

March 3, 2008

Honorable Robert C. Byrd  
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 (JCT), has analyzed the President's budget submission for fiscal year 2009. This letter and the attached tables summarize the results of CBO's work to date. A report that presents the full analysis, including CBO's assessment of the macroeconomic effects of the President's proposals, will be published on March 19.

CBO's analysis indicates the following:

- If the President's proposals were enacted, the federal government would record deficits of \$396 billion in 2008 and \$342 billion in 2009. Those deficits would amount to 2.8 percent and 2.3 percent, respectively, of gross domestic product (GDP). By comparison, the deficit in 2007 totaled 1.2 percent of GDP.
- Under the President's proposals, the deficit would steadily diminish from 2009 through 2012, at which point the budget would be balanced; it would remain close to balance in most years through 2018.<sup>1</sup> Several key factors contribute to that outcome, however. The budget excludes funding for military operations in Iraq

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1. The President's budget does not provide year-by-year estimates of spending and revenues after 2013. It does, however, specify the total effect of proposed changes in laws affecting taxes and mandatory spending for the 10-year period through 2018. For discretionary spending, the budget provides details only for 2008 and 2009; the request for 2010 through 2013 is provided only in the aggregate. CBO incorporated those total amounts in its estimates and calculated discretionary outlays for the 2014–2018 period by projecting the amount of discretionary budget authority that the President recommended for 2013 and adjusting it for inflation.

and Afghanistan after 2009, incorporates significant reductions in discretionary spending relative to the size of the economy, and allows for a substantial expansion of the impact of the alternative minimum tax (AMT).

- The President's budgetary proposals would result in revenues that were \$2.1 trillion below CBO's baseline projections over the 2009–2018 period, largely because of proposed extensions of various provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) and the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA).
- The proposals also would lead to outlays that were below CBO's baseline projections—by an estimated \$1.1 trillion over the 10-year period—because of a smaller amount of funding for discretionary programs and reductions in mandatory spending, particularly in spending for Medicare.
- CBO's analysis reflects the recent enactment of the Economic Stimulus Act of 2008 (Public Law 110-185), which will add an estimated \$152 billion to the deficit for 2008 and \$16 billion to the deficit for 2009 (excluding debt service). The analysis also takes into account recent revisions to CBO's economic forecast.<sup>2</sup>

### **Estimated Effects of the President's Proposals for Fiscal Years 2008 and 2009**

Collectively, the proposals in the President's budget would add \$39 billion to the deficit that CBO projects for this year under current law. The President's policies would reduce revenues by \$9 billion and boost outlays by \$30 billion (mostly for military operations in Iraq and Afghanistan). If the proposals were enacted, the deficit this year would total \$396 billion, or 2.8 percent of GDP, according to CBO's calculations (see Table 1 on page 10). By comparison, the deficit in 2007 was \$162 billion, or 1.2 percent of GDP.

In 2009, CBO estimates, the deficit under the President's budget would fall to 2.3 percent of GDP, or \$342 billion—\$136 billion more than the baseline deficit of \$207 billion that CBO projects under the assumption that current laws and policies remain the same. That difference is largely attributable to proposals that would affect revenues and defense spending.

Under the President's budget, revenues would be \$94 billion lower in 2009 than projected in the baseline. The President is proposing a one-year extension of the higher AMT exemption levels enacted through 2007, which would mitigate some of the effects of the tax; that change would reduce revenues by an estimated \$70 billion in 2009. Other proposed changes in tax policies would reduce revenues, on net, by another \$24 billion next year.

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2. See the letter to the Honorable Kent Conrad, Chairman, Senate Committee on the Budget, from Peter R. Orszag, Director, Congressional Budget Office, updating CBO's economic forecast, February 15, 2008.

On the outlay side of the budget, the President's policies would raise defense discretionary spending \$50 billion above the baseline level. That increase stems primarily from supplemental appropriations—mostly for military operations in Iraq and Afghanistan—that are requested for later this year but that are likely to be spent mostly in 2009 and beyond. Other spending under the President's proposals would be \$9 billion below the amount in the baseline (largely as a result of proposed savings in Medicare).

### **Estimated Effects of the President's Proposals Over the 2009–2018 Period**

Under the President's proposals, the deficit would move steadily downward from 2009 through 2012; by CBO's estimates, the budget would be balanced in that latter year and remain relatively close to balance through 2018. Those results reflect the President's proposal for an additional \$70 billion in funding for military operations in Iraq and Afghanistan in 2009 but no additional funding thereafter, combined with a substantial decline in discretionary spending relative to the size of the economy. The estimates also reflect the absence of any changes to the AMT beyond the proposed one-year extension of the higher exemption levels. Under the President's policies, debt held by the public would rise from 37 percent of GDP in 2007 to 39 percent in 2009 and then gradually fall to 28 percent of GDP by 2018.

