CONGRESSIONAL BUDGET OFFICE
U.S. Congress
Washington, DC 20515

Douglas W. Elmendorf, Director

September 26, 2013

Honorable Chris Van Hollen
Ranking Member
Committee on the Budget
U.S. House of Representatives
Washington, DC 20515

Re: Economic Effects in 2014 of Eliminating the Automatic Spending Reductions Specified in the Budget Control Act

Dear Congressman:

This letter responds more fully to the question you posed at today's hearing about the economic effects of eliminating the automatic spending reductions specified in the Budget Control Act. In particular, I would like to correct and clarify the answer I provided this morning.

I stated at the hearing that eliminating the automatic spending reductions specified in the Budget Control Act beginning in fiscal year 2014 would increase real gross domestic product (or GDP adjusted for inflation) by 0.5 percent and increase full-time-equivalent employment by 600,000 relative to the amounts under current law. Those figures refer to the averages during calendar year 2014—not to the effects by the end of 2014, as I incorrectly stated.

Those figures represent CBO's central estimates, which correspond to the assumption that key parameters of economic behavior (in particular the extent to which lower federal taxes and higher federal spending boost aggregate demand in the short term) equal the midpoints of ranges used by CBO. According to the full ranges for those parameters, in calendar year 2014, real GDP would be between 0.2 percent and 0.8 percent higher, and full-time-equivalent employment would be between 200,000 and 1 million higher.

By the fourth quarter of calendar year 2014, that policy would increase real GDP by 0.6 percent and full-time-equivalent employment by 800,000, by CBO's central estimates. According to the full ranges, real GDP would be between 0.2 percent and 1.0 percent higher, and full-time-equivalent employment would be between 300,000 and 1.2 million higher.

Although output would be greater and employment higher in the next few years if the spending reductions under current law were reversed, that policy would lead to greater federal debt, which would eventually reduce the nation’s output and income below what would occur under current law.

Sincerely,

Douglas W. Elmendorf

Douglas W. Elmendorf
Director

cc: Honorable Paul Ryan
Chairman