The Federal Budget: Issues for FY2014 and Beyond

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Summary

The federal budget is central to Congress's ability to exercise its "power of the purse." Recent economic turmoil put strain on the federal budget due to declining revenues and increasing spending levels. Subsequently, policies enacted to restrain spending, along with an improving economy, have put the federal budget on a more sustainable path in the near term. In FY2012, the U.S. government spent $3,538 billion (22.8% of GDP) and collected $2,449 billion in revenue (15.8% of GDP), resulting in a budget deficit of $1,089 billion (7.0% of GDP). CBO currently estimates the FY2013 deficit at $845 billion (5.3% of GDP).

The Obama Administration released its FY2014 budget on April 10, 2013. Under the proposals in the President's budget, the deficit is estimated at $744 billion (4.4% of GDP) in FY2014. The FY2014 budget contains a policy agenda that largely focuses on providing additional stimulus to create jobs, increasing infrastructure investment, and providing additional funding for early childhood education programs. The President's budget also proposes new deficit reduction aimed at replacing the Budget Control Act's (BCA's) automatic spending reduction process. These proposals include additional tax revenues generated by limiting deductions on higher-income households and ensuring that higher-income households pay a minimum percentage of their income in taxes. On the spending side, the proposals include reductions in health spending, certain mandatory programs, and lowering of the BCA's discretionary spending caps. The budget also contains a proposal to use the chained consumer price index (CPI) for the purposes of calculating annual increases in certain federal benefits and for the indexation of tax brackets. The stimulus measures are primarily targeted to increase spending in FY2014 and FY2015, whereas the deficit reduction takes place mainly after FY2015.

On March 21, 2013, the House agreed to a budget resolution (H.Con.Res. 25, 113th Congress) by a vote of 221-207. The resolution provided for a deficit of $528 billion, or 3.2% of GDP in FY2014. By FY2023, the budget is projected to reach a surplus of $7 billion. The budget proposal contained several policy changes affecting spending, including removing the BCA's additional spending reductions set to affect defense discretionary spending and reallocating them to non-defense discretionary spending. The budget resolution also contains reconciliation instructions to eight committees to find further deficit reduction totaling $8 billion over 10 years.

On March 23, 2013, the Senate agreed to a budget resolution by a vote of 50-49. The resolution provided a deficit of $693 billion, or approximately 4.2% of GDP in FY2014. By FY2023, the deficit is projected to fall to $566 billion or 2.7% of GDP. The budget proposal contains changes to both spending and revenue. Specifically, the budget resolution proposes revising the Budget Control Act's statutory caps on discretionary spending and replaces the BCA's automatic spending reductions with a combination of other spending cuts and revenue increases, including some reductions to the current BCA caps. The budget resolution contains reconciliation instructions to the Senate Finance Committee to increase the level of revenues by $975 billion between FY2013 and FY2023.

CBO, GAO, and the Administration agree that the current mix of federal fiscal policies is unsustainable in the long term. Under their projections, putting the federal budget on a sustainable long-term path requires an agreement on additional deficit reduction, which may include increases in revenues or changes to large spending programs or both. This report will be updated as events warrant.

Contents

Figures

Appendixes

Contacts

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.[1] Recent economic turmoil put strain on the federal budget due to declining revenues and increasing spending levels. Subsequently, policies enacted to restrain spending, along with an improving economy, have put the federal budget on a more sustainable path in the near term.

In August 2011, budget negotiations 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.[2] 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. Congress and the President may consider proposals for additional deficit reduction over the next few months as fiscal issues remain a key component of the legislative agenda as the future outlook remains uncertain.

This report will provide an overview of federal budget issues, focusing on recent fiscal policy changes. It will also discuss the major policy proposals contained in the President's FY2014 budget and the House and Senate budget resolutions. This report will be updated as events warrant.

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.[3] The executive agencies begin the 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 submits a budget to Congress, which is based on work by OMB and federal agencies, by the first Monday in February or about eight months before the fiscal year begins.[4]

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

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

[2] 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.

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

[4] 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 Clinton T. Brass.

Senate, that establishes the framework for subsequent budgetary legislation. Because the budget resolution is a concurrent resolution, it is not sent to the President for approval.[5]

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.[6]

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.

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 the House and Senate agreed to a budget resolution was for FY2010. The FY2010 budget resolution was agreed to on April 29, 2009.

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.[7] Historically, forecasts based on these assumptions have typically yielded higher revenue estimates and understated discretionary spending levels. Since Congress and the President have resolved certain questions related to expiring tax policy and have enacted specific policies set to control discretionary spending over the next decade, there are fewer policy uncertainties affecting the baseline levels under current law. More specifically, the American Taxpayer Relief Act of 2012 (ATRA; P.L. 112-240; see additional discussion below) permanently set into law many individual tax rates and tax policy provisions. On the spending side, baseline discretionary spending levels are constrained by the caps and automatic spending reductions currently in law, with adjustments for war funding, and disaster, emergency, and program integrity spending. In addition to these current law

[5] 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 S. Lynch.

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

[7] 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).

assumptions, macroeconomic assumptions, specifically of gross domestic product (GDP) growth, inflation, and interest rates, will also affect the baseline estimates and projections.