On the basis of previous differences between projections and budget outcomes, CBO has calculated the likelihood that the budget will be balanced under two sets of conditions: the assumptions embodied in its baseline projections (that current laws and policies remain in place) and its estimates of revenues and outlays under the President's proposals. Using the assumptions underlying its baseline, CBO calculates that there is roughly a 40 percent chance that the budget will be in deficit in 2012 and a 60 percent chance that it will be in balance (or in surplus). If the President's policies were enacted in their entirety and no other legislation affecting spending or revenues was enacted in the next five years, there would be roughly a 50 percent chance of either a deficit or a surplus in 2012.

Under the President's proposals, revenues as a share of GDP would total 18.3 percent in 2009, CBO estimates. That share would climb to 18.6 percent of GDP in 2010 and remain near that level for a few years before rising further (see Table 2 on page 11). The future growth of revenues as a percentage of GDP reflects the progressive structure of the tax code in combination with increases in real (inflation-adjusted) income, the withdrawal of retirement savings as the population ages, and the fact that the AMT is not indexed for inflation.

Outlays would peak at 20.6 percent of GDP in 2009 under the President's policies and then fall to about 19 percent of GDP over the latter part of the 2009–2018 period. Spending for mandatory programs would grow faster than nominal GDP through 2018—by an average of 5.7 percent annually, versus the average annual growth of 4.7 percent in nominal GDP that CBO projects for the period. By contrast, discretionary outlays would be \$102 billion lower in 2013 than in 2009 under the

President's plan; as a percentage of GDP, they would fall from 7.9 percent in 2009 to 5.9 percent in 2013 (lower than any percentage of GDP recorded for such spending over the past 40 years).

### **Impact of the President's Proposals on the Budget Outlook**

From 2009 to 2013, the cumulative deficit under the President's policies would be \$336 billion higher than the deficit projected under the current-law assumptions embodied in CBO's baseline (see Table 3 on page 12). Over the five-year period, proposed tax policies would reduce revenues relative to the baseline by an estimated \$777 billion, mostly from 2011 through 2013, and spending would be \$442 billion lower. Discretionary spending under the President's policies would be \$340 billion below CBO's baseline projection—a reduction that would be about equally divided between defense and nondefense programs; mandatory spending would be \$143 billion lower. (The difference in discretionary spending arises in part because the President's budget includes only \$70 billion in funding for military operations in Iraq and Afghanistan for 2009 and no funding for subsequent years.) Overall, as a result of a larger cumulative deficit under the President's proposals, net interest from 2009 to 2013 would be \$41 billion higher than the amount in CBO's baseline.

Under the tax and spending assumptions embodied in the baseline, deficits would be followed by surpluses in the vicinity of 0.5 percent of GDP from 2012 on, CBO projects. By comparison, under the President's policies, the budget would be close to balance for most of those years. Between 2009 and 2018, the President's proposals would reduce revenues by more than \$2.1 trillion (6 percent) from baseline levels, CBO and JCT estimate, mainly by extending tax provisions that are scheduled to expire by 2011. Over the 10-year period, proposals in the President's budget, if enacted, would decrease mandatory spending by a total of \$143 billion (0.7 percent) relative to baseline projections and reduce discretionary spending by \$1.2 trillion (9.6 percent). The deficits that would result under the President's policies would require additional federal borrowing; debt-service costs on that borrowing would add another \$207 billion to the cumulative deficit between 2009 and 2018. Overall, the President's proposals would reduce outlays over the 10-year period by \$1.1 trillion relative to CBO's baseline projections.

**Proposals Affecting Revenues.** The President's budget proposes a number of changes to tax law that would reduce revenues over the next decade relative to the amounts that would be collected under current law. Proposals to permanently extend various provisions of EGTRRA and JGTRRA that are set to expire in 2010 would reduce revenues by \$2.3 trillion. Those provisions include reductions in individual income tax rates, relief from the so-called marriage penalty, an increase in the child tax credit, reductions in tax rates on capital gains and dividends, and repeal of the estate tax. Other proposals would increase revenues by \$161 billion over the 10-year period.

