



The Impact of Major Legislation on Budget Deficits: 2001 to 2009

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Summary

After recording a fiscal year (FY) 2000 federal budget surplus of \$236.2 billion, the Congressional Budget Office (CBO) in January 2001 projected continued surpluses throughout the decade. However, enactment of major legislation during the 107th to 111th Congresses, in combination with changing economic conditions, altered the federal budget outlook for the decade dramatically. In FY2002, the budget recorded a deficit for the first time since 1997, and the federal government has run a deficit in each subsequent year.

This report examines to what extent major legislative changes from 2001 to 2009 caused the budget to move from surplus to deficit. Legislative actions taken in 2009 increased the FY2009 deficit by \$509 billion, whereas legislative actions taken between 2001 and 2008 increased the FY2009 deficit by \$903 billion. Furthermore, legislative changes have cumulatively increased federal budget deficits over FY2001 to FY2009 by \$5.4 trillion.

Several major tax laws passed by Congress reduced federal government revenues, including the Economic Growth and Tax Relief Reconciliation Act of 2001 (P.L. 107-16), the Jobs and Growth Tax Relief Reconciliation Act of 2003 (P.L. 108-27), and the Working Families Tax Relief Act of 2004 (P.L. 108-311). On an aggregated basis, estimates by CBO and the Joint Committee on Taxation (JCT) at the time of legislative enactment placed the total anticipated cost for these three laws at \$1.76 trillion for FY2001 to FY2011.

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (P.L. 108-173) established a new Medicare Part D prescription drug benefit, which CBO originally projected would cost \$552.2 billion over 10 years. However, the Boards of Trustees for Medicare estimated in May 2009 that Part D expenditures would total \$381.3 billion for this same period.

Funding for “Global War on Terror” operations has been provided primarily through emergency supplemental appropriations law. For FY2001 to FY2009, Congress approved legislation appropriating about \$943.8 billion for military operations in Iraq and Afghanistan, with \$887.8 billion of this amount allocated to the Department of Defense.

On September 6, 2008, the Federal Housing Finance Agency exercised authority provided under the Housing and Economic Recovery Act of 2008 (P.L. 110-289) to place Fannie Mae and Freddie Mac into conservatorship. In August 2009, CBO estimated net subsidy costs related to Fannie Mae and Freddie Mac at \$291 billion for FY2009. The Emergency Economic Stabilization Act of 2008 (Division A of P.L. 110-343) established the Troubled Asset Relief Program (TARP). In January 2010, CBO projected TARP would increase budget deficits by \$99 billion over the complete duration of the program.

In response to significant weakness in the U.S. economy, the Economic Stimulus Act of 2008 (P.L. 110-185) provided a refundable individual income tax rebate. JCT estimated in February 2008 that P.L. 110-185 would increase federal budget deficits by approximately \$124.5 billion for FY2008 to FY2018. To provide additional economic stimulus, Congress enacted the American Recovery and Reinvestment Act of 2009 (P.L. 111-5) on February 17, 2009. In January 2010 CBO estimated that P.L. 111-5 will increase federal budget deficits by \$862 billion over 10 years.

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The annual federal budget deficit is the amount by which federal government outlays exceed revenues for a given fiscal year (FY), with surpluses generated when revenues exceed outlays.¹ Budget deficits or surpluses are often used to gauge national fiscal health, as budget balances over time determine levels of federal debt held by the public, and corresponding net interest payments required for debt service.² During an economic downturn, budget deficits could be viewed as effective fiscal policy, with lawmakers enacting tax cuts and increasing federal spending to simulate economic activity. However, recurring deficits can generate serious longer-term macroeconomic consequences, including a reduction in national saving and investment, and a decreased rate of capital accumulation.³ This report examines to what extent major legislative changes from 2001 to 2009 caused the budget to move from surplus to deficit.

Federal Budget Deficits: 2001 to 2009

After recording a FY2000 federal budget surplus of \$236.2 billion, the Congressional Budget Office (CBO) in January 2001 projected continued surpluses throughout the decade, with a \$710 billion positive budget balance expected for FY2009.⁴ However, enactment of major legislation during the past decade, in combination with changing economic conditions, altered the long-term federal budget outlook dramatically. In FY2002, the budget recorded a deficit for the first time since 1997, and the federal government has run a deficit in each subsequent year. Most recently, the FY2009 deficit was \$1.4 trillion, a \$2.1 trillion negative change in budget balance from the \$710 billion FY2009 surplus projected by CBO in 2001.⁵

The broad reason the budget moved from surplus to deficit is because Congress chose an overall level of spending that exceeded chosen revenue levels. However, the budget is the sum of its parts, so no single spending or tax decision can be taken in isolation and be said to have “caused” the deficit in an absolute sense.

Furthermore, some determinants of spending and revenues are not directly controlled by Congress. When economic conditions change, spending and revenues automatically change without any change in law. For example, when economic growth slows, the growth of taxable income slows, so that less revenue is collected at a given tax rate than previously. Likewise, if a slowdown in economic growth causes unemployment to rise, spending on unemployment insurance and other means-tested mandatory spending programs will also increase without any change in law. Economists refer to these changes as “automatic stabilizers” because they automatically cause the deficit to rise when the economy slows, thereby helping to offset the

¹ The federal budget includes both on-budget and off-budget components. The Balanced Budget and Emergency Deficit Control Act of 1985 (P.L. 99-177) moved revenues and outlays of the two Social Security Trust Funds off-budget, and the Postal Service was moved off-budget by the Omnibus Reconciliation Act of 1989. All annual federal budgetary figures presented in this report use combined on-budget and off-budget totals. For more information, see CRS Report RS20350, *Off-Budget Status of Federal Entities: Background and Current Proposals*, by Bill Heniff Jr.

² See CRS Report RL31235, *The Economics of the Federal Budget Deficit*, by Brian W. Cashell.

³ See CRS Report R40088, *The Federal Budget: Current and Upcoming Issues*, by D. Andrew Austin and Mindy R. Levit.

⁴ Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2002-2011*, Table 1-2, January 2001, available at <http://www.cbo.gov/ftpdocs/27xx/doc2727/entire-report.pdf>.

⁵ Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2010 to 2020*, Table 1-3, January 2010, available at <http://www.cbo.gov/ftpdocs/108xx/doc10871/01-26-Outlook.pdf>.

slowdown in growth because of the deficit's expansionary effects on aggregate spending. It should also be noted that when economic growth is strong, the opposite effects occur, with levels of taxable income increasing and outlays on mandatory spending for unemployment insurance and other economic support programs decreasing.

For a detailed examination of why the budget moved from surplus to deficit, it is necessary to have a benchmark against which the actual deficit can be compared. One benchmark would be to compare the 2009 deficit to the 2001 surplus, but this approach would be fraught with several difficulties. For one thing, spending and revenues are expected to increase over time because of inflation and economic growth, among other factors, so that \$1 spent in 2009 is not comparable to \$1 spent in 2001. In addition, the economy in 2009 is not at the same level of production or in the same position in the business cycle as the economy in 2001, so the economy's effect on the budget is not the same either. Finally, the same law yields different levels of spending or revenue over time. For example, entitlement spending can increase automatically if the number of beneficiaries increases. Therefore, comparing spending or revenue levels from one year to the next could give the false impression that policy had changed when it had not.

This report uses a different benchmark: it compares the actual budget balance in the past nine years to CBO's January 2001 baseline projection of the surplus for each of those years. Generally speaking, the baseline is a projection of the future path of government spending and revenues under current policy assuming no changes in the law. The purpose of baseline construction by CBO is to provide a neutral foundation for which to assess policy options, and it is not intended to predict future changes in revenue and spending legislation.⁶ The Deficit Control Act of 1985 (P.L. 99-177) established specific rules for CBO to follow in calculating baseline projections, and additional information about budgetary baselines as it relates specifically to mandatory spending, federal revenues, and discretionary spending will be provided later in this discussion. CBO projected in 2001 that if policy had not changed, the surplus would have grown each year.⁷ Any year could have been chosen as the benchmark; this report uses CBO's 2001 baseline as the benchmark because estimated 10-year surpluses peaked in this projection. In subsequent reports, the surplus projections would be continually adjusted downward, as CBO became progressively more pessimistic about the future path of deficits. Thus, the results that follow are partly a function of the benchmark chosen.

Table 1 shows the differences between CBO's January 2001 baseline projections and the actual budget balance for FY2001 to FY2009, attributing deficit increases to the legislative, economic, and technical categories. Legislative changes refer to enacted laws affecting revenue, mandatory spending, or discretionary spending. Along with spending increases and revenue reductions implemented by the enactment of new laws, legislative changes have also increased the national debt and the cost of debt servicing. The combined change in debt servicing attributed to the enactment of new legislation is reported separately in **Table 1**. Over the past 10 years, legislative changes have increased federal budget deficits by approximately \$5.4 trillion. Each year since 2003, legislative changes that increased the deficit were larger than the annual surplus projected by CBO in January 2001.

⁶ See CRS Report 98-560, *Baselines and Scorekeeping in the Federal Budget Process*, by Bill Heniff Jr.

⁷ See CRS Report RL31414, *Baseline Budget Projections: A Discussion of Issues*, by Marc Labonte. For an alternative evaluation, see Alan Auerbach et al., "New Estimates of the Budget Outlook," Brookings Institution, *Issues in Economic Policy* #3, February 2006.

Table I. Differences Between 2001 Baseline Projections and Actual Budget Balance, FY2001-FY2009

(in billions of dollars)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	Cumulative Total: 2001-2009
Baseline Surplus Projection in Jan. 2001^a	281	313	359	397	433	505	573	635	710	4,206
Legislative Changes	-81	-150	-363	-519	-543	-632	-721	-1,005	-1,361	-5,375
Revenue	-74	-81	-186	-272	-218	-199	-233	-381	-370	-2,014
Nondefense Discretionary Spending	0	-12	-35	-49	-65	-93	-83	-89	-135	-561
Defense Spending	0	-38	-84	-122	-155	-177	-205	-245	-283	-1,309
Mandatory Spending	-7	-14	-43	-41	-41	-72	-72	-118	-345	-753
TARP ^b	0	0	0	0	0	0	0	0	-152	-152
Other Mandatory Spending	-7	-14	-43	-41	-41	-72	-72	-118	-193	-601
Debt Service	0	-5	-15	-37	-60	-93	-131	-175	-227	-743
Economic Changes	-37	-121	-113	-59	2	15	20	1	-143	-345
Technical Changes	-35	-201	-259	-231	-206	-137	-34	-86	-614	-1,897
Fannie Mae/Freddie Mac ^c	0	0	0	0	0	0	0	0	-291	-291
Other Technical Changes	-35	-201	-259	-231	-206	-137	-34	-86	-417	-1,606
Total Changes	-153	-471	-737	-810	-751	-753	-736	-1,090	-2,124	-7625
Actual Budget Surplus (+) / Deficit (-)	128	-158	-378	-413	-319	-248	-163	-455	-1,414	-3,420

Source: Congressional Research Service. Data compiled from Congressional Budget Office, *The Budget and Economic Outlook* (January 2001 to January 2010); and Congressional Budget Office, *An Analysis of the President's Budgetary Proposals* (May 2001 to March 2009).

Notes: Negative numbers indicate an increase in the deficit. Columns may not be additive due to rounding.

- a. In the January baseline, CBO does not report changes to the previous year deficit that occurred since the August baseline. Therefore, any changes between the actual deficit and the baseline deficit projected in August have been apportioned evenly between economic and technical changes.
- b. With regards to the Troubled Asset Relief Program (TARP), CBO in January 2009 projected mandatory outlays at \$184 billion for FY2009. Revised estimates of TARP budgetary impact were provided in March and August 2009 through the technical changes category. However, all TARP spending in this table is accounted for as mandatory spending. It should also be noted that in January 2010 CBO projected a negative outlay level for TARP in FY2010 to reflect changes in economic and market conditions occurring since the actual FY2009 figure of \$152 billion was recorded. This change is included in the total for technical changes.
- c. CBO has accounted for Fannie Mae and Freddie Mac as federal operations since January 2009. In August 2009, CBO estimated Fannie Mae and Freddie Mac FY2009 subsidy costs at \$291 billion, which is the amount presented in this table. However, due to budgetary rules, when CBO released new baseline projections in January 2010, the actual FY2009 budgetary impact for these entities was scored as the level of Treasury Department cash infusions, which was \$91 billion in FY2009. This change is included in the total for technical changes.

