



December 4, 2002

Honorable George V. Voinovich
United States Senate
Washington, DC 20510

Dear Senator:

In response to your recent request, CBO has prepared five alternative budget projections that modify our current baseline (released in August 2002) according to assumptions that you specified. Table 1 summarizes the results of that analysis, and Tables 2 through 6 show the detailed, year-by-year estimates. As you requested, for all five scenarios we assume that discretionary budget authority in 2003 will total \$759 billion and that all revenue provisions scheduled to expire in the next ten years will be extended. The third assumption, which varied for each scenario, specified different rates of growth or decline of discretionary budget authority.

You asked us to determine, under those assumptions, what rate of change in discretionary appropriations would be necessary to produce on-budget balance by 2007 or by 2012. (The on-budget deficit in 2002 was \$318 billion.) Under the specified assumptions, discretionary budget authority would have to decline by about 8 percent a year in order to reach on-budget balance in 2007 (see Table 5); a small rate of growth—0.4 percent per year—would yield on-budget balance in 2012 (see Table 6).

You should note that the revenue adjustments in all the scenarios include—as you specified in your request—all expiring tax provisions. Some of those provisions are from the stimulus bill enacted earlier this year and were generally not intended or expected to be extended; extension of those provisions accounts for an estimated \$264 billion in revenues over the 2003-2012 period. Box 1-1 from *The Budget and Economic Outlook: An Update* (August 2002) discussed the estimated impact of extending expiring revenue provisions. A copy of that box is attached.

Honorable George V. Voinovich
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If you would like further details about these calculations, we would be pleased to provide them. The CBO staff contact is Felix LoStracco.

Sincerely,

A handwritten signature in black ink, appearing to read "Dan L. Crippen". The signature is fluid and cursive, with the first name "Dan" being the most prominent.

Dan L. Crippen
Director

Attachments

cc: Honorable Kent Conrad
Chairman
Senate Committee on the Budget

Honorable Pete V. Domenici
Ranking Member

Honorable Jim Nussle
Chairman
House Committee on the Budget

Honorable John M. Spratt Jr.
Ranking Member

Identical letter sent to Honorable Russell D. Feingold

Table 1.
Summary of Budgetary Impact of Alternative Scenarios (In trillions of dollars)

	Total Surplus or Deficit (-)		Difference from Baseline	
	2003-2007	2003-2012	2003-2007	2003-2012
Baseline Surplus or Deficit (-)	-0.2	1.0	C	C
Surplus or deficit (-) assuming extension of expiring revenue provisions, fiscal year 2003 discretionary budget authority of \$759 billion, and:				
(1) Discretionary budget authority inflated from the 2003 level using inflators specified in the Deficit Control Act	-0.5	-0.2	-0.2	-1.2
(2) Discretionary outlays remain at the 2003 level as a percentage of gross domestic product (7.3 percent)	-0.7	-1.5	-0.5	-2.5
(3) Discretionary budget authority grows by 8.5 percent per year	-0.9	-2.9	-0.6	-3.9
(4) Discretionary budget authority declines by 8.2 percent per year (on-budget balance by 2007)	0.2	n.a.	0.4	n.a.
(5) Discretionary budget authority increases by 0.4 percent per year (on-budget balance by 2012)	-0.3	0.7	-0.1	-0.4

SOURCE: Congressional Budget Office.

