U.S. House of Representatives
Committee on the Budget
John Spratt, Chairman
207 Cannon House Office Building, Washington, DC 20515 (202) 226-7200 ★ www.budget.house.gov

April 24, 2008

Frequently Asked Questions about the Federal Budget

1. What were the federal revenues, spending, and deficit for fiscal year 2007?

2007 Federal Budget Summary		
Total Budget (Including Social Security)		
Revenues: $2.568 trillion	Spending: $2.730 trillion	Deficit: $162 billion
On-Budget (Excluding Social Security)		
Revenues: $1.933 trillion	Spending: $2.277 trillion	Deficit: $343 billion

Source: Congressional Budget Office

2. What is the expected deficit for fiscal year 2008?

In March, the Congressional Budget Office (CBO) projected that the 2008 deficit would be $357 billion. However, CBO assumes that revenues and spending follow current law and that current economic projections hold. Any changes to current spending or revenue policies, or to projected economic conditions, will affect CBO's deficit estimate. Since March, some private forecasters have predicted the deficit will climb higher.

3. What is the long-term budget forecast?

CBO confirms that the federal budget is on an unsustainable path; federal debt will grow much faster than the economy over the long run. Rising costs for health care and the aging of the population will cause federal spending to grow rapidly, causing unsustainable budget deficits if federal revenues remain at their current levels. Over the longer term, these deficits could seriously harm the economy.

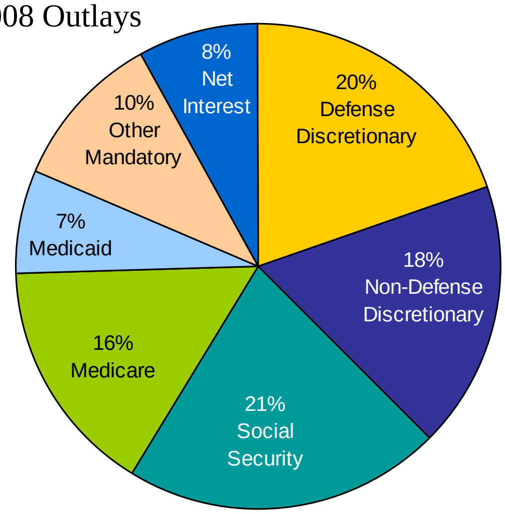
While the long-term budget outlook is daunting, the budget resolution passed by the House gets the budget back on track. Consistent with the pay-as-you-go principle, the House-passed budget resolution requires that any new net mandatory spending or revenue changes are paid for, while allowing for responsible discretionary investments to address long-standing needs. The federal budget returns to balance in 2012 under the budget resolution.

4. What comprises federal spending and revenues?

Major Categories of Spending *2008 Outlays*	
Discretionary spending:	
Defense	$573 billion
Non-Defense	$520 billion
Entitlements:	
Social Security	$612 billion
Medicare	$455 billion
Medicaid	$207 billion
Other Mandatory *	$502 billion
Miscellaneous receipts that offset spending:	$-198 billion
Net interest	$234 billion

** Civil Service and Military Retirement, SSI, EITC, Veterans' Benefits, etc.*

Major Categories of Federal Spending
2008 Outlays



2008 Revenues By Source	$ in Billions	*% of Total*
Individual Income	1,141	45%
Corporate Income	326	13%
Social Insurance	912	36%
Excise	69	3%
Estate and Gift	27	1%
Customs Duties	27	1%
Miscellaneous	45	2%

CBO projects that total federal government spending (including Social Security) for 2008 will be $2.9 trillion. "On-budget" spending will be $2.4 trillion. The additional "off-budget" spending, which includes Social Security and net spending of the Postal Service, is the remaining $470 billion. Two-thirds of all federal spending is for entitlement programs (known also as mandatory or direct spending), for which spending fluctuates based on several factors including the number of eligible beneficiaries. The remaining one-third of government spending is known as discretionary, and is provided through the 12 annual appropriations bills. More than half of all discretionary funding is for defense.