However, the CBO baseline also incorporates certain assumptions currently in law, but that have historically been revised prior to the policy change taking effect. Specifically, the CBO baseline assumes that sharp reductions in Medicare's payment rates for physician services will take effect as scheduled in January 2014 and that certain tax provisions will not be continued after their current extensions expire, mainly in December 2013. The projections in the baseline also contain additional uncertainty as a result of the continued economic recovery, particularly as it relates to federal borrowing costs, and as several new policies are set to take effect, including some major provisions of the Affordable Care Act. Minor changes in the economic or technical assumptions that are used to project the baseline could result in significant changes in the outyear deficit levels.[8]

Current baseline projections show significant reductions in the budget deficit over the next several years, from 7.0% of GDP in FY2012 to 2.4% of GDP in FY2015, and roughly similar deficits through FY2018. (The budget deficit is projected to be 2.9% in FY2018.)[9] These declining deficit figures are primarily due to continued improvements in the economy, increased tax rates on some taxpayers, and restraints on discretionary spending. This results in budget deficits that slightly reduce the level of debt held by the public as a percentage of GDP, particularly after FY2015. In other words, these budget deficits would be fiscally sustainable. However, after FY2018, deficit and debt figures are projected to rise again, reaching a deficit level of 3.8% of GDP and a level of debt held by the public of 77.0% of GDP. Under the baseline assumptions, budget deficits are projected to average 3.3% of GDP over the FY2014 to FY2023 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 Medicare payment rates for physician services remain the same, expiring tax provisions are extended, and the provisions of the Budget Control Act's automatic spending reduction process do not remain in effect for FY2014 and beyond, CBO projects a cumulative increase in the budget deficit by more than $2.5 trillion, including increased debt service costs, over the FY2014 to FY2023 period. Beyond the 10-year forecast window, federal deficits are expected to grow unless major policy changes are made. This is a result of increased 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), while federal revenues averaged roughly 18% of GDP. After several years of budget surpluses, spending began to exceed revenues in FY2002, resulting in budget deficits. Over the last several fiscal years the imbalance between spending and revenues has been larger primarily as a result of the economic downturn and policies enacted in response to financial turmoil. Though the economy is recovering, deficits remain at levels that

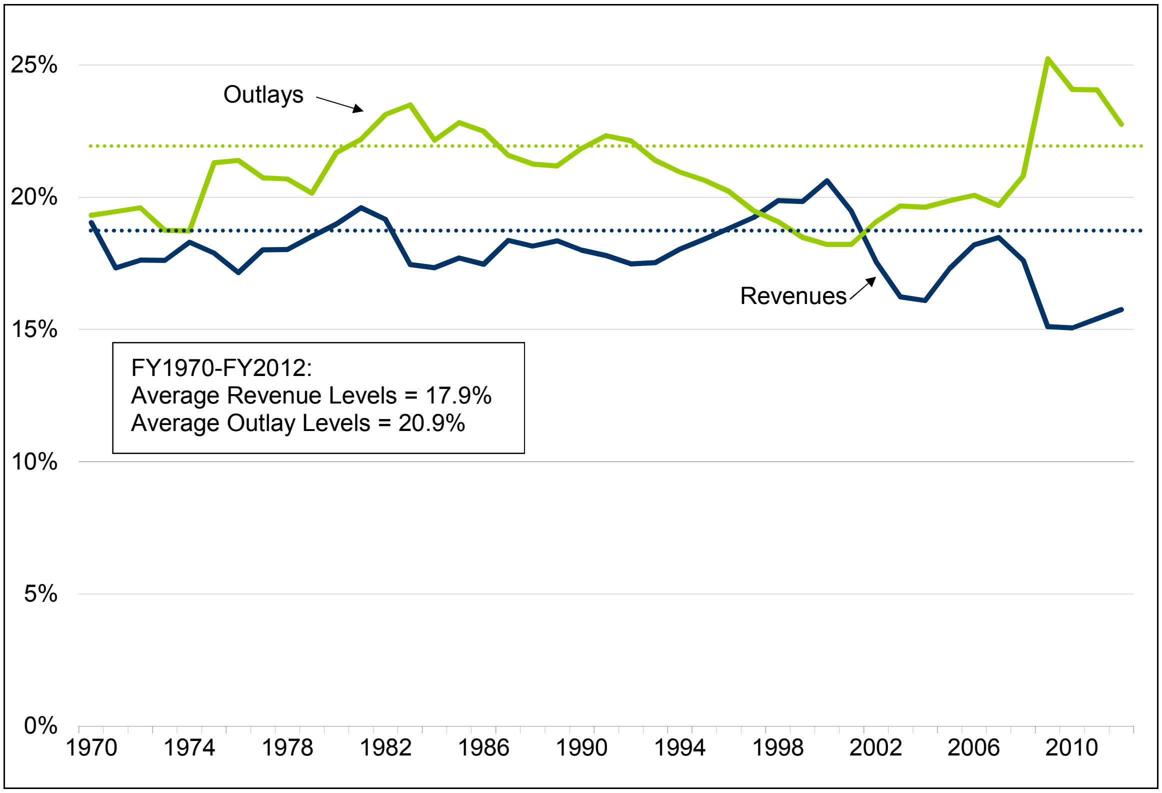
[8] CBO, *The Budget and Economic Outlook: Fiscal Years 2013 to 2023*, February 2013, pp. 29-30.

[9] Unless otherwise noted, budget data in this report are taken from the tables in CBO, *The Budget and Economic Outlook: Fiscal Years 2013 to 2023*, February 2013.

exceed historical averages. In FY2012, the most recently completed fiscal year, the U.S. government spent $3.5 trillion and collected $2.4 trillion in revenue. The trends in revenues and outlays between FY1970 and FY2012 are shown in **Figure 1**.

Figure 1. Total Outlays and Revenues, FY1970-FY2012

(as a percentage of GDP)



Source: CRS figure using data from CBO, *Historical Tables*, February 2013.

Federal Spending

Federal outlays are often divided into the broad categories of discretionary and mandatory spending, and net interest.[10] 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.[11] 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

[10] The division between discretionary and mandatory spending was first put into place in FY1962.