Table 2.
Comparison of CBO's August 2002 Baseline and Alternative Scenarios Specified by Senators Voinovich and Feingold
(In billions of dollars)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total, 2003- 2007	Total, 2003- 2012
CBO August 2002 Baseline												
Revenues	1,962	2,083	2,244	2,381	2,513	2,658	2,809	2,965	3,243	3,521	11,184	26,379
Discretionary Outlays	782	803	827	845	864	889	912	936	965	983	4,121	8,807
Mandatory Outlays and Net Interest	<u>1,325</u>	<u>1,391</u>	<u>1,456</u>	<u>1,522</u>	<u>1,598</u>	<u>1,680</u>	<u>1,763</u>	<u>1,851</u>	<u>1,954</u>	<u>2,016</u>	<u>7,292</u>	<u>16,557</u>
Total Deficit (-) or Surplus	-145	-111	-39	15	52	88	133	177	323	522	-229	1,015
On-Budget	-315	-299	-246	-209	-190	-173	-147	-122	4	185	-1,259	-1,513
Off-Budget	170	188	207	224	242	262	280	299	319	337	1,031	2,527
Scenario Assuming that All Revenue Provisions Scheduled to Expire in the Next 10 Years are Extended, that Discretionary Budget Authority Equals the President's Request of \$759 billion for 2003, and that Such Spending Grows at the Rates of Inflation After 2003												
Revenues	1,961	2,075	2,199	2,315	2,441	2,581	2,730	2,881	3,035	3,204	10,991	25,422
Discretionary Outlays	785	807	831	849	869	894	917	941	971	988	4,141	8,853
Mandatory Outlays and Net Interest	<u>1,325</u>	<u>1,392</u>	<u>1,459</u>	<u>1,527</u>	<u>1,608</u>	<u>1,695</u>	<u>1,784</u>	<u>1,877</u>	<u>1,990</u>	<u>2,068</u>	<u>7,311</u>	<u>16,725</u>
Total Deficit (-) or Surplus	-149	-124	-91	-62	-35	-8	29	63	74	147	-461	-156
On-Budget	-319	-312	-298	-285	-277	-270	-251	-237	-244	-189	-1,491	-2,683
Off-Budget	170	188	207	224	242	262	280	299	319	337	1,031	2,527
Differences from CBO Baseline												
Revenues	-1	-8	-45	-67	-72	-77	-79	-83	-208	-317	-194	-956
Discretionary Outlays	3	4	4	5	5	5	5	5	5	5	20	46
Mandatory Outlays and Net Interest	*	<u>1</u>	<u>2</u>	<u>6</u>	<u>10</u>	<u>15</u>	<u>20</u>	<u>26</u>	<u>36</u>	<u>52</u>	<u>19</u>	<u>167</u>
Total Deficit (-) or Surplus	-4	-13	-52	-77	-87	-96	-104	-114	-249	-374	-232	-1,170
On-Budget	-4	-13	-52	-77	-87	-96	-104	-114	-249	-374	-232	-1,170
Off-Budget	*	*	*	*	*	*	*	*	*	*	*	*

SOURCE: Congressional Budget Office.

NOTE: * = between -\$500 million and \$500 million.

Table 3.
Comparison of CBO's August 2002 Baseline and Alternative Scenarios Specified by Senators Voinovich and Feingold
(In billions of dollars)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total, 2003- 2007	Total, 2003- 2012
CBO August 2002 Baseline												
Revenues	1,962	2,083	2,244	2,381	2,513	2,658	2,809	2,965	3,243	3,521	11,184	26,379
Discretionary Outlays	782	803	827	845	864	889	912	936	965	983	4,121	8,807
Mandatory Outlays and Net Interest	<u>1,325</u>	<u>1,391</u>	<u>1,456</u>	<u>1,522</u>	<u>1,598</u>	<u>1,680</u>	<u>1,763</u>	<u>1,851</u>	<u>1,954</u>	<u>2,016</u>	<u>7,292</u>	<u>16,557</u>
Total Deficit (-) or Surplus	-145	-111	-39	15	52	88	133	177	323	522	-229	1,015
On-Budget	-315	-299	-246	-209	-190	-173	-147	-122	4	185	-1,259	-1,513
Off-Budget	170	188	207	224	242	262	280	299	319	337	1,031	2,527
Scenario Assuming that All Revenue Provisions Scheduled to Expire in the Next 10 Years are Extended, that Discretionary Budget Authority Equals the President's Request of \$759 billion for 2003, and that Outlays Remain at the 2003 Level as a Percentage of Gross Domestic Product (7.3 percent)												
Revenues	1,961	2,075	2,199	2,315	2,441	2,581	2,730	2,881	3,035	3,204	10,991	25,422
Discretionary Outlays	785	826	869	915	964	1,016	1,071	1,127	1,186	1,248	4,359	10,008
Mandatory Outlays and Net Interest	<u>1,325</u>	<u>1,392</u>	<u>1,461</u>	<u>1,532</u>	<u>1,617</u>	<u>1,711</u>	<u>1,808</u>	<u>1,913</u>	<u>2,038</u>	<u>2,132</u>	<u>7,328</u>	<u>16,930</u>
Total Deficit (-) or Surplus	-149	-144	-131	-132	-140	-146	-149	-158	-189	-176	-696	-1,515
On-Budget	-319	-331	-337	-356	-382	-407	-428	-457	-507	-511	-1,725	-4,035
Off-Budget	170	188	206	223	242	261	279	298	318	335	1,029	2,520
Differences from CBO Baseline												
Revenues	-1	-8	-45	-67	-72	-77	-79	-83	-208	-317	-194	-956
Discretionary Outlays	3	23	42	70	100	127	159	191	221	265	238	1,201
Mandatory Outlays and Net Interest	<u>*</u>	<u>1</u>	<u>4</u>	<u>11</u>	<u>20</u>	<u>31</u>	<u>45</u>	<u>61</u>	<u>84</u>	<u>116</u>	<u>36</u>	<u>372</u>
Total Deficit (-) or Surplus	-4	-32	-91	-147	-192	-235	-282	-335	-512	-698	-467	-2,529
On-Budget	-4	-32	-91	-147	-191	-234	-281	-334	-511	-696	-466	-2,523
Off-Budget	*	*	*	*	-1	-1	-1	-1	-1	-1	-2	-7

