusted Baseline in the FY2013 budget assumes, for example, costly increases in the deficit to "patch" the AMT and continue the 2001/2003/2010 tax cuts. Because these policies serve to increase the deficit, the Administration can show decreases in the deficit by measuring its Proposed Budget against this constructed Adjusted Baseline, rather than against the BEA baseline. For example, because the Administration assumes a full continuation of the 2001/2003/2010 tax cuts in its Adjusted Baseline, at a cost of \$2,173 billion between FY2013 and FY2022, their proposal included in the Proposed Budget to allow the tax cuts on top income earners to expire, results in a "savings" of \$1,433 billion over the same period. However, relative to the BEA baseline, the extension of the tax cuts increases the deficit by \$740 billion.³⁹

A similar methodology can be used in understanding how the AMT patch is being accounted for in each baseline. The Adjusted Policy baseline incorporates an annual AMT patch at 2011 parameters, which increases the deficit by \$1,898 billion over the FY2013-FY2022 period relative to the BEA Baseline. Because this proposal is already included in the Adjusted Baseline, it does not have any additional deficit impact in the Proposed Budget, which maintains the patch.

Major FY2013 Budget Proposals

In his budget for FY2013, President Obama presented his policy agenda, largely focused on providing additional stimulus to create jobs and bolster the economic recovery while operating within the discretionary spending limits currently in law. The main policy initiatives he emphasized include various spending and tax proposals, as well as longer term deficit reduction. The budget also emphasizes continued investment in and reform of education and job training programs as well as a continued push for research and development incentives and infrastructure improvements. Overall, the proposed budget cuts the deficit in half, in dollar terms (and as a percentage of GDP) by the middle part of the decade. However, the deficit begins to rise again in the second half of the decade.

The President's budget proposes a variety of tax and spending measures aimed at job creation, largely drawn from the American Jobs Act submitted to Congress in September 2011. These proposals amount to nearly \$350 billion in additional spending and tax cuts, including immediate funding for roads, rails and runways, aid to states and local governments for teachers and first responders, school modernization and a full-year extension of the Social Security payroll tax reduction and unemployment benefits. Of this funding, approximately \$178 billion is expected to be spent in FY2012 and \$137 billion in FY2013, with smaller amounts in later years.

³⁹ These figures do not include related debt service costs or savings.

While the President proposes additional stimulus that increases the deficit in the short term, he also includes a package of spending cuts and revenue increases to reduce the deficit over the next 10-years. In August 2011, the Budget Control Act (BCA) placed limits on spending via discretionary spending caps and included provisions for additional spending cuts in the amount of \$1.2 trillion (for more information see the section titled “Budget Control Act of 2011”). In January 2013, the additional cuts are scheduled to take effect via an automatic process. In his FY2013 budget, President Obama proposes replacing the automatic cuts with prescribed spending cuts and tax increases. The largest of these proposals include allowing the 2001/2003/2010 tax cuts for singles making over \$200,000 and households making over \$250,000 to expire, savings generated from changes to Medicare, Medicaid, agriculture, and other mandatory programs, and placing caps on spending on Overseas Contingency Operations (OCO).⁴⁰ Together, these deficit reduction proposals total \$1,992 billion.⁴¹

The budget proposal also included other tax proposals changes in the estate tax parameters, limits the value of itemized deductions for married taxpayers with incomes over \$250,000 and single taxpayers with incomes over \$200,000, and eliminates various tax expenditures.⁴² The Administration also released a framework for corporate tax reform, which included a reduction in the corporate tax rate combined with an elimination of certain corporate tax expenditures. The Administration is committed to reform that would not add to the deficit.⁴³

Finally, the President’s Budget also includes a *Cuts, Consolidations, and Savings* volume that contains proposed changes to 210 discretionary and mandatory programs, which could save approximately \$24 billion in FY2013 if enacted.⁴⁴

Longer term budgetary challenges remain the biggest driver of fiscal challenges. These challenges are partially addressed by a variety of budget proposals. However, further programmatic reforms, beyond those laid out in the budget proposal, will likely be needed to fully address these long-term deficit drivers.