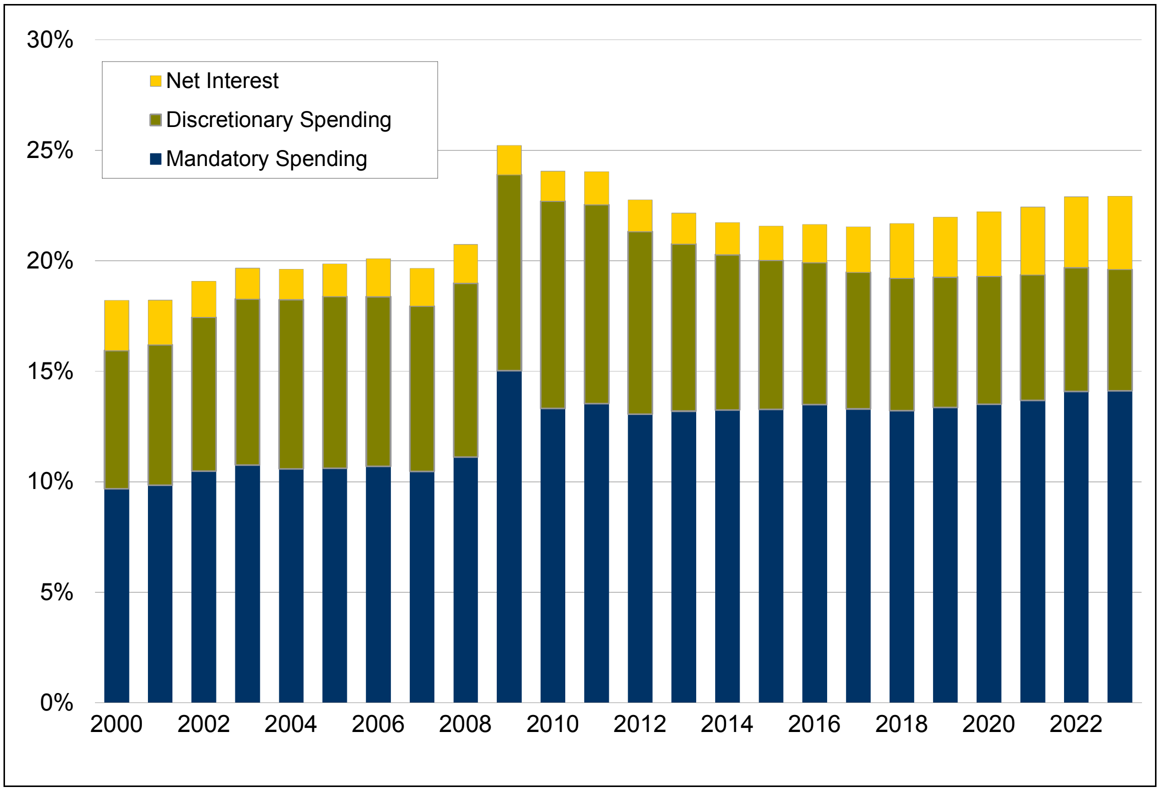
[11] For more information on trends in discretionary and mandatory spending, see CRS Report RL34424, *Trends in Discretionary Spending*, by D. Andrew Austin and CRS Report RL33074, *Mandatory Spending Since 1962*, by D. Andrew Austin and Mindy R. Levit.

payments on the debt held by the public, offset by small amounts of interest income the government receives from certain loans and investments.[12]

In FY2000, total outlays equaled 18.2% of GDP. By FY2012, total outlays were 22.8% of GDP. This is lower than the peak outlay level of 25.2% of GDP, reached in FY2009. Under the CBO baseline, total outlays are projected to be 22.9% of GDP in FY2023. **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 FY2023, as projected in the CBO baseline.

Figure 2. Outlays by Type, FY2000-FY2023

(as a percentage of GDP)



Source: CRS figure using data from CBO, *Historical Tables*, February 2013.

Notes: Data for FY2013 are estimates and data for FY2014-FY2023 are projections under the current law baseline.

In FY2012, discretionary spending totaled 8.3% of GDP.[13] Since FY2000, discretionary spending as a share of GDP has increased 6.3% a year, on average, in nominal terms. Increases in discretionary spending over this period have largely been a result of increases in security spending 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 FY2012, defense discretionary outlays grew 7.1% per year in nominal terms, while non-defense discretionary outlays grew 5.6% per year in nominal terms. By FY2023, according to CBO's baseline projections, discretionary

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

[13] Discretionary spending peaked in FY2010 at 9.4% of GDP.

spending will fall to 5.5% of GDP, its lowest level ever. The projected decline in discretionary spending in the baseline over the next decade is largely due to the reductions implemented as part of the Budget Control Act and waning spending from ARRA funding.

Mandatory spending totaled 13.1% of GDP in FY2012, 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 for 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 mandatory spending will total 14.1% of GDP in FY2023, higher than the FY2012 level.

In addition to their size relative to the economy, the components of federal spending can also be examined relative to each other. In FY2012, mandatory spending totaled 57.4% of total outlays, discretionary spending totaled 36.3% of total outlays, and net interest comprised the remaining 6.3% of total outlays. The largest mandatory programs, Social Security, Medicare, and the federal share of Medicaid, constituted 44.4% of all federal spending in FY2012. Because discretionary spending represents roughly one-third of total federal outlays, some budget experts contend that to achieve significant reductions in federal spending, reductions in mandatory spending are needed. Other budget and social policy experts contend that cuts in mandatory spending would cause substantial disruption to many households, because mandatory spending comprises 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 FY2012, federal revenue collection totaled 15.8% 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 American Taxpayer Relief Act of 2012 (ATRA; P.L. 112-240) permanently extended existing tax rates for most income groups, while raising tax rates for upper income households beginning in calendar year 2013.[18] The longer-term revenue outlook depends largely on the speed of economic recovery and associated factors. It is also possible that tax reform could result in changes to the level of federal revenues. Under the CBO baseline, revenues are projected to total 19.1% of GDP in FY2023.