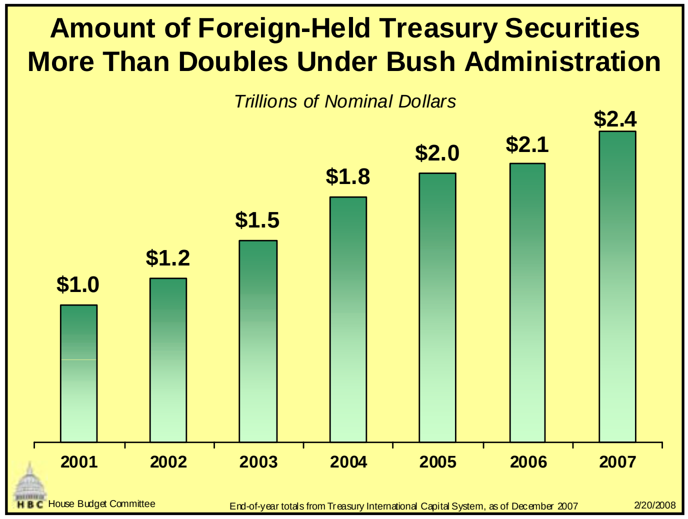
According to CBO projections, the federal government will collect $2.6 trillion in revenues in 2008 from various sources. Individual income taxes provide $1.1 trillion (about 45 percent) of all revenues.

5. What is the national debt and how much of it is foreign held?

The gross federal debt refers to the total value of outstanding notes, bonds, bills, and other debt instruments issued by the Treasury and other federal agencies. It has two components: debt held by the public (federal debt held by nonfederal investors, including the Federal Reserve System) and debt held by government accounts (federal debt held by federal government trust funds, deposit insurance funds, and other federal accounts).

On April 1, 2008, the debt was $9.4 trillion, meaning that each American's share of the national debt was nearly $31,000.

The cost of financing the federal debt is an increasingly expensive component of total federal spending. Net interest is now one of the fastest growing functions in the government's budget. In March, CBO projected net interest payments of $234 billion in 2008, which is 8 percent of the entire federal budget.



Debt held by the public represents around 56 percent of the gross national debt. Under the Bush Administration, the portion of the debt held by the public that is owned by foreign investors has exploded. Over the last six years, foreign-held debt has more than doubled, from $1.0 trillion in January 2001 to $2.4 trillion in January 2008. America is relying on foreign investors to purchase most of its debt these days – more than 80 cents of every dollar of new debt since 2001 has been purchased by foreign investors. China alone has increased its holdings of U.S. Treasury Securities by nearly 700 percent in the last six years, from $61 billion in January 2001 to $493 billion in January 2008. Other significant shareholders of foreign-held U.S. public debt include Japan ($587 billion), the United Kingdom ($160 billion) and buyers categorized as "Oil Exporters" ($141 billion).

6. How does the budget process work and what role does the budget resolution play?

Through the budget process, Congress can evaluate and plan the nation's fiscal path as a whole. While appropriations bills and authorizing legislation address discrete portions of the federal budget, the budget resolution provides an overall framework which includes total anticipated costs of federal programs, revenues, and the surplus or deficit.

The budget resolution allows Congress to make a statement of its major priorities by choosing to focus resources among different budget functions such as education, transportation, and defense. Budget resolutions are agreed to annually and cover the coming fiscal year and at least the subsequent four years. They set limits for annual discretionary spending, place limits on the amount of spending that authorizing committees can approve, and establish a revenue target for the tax-writing committees.

The budget resolution may include a process for "reconciliation," which sets forth special procedures for legislation that changes revenues or direct spending to achieve a specified budgetary result.

The resolution that the House passed this spring sets the budget on a fiscally responsible path, reaching balance in 2012. It complies with the pay-as-you-go principle, which requires that all new net mandatory spending or tax cuts be offset. It rejects the President's harmful cuts in discretionary funding and makes a down payment towards addressing some long-standing needs within the tight fiscal constraints of the overall budget plan.