At the same time, independent of new legislation passed by Congress, economic variables such as inflation, the unemployment rate, and interest rates have affected both outlays and federal receipts, and CBO classifies these as economic changes. In addition, differences between budget projections and the actual annual deficit or surplus were also caused by modifications to CBO technical assumptions. For example, if more beneficiaries took up an entitlement benefit than projected, or if fewer taxpayers claimed a tax credit than projected, there would be a technical change to CBO's projections.

In 2009, legislative changes accounted for about \$1.36 trillion of the shift from surplus to deficit that has occurred since the 2001 projection. Economic changes to the projection were small relative to legislative and technical changes. Although there was a severe recession not anticipated in the 2001 projection, the actual level of GDP in 2009 was still fairly close to what CBO had projected in 2001. Technical changes made up an estimated \$614 billion of this shift to deficit, although almost half of those changes were due to CBO's decision to move Fannie Mae and Freddie Mac on budget after the Treasury took them into conservatorship in 2008. Although CBO did not consider this to be a legislative change, it can be thought of as a policy change because it resulted in these entities receiving large-scale direct federal support.

Mandatory Spending and Federal Revenues: 2001 to 2009

Mandatory Spending

Mandatory spending (also referred to as direct spending) consists primarily of outlays on benefit programs such as Social Security, Medicare, and Medicaid. The level of spending dedicated to entitlement programs is determined by established rules of eligibility and benefit formulas. Consequently, mandatory spending outlays are allocated automatically and are not subject to the annual discretionary appropriations process. In regards to budgetary treatment of mandatory programs, CBO follows baseline construction rules specified in the Deficit Control Act of 1985 (P.L. 99-177), where direct spending authorizations scheduled to expire by law are assumed to continue if outlays exceed \$50 million, and the program under consideration was established prior to enactment of the Balanced Budget Act of 1997 (P.L. 105-33).⁸

Mandatory spending outlays have accounted for a significant proportion of both federal spending and overall economic activity during the past decade (see **Table 2**).⁹ In particular, mandatory outlays have grown from 9.9% of GDP in FY2001 to 14.7% in FY2009. Among the key drivers of entitlement growth for FY2001 to FY2009, a cumulative \$4.8 trillion was spent on Social Security benefits and \$3.2 trillion was allocated for Medicare.¹⁰

⁸ For CBO's description of mandatory spending in the context of P.L. 99-177, see Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2010 to 2020*, January 2010.

⁹ For a discussion of historical trends in mandatory spending, see CRS Report RL33074, *Mandatory Spending Since 1962*, by D. Andrew Austin and Mindy R. Levit.

¹⁰ Data on mandatory spending for FY2001 to FY2009 was collected from Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2010 to 2020*, Tables F-9 and F-10, January 2010.

Table 2. Mandatory Spending Outlays, FY2001-FY2009

	2001		2002		2003		2004		2005		2006		2007		2008		2009	
	% GDP	\$ Billions	% GDP	\$ Billions	% GDP	\$ Billions	% GDP	\$ Billions	% GDP	\$ Billions	% GDP	\$ Billions	% GDP	\$ Billions	% GDP	\$ Billions	% GDP	\$ Billions
Social Security	4.2	429.4	4.3	452.1	4.3	470.5	4.2	491.5	4.2	518.7	4.1	543.9	4.2	581.4	4.2	612.1	4.8	677.7
Medicare	2.3	237.9	2.4	253.7	2.5	274.2	2.5	297.2	2.7	332.6	2.8	373.6	3.1	436.0	3.2	456.0	3.5	499.0
Medicaid	1.3	129.4	1.4	147.5	1.5	160.7	1.5	176.2	1.5	181.7	1.4	180.6	1.4	190.6	1.4	201.4	1.8	250.9
Income Security	1.1	114.7	1.2	129.1	1.3	141.0	1.6	189.9	1.6	196.1	1.5	199.2	1.5	202.4	1.8	259.9	2.4	348.5
Other Retirement / Disability	0.9	93.0	0.9	96.1	0.9	99.9	0.9	104.0	0.9	111.8	0.9	113.5	0.9	122.9	0.9	129.4	1.0	138.1
Other Programs	0.9	91.8	1.1	117.2	1.2	135.9	0.7	87.3	0.9	106.4	1.1	141.4	0.7	95.0	0.9	129.2	2.6	374.5
Offsetting Receipts	-0.9	-88.7	-0.9	-89.9	-0.9	-100.6	-0.9	-109.0	-1.0	-127.8	-1.1	-140.5	-1.3	-177.6	-1.3	-193.1	-1.4	-194.7
Total Mandatory Spending (Actual)	9.9	1,007.4	10.5	1,105.7	10.8	1,181.4	10.6	1,237.2	10.6	1,319.5	10.7	1,411.8	10.4	1,450.7	11.0	1,595.0	14.7	2,093.9
Memorandum:																		
Total Mandatory Spending (Jan. 2001 Baseline Projection)	10.5	1,089	10.6	1,157	10.6	1,219	10.7	1,296	10.9	1,378	10.8	1,441	10.9	1,520	11.0	1,614	11.2	1,713

Source: Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2010 to 2020 (Tables F-9 and F-10)*, January 2010.

Notes: Columns may not be additive due to rounding. In the context of mandatory spending, offsetting receipts are fees and other charges recorded by CBO as negative budget authority and outlays.

Although mandatory spending has contributed significantly to increasing federal budget deficits over the past 10 years, much of this entitlement outlay growth stems from programs established before 2001.¹¹ Consequently, because this report examines the budgetary impact of major laws enacted during the past five legislative sessions of Congress, mandatory programs such as Social Security, Medicare (Part A, Part B and Part C), and Medicaid will not be addressed in detail.

It should also be noted that while direct spending outlays have increased in recent years, much of this entitlement growth was projected by CBO at the beginning of the decade when future budget surpluses were projected. As **Table 2** indicates, CBO's January 2001 budget baseline assumed mandatory outlay levels that exceeded actual amounts for every year from FY2001 to FY2007, with significant underestimation of actual direct spending only occurring for FY2009, when new mandatory spending on the Troubled Asset Relief Program (TARP), activities related to Fannie Mae and Freddie Mac, and other economic stabilization and economic stimulus initiatives were implemented largely in response to the U.S. financial crisis. Consequently, the expansion in entitlement spending was not a major determinant of the decade long shift from projected budget surpluses to actual budget deficits.

Federal Revenues

Similar to mandatory spending, the level of federal receipts is not directly determined by law. Instead, enacted revenue legislation specifies tax rates and various other features of the tax system, which in combination with economic conditions determine the actual level of revenues collected. The enactment of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA; P.L. 107-16), the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA; P.L. 108-27), and other tax legislation impacted the level of federal revenue collected over the past 10 years, and will be discussed later in this report. In contrast to the budgetary treatment of mandatory spending, the CBO baseline assumes that most current tax provisions will expire as scheduled.¹²

With respect to both total collections and as a share of the overall economy, federal receipts fluctuated between FY2001 to FY2009. **Table 3** illustrates total federal revenues as a proportion of GDP peaked in FY2001 at 19.5%, declined to 16.1% by FY2004, before rebounding to a 18.5% share of economic activity in FY2007. By FY2009, however, federal receipts reached their lowest level of the decade—14.8% of GDP. In dollar terms, revenue traced a similar trajectory, with receipts decreasing from \$2.0 trillion in FY2001 to \$1.8 trillion for FY2004, before increasing to a peak level of \$2.6 trillion for FY2007, followed by two years of revenue decline. Individual income taxes, historically the largest source of federal revenue, peaked as proportion of GDP in FY2001 at 9.7%, before declining to 6.9% of GDP in FY2004. Individual income receipts increased during FY2005 to FY2007, but then declined to a decade low of 6.4% of GDP by FY2009.¹³

¹¹ For instance, the Social Security Act (P.L. 74-271) was signed into law in 1935, and the Social Security Amendments (P.L. 89-97), which created Medicare and Medicaid, were enacted in 1965.

¹² For further discussion of CBO's budgetary treatment of revenue legislation, see Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2010 to 2020 (Box 4.1 Effect of Expiring Tax Provisions on CBO's Revenue Baseline)*, January 2010.

¹³ Data on federal revenues for FY2001 to FY2009 was collected from Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2010 to 2020 (Tables F-3 and F-4)*, January 2010.

Table 3. Revenues by Major Source, FY2001-FY2009

	2001		2002		2003		2004		2005		2006		2007		2008		2009	
	% GDP	\$ Billions	% GDP	\$ Billions	% GDP	\$ Billions	% GDP	\$ Billions	% GDP	\$ Billions	% GDP	\$ Billions	% GDP	\$ Billions	% GDP	\$ Billions	% GDP	\$ Billions
Individual Income Taxes	9.7	994.3	8.1	858.3	7.2	793.7	6.9	809.0	7.5	927.2	7.9	1,043.9	8.4	1,163.5	7.9	1,145.7	6.4	915.3
Corporate Income Taxes	1.5	151.1	1.4	148.0	1.2	131.8	1.6	189.4	2.2	278.3	2.7	353.9	2.7	370.2	2.1	304.3	1.0	138.2
Social Insurance Taxes	6.8	694.0	6.6	700.8	6.5	713.0	6.3	733.4	6.4	794.1	6.3	837.8	6.3	869.6	6.2	900.2	6.3	890.9
Excise Taxes	0.6	66.2	0.6	67.0	0.6	67.5	0.6	69.9	0.6	73.1	0.6	74.0	0.5	65.1	0.5	67.3	0.4	62.5
Estate and Gift Taxes	0.3	28.4	0.3	26.5	0.2	22.0	0.2	24.8	0.2	24.8	0.2	27.9	0.2	26.0	0.2	28.8	0.2	23.5
Custom Duties	0.2	19.4	0.2	18.6	0.2	19.9	0.2	21.1	0.2	23.4	0.2	24.8	0.2	26.0	0.2	27.6	0.2	22.5
Miscellaneous Receipts	0.4	37.8	0.3	33.9	0.3	34.5	0.3	32.6	0.3	32.8	0.3	44.6	0.3	47.6	0.3	50.0	0.4	51.7
Total Revenues	19.5	1,991.1	17.6	1,853.1	16.2	1,782.3	16.1	1,800.1	17.3	2,153.6	18.2	2,406.9	18.5	2,568.0	17.5	2,524.0	14.8	2,104.6

Source: Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2010 to 2020*, Tables F-3 and F-4, January 2010.

Notes: Columns may not be additive due to rounding.

Impact of Major Legislation on Budget Deficits: 2001 to 2009

The following sections review legislation enacted from 2001 to 2009 with budgetary impact greater than \$50 billion over 10 years. Most laws examined include key provisions that directly affect mandatory spending or federal revenues, but supplemental appropriations legislation related to “Global War on Terror” programs and 2005 Hurricane emergency relief is also covered. Annual appropriations providing for non-defense discretionary spending is discussed separately at the end of this report. It should also be noted that the measured impact of legislation does not include resulting increases in debt service costs.

Table 4 presents the budgetary effect of legislative changes occurring from 2001 to 2009 relative to CBO’s January 2001 baseline projections. Laws passed by Congress in 2001 and 2003, notably the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA; P.L. 107-16) and the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA; P.L. 108-27), generated the largest 10-year increases in budget deficits, about \$1.7 trillion. Legislation enacted in FY2009, including the Emergency Economic Stabilization Act (EESA; P.L. 110-343) and the American Recovery and Reinvestment Act of 2009 (ARRA; P.L. 111-5), caused the 2009 deficit to increase by \$509 billion, while legislative changes from 2001 to 2008 caused the 2009 deficit to increase by an additional \$903 billion. For the decade as whole, it can be estimated that legislative changes have increased deficits, relative to the 2001 baseline projections, by about \$5.4 trillion.