[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."

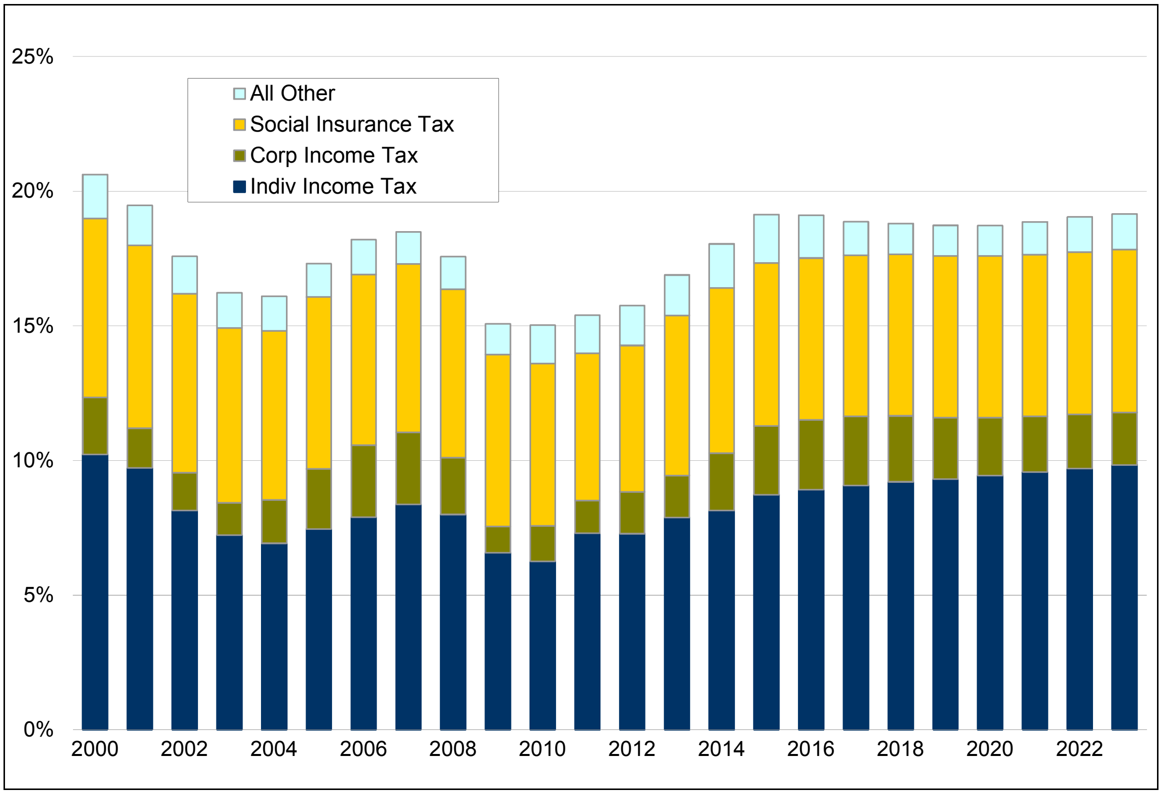
[17] In FY2009 and FY2010, revenue collection totaled 15.1% of GDP.

[18] For more information on ATRA's tax provisions, see CRS Report R42894, *An Overview of the Tax Provisions in the American Taxpayer Relief Act of 2012* , by Margot L. Crandall-Hollick.

Individual income taxes have long been the largest source of federal revenues, followed by social insurance (payroll) and corporate income taxes.[19] In FY2012, individual income tax revenues totaled 7.3% of GDP. Social insurance tax revenue accounted for 5.4% of GDP[20] and corporate income tax revenues equaled 1.6% of GDP in FY2012. **Figure 3** shows revenue collections between FY2000 and FY2023, as projected in the CBO baseline.

Figure 3. Revenue by Type, FY2000-FY2023

(as a percentage of GDP)



Source: CRS figure using data from CBO, *Historical Tables*, February 2013.

Notes: Data for FY2013 are estimates and data for FY2014-FY2023 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

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[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 two fiscal years largely due to a reduction in the employee payroll tax rate from 6.2% to 4.2%, which began on January 1, 2011. This reduction expired on December 31, 2012.

[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.

surpluses determine, over time, the level of publicly held federal debt and affect the growth of interest payments to finance the debt.

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 unified budget deficit in FY2012 was $1,089 billion, or 7.0% of GDP. The unified deficit, according to some budget experts, gives an incomplete view of the government's fiscal condition because it includes off-budget surpluses.[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 FY2012 federal deficit was $1,151 billion. The FY2012 unified deficit was lower as a percentage of GDP than deficits of recent years. The budget deficit peaked in FY2009 at $1,413 billion and 10.1% of GDP.

Budget Deficit Estimates for FY2013

The February 2013 CBO baseline estimated the FY2013 budget deficit at $845 billion or 5.3% of GDP, the lowest budget deficit since FY2008. 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 FY2013 is mainly the result of increased revenues due to the expiration of the payroll tax rate reduction and higher individual tax rates on upper-income workers. (Outlays for FY2013 are estimated to remain at roughly the same level as in FY2012.)

Federal Debt and Debt Limit

Gross federal debt is composed of debt held by the public and intragovernmental debt.[23] 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's, 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 unified deficits and surpluses.[24] Whether or not the movements of gross federal debt will follow those of debt held by the public depends on how intragovernmental debt changes.

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[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 Social Security Trust Funds. Off-budget surpluses have historically been large. However, declining surpluses in the Social Security Trust Funds will lead to off-budget deficits beginning in FY2017 according to the CBO baseline.

[23] 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.