The President's budget includes a proposal to provide relief from the AMT that would extend through 2008 and reduce revenues by an estimated \$6 billion in that year and

by a total of \$55 billion in 2009 and 2010. The budget also reflects other proposed changes to current tax law, including extending the research and experimentation tax credit and modifying collections related to aviation services.

The President's proposal regarding the taxation of health insurance would offset some of the reduction in revenues from other proposals, according to JCT. The proposal would eliminate most existing tax exclusions and deductions for health insurance premiums and out-of-pocket expenses; as a result, all contributions by employers and employees for health insurance would be included in employees' taxable income. In place of the exclusions and deductions, the proposal would create a new standard deduction for those covered by qualifying health insurance plans. In JCT's estimation, the proposal would increase revenues by \$429 billion between 2009 and 2018—a substantially larger amount than the Administration's estimate of \$41 billion over the same period. (The proposal would decrease outlays for refundable tax credits by \$20 billion over the 2009–2018 span, JCT estimates.)

**Proposals Affecting Mandatory Spending.** The President's budget proposes changes to mandatory spending that would, on net, reduce such spending (relative to that authorized under current law) by \$143 billion over the 10-year budget period.

The largest reductions in mandatory spending—totaling \$481 billion over 10 years—would apply to Medicare, cutting projected spending for that program by 8 percent over the period. Proposed changes include freezing payment rates for three years for most services (other than those provided by physicians) and then reducing the annual updates to those rates by about half of the gains expected from improvements in productivity.

The President's budget would also lower to 50 percent the federal matching payment for expenditures by state Medicaid programs for targeted case management and administrative activities. The proposals related to Medicaid would reduce outlays by \$59 billion (about 2 percent) over the 2009–2018 period, CBO estimates. Those reductions would be offset, in part, by about \$35 billion in additional spending for the State Children's Health Insurance Program.

Another proposal in the President's budget submission would authorize the board of the Pension Benefit Guaranty Corporation (PBGC) to increase premiums to cover current and expected future claims. If the proposal was enacted, PBGC's premiums (which are recorded in the budget as offsetting collections) would rise by a total of \$19 billion from 2009 through 2018, CBO calculates.

The President's budget also proposes to eliminate funding for the Social Services Block Grant, which, CBO estimates, would reduce outlays by \$15 billion in the years from 2009 to 2018.

The proposal that would involve the largest increase in mandatory spending over the 10-year period is the plan to create individual Social Security accounts. That policy would increase outlays by an estimated \$287 billion, mostly between 2014 and 2018.<sup>3</sup>

Several of the tax policies described earlier would also add to mandatory spending: The extension of expiring tax provisions and other proposals would increase outlays, mostly for the refundable portions of the earned income and child tax credits. Additional spending resulting from those two tax credits would total about \$126 billion over the 2009–2018 period, most of which would occur after 2011.

**Proposals Affecting Discretionary Spending.** The President requests \$1,067 billion in discretionary budget authority for 2009, CBO estimates (see Table 4 on page 13).<sup>4</sup> By comparison, discretionary budget authority for 2008 will total \$1,153 billion if the requested supplemental authority of \$108 billion—\$105 billion of which is for military operations and other activities in Iraq and Afghanistan—is enacted. (So far this year, a total of \$88 billion has been appropriated for those purposes.)

If funding for operations in Iraq and Afghanistan was excluded from the comparison, discretionary budget authority under the President's proposals would grow by about 3.8 percent, or \$37 billion, from 2008 to 2009. Appropriations for defense would grow by 7.2 percent, and funding for homeland security activities would rise by 7.8 percent. Other appropriations, in total, would be slightly below their level in 2008.

The budget does not specify account-level detail for appropriation amounts beyond 2009. Instead, the Administration presents aggregate funding amounts for 2010 through 2013. Funding in the President's budget for military operations in Iraq and Afghanistan and other activities related to the war on terrorism is substantially reduced in 2009 and eliminated thereafter. As a result, proposed budget authority for defense falls from \$690 billion in 2008 to \$608 billion in 2009 and then to \$571 billion in 2013, according to CBO's calculations. If the requested funding for 2009 for military operations in Iraq and Afghanistan is excluded, the President's budget would have defense funding grow by \$33 billion from 2009 to 2013—at an average annual rate of growth of 1.5 percent.