**Table 4. Budgetary Effects of Legislative Changes by Year of Enactment,
FY2001-FY2009**
(\$ in billions)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	Cumulative Total: 2001-2009
2001 Legislation	-81	-52	-107	-131	-138	-174	-201	-221	-241	-1,346
2002 Legislation	0	-98	-131	-127	-113	-99	-103	-112	-121	-904
2003 Legislation	0	0	-125	-259	-212	-159	-164	-182	-189	-1,290
2004 Legislation	0	0	0	-2	-40	-82	-105	-116	-128	-473
2005 Legislation	0	0	0	0	-40	-52	-15	-3	3	-107
2006 Legislation	0	0	0	0	0	-66	-106	-85	-92	-349
2007 Legislation	0	0	0	0	0	0	-27	-36	-32	-95
2008 Legislation	0	0	0	0	0	0	0	-250	-103	-353
2009 Legislation	0	0	0	0	0	0	0	0	-458	-458
Total Legislative Changes (2001-2009)	-81	-150	-363	-519	-543	-632	-721	-1,005	-1,361	-5,375

Source: Congressional Research Service. Data compiled from Congressional Budget Office, *The Budget and Economic Outlook* (January 2001 to January 2010); and *An Analysis of the President’s Budgetary Proposals* (May 2001 to March 2009).

Notes: Negative numbers indicate an increase in the deficit. Columns may not be additive due to rounding. On a subsidy basis, conservatorship of Fannie Mae and Freddie Mac added \$291 billion to the deficit in 2009. This amount is not included in the Table because CBO classifies it as a technical, as opposed to legislative, change.

EGTRRA, JGTRRA and Other Major Tax Legislation

From 2001 to 2006, several laws were enacted under the Bush Administration that reduced federal government revenues. However, since the Joint Committee on Taxation (JCT) and CBO typically measure the budgetary effect of revenue policy only when legislation is under consideration by Congress, the actual ex-post impact of specific laws on budget deficits can be difficult to determine.¹⁴ Consequently, in this section all CBO and JCT data on legislative cost is accompanied by both the approximate date of the estimate, as well as any needed clarification about the point in the legislative process when the estimate was performed.

Economic Growth and Tax Relief Reconciliation Act of 2001

On June 7, 2001, President Bush signed into law the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA; P.L. 107-16). EGTRRA established a new 10% regular income tax bracket, gradually reduced various income tax rates through 2006, and increased the child tax credit to \$1,000 over 10 years. Additionally, the law phased-in an increase in the basic standard deduction for married couples filing joint returns in order to provide marriage penalty relief, raised the annual limit on contributions to education individual retirement accounts (IRAs), and phased-in an increase in the unified credit exemption amount and a reduction of tax rates for estate and generation-skipping transfer taxes (including a complete repeal of estate and generation-skipping transfer taxes for 2010).¹⁵ To comply with the Congressional Budget Act of 1974, most provisions in EGTRRA are scheduled to sunset at the end of calendar year 2010.¹⁶

In May 2001, JCT estimated that EGTRRA, as cleared by Congress, would have a negative budgetary impact of \$1.35 trillion for FY2001 to FY2011. Among the key components of the cost estimate, JCT expected the marginal rate reduction provisions to decrease government revenues by \$874.9 billion over 10 years, and for the expanded child tax credit to cost \$171.8 billion during the same timeframe.¹⁷

Jobs and Growth Tax Relief Reconciliation Act of 2003

The second major tax cut under the Bush Administration, the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA; P.L. 108-27), was enacted on May 28, 2003 and accelerated many of the tax reductions previously implemented by EGTRRA. In particular, for 2003 and 2004 the increase in the child tax credit was raised to \$1,000, and the basic standard deduction amount for married taxpayers filing a joint return was increased to twice the basic standard deduction amount for single individuals. Additional EGTRRA provision accelerations

¹⁴ For a CBO discussion about the difficulties in measuring the budgetary impact of EGTRRA and JGTRRA, see Congressional Budget Office, *The Budgetary Costs of EGTRRA and JGTRRA Compared with Projected Deficits*, July 20, 2007, available at http://www.cbo.gov/ftpdocs/83xx/doc8337/07-20-EGTRRA-JGTRRA_and_Deficits.pdf.

¹⁵ For analysis of EGTRRA and a comparison of House, Senate and Administration proposals prior to enactment of the law, see CRS Report RL30973, *2001 Tax Cut: Description, Analysis, and Background*, by David L. Brumbaugh et al.

¹⁶ In contrast to the budgetary treatment of authorization legislation for mandatory programs, CBO assumes that most current tax provisions will expire as scheduled. Consequently, CBO projected in January 2010 that expiring tax provisions under EGTRRA, JGTRRA, and other legislation would increase revenues by 2.7% of GDP for FY2010 to FY2012.

¹⁷ Joint Committee on Taxation, *Estimated Budget Effects of the Conference Agreement for H.R. 1836*, JCX-51-01, May 26, 2001, available at <http://www.jct.gov/publications.html?func=startdown&id=2001>.

implemented by JGTRRA included an expansion of the 15% rate bracket for married couples filing joint returns, and an acceleration of the regular income tax rate reductions scheduled for 2004 and 2006. JGTRRA also contained tax incentives for businesses such as a first-year depreciation allowance equal to 50% for certain property acquired after May 5, 2003, and before January 1, 2005, and provided for significant reductions in taxes on capital gains and dividends received prior to January 1, 2009.¹⁸

In May 2003, JCT and CBO projected that JGTRRA, as enacted, would increase federal budget deficits by \$349.7 billion for FY2003 to FY2013. The acceleration of previously enacted tax reductions was expected to cost \$171.4 billion over the next five years, with new reductions in taxes on dividends and capital gains estimated to decrease government receipts by another \$148.1 billion.¹⁹

Other Tax Legislation With Budgetary Impact: 2004 to 2006

In the 108th and 109th Congress, several laws were passed that extended and in some cases modified revenue reduction provisions previously enacted under EGTRRA and JGTRRA. The Working Families Tax Relief Act of 2004 (WFTRA; P.L. 108-311), signed into law on October 4, 2004, extended tax relief for married taxpayers filing a joint return through 2008, maintained the \$1,000 child tax credit through 2009, and extended the 10% income tax bracket through 2010. In September 2004, JCT and CBO estimated WFTRA would decrease federal revenues by \$122.2 billion over FY2005 to FY2014, while raising direct spending (mostly from increased outlays for refundable tax credits) by \$23.8 billion over the same period, for a combined 10-year budgetary impact of \$145.9 billion.²⁰

On May 17, 2006, another tax cut extension was signed into law, the Tax Increase Prevention and Reconciliation Act of 2005 (TIPRA; P.L. 109-222).²¹ TIPRA extended the reduced tax rates on capital gains and dividends through 2010 and extended the exception for active financing income for controlled foreign corporations, among other provisions. In June 2006, JCT projected that the conference agreement for TIPRA would reduce federal revenues by \$69.1 billion for FY2006 to FY2015.²²

The Pension Protection Act of 2006 (PPA; P.L. 109-280), signed into law on August 17, 2006, provided comprehensive reform of U.S. pension law.²³ PPA included several provisions that reduced federal government revenues, such as making permanent increases in limits on contributions to pension plans or IRAs first enacted under EGTRRA, and extending a non-

¹⁸ For analysis of JGTRRA, see CRS Report RL32034, *The Jobs and Growth Tax Relief Reconciliation Act of 2003 and Business Investment*, by Gary Guenther.

¹⁹ Congressional Budget Office, *Cost Estimate for H.R. 2, Jobs and Growth Tax Relief Reconciliation Act of 2003*, May 23, 2003, available at <http://www.cbo.gov/ftpdocs/42xx/doc4249/hr2.pdf>.

²⁰ Congressional Budget Office, *Cost Estimate for H.R. 1308, Working Families Tax Relief Act of 2004*, September 30, 2004, available at <http://www.cbo.gov/ftpdocs/58xx/doc5868/hr1308pg.pdf>.

²¹ For a discussion of TIPRA in the context of other reconciliation legislation effecting budget deficits, see CRS Report RS22098, *Deficit Impact of Reconciliation Legislation Enacted in 1990, 1993, 1997, and 2006*, by Robert Keith.

²² Joint Committee on Taxation, *Estimated Revenue Effects of the Conference Agreement for the "Tax Increase Prevention and Reconciliation Act of 2005"*, JCX-18-06, May 9, 2006, available at <http://www.jct.gov/publications.html?func=startdown&id=1502>.

²³ See CRS Report RL33703, *Summary of the Pension Protection Act of 2006*, by Patrick Purcell.

refundable credit available to low-income individuals contributing to either a 401(k) savings plan or an IRA (EGTRRA's "Saver's Credit"). In August 2006, JCT estimated that PPA, as cleared by Congress, would reduce federal revenues by \$72.9 billion for FY2007 to FY20016, and CBO estimated that the legislation would decrease outlays on direct spending by \$5.0 billion over 10 years, for a total 10-year budgetary effect of \$67.9 billion.²⁴

In addition to legislation related to EGTRRA and JGTRRA, Congress routinely extends other expiring tax provisions. Among these tax extenders laws, only the Tax Relief and Health Care Act of 2006 (TRHCA; P.L. 109-432) meets the criteria of budgetary effect exceeding \$50 billion specified above. TRHCA implemented numerous changes to tax law, including an extension through 2007 of the research and development credit, the deduction for state and local taxes, and the deduction for qualified tuition and related expenses. TRHCA also extended several expiring energy tax provisions through 2008 and made changes to rules governing Health Savings Accounts.²⁵ In December 2006, JCT and CBO estimated that the law would decrease federal government revenues by \$40.0 billion for FY2007 to FY2016.²⁶ In addition, CBO projected that direct spending provisions in TRHCA related to the Medicare payments for physicians' fee services and other programmatic changes were expected to increase mandatory outlays by \$10.5 billion, and thus in combination TRHCA was estimated to raise deficits by \$50.5 billion over 10 years.

Table 5 shows JCT and CBO estimated increases in federal budget deficits related to EGTRRA, JGTRRA, WFTRA, TIPRA, PPA and TRHCA. For each bill, the projected budgetary impact is presented over both a 5-year and 10-year budget window.

Table 5. Estimated Budget Effects of Major Tax Cuts, 107th to 109th Congress
(\$ in billions)

Legislation	5-Year Budget Window	Net Budgetary Effect ^a	10-Year Budget Window	Net Budgetary Effect ^a
Economic Growth and Tax Relief Reconciliation Act of 2001 ^b	FY2001-FY2006	-552.5	FY2001- FY2011	-1,348.5
Jobs and Growth Tax Relief Reconciliation Act of 2003 ^b	FY2003-FY2008	-342.9	FY2003- FY2013	-349.7
Working Families Tax Relief Act of 2004 ^b	FY2005-FY2009	-132.8	FY2005- FY2014	-145.9
Tax Increase Prevention and Reconciliation Act of 2005 ^b	FY2006- FY2010	-70.0	FY2006- FY2015	-69.1
Pension Protection Act of 2006	FY2007- FY2011	-5.9	FY2007- FY2016	-67.9
The Tax Relief and Health Care Act of 2006 ^c	FY2007- FY2011	-41.0	FY2007- FY2016	-50.5
Total		-1,145.1		-2,031.6

Source: CBO and JCT Cost Estimates for EGTRRA, JGTRRA, WFTRA, TIPRA, PPA and TRHCA.

²⁴ Congressional Budget Office, *Cost Estimate of H.R. 4, Pension Protection Act of 2006*, August 16, 2006, available at <http://www.cbo.gov/ftpdocs/74xx/doc7493/hr4pgo.pdf>.

²⁵ See CRS Report RS22551, *Tax Provisions in the Tax Relief and Health Care Act of 2006 (H.R. 6111)*, by Erika K. Lunder.

²⁶ Congressional Budget Office, *Cost Estimate for H.R. 6111, Tax Relief and Health Care Act of 2006*, December 28, 2006, available at <http://www.cbo.gov/ftpdocs/77xx/doc7714/hr6111pgo.pdf>.

Notes: Negative numbers indicate an increase in the deficit. Columns may not be additive due to rounding.

- a. All budgetary effects were estimated by CBO and JCT at the time of legislative enactment.
- b. Budgetary effects reported for the Economic Growth and Tax Relief Reconciliation Act of 2001, the Jobs and Growth Tax Relief Reconciliation Act of 2003, the Working Families Tax Relief Act of 2004, and the Tax Increase Prevention and Reconciliation Act of 2005 include provisions related to the Alternative Minimum Tax (AMT).
- c. For the Tax Relief and Health Care Act of 2006, budgetary effects for both revenue provisions, and direct spending provisions related to Medicare and other programs are reported in this table.