SOURCE: Congressional Budget Office.

NOTE: * = between -\$500 million and \$500 million.

Table 4.
Comparison of CBO's August 2002 Baseline and Alternative Scenarios Specified by Senators Voinovich and Feingold
(In billions of dollars)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total, 2003- 2007	Total, 2003- 2012
CBO August 2002 Baseline												
Revenues	1,962	2,083	2,244	2,381	2,513	2,658	2,809	2,965	3,243	3,521	11,184	26,379
Discretionary Outlays	782	803	827	845	864	889	912	936	965	983	4,121	8,807
Mandatory Outlays and Net Interest	<u>1,325</u>	<u>1,391</u>	<u>1,456</u>	<u>1,522</u>	<u>1,598</u>	<u>1,680</u>	<u>1,763</u>	<u>1,851</u>	<u>1,954</u>	<u>2,016</u>	<u>7,292</u>	<u>16,557</u>
Total Deficit (-) or Surplus	-145	-111	-39	15	52	88	133	177	323	522	-229	1,015
On-Budget	-315	-299	-246	-209	-190	-173	-147	-122	4	185	-1,259	-1,513
Off-Budget	170	188	207	224	242	262	280	299	319	337	1,031	2,527
Scenario Assuming that All Revenue Provisions Scheduled to Expire in the Next 10 Years are Extended, that Discretionary Budget Authority Equals the President's Request of \$759 billion for 2003, and that Such Spending Grows at the Annual Average Rate Recorded from 1998 through 2002 (8.5 percent)												
Revenues	1,961	2,075	2,199	2,315	2,441	2,581	2,730	2,881	3,035	3,204	10,991	25,422
Discretionary Outlays	785	834	900	967	1,042	1,130	1,221	1,321	1,433	1,542	4,528	11,174
Mandatory Outlays and Net Interest	<u>1,325</u>	<u>1,392</u>	<u>1,462</u>	<u>1,536</u>	<u>1,625</u>	<u>1,724</u>	<u>1,829</u>	<u>1,944</u>	<u>2,083</u>	<u>2,194</u>	<u>7,340</u>	<u>17,115</u>
Total Deficit (-) or Surplus	-149	-152	-163	-188	-225	-273	-320	-383	-481	-532	-878	-2,867
On-Budget	-319	-339	-369	-411	-466	-533	-599	-680	-797	-866	-1,905	-5,380
Off-Budget	170	187	206	223	241	260	279	297	316	334	1,028	2,514
Differences from CBO Baseline												
Revenues	-1	-8	-45	-67	-72	-77	-79	-83	-208	-317	-194	-956
Discretionary Outlays	3	31	73	122	178	240	309	384	468	559	407	2,368
Mandatory Outlays and Net Interest	*	<u>1</u>	<u>6</u>	<u>14</u>	<u>27</u>	<u>44</u>	<u>66</u>	<u>93</u>	<u>129</u>	<u>178</u>	<u>48</u>	<u>557</u>
Total Deficit (-) or Surplus	-4	-41	-124	-203	-277	-361	-453	-560	-804	-1,054	-649	-3,881
On-Budget	-4	-40	-123	-202	-276	-360	-452	-558	-801	-1,051	-646	-3,868
Off-Budget	*	*	*	-1	-1	-1	-2	-2	-3	-3	-3	-13