Congressional Consideration of the FY2013 Budget Resolution

The House and Senate Budget Committees are responsible for formulating and reporting an annual budget resolution. The budget committees typically develop the budget resolution as they receive information and testimony from various sources, such as the Administration, CBO, and congressional committees with jurisdiction over spending and revenues. The timetable

⁴⁰ OCO spending is currently exempt from the BCA discretionary spending caps. Part of the savings would be used to invest in a six-year surface transportation reauthorization package. Whether or not savings can be generated by reducing OCO spending from current levels has been controversial. For CBO’s take on the issue, see Congressional Budget Office, Director’s Blog, *Can Proposed Reductions in Future War-Related Spending Be Used To Offset Proposed Deficit Increases in Other Areas?*, February 1, 2012.

⁴¹ The deficit reduction proposed in the President’s budget to replace the automatic spending reduction process total \$3,187 billion. However, the budget also proposes to cancel the \$1,195 billion automatic process cuts. Therefore, the cumulative effect of these reductions is \$1,992 billion. CRS calculations based on Office of Management and Budget, *Budget for Fiscal Year 2013, The Budget*, Table S-2.

⁴² For full detail on the revenue proposals included in the President’s budget, see Department of the Treasury, *General Explanations of the Administration’s Revenue Proposals (Green Book)*, February 2012.

⁴³ The White House and the Department of the Treasury, *The President’s Framework for Business Tax Reform*, p. 1, February 2012.

⁴⁴ Office of Management and Budget, *Budget for Fiscal Year 2013, Cuts, Consolidations, and Savings*, p. 1.

established in the Congressional Budget Act directs the Senate Budget Committee to report a budget resolution by April 1, and for the House and Senate to reach final agreement on a budget resolution by April 15.⁴⁵

On March 21, 2012, the House Budget Committee reported the budget resolution (H.Con.Res. 112, 112th Congress) by a vote of 19-18. The resolution provided for revenue levels of \$2,734 billion and outlays of \$3,530 billion in FY2013 for a deficit of \$797 billion, or approximately 5.0% of GDP. By FY2022, the deficit is projected to fall to \$287 billion or 1.2% of GDP. Debt held by the public is projected to rise in nominal terms from \$12,261 billion in FY2013 to \$15,364 billion by FY2022.⁴⁶ The budget resolution was agreed to by the House on March 29, 2012, by a vote of 228-191.

The budget proposal contains changes to both spending and revenue. The Budget Control Act specified a statutory cap on discretionary spending of \$1,047 billion for FY2013. Under the House budget resolution, top line discretionary spending for FY2013 would be further reduced to \$1,028 billion. Like the President's budget proposal, the House budget resolution specifies a replacement of the Budget Control Act's automatic cuts, scheduled to take place in January 2013, with spending cuts to be achieved elsewhere. The budget resolution contains reconciliation instructions to six committees to find further deficit reduction of \$261 billion over 10 years. Though the committee report accompanying the budget resolution does contain preferred policy options by which to achieve these savings, the committee has the authority to report whatever changes it wants within its jurisdiction in response to the reconciliation directive. Policy options from the budget committee include changes to federal health programs, the Supplemental Nutrition Assistance Program, job training and education programs, and the federal workforce. Under this proposal, overall government spending would be reduced to the historical average of roughly 20% of GDP by FY2015.

On the revenue side, the Budget Committee, in the report accompanying the budget resolution, suggests replacing the current system with two tax brackets of 10% and 25% and repealing the Alternative Minimum Tax. The corporate tax rate would also be reduced from 35% to 25%. To offset the reduction in tax rates, certain tax expenditures would be eliminated in order to broaden the base of taxable income. Revenue collection would average roughly 18% of GDP between FY2013 and FY2022 under this proposal.

