



February 27, 2004

Honorable Ted Stevens
Chairman
Committee on Appropriations
United States Senate
Washington, DC 20510

Dear Mr. Chairman:

As you requested, the Congressional Budget Office (CBO), with contributions from the Joint Committee on Taxation, has analyzed the President's budget submission for fiscal year 2005. This letter and the attached tables summarize the main results of CBO's work; a report on the full analysis, including an assessment of the macroeconomic effects of the President's proposals, will be published on March 8.

Under the President's budget, CBO estimates, the deficit would be \$478 billion in fiscal year 2004 and \$356 billion in 2005 (see Table 1). As a share of the economy, the deficit would total 4.2 percent of gross domestic product (GDP) this year, then fall to 2.9 percent next year. Under the President's policies, the deficit would decline further—to 2.1 percent of GDP—in 2006 and then remain between 1.6 percent and 1.8 percent through 2014.

Over the 10-year period from 2005 through 2014, deficits would total \$2.75 trillion under the President's policies—\$737 billion higher than CBO's baseline projection of the cumulative deficit.¹ Debt held by the public would rise from 36 percent of GDP at the end of 2003 to about 40 percent during the years 2006 through 2014.

1. The President's budget does not provide year-by-year estimates of spending and revenues after 2009. It does, however, specify a total effect from changes in tax and mandatory spending laws for the entire 10-year period and proposed levels of discretionary spending through 2009. CBO estimated discretionary outlays for the 2010-2014 period by projecting the discretionary budget authority recommended by the President for 2009 and adjusting for inflation.

Under the President's budgetary proposals, revenues would grow from 15.8 percent of GDP this year to 16.8 percent of GDP in 2005, slightly below the baseline level (see Table 2). By 2007, revenues would reach nearly 18 percent of GDP and remain around that level through 2014. From 2005 through 2014, outlays would total slightly less than 20 percent of GDP if the President's policies were enacted. Over that same 10-year period, spending for entitlements and other mandatory programs under the President's proposals would grow faster than nominal GDP (5.7 percent annually versus 4.7 percent), whereas discretionary outlays would grow at an average annual rate of only 1.8 percent a year.

By CBO's estimates, the President's budget proposes nearly \$823 billion in discretionary budget authority for 2005 (including \$2.5 billion previously enacted for Project Bioshield) and \$44 billion in obligational authority for transportation programs—for total discretionary funding of \$867 billion. (The Administration does not include the advance appropriations for Project Bioshield in its discretionary funding total. In addition, for a number of reasons, including different projections of offsetting collections and the effect of changes to mandatory programs proposed in appropriation bills, the Administration estimates that budget authority will be \$1.8 billion lower than CBO's figure.) Total discretionary funding for 2004 (including \$43 billion in obligational authority for transportation programs and \$0.9 billion for Project Bioshield) is \$919 billion (see Table 3). That total includes \$87 billion in supplemental budget authority for reconstruction efforts and ongoing military operations in Iraq and Afghanistan. The President's budget for 2005 does not include any funding for those purposes.

If the supplemental appropriations for 2004 were excluded from the comparison, growth of discretionary funding (including obligational authority) in 2005 under the proposed budget would equal 4.2 percent, or \$35 billion. Defense spending would grow by nearly 7 percent, and nondefense spending for homeland security would rise by 15 percent. Other nondefense funding, by contrast, would grow by 1 percent. For the years 2006 through 2009, the President has proposed average annual increases of 4.8 percent in defense funding, 4.0 percent in homeland security funding, and 0.5 percent in all other nondefense discretionary funding.

Compared with the policies assumed in CBO's baseline, the President's budgetary proposals would reduce the cumulative deficit between 2005 and 2009 by \$99 billion, largely by holding both defense and nondefense discretionary spending below baseline levels (see Table 4). Over the 2005-2014 period, however, the President's policies would increase the

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total deficit by an estimated \$737 billion. Revenues under those policies would be almost \$1.3 trillion below baseline levels over the 10 years, primarily because of the proposal to extend the expiring provisions of the tax cuts of 2001 and 2003. Proposals affecting mandatory spending—mostly refundable tax credits—would increase the deficit by \$110 billion over the 10-year period, CBO estimates; debt-service costs on additional borrowing would add another \$37 billion. Discretionary spending under the President's budget, by contrast, would be \$708 billion below baseline levels over the 10-year budget window—in part because CBO's baseline extends the 2004 supplemental appropriations for activities in Iraq and Afghanistan throughout the period.²

In conjunction with its analysis of the President's budget, CBO typically updates its baseline projections to take into account new information from the budget and other sources. Those changes are almost exclusively technical; revised estimates for Medicaid and for Parts A and B of Medicare account for most of them. Legislative changes since January have been minimal and CBO has not updated the baseline's underlying economic assumptions. CBO now projects that the cumulative deficit for the 2005-2014 period will total a little more than \$2 trillion under the assumptions made in the baseline—an increase of \$119 billion from the projections that CBO published in January (see Table 5).

