U.S. House of Representatives
Committee on the Budget
207 Cannon House Office Building, Washington, DC 20515 (202) 226-7200 ★ www.budget.house.gov
House Budget Committee 110th Congress Majority
John Spratt, Chairman

July 31, 2009

Frequently Asked Questions about the Federal Budget

1. What are estimated federal revenues, spending, and deficits for fiscal year 2009?

2009 Estimated Federal Budget		
Total Budget		
Revenues: $2.186 trillion	Spending: $3.853 trillion	Deficit: $1.667 trillion
On-Budget (Excluding Social Security)		
Revenues: $1.533 trillion	Spending: $3.330 trillion	Deficit: $1.798 trillion

Source: Congressional Budget Office (CBO)

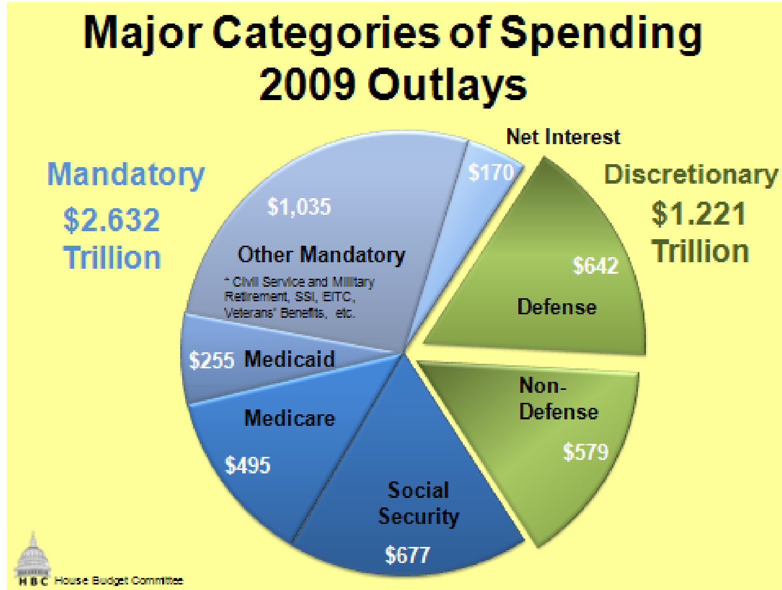
2. What comprises federal spending and revenues?

2009 Revenues by Source in billions of dollars		
Individual income	968.1	44.3%
Corporate income	174.4	8.0%
Social insurance	890.6	40.7%
Excise	70.8	3.2%
Estate and gift	21.6	1.0%
Customs duties	26.5	1.2%
Miscellaneous	33.6	1.5%
Total	**2,185.7**	

According to CBO projections, the federal government will collect $2.2 trillion in revenues in 2009 from various sources. Individual income taxes make up $968 billion of the amount, or 44.3 percent, while social insurance taxes make up $891 billion, or 40.7 percent.

Total federal government spending (including Social Security) for 2009 is projected to be almost $3.9 trillion. “On-budget” spending, which excludes Social Security and net spending of the Postal Service, will be $3.3 trillion. “Off-budget” spending will be the additional $523 billion.

Major Categories of Spending 2009 Outlays	
Discretionary spending	
Defense	$642 billion
Non-Defense	$579 billion
Entitlements	
Social Security	$677 billion
Medicare	$495 billion
Medicaid	$255 billion
TARP/Freddie/Fannie	$622 billion
Other Mandatory*	$606 billion
Miscellaneous receipts that offset spending	$-193 billion
Net interest	$170 billion
* Civil Service and Military Retirement, SSI, EITC, Veterans' Benefits, etc.	



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

"Debt held by the public" – all federal debt held by nonfederal investors, including the Federal Reserve System – stood at $7.3 trillion as of July 30, 2009. "Gross federal debt" counts the total value of outstanding notes, bonds, bills, and other debt instruments issued by the Treasury and other federal agencies, and so includes the debt held by the public as well as debt held by government accounts (federal government trust funds like Social Security, deposit insurance funds, and other federal accounts). As of July 30, the gross federal debt was $11.6 trillion.

