U.S. House of Representatives
Committee on the Budget
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November 18, 2008

Frequently Asked Questions about the Federal Budget

1. What were the federal revenues, spending, and deficit for fiscal year 2008?

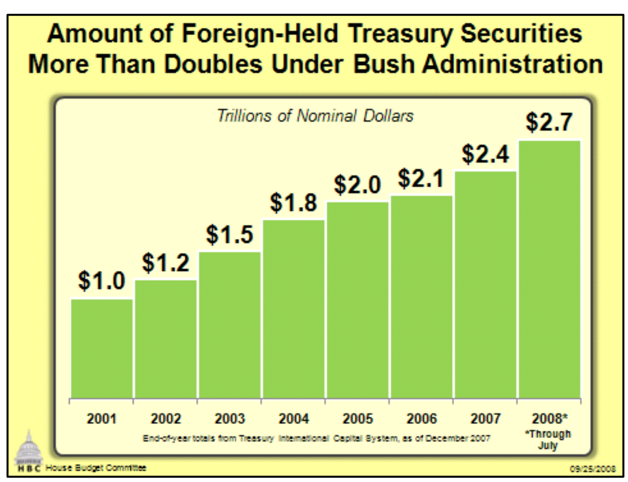
2008 Federal Budget Summary		
Total Budget (Including Social Security)		
Revenues: $2.524 trillion	Spending: $2.979 trillion	Deficit: $455 billion
On-Budget (Excluding Social Security)		
Revenues: $1.866 trillion	Spending: $2.504 trillion	Deficit: $638 billion

Source: Department of Treasury

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

Debt held by the public (federal debt held by nonfederal investors, including the Federal Reserve System) stood at $6.4 trillion as of November 14, 2008. The gross federal debt – the total value of outstanding notes, bonds, bills, and other debt instruments issued by the Treasury and other federal agencies – consists of debt held by the public and debt held by government accounts (federal debt held by federal government trust funds, deposit insurance funds, and other federal accounts). As of November 14, the gross federal debt was $10.6 trillion.

The cost of financing the federal debt has increased markedly under this Administration. In October, the Office of Management and Budget reported net interest payments of $249 billion in fiscal year 2008.



Under the Bush Administration, the portion of the debt held by the public that is owned by foreign investors grew dramatically. Under this Administration, foreign-held debt has more than doubled, from $1.0 trillion in January 2001 to $2.7 trillion in August 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 more than 850 percent in the last seven and a half years, from

$61 billion in January 2001 to $585 billion in September 2008. Other significant shareholders of foreign-held U.S. public debt include Japan ($573 billion), the United Kingdom ($338 billion) and buyers categorized as "Oil Exporters" ($185 billion).

3. How has the economy performed under the Bush Administration?

Since 2000, the country has been moving in the wrong direction across many measures of economic prosperity. Real income for a typical family has fallen and more Americans live in poverty. American families face great uncertainty as unemployment rates have reached levels not seen in 14 years and the number of uninsured has risen, putting more families one illness away from disaster. Clearly, the Administration's economic policies were not effective.

Job growth has stagnated and unemployment has spiked. Since the beginning of 2001 the economy has failed to produce enough new jobs to keep up with growth in the labor force. The job scenario has been particularly grim this year. Over the past year, 1.2 million jobs have been lost. The economy **lost** 240,000 jobs in October alone, and the unemployment rate hit 6.5 percent. More than 10 million people are now actively seeking work but unable to find it.

Although American workers are more productive than ever, they are not benefitting in a manner consistent with their increased output. Since 2000, the real income of a typical family has fallen by $300. Compared with 2000, nearly seven million more Americans were without health insurance in 2007. The poverty rate had grown from 11.3 percent in 2000 to 12.5 percent in 2007, when 37 million Americans were living in poverty, including 13 million children, or 17 percent of American kids. The economy has further deteriorated this year, which will undoubtedly raise these statistics for 2008.

The Bush Administration pushed its economic policies as the answer to promoting long-term growth. Yet now, seven years after enactment of its major tax proposals, a drumbeat of economic woes is playing out: twenty straight months of housing price declines, ten straight months of job losses, eleven straight months of declines in real hourly earnings, the largest third quarter decline in consumer spending since 1980, and tumbling investor sentiment as evidenced by the 40 percent drop in major stock market indices over the last year.

4. How will the financial rescue package enacted in October affect the budget?

It is too soon to know the ultimate budgetary impact that will result from the Emergency Economic Stabilization Act (PL 110-343), which was enacted in early October to address problems that were crippling the country's financial system. The Troubled Assets Relief Program (TARP) authorizes the federal government to spend up to $700 billion to purchase "troubled assets" (mortgages and financial instruments based on mortgages) or make other moves to restore stability in the U.S. financial markets. However, it is not yet entirely clear how that broad authority will be used, as CBO director Peter Orszag wrote below when he concluded that there will likely be some cost, but that it will be "substantially smaller than $700 billion."