The Alternative Minimum Tax: Increases in the Basic Exemption and Other Structural Modifications

An alternative minimum tax (AMT) is intended to ensure that taxpayers with significant income pay a minimum amount of tax. An add-on minimum tax was originally passed by Congress through the Tax Reform Act of 1969 (P.L. 91-72), and the first AMT was enacted as part of the Tax Equity and Fiscal Responsibility Act of 1982 (P.L. 97-248).²⁷ Provisions of the AMT have been modified numerous times since 1982, including through the Tax Reform Act of 1986 (P.L. 99-514), and the Omnibus Budget Reconciliation Act of 1993 (P.L. 103-66).²⁸ Under present law, the AMT is determined by subtracting a basic exemption amount from an individual's calculated AMT tax base (computed by adding back various tax adjustments and preferences), with the remaining tax base assessed under a two-tiered rate structure of 26% for all income up to \$175,000, and 28% on any income above this amount.²⁹

Over the past decade, the combined effects of inflation and new legislative reductions in federal income tax have increased concern in Congress about the growing number of taxpayers that might be affected by the AMT. In response, lawmakers have implemented numerous increases in the AMT basic exemption during the 107th to 111th Congresses.³⁰ The enactment of EGTRRA in 2001 temporarily raised the AMT exemption level to \$49,000 for joint returns and \$35,750 for unmarried individuals effective through 2004. JGTRRA increased the basic AMT exemption amount for 2003 and 2004 to \$58,000 for joint returns and \$40,250 for unmarried individuals. WFTRA extended the AMT patches provided in JGTRRA for 2005, and TIPRA increased the AMT exemption amount for 2006 to \$62,550 for joint returns and \$42,500 for unmarried individuals. Other recent AMT patches were enacted through the Tax Extenders and Alternative Minimum Tax Relief Act of 2008 (TEAMTRA; Division C of P.L. 110-343), and the American Recovery and Reinvestment Act of 2009 (ARRA; P.L. 111-5).

Along with the periodic increases in the AMT patch passed by Congress, revenue legislation signed into law over the past 10 years has also modified other components of the AMT that reduced federal government revenues. For instance, EGTRRA allowed various nonrefundable

²⁷ See Joint Committee on Taxation, *Present Law and Background Relating to the Individual Alternative Minimum Tax (JCX-38-07)*, June 25, 2007, available at <http://www.jct.gov/x-38-07.pdf>.

²⁸ For a description of various legislative changes made to the individual AMT, see CRS Report RL30149, *The Alternative Minimum Tax for Individuals*, by Steven Maguire.

²⁹ See CRS Report RL33899, *Modifying the Alternative Minimum Tax (AMT): Revenue Costs and Potential Revenue Offsets*, by Jane G. Gravelle.

³⁰ For a discussion about the AMT in the context of the federal budget, see Congressional Budget Office, *The Individual Alternative Minimum Tax*, January 15, 2010, available at http://www.cbo.gov/ftpdocs/108xx/doc10800/01-15-AMT_Brief.pdf.

personal tax credits to fully offset AMT tax liability for 2001 to 2003, a provision extended in later years by WFTRA, TIPRA, the Tax Increase Prevention Act of 2007 (TIPA; P.L. 110-166), TEAMTRA and ARRA.

Table 6 reports the expected budgetary impact for all AMT provisions contained in EGTRRA, JGTRRA, WFTRA, TIPRA, TIPA, TEAMTRA and ARRA. It should be noted that the presented legislative costs are aggregated amounts including both the increases in the AMT basic exemption, along with all other AMT structural modifications.

Table 6. Estimated Revenue Effects for AMT Legislative Changes, 107th to 111th Congresses

(\$ in billion)

Legislation	Fiscal Years with Revenue Effect	Net Budgetary Effect ^a
Economic Growth and Tax Relief Reconciliation Act of 2001	2001-2005	-13.9
Jobs and Growth Tax Relief Reconciliation Act of 2003	2003-2005	-17.8
Working Families Tax Relief Act of 2004	2005-2006	-22.6
Tax Increase Prevention and Reconciliation Act of 2005	2006-2007	-33.9
Tax Increase Prevention Act of 2007	2008	-50.6
Tax Extenders and Alternative Minimum Tax Relief Act of 2008	2009-2010	-64.1
American Recovery and Reinvestment Act of 2009	2009-2011	-69.8
Total		-272.7

Source: JCT Cost Estimates for EGTRRA, JGTRRA, WFTRA, TIPRA, TIPA, TEAMTRA and ARRA

Notes: Negative numbers indicate an increase in the deficit. Columns may not be additive due to rounding.

a. All budgetary effects were estimated by JCT at the time of legislative enactment

Agricultural Policy: 2002 and 2008 Farm Bills

The Farm Security and Rural Investment Act of 2002 (2002 farm bill; P.L. 107-171) was signed into law on May 13, 2002, reauthorizing the major federal farm programs administered by the U.S. Department of Agriculture for FY2002 to FY2007. As mentioned in the above discussion on mandatory spending, under baseline construction rules direct spending programs are assumed to continue even after expiration of current law. Thus, the impact of the 2002 farm bill on federal budget deficits was not measured in terms of the total mandatory outlays to be spent on agricultural programs covered by the legislation, but instead as compared to the level of March 2002 baseline direct spending that would have occurred during the budgetary window under provisions of the previous farm bill, the Federal Agriculture Improvement and Reform Act of 1996 (1996 farm bill; P.L. 104-127), as amended.

In May 2002, CBO estimated that the 2002 farm bill would increase federal budget deficits by \$49.2 billion over FY2002 to FY2007, bringing total spending on federal farm programs to \$470.5 billion over six years when baseline spending is included.³¹ Among the largest

³¹ Congressional Budget Office, *Cost Estimate for H.R. 2646, Farm Security and Rural Investment Act of 2002*, May (continued...)

expenditures, CBO expected the 2002 farm bill to increase direct spending on commodity support programs by \$37.6 billion over six years, and to increase outlays on agricultural conservation programs by \$6.5 billion during the same period.

In the 110th Congress, the main agricultural policies contained in P.L. 107-171 were reauthorized through the Food, Conservation, and Energy Act of 2008 (2008 farm bill; P.L. 110-246).³² Similar to P.L. 107-171, financing for most programs covered in the 2008 farm bill only extend through a limited number of years, FY2008 to FY2012. Relative to CBO's March 2008 baseline projection of \$301.4 billion in federal farm program direct spending over five years, the 2008 farm bill was projected in May 2008 to increase mandatory spending by another \$5.6 billion for FY2008 to FY2012, while raising \$5.0 billion in federal revenues.³³ Consequently, although P.L. 110-246 is estimated to cover approximately \$307.0 billion in spending over FY2008 to FY2012, the increase in federal deficits scored by CBO is only \$0.6 billion.

As estimated by CBO at the time of legislative enactment, the 2002 and 2008 farm bills combined generate federal budget deficits of \$49.8 billion for their authorized time windows. However, due to the five-month gap between the scheduled expiration of mandatory program authorization under P.L. 107-171 and the enactment of P.L. 110-246, the actual increase in federal budget deficits is likely greater than this combined level. Further, it should be noted that if the 2008 farm bill was scored against CBO's March 2002 baseline, which assumed continuation of the 1996 farm bill, the 2008 reauthorization would have increased budget deficits by \$38.7 billion for FY2008 to FY2012. Thus the combined budgetary effect of the 2002 and 2008 farm bills would be \$87.9 billion if scored collectively against the March 2002 baseline.

Funding for Military Operations in Afghanistan, Iraq and Other Global War on Terror Programs

Over the past 10 years, Congress enacted legislation financing military operations in Afghanistan, Iraq, and other countries, generating significant long-term budgetary effects. From FY2001 to FY2009, support for Global War on Terror (GWOT) operations has been provided primarily through emergency supplemental appropriations law.³⁴ Some funds for war programs have also been made available through regular annual appropriations legislation, such as the Department of Defense Appropriations Act, 2005 (P.L. 108-287) and the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 2006 (P.L. 109-102).

Table 7 shows all legislation enacted during the 107th to 111th Congresses supporting GWOT operations through the end of FY2009. Appropriations for each law are reported for the following

(...continued)

22, 2002, available at <http://www.cbo.gov/ftpdocs/34xx/doc3468/hr2646omb.pdf>.

³² See CRS Report RL34696, *The 2008 Farm Bill: Major Provisions and Legislative Action*, coordinated by Renée Johnson.

³³ Congressional Budget Office, *Cost Estimate for H.R. 2419, Food, Conservation, and Energy Act of 2008*, May 13, 2008, available at <http://www.cbo.gov/ftpdocs/92xx/doc9230/hr2419conf.pdf>.

³⁴ CRS reports reviewing all of these laws are available, including CRS Report RL31406, *Supplemental Appropriations for FY2002: Combating Terrorism and Other Issues*, by Amy Belasco and Larry Nowels; CRS Report RL32783, *FY2005 Supplemental Appropriations for Iraq and Afghanistan, Tsunami Relief, and Other Activities*, by Amy Belasco and Larry Nowels; and CRS Report R40531, *FY2009 Spring Supplemental Appropriations for Overseas Contingency Operations*, coordinated by Stephen Daggett and Susan B. Epstein.

three expenditure types: Defense Department, Foreign Operations Funding, and Veterans Affairs Medical Funding. In total, Congress has approved legislation appropriating \$943.8 billion for military operations Iraq, Afghanistan, and other countries for FY2001 to FY2009, with \$887.8 billion of this amount allocated to the Defense Department.

Table 7. Defense Department, Foreign Operations Funding, and Veterans Affairs Medical Funding for Iraq, Afghanistan and Other Global War on Terror Operations, FY2001-FY2009
(\$ in billions)

Legislation	DOD Funds	Foreign Aid Embassy	VA Medical	Total Cost
2001 Emergency Supplemental Appropriations Act for Recovery from and Response to Terrorist Attacks on the United States (P.L. 107-38)	14.0	0.3	0.0	14.3
Department of Defense Appropriations Act, 2003 (P.L. 107-248)	7.1	0.0	0.0	7.1
Department of Defense and Emergency Supplemental Appropriations for Recovery from and Response to Terrorist Attacks on the United States Act, 2002 (P.L. 107-117)	3.4	0.0	0.0	3.4
2002 Supplemental Appropriations Act for Further Recovery From and Response to Terrorist Attacks on the United States (P.L. 107-26)	13.8	0.4	0.0	14.1
Foreign Operations, Export Financing, and Related Programs Appropriations Act, 2002 (P.L. 107-115)	0.0	0.2	0.0	0.2
Consolidated Appropriations Resolution, 2003 (P.L. 108-7)	10.0	0.4	0.0	10.4
Emergency Wartime Supplemental Appropriations Act, 2003 (P.L. 108-11)	62.6	3.4	0.0	66.0
Department of Defense Appropriations Act, 2004 (P.L. 108-87)	-3.5	0.0	0.0	-3.5
Emergency Supplemental Appropriations Act for Defense and for the Reconstruction of Iraq and Afghanistan, 2004 (P.L. 108-106)	64.9	21.2	0.0	86.1
Consolidated Appropriations Act, 2004 (P.L. 108-199)	0.0	0.5	0.0	0.5
Department of Defense Appropriations Act, 2005, Titles IX and X (P.L. 108-287)	25.0	0.7	0.0	25.7
Department of Defense Appropriations Act, 2005 (P.L. 108-287)	2.1	0.0	0.0	2.1
Consolidated Appropriations Act, 2005 (P.L. 108-447)	0.0	1.0	0.0	1.0
Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Tsunami Relief, 2005 (P.L. 109-13)	75.9	3.1	0.0	79.0
Department of the Interior, Environment, and Related Agencies Appropriations Act, 2006 (P.L. 109-54)	0.0	0.0	0.2	0.2
Foreign Operations, Export Financing, and Related Programs Appropriations Act, 2006 (P.L. 109-102)	0.0	1.0	0.0	1.0
Science, State, Justice, Commerce, and Related Agencies Appropriations Act, 2006 (P.L. 109-108)	0.0	0.1	0.0	0.1
Military Quality of Life and Veterans Affairs Appropriations Act, 2006 (P.L. 109-114)	0.0	0.0	0.4	0.4