Sincerely,



Douglas Holtz-Eakin
Director

Attachments

Identical letter sent to the Honorable Robert C. Byrd

2. The Balanced Budget and Emergency Deficit Control Act of 1985 states that discretionary spending should be projected by adjusting the current year's budget authority to reflect inflation. As a result, CBO has extended supplemental appropriations in 2004 through the 2005-2014 period. If those supplemental appropriations were excluded from the baseline, CBO estimates that outlays for defense discretionary spending under the President's proposals would exceed baseline levels by \$451 billion from 2005 through 2014; nondefense discretionary outlays would fall below baseline levels by \$279 billion over that period.

**Preliminary Results of
CBO's Analysis of the
President's Budgetary Proposals
for Fiscal Year 2005**

February 27, 2004

Table 1.

Comparison of Projected Deficits and Surpluses in CBO's Estimate of the President's Budget and in CBO's March Baseline

(Billions of dollars)

	Actual 2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total, 2005- 2009	Total, 2005- 2014
CBO's Estimate of the President's Budget														
On-Budget Deficit	-536	-639	-529	-463	-450	-476	-497	-498	-554	-537	-563	-577	-2,416	-5,144
Off-Budget Surplus	161	161	174	193	208	224	238	251	264	273	281	288	1,037	2,394
Total Deficit	-375	-478	-356	-270	-242	-252	-258	-247	-290	-263	-282	-289	-1,378	-2,750
CBO's Baseline														
On-Budget Deficit	-536	-638	-537	-466	-482	-509	-519	-523	-439	-310	-314	-302	-2,513	-4,402
Off-Budget Surplus	161	161	174	193	208	224	238	250	263	273	280	287	1,036	2,390
Total Deficit	-375	-477	-363	-273	-274	-286	-281	-272	-176	-38	-34	-15	-1,477	-2,012
Difference (President's budget minus baseline)														
On-Budget Deficit	0	-1	8	2	32	33	22	25	-115	-226	-248	-275	98	-742
Off-Budget Surplus	0	0	*	*	*	*	1	1	1	1	1	1	1	4
Total Deficit	0	-1	8	2	33	34	23	26	-115	-226	-248	-274	99	-737
Memoranda:														
Total Deficit as a Percentage of GDP														
CBO's estimate of the President's budget														
CBO's estimate of the President's budget	-3.5	-4.2	-2.9	-2.1	-1.8	-1.8	-1.8	-1.6	-1.8	-1.6	-1.6	-1.6	-2.1	-1.8
CBO's baseline	-3.5	-4.2	-3.0	-2.1	-2.1	-2.1	-1.9	-1.8	-1.1	-0.2	-0.2	-0.1	-2.2	-1.3
Debt Held by the Public as a Percentage of GDP														
CBO's estimate of the President's budget														
CBO's estimate of the President's budget	36.1	38.2	39.3	39.7	40.0	40.1	40.2	40.1	40.3	40.3	40.2	40.2	n.a.	n.a.
CBO's baseline	36.1	38.2	39.4	39.8	40.3	40.6	40.8	40.9	40.3	38.9	37.6	36.1	n.a.	n.a.

Source: Congressional Budget Office.

Notes: Numbers in the table may not add up to totals because of rounding.

n.a. = not applicable; * = between -\$500 million and \$500 million.

Table 2.