Debt held by the public rose by some $2.4 trillion or 70 percent under the Bush Administration through the end of fiscal year 2008, while total federal debt soared nearly $4.5 trillion or 78 percent. These sums do not reflect the additional costs of actions needed to combat the economic and fiscal crisis that occurred on the Republicans' watch: the costs authorized under the Troubled Assets Relief Program (TARP) at the end of calendar year 2008 and the American Recovery and Reinvestment Act, enacted in February to combat the steepest economic downturn in nearly eighty years. As a result, some $1.3 trillion of new debt may be added by the end of fiscal year 2009 just to buttress the faltering economy. Despite the increase in debt, the cost of financing the federal debt has decreased markedly due to historically low interest rates. The government's net interest payments fell from $253 billion in FY 2008 – the final full year of the previous Administration – to a projected $170 billion in FY 2009. Still, the unavoidable reality is that our deficit and debt will grow significantly this year and next as we repair the damage from the worst economic crisis since the Great Depression. Had Republicans saved the trillions of dollars in projected surpluses they inherited eight years ago, the nation would have had a greater fiscal cushion today to meet these dire challenges.

Under the Bush Administration, the portion of the debt held by the public that is owned by foreign investors tripled, from $1.0 trillion at the end of January 2001 to $3.1 trillion by the end of December 2008. China alone increased its holdings of U.S. Treasury securities nearly twelve-fold in that eight-year span, from $61 billion to $727 billion, becoming the nation's single largest foreign creditor. The most recent figures show that as of May 2009, our federal foreign debt had risen to $3.3 trillion, with the largest creditors being China ($802 billion), Japan ($677 billion), countries categorized as "Caribbean Banking Centers" ($195 billion) and "Oil Exporters" ($193 billion), and the United Kingdom ($164 billion).

4. What was the condition of the economy at the beginning of the year, and where does it stand now?

The Obama Administration inherited the worst economic crisis since the Great Depression. Since the end of December 2007, the economy has lost 6.5 million jobs, unemployment has reached 9.5 percent with nearly 15 million people out of work, stock markets have fallen some 35 percent from their highs, and home prices have dropped dramatically. American households have lost a staggering $14 trillion in personal wealth, shutting down consumer spending and business investment, and putting families just a layoff or serious illness away from financial jeopardy. The economic meltdown is the final chapter of an overall record of poor economic performance during the eight years of the Bush Administration: real declines in families' incomes (-$300 on net), a rising number of households in poverty (37 million in 2007) and without health care insurance (46 million in 2007), and an economy that failed to produce enough new jobs to keep up with growth in the labor force since 2001. All this occurred despite record tax cuts targeted to the wealthiest Americans in 2001 that the previous Administration claimed would create jobs and boost long-term economic growth.

In response to the deteriorating economic conditions, in the second half of last year the 110th Congress approved Bush Administration proposals for a capital infusion for Fannie Mae and Freddie Mac (up to $400 billion) and the $700 billion TARP to assist both financial institutions and homeowners. The first priority of the 111th Congress was to pass the $787 billion American Recovery and Reinvestment Act (Recovery Act) with the goal of adding or saving three to four million jobs by the end of 2010. Most economists agree these actions were necessary to prevent financial markets and the broader economy from slipping into an even deeper crisis. Following these federal initiatives, most public and private forecasts now call for the economy to return to positive growth by the third quarter of 2009. Both the White House Council of Economic Advisors (CEA) and CBO have stated that the Recovery Act promotes economic recovery by spurring business investment, stemming job losses in distressed sectors of the economy, and generating job growth in other sectors.

According to July Blue Chip forecasts, the shrinking of the economy is expected to have slowed to an annualized rate of -1.3 percent in the second quarter of 2009 (from -5.5 percent contraction in the first quarter) and economic expansion will resume in the third quarter of 2009 with growth of +0.9 percent. The Blue Chip forecast also predicts that GDP growth will accelerate to 3.0 percent annualized growth by the fourth quarter of 2010. This expected economic recovery is spurred to a significant extent by the impact of the Recovery Act. Economist Mark Zandi of Moody's Economy.com recently calculated that GDP would have contracted by nearly 6.0 percent in the second quarter and declined by 3.0 in the third quarter of 2009 if Congress had failed to pass the Recovery Act. Zandi also expects the Recovery Act to add one percentage point to fourth quarter GDP growth. CBO, in its March economic baseline, forecast that the Recovery Act will raise real GDP by between 1.1 percent and 3.4 percent and will increase employment by between 1.2 million and 3.6 million jobs by the fourth quarter of 2010.

While the prospect of renewed economic growth is promising, far too many Americans are still experiencing the negative effects of the recession, and there is still more work to be done to get the economy back to where it needs to be.

5. How does the federal government's assistance to the financial markets through the Troubled Assets Relief Program (TARP) affect the budget?

Created in October 2008 by the Emergency Economic Stabilization Act (EESA), the Troubled Assets Relief Program (TARP) authorizes the Treasury to spend approximately $700 billion to purchase mortgages, mortgage-backed securities, and other financial instruments in order to restore stability in the U.S. financial markets. To date, assistance has taken the form of loans, guarantees, stock purchases (equity purchases, capital injections, etc.), and incentive payments.