[24] An exception to this is with regard to the treatment of federal credit programs where the increase in the budget deficit can differ from the increase in the debt held by the public. This is a result of the accounting rules for federal credit programs under the Federal Credit Reform Act of 1990 whereby the budgetary cost of a new direct loan or loan guarantee is based on the subsidy cost over the life of the loan or loan guarantee rather than its net cash flow for that fiscal year. For example, in FY2009 and FY2010 the increase in the deficit was larger than that of debt held by the (continued...)

Typically 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. It should be noted that the debt limit by itself has no effect on the borrowing needs of the government. The debt limit, 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.[25]

At the end of FY2012 (September 30, 2012), federal debt subject to limit was approximately $16,027 billion, of which $11,280 billion was held by the public. A provision contained in the No Budget, No Pay Act of 2013 (P.L. 113-3) temporarily suspended the debt limit. The suspension ends on May 19, 2013.[26]

Net Interest

In FY2012, the United States spent $223 billion or 1.4% 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 debt.[27] Some economists, however, have expressed concern that federal interest costs could rise sharply once the economy recovers, resulting in future strain on the budget. Interest rates are projected to gradually rise in the CBO baseline resulting in a rise in net interest payments to $857 billion or 3.3% of GDP in FY2023.

Recent Budget Policy Changes

The 112th Congress enacted a number of policies affecting the fiscal outlook. Numerous expiring provisions, across-the-board spending cuts, and other short-term considerations having a major budgetary impact, were scheduled to take effect at the very end of 2012 or in early 2013. This combination of policies was referred to by some as the "fiscal cliff." The American Taxpayer Relief Act of 2012 (ATRA) was enacted to deal with many of these issues. Prior to the enactment of ATRA, the Budget Control Act of 2011 (BCA) contained two major deficit reduction provisions.

(...continued)

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. For more information, see CRS Report R42632, *Budgetary Treatment of Federal Credit (Direct Loans and Loan Guarantees): Concepts, History, and Issues for the 112th Congress*, by James M. Bickley.

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

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

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

American Taxpayer Relief Act of 2012[28]

On January 2, 2013, the American Taxpayer Relief Act of 2012 (P.L. 112-240) was signed into law by President Obama. ATRA made a variety of changes to tax policy, including the permanent extension of the 2001 and 2003 "Bush" tax cuts on both ordinary income and capital gains and dividends for taxpayers with taxable income below $400,000 ($450,000 for married taxpayers filing jointly). For taxpayers with taxable income above these thresholds, the marginal tax rate on ordinary income rose from 35% to 39.6% on the portion of their income above these thresholds, and the top tax rate on long term capital gains and dividends rose from 15% to 20%. ATRA also reinstated PEP and Pease for taxpayers with adjusted gross income (AGI) above $250,000 ($300,000 for married couples filing jointly), allowing these limitations on personal exemptions and overall itemized deductions to expire for those with AGI below these thresholds. ATRA also permanently extended the tax changes to a variety of tax credits, the marriage penalty and education-related tax incentives. ATRA also included a permanent "patch" for the alternative minimum tax, permanently extended existing estate and gift tax rules, and addressed various other expiring provisions.

ATRA also included a number of spending provisions, including postponing or extending several major programs that had been set to face significant changes. These included postponing a portion of the automatic spending reductions set to take effect as part of the Budget Control Act of 2011 (see below), extending certain unemployment benefits, preventing reductions in Medicare physician payment rates, and providing for a one-year extension of the 2008 farm bill.

Budget Control Act of 2011

On August 2, 2011, the President signed into law the Budget Control Act of 2011 (P.L. 112-25).[29] 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. Because the Joint Committee was unable to reach an agreement, an automatic spending reduction process was triggered. Though initially scheduled to begin on January 2, 2013, this process began on March 1, 2013 as a result of the changes made by ATRA.[30] The reductions for FY2013 were implemented via a sequester. In the absence of future action between Congress and the President to eliminate or change the process, the automatic spending reductions will continue through FY2021.

[28] For more information, see CRS Report R42884, *The "Fiscal Cliff" and the American Taxpayer Relief Act of 2012*, coordinated by Mindy R. Levit and CRS Report R42894, *An Overview of the Tax Provisions in the American Taxpayer Relief Act of 2012* , by Margot L. Crandall-Hollick.

[29] 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 R42506, *The Budget Control Act of 2011: The Effects on Spending and the Budget Deficit* , by Mindy R. Levit and Marc Labonte.

[30] ATRA reduced the amount of the FY2013 automatic reductions from $109 billion to $85 billion.

Budget for FY2014

The Obama Administration released its FY2014 budget on April 10, 2013. Congress has also begun its consideration of the FY2014 budget.

Obama Administration's FY2014 Budget

In his budget for FY2014, President Obama presented his policy agenda, largely focused on providing additional stimulus to create jobs ($62 billion), increasing infrastructure investment ($154 billion), and providing additional funding for early childhood education programs ($77 billion). These stimulus measures would primarily increase spending in FY2014 and FY2015, whereas additional proposals call for deficit reduction beginning in FY2015.The budget also emphasizes the need for immigration reform, continued investment in research and development targeted towards manufacturing and clean energy, and various changes to the corporate and individual tax code. Overall, the proposed budget would cut the deficit in half, in dollar terms (and as a percentage of GDP) by the middle part of the decade. As a percentage of GDP, the budget deficit falls from 4.4% in FY2014 to 2.4% in FY2017 and remains at roughly 2% through the remainder of the budget window.