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3. The Administration projects much higher outlays—\$647 billion over the 10-year period—chiefly because it anticipates that two-thirds of eligible people would sign up for individual accounts, whereas CBO estimates that about one-third would participate in such a program. In addition, CBO assumes that contributions would be transferred to individual accounts with a lag; therefore, it estimates that most outlays resulting from the establishment of individual accounts would first be recorded in 2014 (rather than in 2013, as the Administration estimates).
  4. For a number of reasons—including differences in projections of offsetting collections and other technical factors—the Administration's estimate of budget authority for 2009 is \$1.9 billion lower than CBO's estimate.

Discretionary funding for the programs and activities of all other agencies would decline from the level proposed for 2009—falling from \$460 billion next year to \$450 billion in 2013. The amount proposed for 2013 represents a reduction from the 2009 amount of about 10 percent in inflation-adjusted terms.

### **Comparison of CBO's and the Administration's Five-Year Estimates of the Deficit or Surplus**

CBO and the Administration differ somewhat in their estimates of the outcomes for the budget over the next five years under the President's proposals. For 2008 and 2009, CBO calculates smaller deficits than does the Administration; for 2010 through 2013, by contrast, the Administration projects either smaller deficits or surpluses (see Table 3 on page 12). All told, CBO's estimate of the cumulative deficit for the 2009–2013 period is \$90 billion larger than that of the Administration, a difference equal to about 0.1 percent of GDP.

The largest single-year difference between the two sets of estimates occurs for 2009. CBO estimates that the deficit in that year will be \$65 billion less than the shortfall that the Administration projects. The difference arises in part because CBO's estimate of discretionary spending for 2009 is \$41 billion below that of the Administration. About three-quarters of that difference stems from CBO's lower estimate of defense outlays. In addition, CBO's forecast of lower interest rates for 2009 results in net interest costs that are \$43 billion less than the Administration's calculation. In the other direction, CBO estimates that mandatory outlays will be \$17 billion above the Administration's total for 2009; about \$10 billion of that amount stems from CBO's higher estimate of unemployment insurance benefits. CBO's and the Administration's estimates of revenues under the President's policies are nearly identical for 2009.

### **Recent Changes in CBO's Baseline Projections**

In conjunction with its analysis of the President's budget, CBO routinely updates its baseline budget projections, which assume the continuation of current tax and spending policies over the next 10 years (see Table 5 on page 14). Those revisions take into account new information gleaned from the President's budget and other sources as well as legislation enacted since the completion of the previous baseline, in January.<sup>5</sup> In addition, CBO has updated its economic forecast, which also affects its projections of revenues and outlays.

The net result of those changes is that the baseline estimate of the deficit for 2008 is \$138 billion higher than CBO's January projection—an increase caused primarily by the recent economic stimulus legislation. CBO now estimates that, in the absence of further legislation affecting spending or revenues, the deficit in 2008 will reach \$357 billion, up from the \$219 billion it projected in January. (Additional funding for military operations in Iraq and Afghanistan will add to that total.) However, the

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5. For CBO's previous baseline projections, see Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2008 to 2018* (January 2008).

cumulative deficit for the 2009–2018 period is virtually unchanged. Under the assumption that current policies continue over the next 10 years, CBO projects a cumulative baseline surplus of \$270 billion from 2009 through 2018 (down slightly from the previous projection of \$274 billion).

**Recent Legislation.** Revisions to the baseline arising from legislation are almost entirely attributable to enactment of the Economic Stimulus Act of 2008. That law provides tax rebates to individual tax filers who satisfy specific income requirements as well as special depreciation allowances to businesses. CBO and JCT estimate that the stimulus legislation will add \$152 billion to the deficit in 2008 and \$16 billion to the deficit in 2009. (Of that estimated \$168 billion increase, \$117 billion is associated with the tax rebates and \$51 billion with the business tax deductions.) Much of the initial effect that the depreciation allowances will exert on revenues results from an acceleration in the timing of deductions. Consequently, initial losses in revenues will be followed by gains in later years; such gains are estimated to total about \$44 billion over the 2010–2018 period.<sup>6</sup> By CBO's estimate, increased borrowing as a result of the stimulus package will add more than \$70 billion to interest costs between 2009 and 2018.

**Changes in the Economic Outlook.** Mostly because sharply lower interest rates have diminished projected borrowing costs, revisions to CBO's economic assumptions have reduced its estimate of the deficit for 2008 by \$10 billion. In addition, the revisions have led to reductions in projected deficits or increases in projected surpluses that average \$30 billion annually over the 2009–2018 period. The differences between CBO's current forecast and the one released in January are limited to the near term; the agency's medium-term economic projections (covering 2010 to 2018) are largely unchanged (see Table 6 on page 16).