Legislation	DOD Funds	Foreign Aid Embassy	VA Medical	Total Cost
Department of Defense, Emergency Supplemental Appropriations to Address Hurricanes in the Gulf of Mexico, and Pandemic Influenza Act, 2006, Title IX (P.L. 109-148)	50.0	0.0	0.0	50.0
Department of Defense, Emergency Supplemental Appropriations to Address Hurricanes in the Gulf of Mexico, and Pandemic Influenza Act, 2006 (P.L. 109-148)	0.8	0.0	0.0	0.8
Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Hurricane Recovery, 2006 (P.L. 109-234)	66.0	3.2	0.0	69.2
Department of Defense Appropriations Act, 2007 (P.L. 109-289)	70.5	0.0	0.0	70.5
Revised Continuing Appropriations Resolution, 2007 (P.L. 110-5)	0.0	1.3	0.6	1.8
U.S. Troop Readiness, Veterans' Care, Katrina Recovery, and Iraq Accountability Appropriations Act, 2007 (P.L. 110-28)	94.5	3.8	0.4	98.7
FY2008 Continuing Resolution (P.L. 110-92)	5.2	0.0	0.0	5.2
Department of Defense Appropriations Act, 2008 (P.L. 110-116)	12.2	0.0	0.0	12.2
Consolidated Appropriations Act, 2008 (P.L. 110-161)	70.0	2.1	0.9	73.0
Supplemental Appropriations Act, 2008 (P.L. 110-252)	160.2	3.1	0.4	163.6
Supplemental Appropriations Act, 2009 (P.L. 111-32)	73.3	5.2	1.3	79.8
Subtotal	877.4	51.8	4.2	933.4
Unidentified Transfers	2.0	0.0	0.0	2.0
FY2003 Transfers	1.2	0.0	0.0	1.2
FY2004 Transfers	5.7	0.0	0.0	5.7
FY2005 Transfers	1.5	0.0	0.0	1.5
Subtotal Transfers	10.4	0.0	0.0	10.4
Total Enacted (w/transfers)	887.8	51.8	4.2	943.8

Source: Adapted from “Table C-1. Defense Department, Foreign Operations Funding, and VA Medical Funding for Iraq, Afghanistan and Other Global War on Terror Activities, FY2001-2009”, presented in CRS Report RL33110, *The Cost of Iraq, Afghanistan, and Other Global War on Terror Operations Since 9/11*, by Amy Belasco.

Notes: Columns may not be additive due to rounding. See Table C-1 in CRS Report RL33110, *The Cost of Iraq, Afghanistan, and Other Global War on Terror Operations Since 9/11*, for details on CRS calculations of funds transferred from DOD regular appropriations in FY2003 to FY2005.

Another way to view the cost of military operations in Iraq, Afghanistan, and related GWOT activities is to examine the amount of funding appropriated for each major operation. **Table 8** presents the FY2001 to FY2009 aggregated spending levels for Operation Enduring Freedom (OEF), which covers ongoing operations in Afghanistan, the Philippines, Somalia and other nations; Operation Iraqi Freedom (OIF); and Operation Noble Eagle (ONE), which provides additional security for U.S. military bases and for homeland security purposes. Of the \$943.8 billion in allocated funds for FY2001 to FY2009, approximately \$682.8 billion has been approved for OIF, \$226.7 billion allocated for OEF, and \$28.5 billion appropriated for ONE.

Table 8. Estimated War Funding by Operation, FY2001-FY2009
(\$ in billions)

Operation	2001-2002	2003	2004	2005	2006	2007	2008	2009	Cumulative Total: 2001-2009
Operation Enduring Freedom	20.8	14.7	14.5	20.0	19.0	39.1	43.4	55.2	226.7
Operation Iraqi Freedom	0.0	53.0	75.9	85.5	101.6	130.8	141.1	94.8	682.8
Enhanced Security	13.0	8.0	3.7	2.1	0.8	0.5	0.1	0.2	28.5
Unallocated	0.0	5.5	0.0	0.0	0.0	0.0	0.0	0.0	5.5
Total	33.8	81.1	94.1	107.6	121.4	171.0	184.8	150.4	943.8
Memorandum:	38	84	122	155	177	205	245	283	1,309 ^a
Legislative Changes in Defense Spending Relative to the Jan. 2001 Baseline Projection									

Source: Adapted from “Table I. Estimated War Funding by Operation: FY2001-FY2010 War Request”, presented in CRS Report RL33110, *The Cost of Iraq, Afghanistan, and Other Global War on Terror Operations Since 9/11*, by Amy Belasco.

Notes: Columns may not be additive due to rounding. Positive numbers in the table represent an increase in spending, which increases the deficit.

a. For the memorandum, the total includes war spending.

Funding for GWOT operations has been provided primarily through supplemental appropriations, whereas other changes in national defense policy have been implemented through regular defense appropriations law. As shown in **Table 8**, relative to CBO’s January 2001 baseline, which held projected military outlays for FY2001 to FY2009 constant in inflation-adjusted terms, annual national defense spending (including both regular and supplemental appropriations) has increased by about \$1.3 trillion over the past nine years.

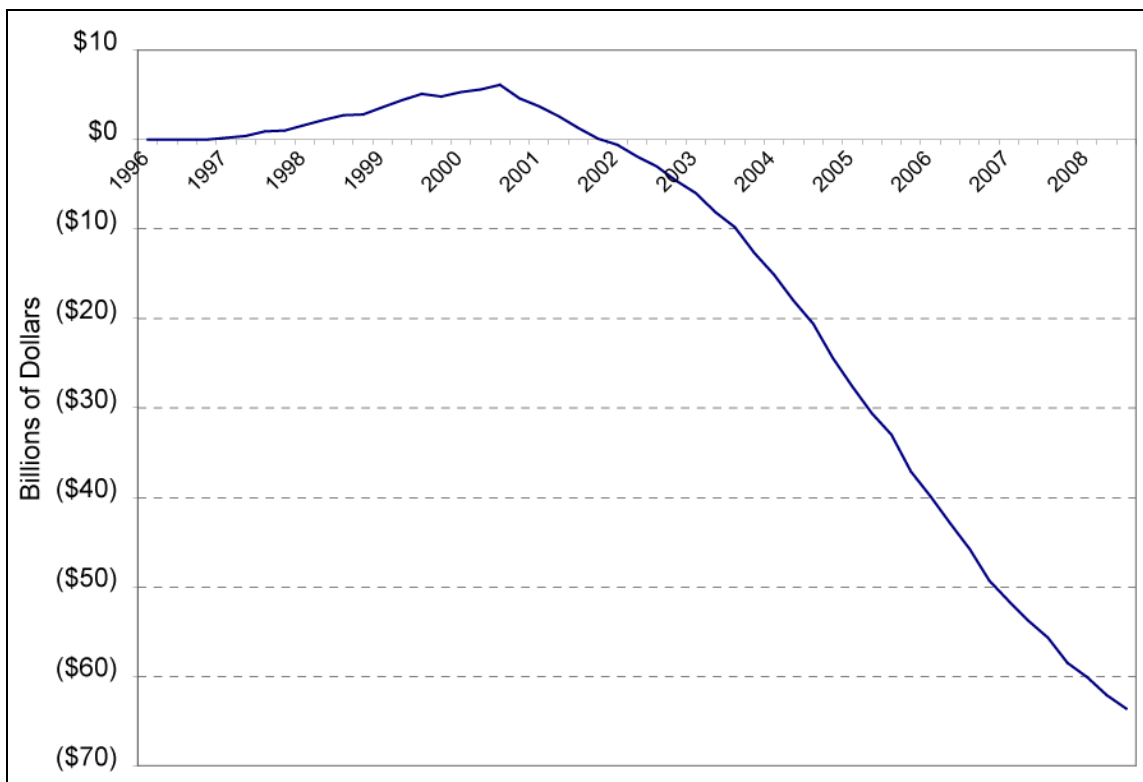
Sustainable Growth Rate System: Medicare Physician Payment Updates

Since the establishment of the Medicare program in 1965, various methods have been used to determine physician payment rates for covered medical services.³⁵ In an effort to better control Medicare’s outlays for physician services, the Balanced Budget Act of 1997 (P.L. 105-33) implemented the current Sustainable Growth Rate (SGR) system, which sets target levels for health expenditures, and adjusts payment rates to account for differences between cumulative Medicare spending and spending goals. Under the SGR system, when actual spending does not

³⁵ For a review of historical changes to the system for determining physician payment rates under Medicare, see Congressional Budget Office, *The Sustainable Growth Rate Formula for Setting Medicare’s Physician Payment Rates*, September 6, 2006, available at <http://www.cbo.gov/ftpdocs/75xx/doc7542/09-07-SGR-brief.pdf>.

exceed the expenditure targets, the annual physician fee schedule updates are calculated as determined in statute based on the annual change in the Medicare economic index (MEI), changes in the Medicare population, and other factors.³⁶ Although expenditures did not begin to exceed SGR targets until 2002, this discrepancy between actual costs and payment limits has grown larger in each subsequent year.

Figure 1. Difference Between Allowed and Actual Expenditures for Physician Services Under the SGR System
1996-2008



Source: “Figure 1. Difference Between Cumulative Allowed and Actual Expenditures for Physician Services Under the SGR System”, CRS Report R40907, *Medicare Physician Payment Updates and the Sustainable Growth Rate (SGR) System*, by Jim Hahn.

Notes: Positive numbers shown in this figure indicate that actual expenditures did not exceed target expenditures allowed under the SGR system for 1996 to 2001. Negative numbers indicate that actual expenditures exceeded the SGR targets beginning in 2002.

The cumulative difference between allowed and actual expenditures from 1996 to 2008 is shown in **Figure 1**. For the second quarter of 2002, actual physician service expenditures exceeded allowed levels under SGR by \$0.6 billion. However, this cumulative difference grew to \$24.4 billion by the start of 2005, and has expanded rapidly to an estimated \$63.6 billion difference by the last quarter of 2008.

³⁶ See CRS Report R40907, *Medicare Physician Payment Updates and the Sustainable Growth Rate (SGR) System*, by Jim Hahn.

To avoid the reductions in physician fee schedules that have been mandated since 2003 under SGR, Congress has passed several legislative overrides. The Consolidated Appropriations Resolution of 2003 (P.L. 108-7) replaced the scheduled 4.4% payment rate reduction with a 1.6% increase in rates for 2003. The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA; P.L. 108-173) replaced rate reductions in 2004 and 2005 with increases of 1.5% for both years. More recently, legislative overrides to physician fee payment decreases mandated under SGR were enacted through the Tax Relief and Health Care Act of 2006 (TRHCA; P.L. 109-432), the Medicare, Medicaid, and SCHIP Extension Act of 2007 (MMSEA; P.L. 110-173), the Medicare Improvement for Patients and Providers Act of 2008 (MIPPA; P.L. 110-275), and the Temporary Extension Act of 2010 (P.L. 111-144). **Table 9** reports the legislative overrides to scheduled cuts in Medicare physician fees signed into law during the 108th to 111th Congresses.

Table 9. Legislative Overrides to Medicare Physician Payment Reductions Mandated Under the Sustainable Growth Rate System, 108th to 111th Congresses

Year	Formula Update	Actual Update	Legislation
2003	-4.4%	1.6%	Consolidated Appropriations Resolution of 2003 (P.L. 108-7)
2004	-4.5%	1.5%	Medicare Modernization Act of 2003 (P.L. 108-173)
2005	-3.3%	1.5%	P.L. 108-173
2006	-4.4%	0.2%	Deficit Reduction Act of 2005 (P.L. 109-171)
2007	-5.0%	0%	Tax Relief and Health Care Act of 2006 (P.L. 109-432)
Jan-Jun 2008	-10.1%	0.5%	Medicare, Medicaid, and SCHIP Extension Act of 2007 (P.L. 110-173)
Jul-Dec 2008	-10.6% reduction from June 2008 level	0% (0.5% from 2007 level)	Medicare Improvement for Patients and Providers Act of 2008 (P.L. 110-275)
2009		1.1%	P.L. 110-275
2010		0%	Temporary Extension Act of 2010 (P.L. 111-144)

Source: Adapted from “Table I. Summary of Updates and Legislative Activity: 2002-2009”, presented in CRS Report R40907, *Medicare Physician Payment Updates and the Sustainable Growth Rate (SGR) System*, by Jim Hahn. Information on budgetary impact for all laws was obtained from CBO cost estimates.