Because the budget resolution does not become law, separate legislation would have to be enacted in order to make some of the policy changes that are relied upon in the proposal. The budget proposal does not contain specifics on how some of the revenue and spending proposals would be achieved. Therefore, if some of the policy proposals do not become law, the spending, revenue, and deficit projections could change significantly. Further affecting deficit levels are the economic assumptions used in making any budget projections. The House budget resolution uses CBO's January 2012 estimates, which are roughly in line with those in the President's budget.⁴⁷ If economic growth is higher or lower, the deficit levels and related components in the budget resolution would be affected.

⁴⁵ For more information on the congressional budget process, see CRS Report RS20368, *Overview of the Congressional Budget Process*, by Bill Heniff Jr.

⁴⁶ U.S. House of Representatives, Committee on the Budget, *The Path to Prosperity: A Blueprint for American Renewal*, Table S-1.

⁴⁷ U.S. House of Representatives, Committee on the Budget, H.Rept. 112-421, p. 26 and Table 6.

The Senate Budget Committee has not yet reported a budget resolution for FY2013.

In order to proceed with the consideration of FY2013 appropriations bills, both the House and the Senate took action to “deem” enforceable levels of discretionary spending for FY2013 because no agreement has been reached on the budget resolution.⁴⁸ In the past, deeming resolutions have been used when the House and Senate are late in reaching final agreement on a budget resolution or fail to reach an agreement altogether.

Considerations for Congress

Congress faces ongoing budgetary challenges in FY2013 with both short-run and long-run budget priorities that may conflict in critical ways. In the short term, economic issues may continue to dominate the policy debates. In addition, Congress will have to make decisions in several key policy areas. Over the long term, increasing federal health care costs are expected to keep mandatory spending rising, placing ever-increasing focus on how to achieve fiscal sustainability.

Addressing the Budget Deficit

Over the next several months, Congress is expected to discuss several revenue and spending policies that, if changed from current law, could have a large impact on the size of the budget deficit going forward.

Tax Provisions

On December 17, 2010, the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (P.L. 111-312) was signed into law. This legislation had numerous provisions, including the extension of the 2001 and 2003 (“Bush”) tax cuts until the end of 2012, reinstating the estate tax until the end of 2012, and “patching” the alternative minimum tax until the end of 2011. Under the law, long-term unemployment benefits were also extended and the employee portion of the Social Security payroll tax was cut by two percentage points until the end of 2011. Relative to current law, CBO estimated that the spending and revenue measures in the bill would increase the deficit by \$390 billion in FY2011 and by \$468 billion over the FY2012-FY2020 period, with nearly all the impact on the deficit occurring between FY2011 and FY2013.⁴⁹

The payroll tax reduction, long-term unemployment benefit extension, and “doc fix” were extended for two months, through February 29, 2012, as part of Temporary Payroll Tax Cut Continuation Act of 2011 (P.L. 112-78). These measures were extended through the end of calendar year 2012 as part of Middle Class Tax Relief and Job Creation Act of 2012 (H.R. 3630). CBO estimates that this legislation, enacted as part of H.R. 3630, will increase the deficit by \$89.3 billion over the FY2012-FY2022 period.⁵⁰

⁴⁸ For more information, see CRS Report RL31443, *The “Deeming Resolution”: A Budget Enforcement Tool*, by Megan Suzanne Lynch.

⁴⁹ Between FY2014 and FY2020, the legislation is estimated to reduce the deficit by \$59 billion. Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2011 to 2021*, January 2011, Box 1-1.

⁵⁰ Congressional Budget Office, *Budgetary Effects of the Conference Agreement for H.R. 3630, the Middle Class Tax* (continued...)

