

# FISCAL TIGHTENING IN 2013 and Its Economic Consequences

Under current law, a sharp reduction in the federal budget deficit between 2012 and 2013 will cause the economy to contract, the Congressional Budget Office projects, but will also put federal debt on a path more likely to be sustainable over time. To illustrate the effects of fiscal tightening, CBO compared its projections under current law (the "baseline" projections) with projections under an alternative set of policies—two scenarios in a broad spectrum of choices.

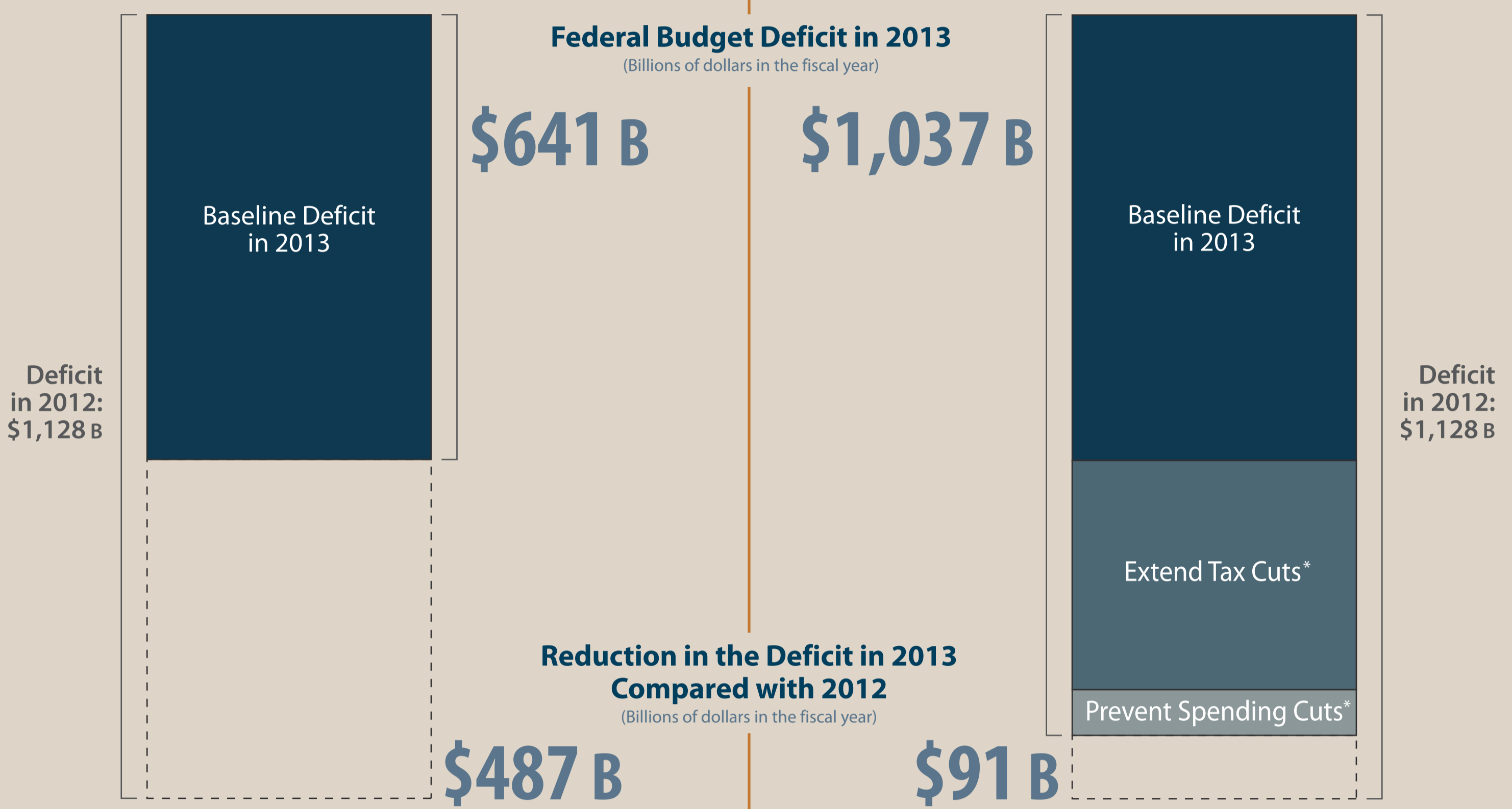
## CBO's August 2012 Baseline

Reflects the assumption that current laws generally remain unchanged, implying that lawmakers will allow tax increases and spending cuts scheduled under current law to occur and that they will forgo measures routinely taken in the past to avoid such changes.

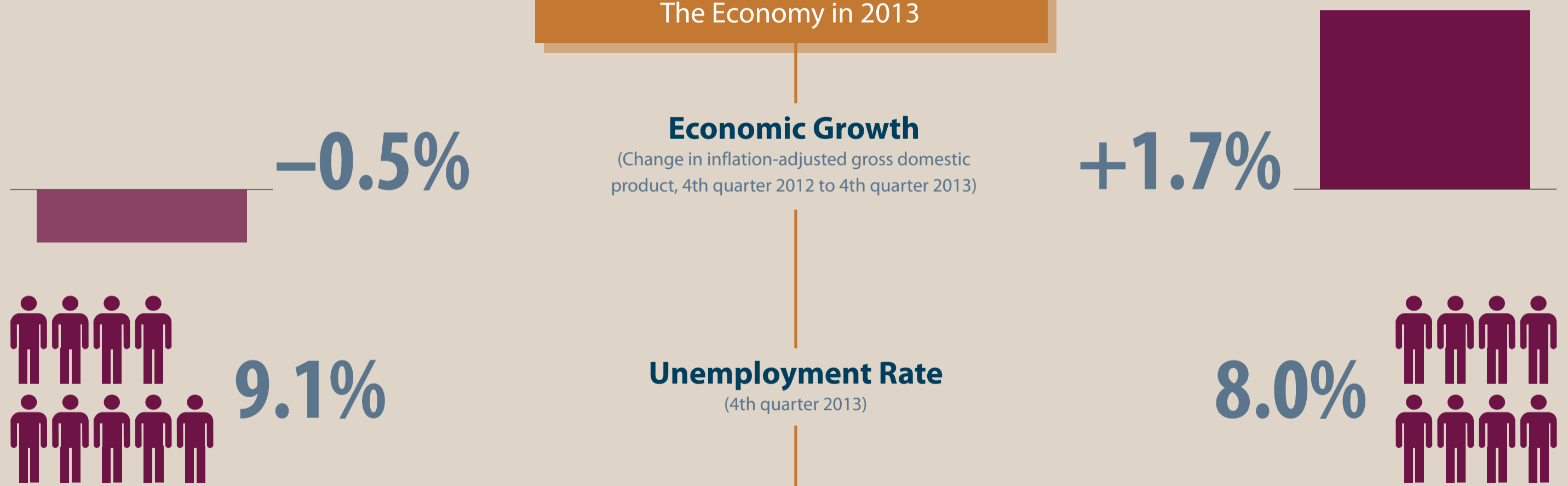
## An Alternative Fiscal Scenario

Maintains what might be deemed current policies, as opposed to current laws, implying that lawmakers will extend most tax cuts and other forms of tax relief currently in place but set to expire and that they will prevent automatic spending reductions and certain spending restraints from occurring.

### The Deficit in 2013 Compared with 2012



### The Economy in 2013



### The Path of Federal Debt Through 2022



## A Broad Spectrum of Fiscal Policy Choices

### Decisions for 2013



### Implications for Future Policy Decisions

Reductions in taxes or increases in spending in 2013, relative to what would occur under current law, would have near-term economic benefits but would add to the already large accumulation of government debt. Because current policies would ultimately lead to an unsustainable level of federal debt, policymakers will need—at some point—to adopt policies that will require people to pay significantly more in taxes, accept substantially less in government benefits and services, or both.