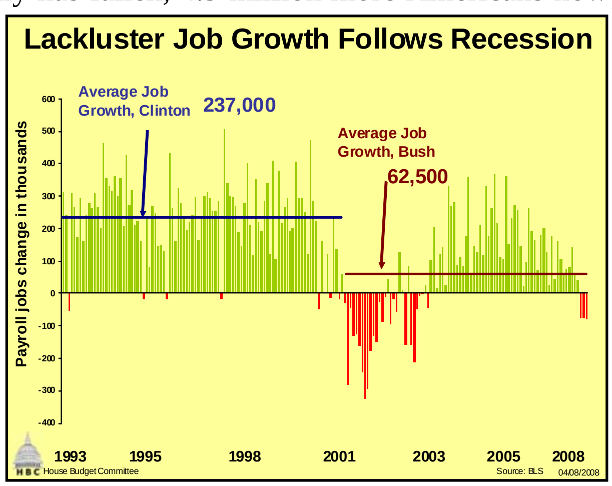
7. What is the pay-as-you-go rule?

During the 1990s, the "pay-as-you-go" system, or PAYGO, created budget restraints on both spending and revenues, which helped turn large deficits into surpluses. That statutory PAYGO system required Congress to offset any net direct spending increases or tax reductions with other savings. In this decade, Congressional Republicans not only violated PAYGO and failed to renew it when it expired, they also repeatedly used fast-track reconciliation procedures to push policies through Congress that made the deficit worse, not better.

As one of its first acts in January 2007, the new Democratic majority in the House adopted a PAYGO rule prohibiting consideration of direct spending or revenue legislation that worsens the deficit outlook. The House adopted a separate rule stipulating that fast-track reconciliation procedures – originally designed for tough, budget-improving compromises – can no longer be used to expedite the passage of legislation that increases the deficit.

8. How well has the U.S. economy performed during the Bush Administration?

Since 2000, real income for a typical family has fallen, 4.9 million more Americans now live in poverty, and more workers are unemployed – all while energy prices have climbed.

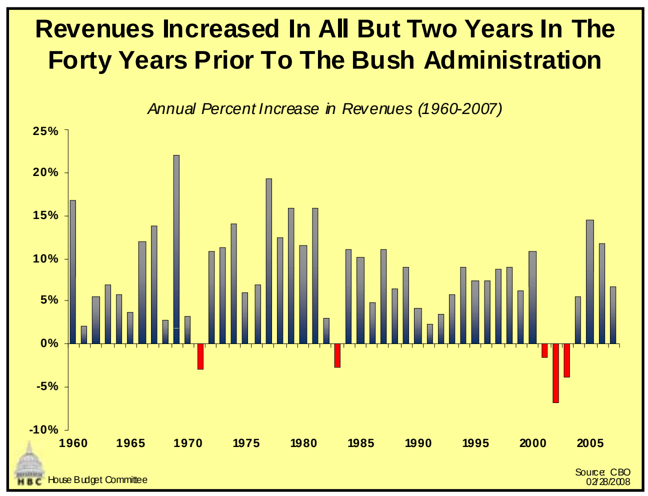


The economy has averaged only 62,500 new jobs a month since the beginning of 2001 – less than a third the pace of 236,000 jobs per month created during the Clinton Administration. The Bureau of Labor Statistics' March 2008 report showed an unemployment rate of 5.1 percent (the highest since September 2005) but a much higher "underemployment" rate of 9.1 percent, a third consecutive month of job losses, and the largest single-month loss of jobs (80,000) in five years. American workers are more productive than ever, but they are not benefitting in a manner consistent with their increased output. Productivity has grown robustly since 2001, yet the real income of a typical family has fallen by almost $1,000. Our most vulnerable citizens have fared the worst: in 2006, the poverty rate was 12.3 percent – that is over 36 million Americans living in poverty.

The current expansion is now the weakest since the end of World War II. Since the implementation of the 2001 and 2003 tax cuts, economic growth has failed to match CBO's estimate of economic growth without the tax cuts. Since late 2007, pessimism about the economy has been growing among economists, and as of April 2008 a majority of Blue Chip economic forecasters believe that the economy has already entered or will slip into a recession this year. The April 2008 Blue Chip consensus forecast is for an anemic 0.1% annualized rate of growth in real gross domestic product in both the first and second quarters of 2008.