Budget Control Act of 2011

On August 2, 2011, the President signed into law the Budget Control Act of 2011 (BCA; P.L. 112-25).⁵¹ The BCA contained a variety of measures intended to reduce the deficit by at least \$2.1 trillion over the FY2012-FY2021 period, along with a mechanism to increase the debt limit. The deficit reduction provisions included \$917 billion in savings from statutory caps on discretionary spending and the establishment of a Joint Select Committee on Deficit Reduction (Joint Committee) to identify further budgetary savings of at least \$1.2 trillion over 10 years. On November 21, 2011, the co-chairs of the Joint Committee announced that they were unable to reach an agreement before the committee's deadline. As a result, a \$1.2 trillion automatic spending reduction process has been triggered to begin in January 2013 unless Congress and the President act to eliminate or change the process before then. While the BCA is projected to reduce the deficit, it does not eliminate budget deficits or growth in the federal debt over the 10-year budget window.

Even with the deficit reduction contained in the BCA, many budget analysts believe that additional savings are required to put the budget on a sustainable path over the long-term, particularly if some of the policies set to expire under current law are, instead, continued. (See earlier discussion in the section "Budget Baseline Projections".) Even under the current law baseline, which includes the BCA's \$2.1 trillion in deficit reduction, projected deficits of \$3.1 trillion over 10 years remain.

Other Short-Term Considerations

The economy is still recovering from the most recent recession, which lasted from December 2007 to June 2009. Conditions remain weak, in part, due to budget challenges facing state and local governments, high levels of consumer debt, and continuing weakness in many real estate markets. Most economists expect unemployment rates to remain elevated for the medium term. During this period, the budget deficit grew largely as a result of government actions taken to combat the economic downturn as well as significantly lower revenue and higher spending levels directly attributable to the economic conditions.

As the economy continues to recover, revenue should increase as unemployment falls and spending should decrease due to less reliance on federal programs meant to provide assistance during economic downturns. This should lead to decreases in the budget deficit relative to current levels in the short term. Though many argue that fiscal stimulus and other actions were needed to help the economy recover, the resulting large budget deficits and high debt levels will have an effect for many years.

(...continued)

Relief and Job Creation Act of 2012, as Posted on the Web Site of the House Committee on Rules on February 16, 2012. For more information, see CRS Report R42103, *Extending the Temporary Payroll Tax Reduction: A Brief Description and Economic Analysis*, by Donald J. Marples and Molly F. Sherlock and CRS Report RL33362, *Unemployment Insurance: Programs and Benefits*, by Julie M. Whittaker and Katelin P. Isaacs.

⁵¹ For more information on the Budget Control Act of 2011, see CRS Report R41965, *The Budget Control Act of 2011*, by Bill Heniff Jr., Elizabeth Rybicki, and Shannon M. Mahan and CRS Report R42013, *The Budget Control Act of 2011: How Do the Discretionary Caps and Automatic Spending Cuts Affect the Budget and the Economy?*, by Marc Labonte and Mindy R. Levit.

Many budget analysts are concerned about future levels of federal debt and acknowledge that the current spending and revenue collection cannot continue at current or projected future levels. However, making significant changes to spending or revenue policies at this time may be harmful to the ongoing economic recovery. On the other hand, the longer that the country continues without a plan to stabilize its fiscal future, the more costly reform may be. In addition, the likelihood of a severe fiscal crisis caused by an unwillingness of private investors to continue financing unsustainable deficits may increase, and if that occurs, reforms may be forced by events, rather than being well planned.⁵²

General Budget Issues

Congress may wish to consider some general budgeting issues beyond these short-term considerations.

Budget Transparency

The budget, reflecting the size and complexity of the federal government, is complicated and detailed. The budget books that OMB compiles provide an enormous amount of information, and other budget data reported by federal agencies provide even more detail on federal spending plans. The Federal Funding Accountability and Transparency Act of 2006 (P.L. 109-282) included several measures to increase the accessibility of budget information. For example, as a result of that act, OMB now runs the USAspending.gov website, which provides detailed information on federal spending. Concerns have been raised about the quality of those data.⁵³ Moreover, it is not clear that those data are thoroughly coordinated with other federal budgeting data systems.