SOURCE: Congressional Budget Office.

NOTE: * = between -\$500 million and \$500 million.

Table 5.
Comparison of CBO's August 2002 Baseline and Alternative Scenarios Specified by Senators Voinovich and Feingold
(In billions of dollars)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total, 2003- 2007	Total, 2003- 2012
CBO August 2002 Baseline												
Revenues	1,962	2,083	2,244	2,381	2,513	2,658	2,809	2,965	3,243	3,521	11,184	26,379
Discretionary Outlays	782	803	827	845	864	889	912	936	965	983	4,121	8,807
Mandatory Outlays and Net Interest	<u>1,325</u>	<u>1,391</u>	<u>1,456</u>	<u>1,522</u>	<u>1,598</u>	<u>1,680</u>	<u>1,763</u>	<u>1,851</u>	<u>1,954</u>	<u>2,016</u>	<u>7,292</u>	<u>16,557</u>
Total Deficit (-) or Surplus	-145	-111	-39	15	52	88	133	177	323	522	-229	1,015
On-Budget	-315	-299	-246	-209	-190	-173	-147	-122	4	185	-1,259	-1,513
Off-Budget	170	188	207	224	242	262	280	299	319	337	1,031	2,527
Scenario Assuming that All Revenue Provisions Scheduled to Expire in the Next 10 Years are Extended, that Discretionary Budget Authority Equals the President's Request of \$759 billion for 2003, and that Such Spending Declines at an Annual Rate of 8.2 Percent to Achieve On-Budget Balance in 2007												
Revenues	1,961	2,075	2,199	2,315	2,441	n.a.	n.a.	n.a.	n.a.	n.a.	10,991	n.a.
Discretionary Outlays	785	760	718	666	617	n.a.	n.a.	n.a.	n.a.	n.a.	3,547	n.a.
Mandatory Outlays and Net Interest	<u>1,325</u>	<u>1,391</u>	<u>1,453</u>	<u>1,513</u>	<u>1,581</u>	n.a.	n.a.	n.a.	n.a.	n.a.	<u>7,263</u>	n.a.
Total Deficit (-) or Surplus	-149	-76	27	135	244	n.a.	n.a.	n.a.	n.a.	n.a.	181	n.a.
On-Budget	-319	-264	-180	-90	*	n.a.	n.a.	n.a.	n.a.	n.a.	-853	n.a.
Off-Budget	170	188	207	225	244	n.a.	n.a.	n.a.	n.a.	n.a.	1,034	n.a.
Differences from CBO Baseline												
Revenues	-1	-8	-45	-67	-72	n.a.	n.a.	n.a.	n.a.	n.a.	-194	n.a.
Discretionary Outlays	3	-43	-109	-178	-247	n.a.	n.a.	n.a.	n.a.	n.a.	-574	n.a.
Mandatory Outlays and Net Interest	*	<u>-1</u>	<u>-3</u>	<u>-8</u>	<u>-17</u>	n.a.	n.a.	n.a.	n.a.	n.a.	<u>-29</u>	n.a.
Total Deficit (-) or Surplus	-4	35	67	120	192	n.a.	n.a.	n.a.	n.a.	n.a.	410	n.a.
On-Budget	-4	35	66	119	190	n.a.	n.a.	n.a.	n.a.	n.a.	406	n.a.
Off-Budget	*	*	1	1	1	n.a.	n.a.	n.a.	n.a.	n.a.	3	n.a.