CBO's Estimate of the President's Budget for 2005

	Actual												Total,	Total,
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2005-	2005-
	In Billions of Dollars													
Revenues														
On-budget	1,258	1,272	1,456	1,611	1,722	1,811	1,905	2,016	2,092	2,206	2,325	2,453	8,504	19,596
Off-budget	524	545	572	601	629	659	690	721	753	786	821	858	3,152	7,091
Total	1,782	1,817	2,029	2,212	2,351	2,469	2,595	2,737	2,845	2,992	3,147	3,311	11,656	26,687
Outlays														
Discretionary spending	825	895	906	894	900	920	943	969	998	1,014	1,043	1,068	4,564	9,656
Mandatory spending	1,179	1,245	1,299	1,369	1,437	1,522	1,612	1,702	1,810	1,897	2,028	2,158	7,238	16,833
Net interest	153	155	180	220	255	279	297	313	328	344	358	374	1,232	2,948
Total	2,158	2,295	2,384	2,482	2,593	2,722	2,853	2,984	3,136	3,255	3,429	3,600	13,034	29,437
On-budget	1,795	1,911	1,986	2,074	2,172	2,287	2,401	2,513	2,646	2,742	2,888	3,030	10,920	24,740
Off-budget	363	384	399	408	421	435	451	470	489	513	540	570	2,114	4,697
Deficit (-) or Surplus	-375	-478	-356	-270	-242	-252	-258	-247	-290	-263	-282	-289	-1,378	-2,750
On-budget	-536	-639	-529	-463	-450	-476	-497	-498	-554	-537	-563	-577	-2,416	-5,144
Off-budget	161	161	174	193	208	224	238	251	264	273	281	288	1,037	2,394
Debt Held by the Public	3,914	4,386	4,755	5,039	5,294	5,559	5,831	6,089	6,391	6,666	6,961	7,262	n.a.	n.a.
Memorandum:														
Gross Domestic Product	10,829	11,469	12,091	12,682	13,236	13,862	14,519	15,187	15,862	16,562	17,301	18,070	66,389	149,371
As a Percentage of GDP														
Revenues														
On-budget	11.6	11.1	12.0	12.7	13.0	13.1	13.1	13.3	13.2	13.3	13.4	13.6	12.8	13.1
Off-budget	4.8	4.7	4.7	4.7	4.8	4.8	4.8	4.7	4.7	4.7	4.7	4.7	4.7	4.7
Total	16.5	15.8	16.8	17.4	17.8	17.8	17.9	18.0	17.9	18.1	18.2	18.3	17.6	17.9
Outlays														
Discretionary spending	7.6	7.8	7.5	7.0	6.8	6.6	6.5	6.4	6.3	6.1	6.0	5.9	6.9	6.5
Mandatory spending	10.9	10.9	10.7	10.8	10.9	11.0	11.1	11.2	11.4	11.5	11.7	11.9	10.9	11.3
Net interest	1.4	1.4	1.5	1.7	1.9	2.0	2.0	2.1	2.1	2.1	2.1	2.1	1.9	2.0
Total	19.9	20.0	19.7	19.6	19.6	19.6	19.6	19.6	19.8	19.7	19.8	19.9	19.6	19.7
On-budget	16.6	16.7	16.4	16.4	16.4	16.5	16.5	16.5	16.7	16.6	16.7	16.8	16.4	16.6
Off-budget	3.4	3.3	3.3	3.2	3.2	3.1	3.1	3.1	3.1	3.1	3.1	3.2	3.2	3.1
Deficit (-) or Surplus	-3.5	-4.2	-2.9	-2.1	-1.8	-1.8	-1.8	-1.6	-1.8	-1.6	-1.6	-1.6	-2.1	-1.8
On-budget	-4.9	-5.6	-4.4	-3.7	-3.4	-3.4	-3.4	-3.3	-3.5	-3.2	-3.3	-3.2	-3.6	-3.4
Off-budget	1.5	1.4	1.4	1.5	1.6	1.6	1.6	1.7	1.7	1.6	1.6	1.6	1.6	1.6
Debt Held by the Public	36.1	38.2	39.3	39.7	40.0	40.1	40.2	40.1	40.3	40.3	40.2	40.2	n.a.	n.a.

Source: Congressional Budget Office.

Notes: Numbers in the table may not add up to totals because of rounding.

n.a. = not applicable.

Table 3.

Discretionary Spending Under the President's Budget and CBO's March Baseline

(Billions of dollars)