The revisions were motivated by three developments: new data about the weakness of the economy, actions by the Federal Reserve, and the recently enacted stimulus package. The net effect of those developments since the publication of CBO's previous set of projections is slightly stronger projected economic activity for 2008 (because the impact of monetary and fiscal policy stimulus slightly outweighs the deterioration in economic conditions absent those policy changes) and slightly weaker projected economic activity for 2009 (in part because the termination of the provisions of the stimulus legislation temporarily reduces economic growth).

Most of the budgetary impact of the revised economic outlook stems from lower interest rates projected for 2008 through 2010. Those revisions, in conjunction with the impact on debt service from other economic changes, reduce CBO's estimates of net interest costs by \$90 billion between 2008 and 2011 and by about \$15 billion a

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6. See CBO's cost estimate for H.R. 5140, the Economic Stimulus Act of 2008 (February 11, 2008). Most of the impact of the tax rebates is reflected in the budget as a reduction in revenues. But some individuals who will receive a rebate pay no income taxes; such rebates are classified as mandatory outlays, which are estimated to total \$38 billion in 2008 and \$4 billion in 2009.



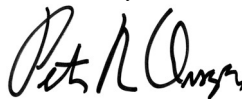
year thereafter. In addition, marginally lower near-term inflation reduces projected outlays for Medicare, Social Security, and other mandatory programs.

Compared with its previous forecast, CBO's current forecast anticipates that nominal GDP will be slightly higher in 2008, slightly lower in 2009 and 2010, and slightly higher in subsequent years. In addition, CBO projects that taxable income as a percentage of GDP will be slightly lower over the next two years than it had previously expected. As a result, it foresees little change in projected revenues in 2008, a reduction of \$22 billion between 2009 and 2010, and an increase of \$57 billion from 2011 through 2018.

**Technical Changes.** CBO has made technical revisions to its baseline that reduce the cumulative surplus by \$255 billion over the 2009–2018 period. Much of that change results from an increase in projected spending that occurs because the Centers for Medicare and Medicaid Services has reclassified certain expenditures for recent years. That reclassification shifts expenditures originally attributed to Supplementary Medical Insurance (Part B) services that are expected to grow relatively slowly to faster-growing components of Hospital Insurance (Part A). Moreover, the reduction in projected Part B spending contributes to lower estimates of Medicare premiums over the next 10 years. In addition, CBO has increased its forecast of participation in Medicare Advantage—which is more expensive than traditional fee-for-service Medicare—from 26 percent of Part A enrollment in 2018 under the previous baseline to 29 percent under the current baseline.

I hope that you find CBO's analysis useful. If you have any questions about it, please contact me.

Sincerely,



Peter R. Orszag  
Director

Attachments: Tables 1–6

Identical letter sent to the Honorable Thad Cochran.

**Table 1.**

**Comparison of Projected Deficits and Surpluses in CBO's Estimate of the President's Budget and in CBO's March 2008 Baseline**

(Billions of dollars)