9. Has the President's tax agenda helped or hurt the economy and the budget?

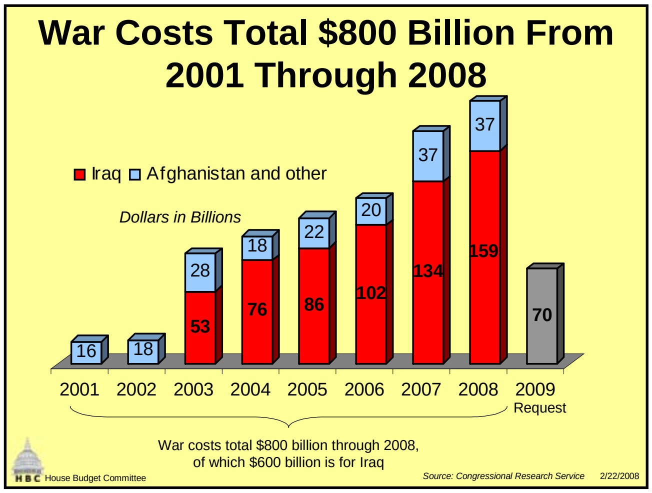
The current economic weakness speaks to the ineffectiveness of this Administration's tax policies in generating economic growth. While there was some unexpected growth in revenues from 2004 to 2006, this was largely due to a rebound from the huge drop in revenues in 2001 to 2003 as well as disproportionate growth in incomes of the top-earning households. It was also driven by huge increases in corporate profits which have faltered since, with corporate tax revenues most recently falling. Nominal increases in federal revenues over time are the norm, not the exception, and certainly cannot be attributed historically to the growth effects of tax cuts: in the forty years prior to the Bush Administration, revenues rose in all but two years. Revenues naturally rise as the economy grows. That total federal revenues are actually now projected to *fall* in nominal terms in 2008 is evidence that the Administration's tax policies have fallen far short of stimulating "supply-side" growth in the economy.



Because growth effects of the Administration's tax agenda have been minimal at best – and negative at worst – the tax cuts have cost trillions of dollars (even accounting for feedback effects on the economy). A July 2007 CBO analysis confirms that without the 2001 and 2003 tax cuts, the budget would have been in surplus in 2007, instead of posting the $162 billion deficit that actually materialized. CBO estimated that the cost of the tax cuts in 2007 alone, including debt service, was $211 billion, and that even with "dynamic" offset the cost was at least $195 billion.

Any economic benefits attributed to the tax cuts must be balanced against the economic costs of additional Treasury borrowing to finance the tax cuts. Most significantly, deficits reduce national saving, which in turn reduces long-term economic growth.

10. How much are the wars in Iraq and Afghanistan costing?



Costs Through 2008 Total $800 Billion — Including the Administration's pending war request for 2008, costs for Operation Iraqi Freedom, Operation Enduring Freedom (Afghanistan and other counter-terrorist operations), and Operation Noble Eagle (enhanced security at military installations here at home) total $800 billion. Approximately $600 billion of this total is for operations in Iraq. For 2007, the Department of Defense obligated $12 billion per month for war operations, $10 billion of which was for Iraq.

2009 War Costs — For 2009, the President's budget includes a $70 billion placeholder for operations in Iraq and Afghanistan. The Administration plans to send Congress a full detailed request for 2009 operations in late spring. Secretary of Defense Robert Gates testified before Congress that the $70 billion placeholder is low and that the upcoming 2009 request could be in the $170 billion range. This amount would bring total costs through 2009 to approximately $970 billion.

War Operations Could Cost Nearly $1 Trillion over the Next Ten Years — It is difficult to predict with certainty how much future operations will cost given the uncertainty of what our troop level commitments will be in Iraq and Afghanistan. However, one possible scenario explored by CBO is that deployed troops in the Iraq and Afghanistan theaters could draw down to a steady-state level of 75,000 troops by 2013. Based on this scenario, CBO calculated the federal government would need to budget an additional $1 trillion for 2009 through 2018, bringing total costs for these operations to $1.8 trillion.