TARP disbursements increase the *debt* dollar-for-dollar, but only the estimated amount that Treasury will not recover gets charged to the *deficit*. Of the $369 billion disbursed so far, CBO estimated that $159 billion (or 43 percent) will not be recovered, so the deficit increases only by this amount. This is the "subsidy amount," but it is always in flux due to changing credit conditions. CBO estimates the subsidy rate based on the net-present value of the assets purchased or insured under TARP, adjusted for market risk.

6. What is the budget outlook for future years?

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 weakened economy. During past recessions, the government also acted to stimulate the economy through increased spending or tax cuts – actions that increase the deficit in the short term. Additionally, a slowing economy leads to weakening federal revenues, which also increases the deficit.

The budget resolution adopted by Congress this year cuts the deficit by nearly two-thirds in four years, putting the budget on a fiscally more sustainable path. Within this fiscally responsible framework, the budget makes strategic investments in education, health care reform, and clean energy jobs that are necessary to jumpstart our economy and make America globally competitive for years to come; and provides tax relief for middle-class Americans.

7. What is Pay-As-You-Go (PAYGO) and how will it help balance the budget?

On July 22, the House passed legislation reestablishing statutory “pay-as-you-go” (PAYGO) rules. In the 1990s, PAYGO helped the Clinton Administration turn deficits into record surpluses by compelling Congress to find offsetting savings for increases in direct spending or decreases in revenues. However, President Bush and Congressional Republicans allowed PAYGO to expire, clearing the way for policies that wiped out those surpluses. In 2007, new Democratic Majorities in the 110th Congress implemented PAYGO rules for the consideration of legislation by Congress. The new statutory PAYGO rules – proposed by President Obama and now passed by the House – would complement the existing Congressional rules. Restoring fiscal health will not be quick or easy, but reinstating statutory PAYGO is an important step toward that recovery.

8. How much funding has been provided for war operations thus far?

From 2001 to 2009, the federal government provided nearly $950 billion for military and foreign aid operations in Iraqi and Afghanistan, and for enhanced security operations in the United States. Nearly $700 billion of that total is for operations in Iraq alone.

9. How much is budgeted for war operations for 2010 and beyond?

The President’s budget includes $130 billion for overseas contingency operations for 2010 and out-year costs totaling $50 billion per year from 2011 through 2019, which are considered placeholders and do not reflect specific policy assumptions. It recognizes for the first time that our nation’s commitments overseas will not have a cost of zero beyond the budget year, thus providing a more realistic look than in prior years at the likely costs and their effect on the budget’s bottom line.

10. What is the long-term outlook for federal health care spending?

Total health care spending in the United States has been growing faster than the economy for decades and is expected to continue to do so. CBO projects that total private and public spending on health care will rise from roughly 18 percent of the economy today to nearly half of the economy by 2080. This overall trend has direct and significant effects on the federal budget. CBO projects non-interest federal spending will increase from 19 percent of the economy in 2008 to 32 percent by 2080 under current law, with nearly all of that increase in Medicare and Medicaid. Specifically, Medicare and Medicaid combined spending will increase from 4 percent of the economy in 2008 to more than 17 percent by 2080, while Social Security will increase from 4 percent of the economy to just over 6 percent during the same timeframe.

The Medicare and Medicaid projections are driven in part by the aging of the population, but more importantly by the fact that health spending per person is outpacing growth in the economy. Putting the federal budget on a sustainable path is intrinsically linked to the challenge of rising health care costs. The phenomenon of rising health spending affects not only the federal budget but also household budgets. The average cost of an employer-sponsored family health insurance policy exceeded $12,000 in 2008, more than twice what it cost ten years ago. Meanwhile, real wages have remained relatively flat and are projected to decline in the future if insurance premiums continue to rise.

A major factor in health spending growth is the development and spread of new technologies that offer treatments where none previously existed. In addition, as real income grows over time, a society often decides to spend a larger share of its resources on health care. However, despite spending much more per capita on health care than other wealthy countries, evidence suggests the quality and efficiency of health care in America lags far behind where it should be. There is evidence suggesting that as much as 30 percent of U.S. public and private health spending – about $700 billion a year – does not contribute to better health. Reforming the health system to reward quality care and reduce waste is important not only to put the budget on a sustainable long-term course, but also to improve the health and financial security of American families. The long-term federal budget projections will be heavily influenced by the steps Congress takes to reform and improve health care in America. As Office of Management and Budget Director Peter Orszag put it: “The path of fiscal responsibility must run directly through health care.”