|   | Actual<br>2007 | 2008        | 2009        | 2010        | 2011        | 2012        | 2013       | 2014        | 2015        | 2016        | 2017        | 2018        | Total,<br>2009-<br>2013 | Total,<br>2009-<br>2018 |
|---|----------------|-------------|-------------|-------------|-------------|-------------|------------|-------------|-------------|-------------|-------------|-------------|-------------------------|-------------------------|
| <b>CBO's Estimate of the President's Budget for 2009</b>          |                |             |             |             |             |             |            |             |             |             |             |             |                         |                         |
| On-Budget Deficit   | -343           | -592        | -525        | -375        | -346        | -236        | -269       | -252        | -243        | -263        | -201        | -121        | -1,751                  | -2,830                  |
| Off-Budget Surplus <sup>a</sup>                                   | 181            | 197         | 183         | 193         | 218         | 236         | 248        | 232         | 214         | 200         | 198         | 194         | 1,076                   | 2,114                   |
| <b>Total Deficit (-) or Surplus</b>                               | <b>-162</b>    | <b>-396</b> | <b>-342</b> | <b>-182</b> | <b>-129</b> | <b>*</b>    | <b>-21</b> | <b>-20</b>  | <b>-29</b>  | <b>-64</b>  | <b>-3</b>   | <b>73</b>   | <b>-674</b>             | <b>-717</b>             |
| <b>CBO's Baseline</b>   |                |             |             |             |             |             |            |             |             |             |             |             |                         |                         |
| On-Budget Deficit   | -343           | -553        | -403        | -421        | -320        | -133        | -174       | -158        | -147        | -172        | -116        | -44         | -1,451                  | -2,088                  |
| Off-Budget Surplus <sup>a</sup>                                   | 181            | 197         | 196         | 208         | 227         | 238         | 244        | 249         | 251         | 251         | 250         | 246         | 1,112                   | 2,358                   |
| <b>Total Deficit (-) or Surplus</b>                               | <b>-162</b>    | <b>-357</b> | <b>-207</b> | <b>-213</b> | <b>-93</b>  | <b>105</b>  | <b>70</b>  | <b>90</b>   | <b>104</b>  | <b>79</b>   | <b>134</b>  | <b>202</b>  | <b>-339</b>             | <b>270</b>              |
| <b>Difference (President's budget minus baseline)<sup>b</sup></b> |                |             |             |             |             |             |            |             |             |             |             |             |                         |                         |
| On-Budget Deficit   | n.a.           | -39         | -122        | 46          | -26         | -102        | -95        | -93         | -96         | -91         | -85         | -77         | -300                    | -743                    |
| Off-Budget Surplus <sup>a</sup>                                   | n.a.           | 0           | -13         | -15         | -9          | -2          | 4          | -16         | -37         | -52         | -52         | -52         | -35                     | -244                    |
| <b>Total Deficit (-) or Surplus</b>                               | <b>n.a.</b>    | <b>-39</b>  | <b>-136</b> | <b>31</b>   | <b>-35</b>  | <b>-105</b> | <b>-91</b> | <b>-110</b> | <b>-133</b> | <b>-143</b> | <b>-136</b> | <b>-129</b> | <b>-336</b>             | <b>-987</b>             |
| <b>Memorandum:</b>  |                |             |             |             |             |             |            |             |             |             |             |             |                         |                         |
| Total Deficit (-) or Surplus as a Percentage of GDP               |                |             |             |             |             |             |            |             |             |             |             |             |                         |                         |
| CBO's estimate of the   |                |             |             |             |             |             |            |             |             |             |             |             |                         |                         |
| President's budget  | -1.2           | -2.8        | -2.3        | -1.2        | -0.8        | **          | -0.1       | -0.1        | -0.1        | -0.3        | **          | 0.3         | -0.8                    | -0.4                    |
| CBO's baseline  | -1.2           | -2.5        | -1.4        | -1.4        | -0.6        | 0.6         | 0.4        | 0.5         | 0.5         | 0.4         | 0.6         | 0.9         | -0.4                    | 0.1                     |
| Debt Held by the Public as a Percentage of GDP                    |                |             |             |             |             |             |            |             |             |             |             |             |                         |                         |
| CBO's estimate of the   |                |             |             |             |             |             |            |             |             |             |             |             |                         |                         |
| President's budget  | 36.8           | 38.0        | 39.0        | 38.3        | 37.1        | 35.5        | 34.1       | 32.8        | 31.7        | 30.7        | 29.5        | 28.1        | n.a.                    | n.a.                    |
| CBO's baseline  | 36.8           | 37.7        | 37.8        | 37.3        | 36.0        | 33.8        | 32.0       | 30.3        | 28.5        | 27.0        | 25.4        | 23.5        | n.a.                    | n.a.                    |
| Probability of a Budget Deficit (Percent)                         |                |             |             |             |             |             |            |             |             |             |             |             |                         |                         |
| CBO's estimate of the   |                |             |             |             |             |             |            |             |             |             |             |             |                         |                         |
| President's budget  | n.a.           | 100         | 95          | 73          | 64          | 50          | 52         | c           | c           | c           | c           | c           | n.a.                    | n.a.                    |
| CBO's baseline  | n.a.           | 100         | 84          | 76          | 60          | 41          | 45         | c           | c           | c           | c           | c           | n.a.                    | n.a.                    |

Source: Congressional Budget Office.

Note: \* = between -\$500 million and zero; \*\* = between -0.05 percent and zero; GDP = gross domestic product; n.a. = not applicable.

- a. Off-budget surpluses comprise surpluses in the Social Security trust funds as well as the net cash flow of the Postal Service.
- b. Negative numbers indicate an increase relative to the baseline deficit or a decrease relative to the baseline surplus.
- c. Probabilities for years after 2013 cannot be calculated because of an insufficient history of past comparisons between projections and outcomes.