> "Under the TARP, the Secretary would have the authority—if deemed necessary to promote stability in the financial markets—to purchase any financial asset at any price and to sell that asset for any price at any future date. That lack of specificity regarding how the authority would be implemented and even what types of assets would be purchased makes it impossible at this point to provide a meaningful estimate of the ultimate impact on the federal budget from enacting this legislation. Although it is not currently possible to quantify the net budget impact given the lack of details about how the program would be implemented, CBO has concluded that enacting [the Emergency Economic Stabilization Act] would likely entail some net budget cost—which would, however, be substantially smaller than $700 billion." *— CBO's cost estimate contained in an October 1, 2008, letter to Senator Dodd*

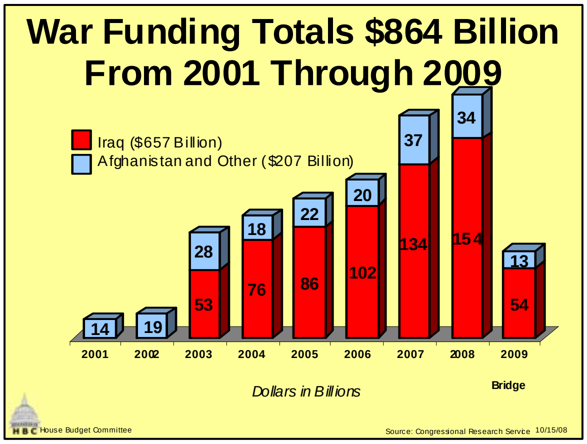
5. What is the budget outlook for fiscal year 2009 and beyond?

The size of the deficit for fiscal year 2009 (which will end on September 30, 2009) will most certainly set a new record as the nation contends with an extraordinary financial crisis and a slowing economy. During past recessions, the government has acted to stimulate the economy through increased spending or tax cuts, actions that also increase the deficit in the short term. Additionally, a slowing economy leads to weakening federal revenues, which also increases the deficit.

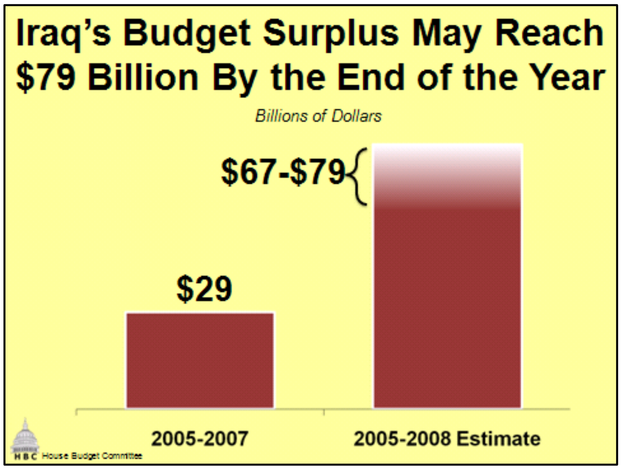
In the long run the federal budget is on a challenging path, with the national debt growing faster than the economy. This is because rising costs for health care and the aging of the population will cause federal spending to grow rapidly over the next few decades in excess of available revenues, causing even larger budget deficits. The legacy of long-run deficits that the Bush Administration has left behind threatens to undermine our future economic strength. Now, with the grim economic and fiscal outlook, Congress and the new Administration will need to work together to craft a budget plan that addresses immediate priorities and makes necessary new investments to kick-start the economy, while also working towards long-term fiscal sustainability.

6. How much funding has been provided for war operations?

Including the $67 billion bridge that will partially fund 2009 operations, the federal government has provided a total of $864 billion 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). Approximately $657 billion of that total is for operations in Iraq. The Department of Defense currently is obligating $12 billion per month for war operations, of which $10 billion is for Iraq.



7. Does Iraq have the means to finance its own reconstruction and security?



The Government Accountability Office (GAO) has projected that Iraq's oil revenues for 2008 will double and that, as a result, Iraq will see a significant increase to its already sizeable budget surplus. GAO found that Iraq's cumulative budget surplus for 2005-2007 was $29 billion and that it will increase to as much as $79 billion by the end of 2008 because of the anticipated surge in oil revenues. These funds could be used to finance Iraq's reconstruction and security and to begin reducing the United States' financial commitment of $10 billion per month.

8. 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 that includes the 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.

This spring marked the first time in eight years that Congress has reached agreement on a budget resolution in an election year. The budget resolution made a down payment to fulfill commitments to the American people, while putting us on the path to fiscal responsibility over the longer term. It also funded proven investments that boost economic growth, create jobs, make America safer, promote fiscally responsible tax relief to millions of households, and help families struggling to make ends meet in an economic downturn.

In the budget resolution next year, Congress will face the further challenge of responding appropriately to the current economic situation. Congress must address immediate needs while ensuring that over the longer term, the budget returns to the path of fiscal responsibility.