	Actual												Total, 2005-	Total, 2005-
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2009	2014
CBO's Estimate of Discretionary Spending Under the President's Budget^a														
Funding														
Defense	455	459	421	443	463	484	507	519	532	545	558	572	2,317	5,043
Nondefense														
Homeland security	28	27	31	30	32	33	37	35	36	37	38	39	162	348
Other ^b	408	433	415	416	419	422	423	433	442	452	463	474	2,095	4,360
Subtotal, nondefense	435	460	446	446	451	454	459	469	478	490	501	513	2,257	4,708
Total	890	919	867	889	914	939	966	987	1,010	1,034	1,059	1,085	4,574	9,750
Outlays														
Defense	405	452	447	439	445	464	485	505	525	531	549	564	2,280	4,955
Nondefense														
Homeland security	23	23	27	30	32	33	35	35	36	37	38	39	157	343
Other	397	420	431	425	423	423	424	429	437	446	455	466	2,126	4,358
Subtotal, nondefense	420	443	459	455	455	456	458	464	473	483	493	504	2,283	4,701
Total	825	895	906	894	900	920	943	969	998	1,014	1,043	1,068	4,564	9,656
CBO's Baseline for Discretionary Spending														
Funding														
Defense	455	459	472	480	491	503	516	529	542	556	570	585	2,462	5,244
Nondefense														
Homeland security	28	27	29	27	28	29	32	30	31	32	33	34	145	305
Other ^b	408	433	447	454	464	475	487	498	510	522	535	548	2,327	4,941
Subtotal, nondefense	435	460	476	482	492	504	518	529	541	554	568	581	2,472	5,246
Total	890	919	948	962	984	1,007	1,035	1,057	1,083	1,110	1,138	1,166	4,935	10,490
Outlays														
Defense	405	452	469	476	482	497	509	522	540	544	563	578	2,433	5,180
Nondefense														
Homeland security	23	23	26	28	29	30	30	31	31	32	33	33	142	302
Other	397	420	441	452	462	471	481	492	503	514	526	539	2,307	4,882
Subtotal, nondefense	420	443	467	480	491	501	512	523	534	547	559	572	2,450	5,184
Total	825	895	936	956	973	998	1,021	1,045	1,074	1,091	1,122	1,150	4,882	10,364

Continued

Table 3.

Continued

(Billions of dollars)

	Actual												Total,	Total,
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2009	2005-
Difference (President's budget minus baseline)														
Funding														
Defense	0	0	-51	-38	-28	-19	-10	-10	-11	-11	-12	-13	-145	-202
Nondefense														
Homeland security	0	0	2	3	4	4	5	5	5	5	5	5	17	43
Other ^b	0	0	-32	-38	-45	-53	-64	-65	-68	-70	-72	-74	-233	-581
Subtotal, nondefense	0	0	-30	-35	-42	-49	-59	-60	-63	-65	-67	-68	-216	-538
Total	0	0	-81	-73	-70	-68	-69	-70	-73	-76	-78	-81	-361	-740
Outlays														
Defense	0	0	-22	-37	-37	-33	-24	-17	-15	-13	-14	-14	-152	-225
Nondefense														
Homeland security	0	0	1	2	3	4	4	5	5	5	5	5	15	40
Other	0	0	-9	-27	-39	-48	-58	-63	-66	-69	-71	-73	-181	-523
Subtotal, nondefense	0	0	-8	-25	-36	-44	-53	-58	-61	-64	-66	-68	-166	-483
Total	0	0	-30	-62	-72	-77	-78	-76	-76	-77	-79	-81	-319	-708

Source: Congressional Budget Office.

Note: Numbers in the table may not add up to totals because of rounding.

- a. The President's budget specifies discretionary spending only through 2009. The numbers shown here for discretionary spending after 2009 under the President's budget are projections by CBO using its baseline rates of inflation.
- b. Funding comprises both budget authority and obligation limitations. Spending from the Highway Trust Fund and the Airport and Airway Trust Fund is subject to such limitations. Budget authority for those programs is provided in authorizing legislation and is not considered discretionary.

Table 4.

CBO's Estimate of the Effect of the President's Budgetary Proposals on Baseline Deficits