**Table 2.**  
**CBO's Estimate of the President's Budget for 2009**

|  | Actual       |              |              |              |              |              |              |              |              |              |              |              | Total,        | Total,        |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|
|  | 2007         | 2008         | 2009         | 2010         | 2011         | 2012         | 2013         | 2014         | 2015         | 2016         | 2017         | 2018         | 2009-         | 2009-         |
|  |              |              |              |              |              |              |              |              |              |              |              |              | 2013          | 2018          |
| <b>In Billions of Dollars</b>                    |              |              |              |              |              |              |              |              |              |              |              |              |               |               |
| <b>Revenues</b>                                  |              |              |              |              |              |              |              |              |              |              |              |              |               |               |
| On-budget  | 1,933        | 1,870        | 2,017        | 2,182        | 2,278        | 2,409        | 2,495        | 2,617        | 2,750        | 2,901        | 3,062        | 3,234        | 11,380        | 25,945        |
| Off-budget                                       | 635          | 667          | 682          | 718          | 762          | 806          | 847          | 885          | 926          | 970          | 1,016        | 1,063        | 3,815         | 8,674         |
| <b>Total</b>                                     | <b>2,568</b> | <b>2,537</b> | <b>2,699</b> | <b>2,900</b> | <b>3,040</b> | <b>3,215</b> | <b>3,342</b> | <b>3,503</b> | <b>3,676</b> | <b>3,871</b> | <b>4,077</b> | <b>4,297</b> | <b>15,195</b> | <b>34,619</b> |
| <b>Outlays</b>                                   |              |              |              |              |              |              |              |              |              |              |              |              |               |               |
| Mandatory spending                               | 1,451        | 1,578        | 1,653        | 1,712        | 1,810        | 1,862        | 1,997        | 2,132        | 2,286        | 2,481        | 2,603        | 2,727        | 9,034         | 21,262        |
| Discretionary spending                           | 1,042        | 1,121        | 1,171        | 1,121        | 1,082        | 1,061        | 1,069        | 1,086        | 1,110        | 1,141        | 1,163        | 1,185        | 5,504         | 11,189        |
| Net interest                                     | 237          | 234          | 217          | 249          | 277          | 293          | 297          | 304          | 310          | 314          | 314          | 312          | 1,332         | 2,885         |
| <b>Total</b>                                     | <b>2,730</b> | <b>2,933</b> | <b>3,041</b> | <b>3,082</b> | <b>3,169</b> | <b>3,215</b> | <b>3,363</b> | <b>3,522</b> | <b>3,705</b> | <b>3,935</b> | <b>4,080</b> | <b>4,224</b> | <b>15,870</b> | <b>35,336</b> |
| On-budget  | 2,277        | 2,463        | 2,542        | 2,557        | 2,624        | 2,645        | 2,763        | 2,869        | 2,993        | 3,165        | 3,262        | 3,355        | 13,131        | 28,775        |
| Off-budget                                       | 454          | 470          | 499          | 525          | 545          | 570          | 600          | 653          | 712          | 770          | 818          | 869          | 2,739         | 6,560         |
| <b>Deficit (-) or Surplus</b>                    | <b>-162</b>  | <b>-396</b>  | <b>-342</b>  | <b>-182</b>  | <b>-129</b>  | <b>*</b>     | <b>-21</b>   | <b>-20</b>   | <b>-29</b>   | <b>-64</b>   | <b>-3</b>    | <b>73</b>    | <b>-674</b>   | <b>-717</b>   |
| On-budget  | -343         | -592         | -525         | -375         | -346         | -236         | -269         | -252         | -243         | -263         | -201         | -121         | -1,751        | -2,830        |
| Off-budget                                       | 181          | 197          | 183          | 193          | 218          | 236          | 248          | 232          | 214          | 200          | 198          | 194          | 1,076         | 2,114         |
| Debt Held by the Public                          | 5,035        | 5,406        | 5,765        | 5,965        | 6,112        | 6,128        | 6,166        | 6,202        | 6,245        | 6,323        | 6,340        | 6,280        | n.a.          | n.a.          |
| <b>Memorandum:</b>                               |              |              |              |              |              |              |              |              |              |              |              |              |               |               |