SOURCE: Congressional Budget Office.

NOTE: * = between \$500 million and \$500 million.

Table 6.
Comparison of CBO's August 2002 Baseline and Alternative Scenarios Specified by Senators Voinovich and Feingold
(In billions of dollars)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total, 2003- 2007	Total, 2003- 2012
CBO August 2002 Baseline												
Revenues	1,962	2,083	2,244	2,381	2,513	2,658	2,809	2,965	3,243	3,521	11,184	26,379
Discretionary Outlays	782	803	827	845	864	889	912	936	965	983	4,121	8,807
Mandatory Outlays and Net Interest	<u>1,325</u>	<u>1,391</u>	<u>1,456</u>	<u>1,522</u>	<u>1,598</u>	<u>1,680</u>	<u>1,763</u>	<u>1,851</u>	<u>1,954</u>	<u>2,016</u>	<u>7,292</u>	<u>16,557</u>
Total Deficit (-) or Surplus	-145	-111	-39	15	52	88	133	177	323	522	-229	1,015
On-Budget	-315	-299	-246	-209	-190	-173	-147	-122	4	185	-1,259	-1,513
Off-Budget	170	188	207	224	242	262	280	299	319	337	1,031	2,527
Scenario Assuming that All Revenue Provisions Scheduled to Expire in the Next 10 Years are Extended, that Discretionary Budget Authority Equals the President's Request of \$759 billion for 2003, and that Such Spending Grows at an Annual Rate of 0.4 Percent to Achieve On-Budget Balance in 2012												
Revenues	1,961	2,075	2,199	2,315	2,441	2,581	2,730	2,881	3,035	3,204	10,991	25,422
Discretionary Outlays	785	799	809	811	813	821	825	830	839	836	4,017	8,168
Mandatory Outlays and Net Interest	<u>1,325</u>	<u>1,392</u>	<u>1,457</u>	<u>1,524</u>	<u>1,602</u>	<u>1,685</u>	<u>1,769</u>	<u>1,857</u>	<u>1,961</u>	<u>2,031</u>	<u>7,301</u>	<u>16,605</u>
Total Deficit (-) or Surplus	-149	-115	-68	-21	26	75	135	195	234	337	-327	650
On-Budget	-319	-303	-275	-245	-216	-187	-145	-105	-85	*	-1,358	-1,881
Off-Budget	170	188	207	224	243	262	281	300	320	337	1,031	2,531
Differences from CBO Baseline												
Revenues	-1	-8	-45	-67	-72	-77	-79	-83	-208	-317	-194	-956
Discretionary Outlays	3	-5	-18	-34	-51	-68	-87	-106	-126	-147	-104	-639
Mandatory Outlays and Net Interest	*	*	<u>1</u>	<u>3</u>	<u>5</u>	<u>6</u>	<u>6</u>	<u>5</u>	<u>7</u>	<u>14</u>	<u>9</u>	<u>47</u>
Total Deficit (-) or Surplus	-4	-4	-28	-36	-26	-14	2	18	-89	-184	-98	-365
On-Budget	-4	-4	-29	-36	-26	-14	2	17	-89	-185	-99	-368
Off-Budget	*	*	*	*	*	*	*	1	1	1	1	3

SOURCE: Congressional Budget Office.

NOTE: * = between \$500 million and \$500 million.

Box 1.**The Expiration of Revenue Provisions**

The scheduled expiration of various revenue provisions has an important impact on the budget outlook for the next 10 years.¹ Three items in last year's tax-cut legislation, the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), are scheduled to end on or before December 31, 2006. The rest—which represent the bulk of the law's budgetary cost—expire on December 31, 2010. In addition, the economic stimulus law enacted in March 2002 established several new tax cuts for businesses that, in most cases, end over the next three years. Many other provisions of the tax code, enacted before EGTRRA, are scheduled to expire over the next decade.