The President's budget proposes a variety of tax and spending measures that would replace the Budget Control Act's automatic spending reduction process (often referred to as the Joint Committee sequestration) and would provide for additional deficit reduction. In August 2011, the Budget Control Act placed limits on spending via discretionary spending caps and included provisions for additional spending cuts to be implemented via an automatic process (for more information see the section titled "Budget Control Act of 2011"). In his FY2014 budget, President Obama proposes replacing the automatic cuts (including the ones that have already occurred) with prescribed spending cuts and tax increases. The largest of these proposals include additional tax revenue generated by capping tax expenditures, modifying certain estate and gift tax provisions, imposing a financial crisis responsibility fee, and insuring that upper income households pay at least a certain percentage of their income in taxes (Buffett Rule). Savings are also generated from changes to Medicare, Medicaid, agriculture, and other mandatory programs, and placing caps on spending on Overseas Contingency Operations (OCO). The budget also contains a proposal to use the chained consumer price index (CPI) for the purposes of calculating annual increases in certain federal benefits and for the indexation of tax brackets.[31] Together, these deficit reduction proposals total $1,407 billion relative to the Administration's Adjusted Baseline.[32]

[31] OCO spending is currently exempt from the BCA discretionary spending caps. Part of the savings would be used to invest in surface transportation and job creation. 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.

[32] The deficit reduction proposed in the President's budget to replace the automatic spending reduction process total $2,503 billion. However, the budget also proposes to cancel the $1,096 billion automatic process cuts. Therefore, the cumulative effect of these reductions is $1,407 billion relative to the Adjusted Baseline. CRS calculations based on Office of Management and Budget, *Budget for Fiscal Year 2014*, *The Budget*, Table S-2.

Finally, the President's Budget also includes a *Cuts, Consolidations, and Savings* section that contains proposed changes to 215 discretionary and mandatory programs, which would save approximately $25 billion in FY2014 if enacted.[33]

Deficit Projections in the FY2014 Budget

Consistent with the presentation of previous budgets, the Obama Administration provided three separate deficit projections.[34] First, OMB projected a Balanced Budget and Emergency Deficit Control Act (BBEDCA) baseline, using methods that mirror those CBO uses to project its current-law baseline. The BBEDCA baseline assumes that discretionary spending remains constant in real (i.e., inflation-adjusted) terms and revenue and mandatory (or direct) spending continue as under current law.[35] Under this scenario, the FY2014 deficit is projected to total $687 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. They use this methodology as a basis for understanding how new policy choices would affect the fiscal outlook, essentially replacing the current BBEDCA baseline. The Administration's Adjusted Baseline assumes that discretionary spending will be limited by the discretionary caps put in place as part of the Budget Control Act, Medicare payments to physicians will not be reduced under the Sustainable Growth Rate (SGR) formula,[36] various American Recovery and Reinvestment Act (ARRA) tax provisions are extended beyond the current 2017 expiration date,[37] and includes an adjustment for disaster costs.[38] The deficit under this scenario is projected to reach $627 billion in FY2014.

The final deficit projection, the Proposed Budget, illustrates the impact on the budget outlook if all of the policies of the budget are implemented. In FY2014, the Administration projects that the deficit will reach $744 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 4.4% of GDP in FY2014 to 1.7% of GDP by FY2023.[39] The deficit levels in the Proposed Budget scenario in the outyears are lower than both the BBEDCA baseline and the Adjusted Baseline figures.

[33] Office of Management and Budget, *Budget for Fiscal Year 2013*, *The Budget*, p. 171.

[34] For details of these projections, see U.S. Office of Management and Budget, *Budget for Fiscal Year 2014*, *The Budget*, Tables S-1 (Proposed Budget) and S-8 (BEA Baseline and Adjusted Baseline).

[35] For a description of the policies included in the BBEDCA baseline, see Office of Management and Budget, *Budget for Fiscal Year 2013*, *Analytical Perspectives*, pp.429-431.

[36] Currently physician payment rates are scheduled to be reduced in 2014.

[37] These include increased refundability of the child tax credit, expansions of the earned income tax credit for certain families, and the American Opportunity Tax Credit.

[38] For a description of the policies included in the BBEDCA baseline, see Office of Management and Budget, *Budget for Fiscal Year 2013*, *Analytical Perspectives*, pp.429-432.

[39] U.S. Office of Management and Budget, *Budget for Fiscal Year 2014*, *The Budget*, Tables S-4 and S-6.

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. Ultimately, the question of whether or not the amount of deficit reduction is sufficient can only be measured by actual budget outcomes (i.e., whether the budget deficit is higher or lower in the future relative to today) and whether or not the budget is on a sustainable path.

There are no real limits on what assumptions can be used to construct the Adjusted Baseline as opposed to the BBEDCA baseline whose parameters were set by legislation. The Adjusted Baseline in the FY2014 budget assumes, for example, increases in spending as a result of eliminating the reduction in Medicare physician payments under the SGR formula. Because this policy serves to increase the deficit, this policy has no cost in the Administration's Proposed Budget when it is measured against the constructed Adjusted Baseline. If it were measured under the BBEDCA baseline, the SGR fix would increase the deficit. In other words, because the Administration assumes that Medicare physician payments would be maintained at current year levels in its Adjusted Baseline, at a cost of $249 billion between FY2014 and FY2023, this proposal does not increase the deficit in the Proposed Budget.[40]

A similar methodology can be used in understanding how the funding for Overseas Contingency Operations is being accounted for in each baseline. Both the Adjusted Baseline and BBEDCA baseline assume that OCO funding will continue at current year levels, adjusted for inflation. In the Proposed Budget, the Administration assumes a reduction in OCO funding. As a result, the Proposed Budget allocates a reduction in the deficit of $508 billion over the FY2014-FY2023 period for reduced OCO costs relative to the Adjusted Baseline and the BBEDCA baseline.