Medicare Part D Prescription Drug Benefit

On December 8, 2003, President Bush signed into law the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA; P.L. 108-173). The legislation established a voluntary Medicare prescription drug benefit effective January 1, 2006, under a new Part D of Title XVIII of the Social Security Act. MMA specified that drug coverage be delivered to beneficiaries through either a private prescription drug plan, or prescription drug coverage integrated into Medicare Part C, with all plan providers offering at a minimum “standard

coverage,” or alternative coverage with actuarially equivalent benefits.³⁷ Another key provision of MMA was the establishment of the Medicare Advantage (MA) program under Part C, which replaced Medicare+Choice. In addition, the legislation provided for Medicare cost containment initiatives and changes to Medicare’s fee-for-service program.

Table 10 shows that CBO’s original calculation projected net Medicare Part D outlays to increase federal budget deficits by approximately \$552.2 billion over the next decade. In particular, CBO estimated that for FY2004 to FY2013 Medicare Part D would require \$771.3 billion in payments for benefits and mandatory administrative costs. However, during this same 10-year budget window CBO also anticipated these expenditures to be partially offset by \$130.6 billion in premiums paid by beneficiaries, and another \$88.5 billion in payments made by states.³⁸ In addition, other provisions of MMA, including \$12.5 billion in savings from changes to Medicare Part A and Part B, and \$144.7 billion in expected savings from reduced spending on Medicaid and other federal programs was originally projected by CBO to reduce the total cost of the legislation to \$395.0 billion over 10 years.

Table 10. Estimated Cost of the Medicare Part D Prescription Drug Benefit,
(\$ in billions)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2004-2013
CBO Original Cost Estimate	0.6	1.5	32.1	52.9	59.9	65.7	72.6	79.5	88.5	98.9	552.2
2009 Medicare Trustees Report	0.2	1.2	27.7	41.5	35.3	43.8	52.2	59.3	55.0	65.1	381.3
Memorandum:	3.8	6.0	27.5	40.2	44.0	46.5	49.8	53.0	58.7	65.5	395.0
CBO Original Cost Estimate for all provisions of P.L. 108-173											

Source: Congressional Budget Office, *Projection of Spending for the Medicare Part D Benefit: Letter to the Honorable William “Bill” M. Thomas*, February 9, 2005; and The Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds, *2009 Medicare Trustees Report (Table V.E8.)*, May 12, 2009.

Notes: Columns may not be additive due to rounding. Positive numbers indicate an increase in mandatory spending, and thus reflect a net increase in the deficit. Medicare Part D cost is measured as total expenditures less premium income and transfers from states.

Since the 2003 enactment of MMA, the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds have included updated information on Part D expenditures in their annual reports to Congress. As presented in **Table 10**, the Medicare

³⁷ In 2010, the standard coverage includes a \$310 deductible, 25% coinsurance costs up to an initial coverage limit of \$2,830, and no coverage until out-of-pocket costs exceeded \$6,440.00. For more information on current features of the Medicare Part D prescription drug benefit. See CRS Report R40611, *Medicare Part D Prescription Drug Benefit*, by Patricia A. Davis.

³⁸ See Congressional Budget Office, *Projection of Spending for the Medicare Part D Benefit: Letter to the Honorable William “Bill” M. Thomas*, February 9, 2005, available at <http://www.cbo.gov/ftpdocs/60xx/doc6076/ThomasLtr2-9-05.pdf>.

Trustees 2009 report showed total spending on the prescription drug benefit for FY2004 to FY2008 at about \$105.9 billion, which was lower than the \$147.0 billion amount originally projected by CBO over the same budget window.³⁹ Further, this most recent Medicare Trustees report also projects Part D expenditures for FY2009 to FY2013 at \$275.4 billion, which is also lower than the \$405.2 billion outlay level originally estimated by CBO for this time period. It should be noted that other provisions of MMA that were originally anticipated to create budgetary savings through changes in Medicare Part A and Part B, and reduced Medicaid spending are challenging to quantify in terms of actual expenditures, and are not included in the annual Medicare Trustees reports.

Deficit Reduction Act of 2005

The Deficit Reduction Act of 2005 (DRA; P.L. 109-171), signed into law by President Bush on February 8, 2006, stipulated significant reductions in mandatory spending for a variety of government programs. In regards to student loan programs, DRA mandated lower payments to education lenders, an increase in the interest rate charged on loans to parents of students, and decreased insurance reimbursements for lenders, among other changes. DRA also impacted Medicaid by permitting states to charge beneficiaries higher premiums, while also reducing Medicaid payments for outpatient prescription drugs. P.L. 109-171 also included provisions that decreased Medicare spending, increased collections from spectrum license auctions administered by the Federal Communication Commission, and raised premiums paid by private companies to the Pension Benefit Guaranty Corporation.

As part of CBO's March 2006 analysis of the President's FY2007 Budget, it was estimated that DRA would reduce mandatory spending by approximately \$106 billion for FY2007 to FY2016.⁴⁰ Included in this cost projection, the programmatic changes to Medicaid and Medicare were expected to decrease net federal spending respectively by \$40 billion and \$21 billion over 10 years, whereas student loan program provisions were anticipated to generate net budgetary savings of about \$30 billion over this time period.

Emergency Funding in Response to 2005 Hurricanes: Katrina, Rita, and Wilma

In the aftermath of Hurricanes Katrina, Rita, and Wilma, several emergency supplemental appropriations laws were enacted during the 109th and 110th Congresses, adding significantly to federal budget deficits.⁴¹ In September 2005, Congress passed two bills related to Hurricane Katrina emergency relief and recovery efforts, P.L. 109-61 and P.L. 109-62, providing a combined

³⁹ The Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds, *2009 Medicare Trustees Report (Table V.E8.)*, May 12, 2009, available at <http://www.cms.hhs.gov/ReportsTrustFunds/downloads/tr2009.pdf>.

⁴⁰ Congressional Budget Office, *An Analysis of the President's Budgetary Proposals for Fiscal Year 2007 (Appendix A: Changes to CBO's Baseline Since January 2006)*, March 2006, available at <http://www.cbo.gov/ftpdocs/70xx/doc7069/03-14-PresidentsBudget.pdf>.

⁴¹ For an assessment by CBO on the cost of federal efforts related to the 2005 Hurricanes, see Congressional Budget Office, *The Federal Government's Spending and Tax Actions in Response to the 2005 Gulf Coast Hurricanes*, August 1, 2007, available at http://www.cbo.gov/ftpdocs/85xx/doc8514/08-07-Hurricanes_Letter.pdf.

\$62.3 billion in supplemental funds.⁴² Department of Defense appropriations measure in 2006 (P.L. 109-148) provided \$29.0 billion to fund the restoration of federal facilities damaged by the three hurricanes, and another \$20.0 billion was made available through a emergency supplemental appropriations law (P.L. 109-234), which supported recovery assistance performed by the Department of Agriculture and the Natural Resources Conservation Service, among others.⁴³ The 2007 emergency supplemental bill financing military operations in Iraq and Afghanistan (P.L. 110-28) included an estimated \$6.9 billion for the Department of Homeland Security, the U.S. Army Corps of Engineers, and other agencies to provide Gulf Coast relief, and another supplemental law (P.L. 110-239) allocated \$2.9 billion for ongoing disaster relief related to the 2005 Hurricanes.⁴⁴

Table 11 shows all appropriations legislation enacted during the 109th and 110th Congresses to support emergency relief efforts related to Hurricanes Katrina, Rita, and Wilma. In total, Congress has approved legislation increasing federal budget deficits by \$134.1 billion for Gulf Coast recovery over FY2005 to FY2008.

Table 11. Supplemental Appropriations for Emergency Response to Hurricanes Katrina, Rita and Wilma, 109th and 110th Congress
(\$ in billions)

Legislation	Public Law No.	Date Enacted	Total Cost
Emergency Supplemental Appropriations Act to Meet Immediate Needs Arising From the Consequences of Hurricane Katrina, 2005	P.L. 109-61	Sept. 2, 2005	10.5
Second Emergency Supplemental Appropriations Act to Meet Immediate Needs Arising From the Consequences of Hurricane Katrina, 2005	P.L. 109-62	Sept. 8, 2005	51.8
Department of Defense, Emergency Supplemental Appropriations to Address Hurricanes in the Gulf of Mexico, and Pandemic Influenza Act, 2006	P.L. 109-148	Dec. 30, 2005	29.0
Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Hurricane Recovery, 2006	P.L. 109-234	June 15, 2006	20.0
U.S. Troop Readiness, Veterans' Care, Katrina Recovery, and Iraq Accountability Appropriations Act, 2007	P.L. 110-28	May 25, 2007	6.9
Department of Defense Appropriations Act, 2008	P.L. 110-116	Nov. 13, 2007	5.9
Supplemental Appropriations Act, 2008	P.L. 110-252	June 30, 2008	7.0
Consolidated Security, Disaster Assistance, and Continuing Appropriations Act, 2009	P.L. 110-329	Sept. 30, 2008	2.9
Total			134.1

⁴² See CRS Report R40708, *Disaster Relief Funding and Emergency Supplemental Appropriations*, by Bruce R. Lindsay and Justin Murray.

⁴³ Both P.L. 109-148 and P.L. 109-234 included rescissions designed to partially offset the costs of the emergency supplemental appropriations. For a discussion of rescissions in P.L. 109-148, see CRS Report RL32153, *Across-the-Board Spending Cuts in End-of-Session Appropriations Acts*, by Robert Keith.

⁴⁴ See CRS Report RL34711, *Consolidated Appropriations Act for FY2009 (P.L. 110-329): An Overview*, by Robert Keith.

Source: Adapted from “Table 3. FY2005-FY2008 Supplemental Disaster Appropriations After Hurricanes Katrina, Rita, and Wilma”, presented in CRS Report R40708, *Disaster Relief Funding and Emergency Supplemental Appropriations*, by Bruce R. Lindsay and Justin Murray.

Notes: Columns may not be additive due to rounding. See Table 3 in CRS Report R40708, *Disaster Relief Funding and Emergency Supplemental Appropriations*, for details on rescissions related to P.L. 109-234. These rescissions are included in the \$20.0 billion level of appropriations reported in this table.

Additionally in the 109th Congress, tax legislation related to 2005 Hurricane recovery was enacted, reducing federal government revenues over several years. The Katrina Emergency Tax Relief Act of 2005 (P.L. 109-73) contained various types of tax relief, including a temporary suspension of limitations for qualified corporate and individual charitable contributions, and an extension of the replacement period for non-recognition of gain for property located in the Hurricane Katrina disaster area. In late September 2005, JCT estimated that P.L. 109-73 would reduce federal revenues by \$6.3 billion for FY2006 and FY2007.⁴⁵ The Gulf Opportunity Zone Act of 2005 (P.L. 109-135) offered numerous tax incentives related to business activities in the Gulf Coast, and was estimated by JCT to reduce government revenues by \$8.7 billion for FY2006 to FY2015.⁴⁶

Financial Crisis of 2008

Federal Conservatorship of Fannie Mae and Freddie Mac

The Housing and Economic Recovery Act of 2008 (HERA; P.L. 110-289), signed into law on July 30, 2008, implemented numerous changes in federal housing policy. Among other provisions, HERA authorized the Treasury Secretary to purchase obligations and other securities issued by government-sponsored enterprises (GSEs) involved in the mortgage market, and established the Federal Housing Finance Agency (FHFA) as the new single regulator for these GSEs.

On September 6, 2008, the Director of FHFA exercised authority provided under HERA to place two GSEs, the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac), into conservatorship. FHFA defines conservatorship as “the legal process in which a person or entity is appointed to establish control and oversight of a Company to put it in a sound and solvent condition. In a conservatorship, the powers of the Company’s directors, officers, and shareholders are transferred to the designated Conservator.”⁴⁷ At the same time, the Treasury Department contracted with Fannie Mae and Freddie Mac to make direct cash infusions to maintain their solvency and liquidity. Specifically, Treasury pledged to purchase senior preferred shares in Fannie Mae and Freddie Mac paying 10% annual dividends,

⁴⁵ Joint Committee on Taxation, Estimated Revenue Effects of H.R. 3768, The “Hurricane Katrina Tax Relief Act of 2005”, As Amended by the Senate on September 15, 2005 (JCX-66-05 R), September 20, 2005, available at <http://www.jct.gov/publications.html?func=startdown&id=1549>.