Congress and the President have undertaken additional efforts in an attempt to improve transparency in light of the large amounts of spending currently occurring as a result of economic stabilization efforts and federal financial interventions. For example, Recovery.gov was launched to track stimulus spending. The Congressional Oversight Panel was established in the Emergency Economic Stabilization Act to oversee TARP spending. Despite this, criticisms remain and requests for greater transparency continue.

In certain cases, despite the large amount of data provided by OMB and other government agencies, it can be difficult to answer relatively simple budget questions. Critics maintain that the federal government in general and OMB in particular should take steps to make data on federal spending even more transparent to taxpayers and more useful to policymakers. Even as the President's budget mentions "a new tracking tool" to provide daily updates on spending by agency, Congress may wish to consider requiring these changes to provide more organized and transparent budget data to citizens and to itself.⁵⁴

⁵² Congressional Budget Office, *Federal Debt and the Risk of a Fiscal Crisis*, July 27, 2010, p. 1.

⁵³ For more information, see CRS Report RL34718, *The Federal Funding Accountability and Transparency Act: Implementation and Proposed Amendments*, by Garrett Hatch.

⁵⁴ Office of Management and Budget, *Budget for Fiscal Year 2011, The Budget*, p. 44.

Long-Term Considerations

Budget deficits or surpluses are not always the best indication of long-term fiscal stability. Most economists agree that, under certain conditions, running a budget deficit may be necessary to provide economic stimulus or pull an economy out of recession. A large budget deficit in a single year, in itself, does not necessarily indicate a longer term problem. The federal government, however, does face serious long-term budget challenges. Some measures of fiscal solvency in the long term indicate that, under current policy, the U.S. may face a major future crisis, specifically as it relates to rising health care costs and the likely impact on government-financed health care spending.

CBO, GAO, and the Administration agree that the current mix of federal fiscal policies is unsustainable in the long term. The nation's aging population, combined with rising health care costs per beneficiary, seems likely to keep federal health costs rising faster than per capita GDP. CBO projected in June 2011 that under current policy, federal spending on federal health programs (including Medicare, Medicaid, CHIP, and exchange subsidies) would grow from 5.6% of GDP today to 10.3% of GDP in 2035, and to nearly 20% by 2085.⁵⁵ The 2010 Economic Report of the President also called the trajectory of future federal spending on Medicare and Medicaid unsustainable.⁵⁶ GAO's recent long-term fiscal simulations, under an alternative policy scenario, projected debt held by the public as a share of GDP to exceed the post World War II historical high in about 15 years.⁵⁷

Keeping future federal outlays at 20% of GDP, or approximately at its historical average, and leaving fiscal policies unchanged, according to CBO projections, would require drastic reductions in all spending other than that for Medicare, Social Security, and Medicaid, or reining in the costs of these programs. Under the extension of current law, CBO estimates that the nation's current fiscal gap, a present-value measure of fiscal imbalance for a given time period, would reach 0.2% of GDP over the next 75 years. This means that an immediate and permanent reduction in spending, increase in revenues, or a combination of spending cuts and revenue increases amounting to 0.2% of GDP would be needed to make the government's debt the same size (relative to the size of the economy) at the end of that period as it was at the beginning.

Under an alternative fiscal scenario, which incorporates policy changes that are widely expected to occur and that policymakers have regularly made in the past, the fiscal gap reaches 8.3% of GDP.⁵⁸ This indicates that an immediate and permanent reduction in spending, increase in revenues, or a combination of spending cuts and revenue increases amounting to 8.3% of GDP would be needed to make the government's debt the same size (relative to the size of the economy) at the end of that period as it was at the beginning.⁵⁹ In other words, to ensure a

⁵⁵ Congressional Budget Office, *The Long-Term Budget Outlook*, June 2011, pp. 45-46 and "Supplemental Material."

⁵⁶ Council of Economic Advisors, *Economic Report of the President*, February 2010, p. 140.

⁵⁷ Government Accountability Office, *The Federal Government's Long-Term Fiscal Outlook: Fall 2011 Update* (GAO-12-28SP), October 23, 2011, p. 1.