Finally, the deficit reduction generated from one of the Administration's largest proposals, to replace the Budget Control Act's automatic spending reductions, is also affected by the use of the Adjusted Baseline. The deficit reduction enacted as part of the BCA is not included as part of the BBEDCA baseline. However, it is included in the Adjusted Baseline. As described earlier, the Administration is proposing to replace the BCA with other deficit reduction in an amount that would more than offset the BCA reductions. Therefore, the proposal by the Administration to replace the BCA reductions results in a smaller amount of deficit reduction in the Proposed Budget than it otherwise would have had it been measured against a different baseline. This is because relative to the Adjusted Baseline, the amount of deficit reduction generated by the proposal is being offset by the BCA deficit reduction that it is replacing. If this proposal had been measured relative to the BBEDCA baseline, the deficit reduction would have been larger as it would not have been offset by the current BCA provisions. As a result, the amount of deficit reduction in the Administration's Proposed Budget, as it relates to the BCA replacement, is lower as a result of measuring the changes relative to the Adjusted Baseline rather than to the BBEDCA baseline.

[40] This figure does not include related debt service costs.

Congressional Consideration of the FY2014 Budget Resolution

The House and Senate Budget Committees are responsible for formulating and reporting an annual budget resolution. Each budget committee typically develops a 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 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.[41]

House Budget Resolution

On March 13, 2013, the House Budget Committee reported a budget resolution (H.Con.Res. 25, 113th Congress) by a vote of 22-17. The resolution provided for revenue levels of $3,003 billion and outlays of $3,489 billion in FY2014 for a deficit of $528 billion, or approximately 3.2% of GDP. By FY2023, the budget is projected reach a surplus of $7 billion. Debt held by the public is projected to rise in nominal terms from $12,850 billion in FY2014 to $14,211 billion by FY2023.[42] The budget resolution was agreed to by the House on March 21, 2013, by a vote of 221-207.

The budget proposal contains several policy changes affecting spending. Under the House budget resolution, the additional BCA spending reductions set to affect defense discretionary spending would be reallocated to non-defense discretionary spending so that non-defense discretionary spending will absorb the entire amount of the BCA automatic reductions. In addition to these changes to spending, the budget resolution also contains reconciliation instructions to eight committees to find further deficit reduction totaling at least $8 billion over 10 years. Though the committee report accompanying the budget resolution does contain preferred policy options by which to achieve these savings, the instructed 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,[43] the Supplemental Nutrition Assistance Program, job training and education programs, the federal workforce, and farm programs. Overall, the budget resolution proposes to reduce spending by $5.8 trillion between FY2014 and FY2023 relative to the current CBO baseline. Spending levels would average roughly 19.5% of GDP between FY2014 and FY2023 under the policies of the resolution.[44]

On the revenue side, the House Budget Committee recommends no changes to the overall revenue levels under current law. However, in the report accompanying the budget resolution, the Committee recommends implementation of comprehensive tax reform with the ultimate goal of 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

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

[42] U.S. House of Representatives, Committee on the Budget, H.Rept. 113-17, Tables 1 and 4.

[43] For more information, see CRS Report R43017, *Overview of Health Care Changes in the FY2014 Budget Proposal Offered by House Budget Committee Chairman Ryan*, by Patricia A. Davis, Alison Mitchell, and Bernadette Fernandez.

[44] U.S. House of Representatives, Committee on the Budget, H.Rept. 113-17, Tables 1 and 4.

reduction in tax rates, the House Budget Committee proposes eliminating certain tax expenditures in order to broaden the base of taxable income.[45] Revenue collection would average roughly 18.8% of GDP between FY2014 and FY2023 under the policies of the resolution.

Senate Budget Resolution

On March 14, 2013, the Senate Budget Committee reported a budget resolution (S.Con.Res. 8, 113th Congress) by a vote of 12-10. The resolution provides for revenue levels of $3,023 billion and outlays of $3,715 billion in FY2014 for a deficit of $693 billion, or approximately 4.2% of GDP. By FY2023, the deficit is projected to fall to $566 billion or 2.7% of GDP. Debt held by the public is projected to rise in nominal terms from $13,060 billion in FY2014 to $18,229 billion by FY2023.[46] The budget resolution was agreed to by the Senate on March 23, 2013, by a vote of 50-49.

The budget proposal contains changes to both spending and revenue. Specifically, the budget resolution revises the Budget Control Act's (BCA) statutory caps on discretionary spending and replaces the BCA's automatic spending reductions with a combination of other spending cuts and revenue increases, including some reductions to the current BCA caps.[47] In addition, the budget resolution includes $100 billion in funding intended to create new jobs and repair infrastructure, which is intended to be fully offset. Overall, the budget resolution proposes to reduce spending by $837 billion between FY2014 and FY2023 relative to the current CBO baseline.[48] Spending levels would average roughly 22% of GDP between FY2014 and FY2023 under the policies of the resolution.

On the revenue side, the budget resolution contains reconciliation instructions to the Senate Finance Committee to increase the level of revenues by $975 billion between FY2013 and FY2023. Though the committee report accompanying the budget resolution does contain preferred policy options by which to achieve these increased revenue levels, the Finance Committee has the authority to report whatever revenue changes it wants within its jurisdiction in response to the reconciliation directive. Policy options from the Budget Committee include proposals to change the tax code by increasing the tax burden on upper income Americans and large corporations through a limit on itemized deductions and tax expenditures claimed. The Senate Budget Committee, in the report accompanying the budget resolution, also suggests that comprehensive tax reform should be pursued. Revenue collection would average roughly 19% of GDP between FY2014 and FY2023 under the policies of the resolution.

Next Steps

Because the budget resolution does not become law, separate legislation would have to be enacted in order to make the policy changes relied upon in these proposals. The budget proposals do 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

45 U.S. House of Representatives, Committee on the Budget, H.Rept. 113-17, p. 6.

46 U.S. Senate, Committee on the Budget, Committee Print to Accompany S.Con.Res. 8, p. 152.

47 *Ibid.*, p. 160.