⁴⁶ Joint Committee on Taxation, Estimated Revenue Effects of H.R. 4440, The “Gulf Opportunity Zone Act of 2005”, As Passed by the House of Representatives and Senate on December 16, 2005 (JCX-89-05), December 20, 2005, available at <http://www.jct.gov/publications.html?func=startdown&id=1526>.

⁴⁷ For a review of new programs introduced and other actions taken by the Treasury, Federal Reserve, and Federal Deposit Insurance related to the 2008 financial crisis, see CRS Report R41073, *Government Interventions in Response to Financial Turmoil*, by Baird Webel and Marc Labonte.

and mortgage-backed securities issued by the firms. In return, Treasury received \$1 billion of senior preferred shares and warrants for 79.9% of these GSEs' common shares.⁴⁸

Because of this high level of government control, CBO concluded that Fannie Mae and Freddie Mac were now effectively federal operations and has accounted for the mortgages owned or guaranteed by these entities as loans and loan guarantees of the federal government since January 2009.⁴⁹ Treatment of GSE cost by CBO is similar to the budgetary consideration of federal credit programs under the Federal Credit Reform Act of 1990, in which the budget records a subsidy cost for federal loan commitments, with total budgetary impact calculated by discounting future loan cash flows by interest rates on Treasury securities with comparable maturity. However, in the case of Fannie Mae and Freddie Mac, CBO replaces the Treasury discount rates with rates reflecting the market risk associated with the GSEs' credit obligations.⁵⁰

In August 2009, CBO estimated that the operations of Fannie Mae and Freddie Mac would increase the FY2009 federal deficit by \$291 billion. Included in this estimate was the \$248 billion subsidy cost for the GSEs' assets and liabilities at the beginning of the conservatorship, along with another \$43 billion in subsidy costs associated with new business undertaken by Fannie Mae and Freddie Mac in FY2009. Additionally, CBO projected that the activities of these entities would add \$99 billion to federal budget deficits for FY2010 to FY2019. **Table 12** presents the estimated budgetary effect of Fannie Mae and Freddie Mac conservatorship, as reported in CBO's January and August 2009 baseline projections.

Table 12. CBO Projections of Subsidy Costs for Federal Conservatorship of Fannie Mae and Freddie Mac

(\$ in billions)

Date of CBO Baseline Budget Projection	FY2009	FY2010-FY2019
January 2009	238	71
August 2009	291	99

Sources: Congressional Budget Office, *Budget and Economic Outlook* (January 2009 and August 2009).

Note: Positive numbers indicate an increase in mandatory spending, and thus reflect a net increase in the deficit.

Since CBO determined Fannie Mae and Freddie Mac should be accounted for in the federal budget, the Treasury cash infusions are considered intragovernmental payments, and thus have no effect on federal budget deficits. In contrast to CBO, the Office of Management and Budget (OMB) continues to treat Fannie Mae and Freddie Mac as nongovernmental entities for federal budgeting purposes. Consequently, OMB does not include GSE subsidy costs in its budget estimates, but instead scores the Treasury cash infusions as the total budgetary effect of federal

⁴⁸ Treasury Department, *Statement by Secretary Henry M. Paulson, Jr. on Treasury and Federal Housing Finance Agency Action to Protect Financial Markets and Taxpayers*, September 7, 2008, available at <http://www.treas.gov/press/releases/hp1129.htm>.

⁴⁹ For an explanation by CBO of the accounting of these GSEs as federal government operations, see Congressional Budget Office, *The Budget and Economic Outlook: An Update*, August 2009, available at <http://www.cbo.gov/ftpdocs/105xx/doc10521/08-25-BudgetUpdate.pdf>.

⁵⁰ For information on CBO's methodology for estimating subsidy costs related to Fannie Mae and Freddie Mac, see Congressional Budget Office, *CBO's Budgetary Treatment of Fannie Mae and Freddie Mac*, January 2010, available at <http://www.cbo.gov/ftpdocs/108xx/doc10878/01-13-FannieFreddie.pdf>.

government operations related to these two entities. **Table 13** shows the estimated levels of Treasury Department GSE cash infusions, as included in CBO's January and August 2009 baseline projections.

Table 13. Projections of Treasury Department Cash Infusions for Fannie Mae and Freddie Mac

(\$ in billions)

Date of CBO Baseline Budget Projection	2009	2010-2019
January 2009	18	78
August 2009	112	51
January 2010	96	NA

Source: Congressional Budget Office, *Budget and Economic Outlook* (January 2009, August 2009 and January 2010).

Notes: In January 2010, CBO recorded \$91 billion in net outlays related to Fannie Mae and Freddie Mac for FY2009. This reflects \$96 billion in Treasury cash infusions offset moderately by over \$4 billion in dividends from Fannie Mae and Freddie Mac stock. At this time, no projections were offered about Treasury GSE cash infusions for FY2010 to FY2019.

Because of budgetary rules, when CBO released new baseline projections in January 2010, the actual FY2009 budgetary impact for Fannie Mae and Freddie Mac was scored as the level of net outlays from Treasury cash infusions, and not as the net subsidy cost associated with federal conservatorship. In particular, CBO recorded a value of \$91 billion for the two GSEs in FY2009, reflecting almost \$96 billion in cash infusions offset moderately by more than \$4 billion in dividends on Fannie Mae and Freddie Mac stock.⁵¹ At the same time, as part of this January 2010 estimate, CBO projected GSE future budgetary impact for FY2010 to FY2020 in terms of subsidy costs, and not as net outlays on Treasury cash infusions.

Emergency Economic Stabilization Act of 2008

The Emergency Economic Stabilization Act of 2008 (EESA; Division A of P.L. 110-343) was signed into law on October 3, 2008, establishing the Troubled Asset Relief Program (TARP).⁵² Under TARP, the Treasury Secretary is authorized to purchase or insure up to \$700 billion of mortgage related assets, or any other assets the Secretary, in consultation with the Chairman of the Federal Reserve, determine would be required to promote stability in the financial markets.⁵³ Among the major TARP initiatives, the Capital Purchase Program has been used by the Treasury to purchase senior preferred shares from U.S. financial institutions. In addition, Treasury has invested \$20 billion in both Bank of America and Citigroup through the Targeted Investment Program, provided loans and equity investments to General Motors, GMAC, Chrysler, and Chrysler Financial under the Automotive Industry Financing Program, and offered various forms of financial assistance to the American International Group.

⁵¹ Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2010 to 2020*, January 2010.

⁵² For an overview of EESA, see CRS Report RL34730, *Troubled Asset Relief Program: Legislation and Treasury Implementation*, by Baird Webel and Edward V. Murphy.

⁵³ The Helping Families Save Their Homes Act (P.L. 111-22) was enacted on May 20, 2009, reducing TARP mandatory authorization by \$1.24 billion.

Similar to CBO’s budgetary treatment of Fannie Mae and Freddie Mac, Section 123 of EESA stipulates that accounting for the budgetary impact of TARP must be conducted under procedures outlined in the Federal Credit Reform Act of 1990, but with an adjustment for market risk. In particular, CBO is not recording the gross cash disbursement of Treasury purchases initiated under TARP, but is instead estimating the government’s net subsidy costs on a present value basis. Generally speaking, CBO calculates the subsidy costs for the TARP program by subtracting the purchase cost from the estimated market of the value acquired assets, discounted at a rate reflecting market risk.⁵⁴

The expected effect of EESA on federal budget deficits has been revised numerous times. In January 2009, CBO estimated that subsidy costs for TARP transactions would total \$184 billion for FY2009 and \$5 billion for FY2010. However, in March 2009, changes in market conditions and increased subsidy costs attributed to new Treasury Department transactions prompted CBO to increase its projected cost to \$336 billion for FY2009 and \$20 billion for FY2010. Because of improved market conditions, CBO in August 2009 once again revised the estimated budgetary impact of TARP, reducing projected outlays to \$133 billion for FY2009, but increasing anticipated subsidy costs to \$108 billion for FY2010 to FY2019. In January 2010, CBO provided another revision to TARP subsidy costs, recording an actual FY2009 subsidy of \$152 billion. As circumstances have changed since the recording of this figure, a credit re-estimate was provided for FY2010 through a projected negative outlay of \$67 billion. (The negative outlay of \$67 billion does not reflect TARP spending that will take place in 2010.) Consequently, as of January 2010, CBO estimates a budgetary impact of \$99 billion for the full duration of the TARP program.⁵⁵

Table 14 presents TARP cost estimates as reported in CBO’s January 2009, March 2009, August 2009, and January 2010 baseline projections.

Table 14. Estimated Budgetary Effects of the Troubled Asset Relief Program
(\$ in billion)

Date of CBO Baseline Budget Projection	FY2009	FY2010	FY2011-FY2014
January 2009	184	5	0
March 2009	336	20	0
August 2009	133	80	28
January 2010	152	-67	14

Source: Congressional Budget Office, *Budget and Economic Outlook* (January 2009, August 2009, and January 2010); and *An Analysis of the President’s Budgetary Proposals* (March 2009).

Note: Positive numbers indicate an increase in mandatory spending, and thus reflect a net increase in the deficit.

⁵⁴ For information on CBO’s methodology for estimating subsidy costs related to TARP, see Congressional Budget Office, *The Troubled Asset Relief Program: Report on Transactions Through June 17, 2009*, June 2009, available at <http://www.cbo.gov/ftpdocs/100xx/doc10056/06-29-TARP.pdf>.

⁵⁵ Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2010 to 2020 (Box 1-2: Recent Activity in the Troubled Asset Relief Program)*, January 2010.

Economic Stimulus

In response to the deep and long recession that began in December 2007, two major bills were enacted to stimulate the economy.

Economic Stimulus Act of 2008

On February 13, 2008, President Bush signed into law the Economic Stimulus Act of 2008 (P.L. 110-185). The key provision in P.L. 110-185 was a refundable tax rebate which equaled 10% of an individual's first \$6,000 of taxable income (\$12,000 for couples), with a minimum rebate of \$300 (\$600 for couples) and a maximum of \$600 (\$1,200 for couples). This rebate was phased-out at a 5% rate for income over \$75,000 for individuals (\$150,000 for couples), with a full phase-out at \$87,000 (\$174,000 for couples).⁵⁶ Further, a \$300 rebate was available to individuals with no tax liability provided that earned income, Social Security benefits, and veterans disability payments totaled at least \$3,000. Along with the rebate for individuals, P.L. 110-185 also included two business tax deductions. One provision allowed businesses to deduct 50% of investments made in 2008 on certain equipment, and another provision increased deductions permitted for small businesses under Section 179 of the Internal Revenue Code for purchases of certain types of property.

In February 2008, JCT projected that P.L. 110-185 would increase federal budget deficits by approximately \$124.5 billion over FY2008 to FY2018.⁵⁷ Most significantly, the individual tax rebate was expected to reduce federal government revenues by \$106.7 billion in FY2008 and by \$10 billion in FY2009. Additionally, the 50% bonus depreciation on certain equipment placed in service in 2008 was estimated to reduce federal government revenues by \$43.9 billion in FY2008, and by \$5.6 billion in FY2009. However, since this business tax provision involved bringing the deduction forward in time, JCT estimated that the provision would effectively increase revenue by \$42.1 billion over FY2010 to FY2018, with a net 10-year effect of a \$7.4 billion revenue decrease.

Table 15 presents the budgetary effect of all major provisions of P.L. 110-185, estimated by JCT in February 2008.

⁵⁶ For an overview of P.L. 110-185, see CRS Report RS22850, *Tax Provisions of the 2008 Economic Stimulus Package*, by Jane G. Gravelle.

⁵⁷ Joint Committee on Taxation, Estimated Budget Effects of the "Economic Stimulus Act of 2008", as Passed by the House of Representatives and the Senate on February 7, 2008 (JCX-17-08), February 8, 2008, available at <http://www.jct.gov/publications.html?func=startdown&id=1323>.