(Billions of dollars)	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total, 2005- 2009	Total, 2005- 2014
March 2004 Baseline Deficit	-477	-363	-273	-274	-286	-281	-272	-176	-38	-34	-15	-1,477	-2,012
Effect of President's Proposals													
Revenues													
Extension of expiring EGTRRA and JGTRRA provisions													
General tax rates, child credits, and brackets	0	-10	-20	-19	-15	-11	-7	-100	-160	-164	-169	-75	-676
Estate and gift taxes	0	-1	-1	-2	-2	-2	-2	-29	-51	-55	-61	-7	-206
Tax rates on dividends and capital gains	0	0	0	0	-2	-13	-14	-29	-31	-33	-35	-16	-157
Expensing for small businesses	0	0	-4	-7	-5	-4	-3	-3	-3	-3	-3	-19	-34
Education, retirement, and other provisions	0	0	0	0	0	0	*	-4	-7	-8	-10	0	-30
Subtotal, proposed extensions	0	-11	-25	-27	-24	-30	-27	-165	-252	-263	-277	-117	-1,102
Research and experimentation credit	*	-3	-4	-5	-5	-6	-6	-7	-7	-7	-8	-23	-58
Deduction for long-term care insurance	0	*	-1	-1	-2	-3	-3	-4	-4	-5	-5	-6	-27
Deduction for high-deductible health insurance	0	*	-2	-2	-2	-3	-3	-3	-3	-3	-4	-9	-25
AMT for individuals	*	-9	-14	0	0	0	0	0	0	0	0	-23	-23
Refundable health insurance credit	0	*	*	*	-1	-1	-1	-1	-1	-1	-1	-2	-7
Expansion of tax-free savings	0	4	6	4	2	*	-1	-2	-3	-4	-5	15	-1
Tax shelters and compliance	*	1	2	2	3	3	3	4	4	4	5	11	31
Other proposals	*	-2	-5	-5	-6	-9	-10	-12	-12	-13	-13	-26	-86
Subtotal	-1	-21	-43	-33	-35	-48	-48	-190	-279	-293	-309	-181	-1,299
Outlays													
Discretionary													
Defense	0	-22	-37	-37	-33	-24	-17	-15	-13	-14	-14	-152	-225
Nondefense	0	-8	-25	-36	-44	-53	-58	-61	-64	-66	-68	-167	-483
Subtotal, discretionary	0	-30	-62	-72	-77	-78	-76	-76	-77	-79	-81	-319	-708
Mandatory													
Extension of expiring EGTRRA and JGTRRA provisions													
Refundable health insurance credit	0	0	6	7	6	6	6	6	6	6	5	25	54
Customs fees	0	-1	-2	-2	-2	-2	-2	-2	-2	-2	-2	-8	-19
Other proposals	*	2	8	-2	3	2	1	*	-1	-1	-1	13	9
Subtotal, mandatory	*	2	16	8	12	11	8	4	17	17	16	48	110
Net interest	*	*	*	-1	-3	-4	-6	-2	6	18	31	-10	37
Subtotal, outlays	*	-28	-46	-66	-69	-71	-74	-75	-53	-45	-35	-280	-561
Total Impact on the Deficit	-1	8	2	33	34	23	26	-115	-226	-248	-274	99	-737
Deficit Under the President's Proposals	-478	-356	-270	-242	-252	-258	-247	-290	-263	-282	-289	-1,378	-2,750

Source: Congressional Budget Office.

Notes: Numbers in the table may not add up to totals because of rounding.

EGTRRA = Economic Growth and Tax Relief Reconciliation Act of 2001; JGTRRA = Jobs and Growth Tax Relief Reconciliation Act of 2003; AMT = alternative minimum tax.

Table 5.

**Changes in CBO's Baseline Projections of the Deficit or Surplus
Since January 2004**

(Billions of dollars)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total, 2005- 2009	Total, 2005- 2014
Total Deficit (-) or Surplus as Projected in January 2004	-477	-362	-269	-267	-278	-268	-261	-162	-24	-16	13	-1,443	-1,893
Changes to Projections													
Legislative	*	*	*	*	*	*	*	*	*	*	*	*	1
Technical													
Revenues	*	1	-1	-1	-1	-1	-1	-1	-2	-2	-9	-3	-18
Outlays													
Discretionary	-1	*	1	*	*	*	*	*	*	*	*	1	*
Mandatory													
Medicare	3	6	3	4	4	6	4	6	4	6	7	23	49
Medicaid	*	1	1	3	3	4	4	4	4	4	4	11	32
Debt service	*	*	*	*	*	1	1	2	3	4	6	*	15
Other	*	-4	-1	*	*	2	1	1	1	2	2	-3	6
Subtotal, mandatory	2	3	3	6	8	12	10	13	12	16	19	31	102
Subtotal, technical	*	-2	-4	-8	-8	-13	-11	-14	-14	-18	-28	-35	-120
Total Impact on the Deficit or Surplus	*	-2	-4	-8	-8	-13	-11	-14	-14	-18	-28	-34	-119
Total Deficit as Projected in March 2004	-477	-363	-273	-274	-286	-281	-272	-176	-38	-34	-15	-1,477	-2,012

Source: Congressional Budget Office.

Notes: Numbers in the table may not add up to totals because of rounding.

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