48 *Ibid.*, p. 152.

assumptions used in making any budget projections. Both the House and Senate budget resolution use CBO's February 2013 estimates.[49] If economic growth is higher or lower, the deficit levels and related components in the budget resolution would be affected.

The House and Senate would typically need to reach an agreement on the budget resolution in order to complete action on the FY2014 appropriations bills. In prior years when an agreement on the budget resolution has not been reached, both the House and the Senate took action to "deem" enforceable levels of discretionary spending.[50] In the past, deeming resolutions have also been used when the House and Senate are late in reaching final agreement on a budget resolution.

Considerations for Congress

Though several major budgetary items were addressed in the 112th Congress, ongoing budgetary challenges remain for FY2013 and FY2014 that may conflict in critical ways. In the short term, issues related to the slow economic recovery may continue to dominate the policy debates. 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 Short-Term Budget Issues

Negotiations on further deficit reduction may occur as part of two separate debates. The first will likely occur simultaneously with debate over whether to increase the debt limit. The second will occur through the FY2014 appropriations process, which will determine the discretionary spending levels for FY2014. The Budget Control Act's automatic spending reductions are set to reduce the discretionary spending cap levels in FY2014 and beyond, likely resulting in debate over whether or at what level those spending reductions should remain in place.

As discussed earlier, the debt limit is currently suspended through May 18, 2013. On May 19, 2013, the debt limit will be raised to a level necessary to cover the borrowing incurred since the suspension began in early February 2013. Some Members of Congress have said that they intend to use the debt limit to come to an agreement on further deficit reduction similar to what was enacted as part of the Budget Control Act in August 2011.[51]

With the sequester that went into effect on March 1, 2013, the automatic spending reduction process set to occur through FY2021 began. In FY2014, the reductions to discretionary spending will be made via reduced discretionary spending caps (rather than via sequestration). However, both the House and Senate budget resolutions propose modifying or removing the automatic reductions but contain significantly different levels of discretionary spending for non-defense programs in FY2014. (Both resolutions have the same level of base defense discretionary spending.) Consensus on FY2014 discretionary spending levels will be required in order to reach agreement on appropriations bills.

[49] U.S. House of Representatives, Committee on the Budget, H.Rept. 113-17, Table 7; U.S. Senate, Committee on the Budget, Committee Print to Accompany S.Con.Res. 8, p. 143.

[50] For more information, see CRS Report RL31443, *The "Deeming Resolution": A Budget Enforcement Tool*, by Megan S. Lynch.

[51] Alan K. Ota, "Republicans Point Toward Debt Limit Showdown with Payments Hearing," *CQ*, April 8, 2013.

Economic Considerations

The economy is still recovering from the most recent recession, which lasted from December 2007 to June 2009. Growth remains moderate, 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.

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, significant deficit reduction 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 ultimately 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]

Long-Term Considerations

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 economy is underperforming. 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.

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. faces major future imbalance, specifically as it relates to rising health care costs and the likely impact on government-financed health care spending. 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. Even under the current law baseline, which includes the BCA's spending reductions achieved via caps on discretionary spending and the automatic spending reduction process, deficits continue to be projected over the budget window.

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

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, may keep federal health costs rising faster than per capita GDP. CBO projected in June 2012 that under current policy, federal spending on federal health programs (including Medicare, Medicaid, CHIP, and exchange subsidies) would grow from 5.4% of GDP today to 10.0% of GDP in 2035, and 18.0% by 2085.[53] The 2013 Economic Report of the President also projected that future federal spending on Medicare and Medicaid would rise significantly under current law projections.[54] 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.[55]

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 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 8.7% of GDP.[56] This indicates that an immediate and permanent reduction in spending, increase in revenues, or a combination of spending cuts and revenue increases amounting to 8.7% 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. [57] A fiscal gap of this size is 2-3 percentage points larger than the annual projected levels of discretionary spending through FY2023. Therefore, eliminating all discretionary spending would not be large enough to close the current fiscal gap.

As the economic recovery continues, Congress may focus more effort on reducing the deficit 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.[58]

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[53] Congressional Budget Office, *The Long-Term Budget Outlook*, June 2012, "Supplemental Material."

[54] If healthcare costs continue to grow at the same rate as GDP, as they have over the past several years, healthcare spending 75 years from now will be roughly equal to what it is today as a percentage of GDP. Historically, however, growth rates in healthcare costs per capita have outpaced the growth in the economy by a significant margin. Council of Economic Advisors, *Economic Report of the President*, March 2013, Figure 5-8 and p. 30.

[55] Government Accountability Office, *The Federal Government's Long-Term Fiscal Outlook: Fall 2012 Update* (GAO-13-148SP), December 3, 2012, p. 1.

[56] U.S. Congressional Budget Office, *The Long-Term Budget Outlook*, June 2012, Table 1-3.

[57] The alternative fiscal scenario includes things like the extension of certain expiring tax provisions and the continued indexation of AMT to inflation through 2022 and Medicare physician payment rates are maintained at 2012 levels through 2022 and not restrained thereafter by policies in current law. Some of these policies have been subsequently modified by legislation, including ATRA. 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 2012, Table 1-1.

[58] 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.

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.[59] 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 and detailed reporting requirements were given to Treasury by Congress. Despite this, criticisms remain and requests for greater transparency continue. However, 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.

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

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. These documents can be delayed as a result of the legislative agenda or if the President's Budget is off schedule. 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 over the next 75-years. 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 contains five major volumes: (1) *The Budget*; (2) *Historical Tables*; (3) *Analytical Perspectives*; (4) *Appendix*; and (5) *Supplemental Materials*.[60] 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.[61]

[60] 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.

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

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