Table 15. Estimated Budgetary Effects of the Economic Stimulus Act of 2008
(\$ in billions)

Provision	FY2008	FY2009	FY2008-FY2018
Rebates for Individuals	-106.7	-10.0	-116.7
Appropriations to Carry Out Rebates	-0.2	-0.1	-0.3
Increase Section 179 Expensing and Phase-out Amounts for 2008	-0.9	-0.6	-0.1
50% Bonus Depreciation	-43.9	-5.6	-7.4
Total	-151.7	-16.3	-124.5

Source: Joint Committee on Taxation, *Estimated Budget Effects of the "Economic Stimulus Act of 2008", as Passed by the House of Representatives and the Senate on February 7, 2008 (JCX-17-08)*, February 8, 2008.

Notes: Negative numbers indicate an increase in the deficit. Columns may not be additive due to rounding. All budgetary effects were estimated by JCT at the time of legislative enactment.

American Recovery and Reinvestment Act of 2009

In response to significant weakness in the U.S. economy, President Obama signed into law the American Recovery and Reinvestment Act of 2009 (ARRA; P.L. 111-5) on February 17, 2009. Division A of ARRA provided discretionary spending authority for a broad range of agencies, programs, and activities, including major authorizations for the State Fiscal Stabilization Fund and energy and water development initiatives.⁵⁸ Division B of ARRA contained numerous direct spending provisions that offered fiscal relief to states under the Medicaid program, increased benefits for the Temporary Assistance for Needy Families program, extended unemployment compensation, and provided subsidies for COBRA health insurance premiums. Division B of ARRA also contained several tax provisions including the Making Work Pay tax credit, which was a temporary refundable tax credit of up to \$400 for individuals and \$800 for married couples for tax years 2009 and 2010. Further, ARRA expanded the Hope education tax credit for 2009 and 2010, modified and extended the first-time homebuyer tax credit, and expanded certain rules related to net operating losses for businesses.⁵⁹

CBO and JCT estimated in February 2009 that ARRA would increase federal budget deficits by \$787.2 billion over FY2009 to FY2019.⁶⁰ For Division A, CBO projected discretionary spending outlays of \$34.8 billion in FY2009, \$110.7 billion for FY2010, with discretionary outlays totaling \$308.3 billion over FY2009 to FY2019. With respect to direct spending provisions in Division B of ARRA, CBO estimated federal budget deficit increases of \$85.3 billion in FY2009, \$108.6 billion for FY2010, with mandatory outlays totaling \$267.0 billion over 10 years. Finally, JCT estimated that Division B tax provisions would decrease federal government revenues by \$64.8 billion in FY2009, \$180.1 billion in FY2010, and by \$211.8 billion over FY2009 to FY2019.

⁵⁸ See CRS Report R40537, *American Recovery and Reinvestment Act of 2009 (P.L. 111-5): Summary and Legislative History*, by Clinton T. Brass et al.

⁵⁹ See CRS Report RL34664, *The First-Time Homebuyer Tax Credit*, by Carol A. Pettit.

⁶⁰ Congressional Budget Office, *Cost Estimate for the Conference Agreement for H.R. 1, American Recovery and Reinvestment Act of 2009*, February 13, 2009, available at <http://www.cbo.gov/ftpdocs/99xx/doc9989/hr1conference.pdf>.

Table 16 presents the budgetary impact of discretionary spending, mandatory spending, and revenue provisions of ARRA, as estimated by CBO and JCT in February 2009.

In January 2010, CBO released a revised projection for the budgetary impact of ARRA, anticipating that the law would now increase deficits by \$75 billion above the original cost estimate, to \$862 billion over FY2009 to FY2010.⁶¹ The modification to CBO's cost projection for ARRA is attributed in part to increased outlays on unemployment compensation, which as of January 2010, were calculated to be approximately \$21 billion greater than initially anticipated for 2009 and 2010. In addition, the Build America Bond program, a tax credit bond option for state and local governments established under ARRA, experienced participation levels significantly exceeding the original expectations of CBO and JCT. Consequently, CBO's January 2010 revision to the ARRA cost estimate projects an additional \$26 billion in outlays for the program over FY2010 to FY2019. CBO's revised ARRA cost projection also included new estimates related to Medicaid spending and the Making Work Pay tax credit.

Table 16. Budgetary Impact of the American Recovery and Reinvestment Act of 2009: Estimated by CBO and JCT in February 2009
(\$ in billions)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2009-2019
Discretionary Spending^a												
(Division A)												
Estimated Outlays	34.8	110.7	76.3	38.1	22.9	12.8	7.0	3.1	1.6	0.8	0.1	308.3
Mandatory Spending^a												
(Division B)												
Estimated Outlays	85.3	108.6	49.9	8.1	7.4	15.1	4.7	-4.7	-4.1	-1.9	-1.4	267.0
Revenues^b												
(Division B)												
Estimated Outlays	-64.8	-180.1	-8.2	10.0	2.7	5.5	7.1	5.8	5.1	5.0	0.1	-211.8
Net Impact on the Deficit^a												
	184.9	399.4	134.4	36.1	27.6	22.4	4.7	-7.3	-7.5	-6.1	-1.4	787.2

Source: Congressional Budget Office, *Cost Estimate for the Conference Agreement for H.R. 1: American Recovery and Reinvestment Act of 2009*, February 13, 2009.

Notes: Columns may not be additive due to rounding. All budgetary effects were estimated by CBO and JCT at the time of legislative enactment.

- a. For figures on discretionary spending, mandatory spending, and net impact on the deficit, positive numbers indicate an increase in the deficit.
- b. For figures on revenues, negative numbers reflect an increase in the deficit.

⁶¹ Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2010 to 2020*, January 2010.

Changes in Non-Defense Discretionary Spending: 2001 to 2009

Discretionary spending supports a variety of defense, domestic and international federal government operations, with the latter two categories comprising non-defense discretionary spending. Domestic discretionary spending funds numerous federal agencies and programs, including education, law enforcement, and energy, while discretionary spending on international programs includes financing for diplomatic missions and foreign aid. In relative terms, domestic outlays comprised about 93% of total annual non-defense discretionary spending during FY2001 to FY2009, while international outlays made up the remaining 7%. With regards to legislation, annual appropriations laws provides the budget authority for discretionary spending, which can be granted both for a single year or over a longer time horizon.

Table 17 shows non-defense discretionary spending over the past decade, both in nominal and constant dollars, and as a percentage of GDP. Adjusted for inflation, domestic and international outlays increased from \$391.0 billion in FY2001 to approximately \$477.4 billion in FY2006 (in FY2005 dollars). After declining in constant dollars in 2007, non-defense discretionary spending reached its peak for the decade in FY2009 at \$516.2 billion, due in large part to economic stimulus initiatives related to the 2008 financial crisis. Compared with the size of the economy as a whole, non-defense discretionary spending equaled 3.4% of GDP in FY2001, comprised approximately 3.8% of GDP for FY2003 to FY2006, and has risen to 4.1% of GDP for FY2009.⁶²

Table 17. Non-Defense Discretionary Spending, FY2001 to FY2009
(\$ in billions)

Year	Nominal \$	Constant FY2005 \$	% GDP
2001	343.3	391.0	3.4
2002	385.4	429.4	3.7
2003	420.5	455.2	3.8
2004	441.4	461.0	3.8
2005	474.8	474.8	3.8
2006	496.7	477.4	3.8
2007	493.0	458.3	3.5
2008	522.3	469.2	3.6
2009	581.0	516.2	4.1

Source: Office of Management and Budget, *Budget of the U.S. Government: Fiscal Year 2011 (Historical Tables 8-7. and 8.8)*, February 2010; and Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2010 to 2020 (Table F-8)*, January 2010.

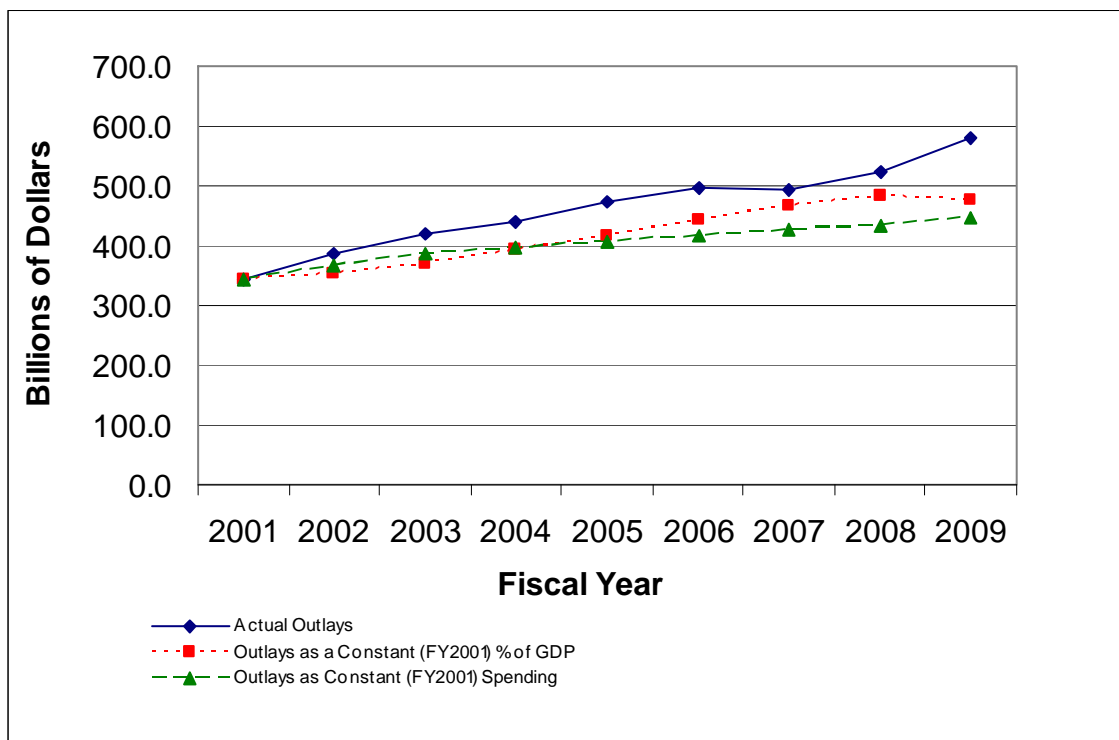
Note: Non-defense discretionary spending figures present the aggregated total of all domestic and international discretionary spending for the given fiscal year.

⁶² Data on non-defense discretionary spending for FY2001 to FY2009 was collected from Office of Management and Budget, *Budget of the U.S. Government: Fiscal Year 2011 (Historical Tables 8-7. and 10.1)*; and Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2010 to 2020 (Tables F-3 and F-4)*, January 2010.

Unlike mandatory spending or revenue provisions that are authorized permanently or for several years at a time, appropriation levels are determined annually. This means that there is no straightforward way to project spending levels under current policy in the future, and hence no straightforward way to estimate discretionary policy changes over time. Under the Deficit Control Act of 1985 (P.L. 99-177), CBO is required to project future discretionary spending as the level of budget authority for the current fiscal year, adjusted using the employment cost index and the GDP deflator. Consequently, one way to measure policy changes in non-defense discretionary spending over the past decade is to compare the baseline level of constant spending adjusted for inflation projected by CBO in January 2001, against actual non-defense discretionary outlays for FY2001 to FY2009. Under this approach, which is illustrated in **Figure 2**, actual FY2002 non-defense discretionary spending was \$17 billion above the level estimated by CBO in January 2001 and \$81 billion above constant spending in FY2006. Due largely to economic stimulus spending implemented by the American Recovery and Reinvestment Act of 2009 (ARRA; P.L. 111-5), actual non-defense discretionary spending for FY2009 was \$135 billion above this constant spending benchmark.

Another way to benchmark current policy for non-defense discretionary outlays is to keep spending constant as a share of GDP. This benchmark could be justified on the grounds that non-defense discretionary spending has stayed relatively constant as a percentage of GDP over the past 25 years. **Figure 2** compares actual non-defense discretionary outlays during this time period to outlays fixed at the FY2001 non-defense discretionary spending share of GDP, which was 3.4%. Because GDP tends to grow faster than inflation, this benchmark typically yields smaller estimates of legislative changes to discretionary spending than the inflation-adjusted benchmark. Under this approach, actual non-defense outlays in FY2002 were \$31.4 billion above the benchmark and \$103.1 billion above the benchmark for FY2009.

Figure 2. Non-defense Discretionary Spending, FY2001-FY2009



Source: Office of Management and Budget, Budget of the U.S. Government: Fiscal Year 2011 (Historical Tables 8-7. and 10.1)

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