⁵⁸ The alternative fiscal scenario includes things like the extension of certain expiring tax provisions and the continued indexation of AMT to inflation through 2021 and Medicare physician payment rates are maintained at 2011 levels through 2021 and not restrained thereafter by policies in current law. For a complete description of the assumptions included in the extended baseline and alternative fiscal scenarios, see Congressional Budget Office, *The Long-Term Budget Outlook*, June 2011, Table 1-1.

⁵⁹ U.S. Congressional Budget Office, *The Long-Term Budget Outlook*, June 2011, Table 1-3.

sustainable fiscal path over the next 75-years where debt remains at the same level of GDP as it is currently, spending would have to be immediately and permanently cut by 31%, revenue would have to be increased by 44%, or some combination of the two.

As the economic recovery continues, Congress may focus more effort on balancing the budget and reining in the debt. This would require less spending, increases in revenue collections, faster-than-average economic growth, or a combination of these things. Debt requires interest payments that can strain budgets if debt levels and interest rates are high. High debt levels could limit the government's flexibility in meeting its obligations or in responding to emerging needs of its citizens. Ultimately, failing to take action to reduce the projected growth in the debt potentially might lead to future insolvency or government default.⁶⁰

⁶⁰ See Alan Auerbach and William Gale, "The Economic Crisis and the Fiscal Crisis: 2009 and Beyond: An Update," Tax Policy Center working paper, September 2009, available at http://www.brookings.edu/~media/Files/rc/papers/2009/06_fiscal_crisis_gale/06_fiscal_crisis_gale_update.pdf.

Appendix. Budget Documents

CBO Documents

The Congressional Budget Office (CBO) provides data and analysis to Congress throughout the budget and appropriations process. Each January, CBO issues a *Budget and Economic Outlook* that contains current-law baseline estimates of outlays and revenues. In March, CBO typically issues an analysis of the President's budget submission with revised baseline estimates and projections. In late summer, CBO issues an updated *Budget and Economic Outlook* with new baseline projections.

In these documents, CBO sets a current-law baseline as a benchmark to evaluate whether legislative proposals would increase or decrease outlays and revenue collection. Baseline estimates are not intended to predict likely future outcomes, but to show what spending and revenues would be if current law remained in effect. CBO typically evaluates the budgetary consequences of legislative proposals and the Joint Committee on Taxation (JCT) evaluates the consequences of revenue proposals.

CBO also releases other periodic publications focusing on the future fiscal health of the United States. In their publication, *The Long-Term Budget Outlook*, CBO makes projections on the state of the federal budget to FY2083. They discuss spending and revenue levels and the related issues that they expect will arise under different policy assumptions. In their *Budget Options* volumes, they provide specific policy options and the impact they will have on spending and revenues over a 10-year budget window. They also provide arguments for and against enacting each policy.

OMB Documents

The President's Budget typically contains six volumes: (1) *The Budget*; (2) *Historical Tables*; (3) *Analytical Perspectives*; (4) *Appendix*; (5) *Terminations, Reductions, and Savings*; and (6) *Supplemental Materials*.⁶¹ These documents lay out the Administration's projections of the fiscal outlook for the country, along with spending levels proposed for each of the federal government's departments and programs. The *Historical Tables* volume also provides significant amounts of budget data, much of which extends back to 1962 or earlier. Along with the Administration's budget documents, the Department of the Treasury also releases its *Green Book*, which provides further detail on the revenue proposals that are contained in the budget.⁶²

⁶¹ The President's budget proposals can be found on the OMB website at <http://www.whitehouse.gov/omb/>. The Supplemental Materials include the Federal Credit Supplement, the Object Class Analysis, the Balances of Budget Authority, and the Public Budget Database.

⁶² The Green Book is available at http://www.treasury.gov/resource-center/tax-policy/Pages/general_explanation.aspx.

Author Contact Information

Mindy R. Levit
Analyst in Public Finance
mlevit@crs.loc.gov, 7-7792