By law, the Congressional Budget Office's (CBO's) baseline budget projections must assume that almost all of the expiring tax provisions end as scheduled. (The only exception is for expiring excise taxes dedicated to trust funds.) An alternative measure of the long-term budgetary effects of current policy could assume that all of those expirations do not occur as scheduled but rather that the provisions are immediately and permanently extended. Under those assumptions, the Joint Committee on Taxation (JCT) and CBO estimate that federal revenues would be

\$956 billion lower during the 2003-2012 period than projected in CBO's baseline (*see the table*).

Over half (\$553 billion) of the estimated decline in revenues from extending all expiring tax provisions would result from extending EGTRRA. About three-quarters of that cost would occur in 2011 and 2012, immediately after most of the provisions of the law are scheduled to expire, although some effects would occur earlier. Extending the changes that the law made to estate and gift taxes could reduce revenues as early as 2003, because if taxpayers knew that those changes would become permanent in 2011, some might postpone making taxable gifts that they would otherwise have made over the decade.

A more limited alternative measure would assume that all expiring tax provisions were extended except the ones created by the economic stimulus law, which were not intended to be permanent. (Those provisions include allowing businesses to take an additional first-year depreciation deduction, expanding the ability of unprofitable firms to receive refunds of past taxes paid, and targeting tax benefits to the area of New York City damaged on September 11, 2001.) If all but those expiring provisions were extended, JCT and CBO project, federal revenues would be \$693 billion lower during the 2003-2012 period.

1. It can also be expected to affect the economy, but only some of those effects are reflected in the estimates presented here.

Effects on Revenues of Extending Expiring Tax Provisions (In billions of dollars)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total, 2003- 2007	Total, 2003- 2012
Provisions in the Economic Growth and Tax Relief Reconciliation Act of 2001												
Provisions expiring in 2010	-1	-1	-2	-2	-3	-3	-3	-4	-125	-228	-9	-371
Provisions expiring before 2010 ^a	<u>n.a.</u>	<u>n.a.</u>	<u>-3</u>	<u>-12</u>	<u>-18</u>	<u>-22</u>	<u>-27</u>	<u>-29</u>	<u>-33</u>	<u>-37</u>	<u>-33</u>	<u>-181</u>
Subtotal	-1	-1	-5	-15	-20	-25	-29	-33	-157	-265	-43	-553
New Provisions in the Economic Stimulus Law ^b	-1	-6	-35	-43	-38	-34	-30	-28	-26	-25	-122	-264
Other Expiring Tax Provisions ^c	<u>*</u>	<u>-1</u>	<u>-5</u>	<u>-9</u>	<u>-14</u>	<u>-18</u>	<u>-20</u>	<u>-22</u>	<u>-25</u>	<u>-27</u>	<u>-29</u>	<u>-140</u>
Total Effect on Revenues	-1	-8	-45	-67	-72	-77	-79	-83	-208	-317	-194	-956
Memorandum:												
Total Effect on Revenues Excluding the Economic Stimulus Law	-1	-2	-10	-24	-34	-43	-49	-56	-182	-292	-72	-693

Sources: Congressional Budget Office; Joint Committee on Taxation.

Notes: n.a. = not applicable; * = between zero and \$500 million.

These estimates assume that the expiring provisions are extended immediately rather than when they are about to expire. The provisions are assumed to be extended at the rates or levels existing at the time of expiration. In addition, the estimates include interactions between provisions, which are most significant in 2011 and 2012. The estimates do not include effects on debt-service costs.

- a. Includes the increased exemption amount for the alternative minimum tax (expires in 2004), the deduction for qualified education expenses (expires in 2005), and the credit for individual retirement accounts and 401(k)-type plans (expires in 2006).
 - b. The Job Creation and Worker Assistance Act of 2002. New provisions in that law that are scheduled to expire include special depreciation-expensing allowances for certain property, a five-year carryback of net operating losses, and tax benefits for the area of New York City damaged in the September 11 terrorist attacks. These estimates do not include provisions in the law that had existed and been extended in previous years. The effects of extending those provisions yet again are included in the line for other expiring tax provisions.
 - c. Includes numerous provisions, such as the tax credit for research and experimentation.
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