| Gross Domestic Product                           | 13,671       | 14,242       | 14,773       | 15,589       | 16,490       | 17,284       | 18,077       | 18,885       | 19,713       | 20,569       | 21,457       | 22,386       | 82,213        | 185,223       |
| <b>As a Percentage of Gross Domestic Product</b> |              |              |              |              |              |              |              |              |              |              |              |              |               |               |
| <b>Revenues</b>                                  |              |              |              |              |              |              |              |              |              |              |              |              |               |               |
| On-budget  | 14.1         | 13.1         | 13.7         | 14.0         | 13.8         | 13.9         | 13.8         | 13.9         | 14.0         | 14.1         | 14.3         | 14.4         | 13.8          | 14.0          |
| Off-budget                                       | 4.6          | 4.7          | 4.6          | 4.6          | 4.6          | 4.7          | 4.7          | 4.7          | 4.7          | 4.7          | 4.7          | 4.7          | 4.6           | 4.7           |
| <b>Total</b>                                     | <b>18.8</b>  | <b>17.8</b>  | <b>18.3</b>  | <b>18.6</b>  | <b>18.4</b>  | <b>18.6</b>  | <b>18.5</b>  | <b>18.5</b>  | <b>18.6</b>  | <b>18.8</b>  | <b>19.0</b>  | <b>19.2</b>  | <b>18.5</b>   | <b>18.7</b>   |
| <b>Outlays</b>                                   |              |              |              |              |              |              |              |              |              |              |              |              |               |               |
| Mandatory spending                               | 10.6         | 11.1         | 11.2         | 11.0         | 11.0         | 10.8         | 11.0         | 11.3         | 11.6         | 12.1         | 12.1         | 12.2         | 11.0          | 11.5          |
| Discretionary spending                           | 7.6          | 7.9          | 7.9          | 7.2          | 6.6          | 6.1          | 5.9          | 5.8          | 5.6          | 5.5          | 5.4          | 5.3          | 6.7           | 6.0           |
| Net interest                                     | 1.7          | 1.6          | 1.5          | 1.6          | 1.7          | 1.7          | 1.6          | 1.6          | 1.6          | 1.5          | 1.5          | 1.4          | 1.6           | 1.6           |
| <b>Total</b>                                     | <b>20.0</b>  | <b>20.6</b>  | <b>20.6</b>  | <b>19.8</b>  | <b>19.2</b>  | <b>18.6</b>  | <b>18.6</b>  | <b>18.7</b>  | <b>18.8</b>  | <b>19.1</b>  | <b>19.0</b>  | <b>18.9</b>  | <b>19.3</b>   | <b>19.1</b>   |
| On-budget  | 16.7         | 17.3         | 17.2         | 16.4         | 15.9         | 15.3         | 15.3         | 15.2         | 15.2         | 15.4         | 15.2         | 15.0         | 16.0          | 15.5          |
| Off-budget                                       | 3.3          | 3.3          | 3.4          | 3.4          | 3.3          | 3.3          | 3.3          | 3.5          | 3.6          | 3.7          | 3.8          | 3.9          | 3.3           | 3.5           |
| <b>Deficit (-) or Surplus</b>                    | <b>-1.2</b>  | <b>-2.8</b>  | <b>-2.3</b>  | <b>-1.2</b>  | <b>-0.8</b>  | <b>**</b>    | <b>-0.1</b>  | <b>-0.1</b>  | <b>-0.1</b>  | <b>-0.3</b>  | <b>**</b>    | <b>0.3</b>   | <b>-0.8</b>   | <b>-0.4</b>   |
| On-budget  | -2.5         | -4.2         | -3.6         | -2.4         | -2.1         | -1.4         | -1.5         | -1.3         | -1.2         | -1.3         | -0.9         | -0.5         | -2.1          | -1.5          |
| Off-budget                                       | 1.3          | 1.4          | 1.2          | 1.2          | 1.3          | 1.4          | 1.4          | 1.2          | 1.1          | 1.0          | 0.9          | 0.9          | 1.3           | 1.1           |
| Debt Held by the Public                          | 36.8         | 38.0         | 39.0         | 38.3         | 37.1         | 35.5         | 34.1         | 32.8         | 31.7         | 30.7         | 29.5         | 28.1         | n.a.          | n.a.          |

Source: Congressional Budget Office.

Note: \* = between -\$500 million and zero; \*\* = between -0.05 percent and zero; n.a. = not applicable.

**Table 3.**

**CBO's Estimate of the Effect of the President's Budget on  
Baseline Deficits or Surpluses**

(Billions of dollars)

|   | 2008       | 2009        | 2010       | 2011        | 2012        | 2013        | 2014        | 2015        | 2016        | 2017        | 2018        | Total,<br>2009-<br>2013 | Total,<br>2009-<br>2018 |
|---|------------|-------------|------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------------------|-------------------------|
| Total Deficit (-) or Surplus as Projected in<br>CBO's March 2008 Baseline           | -357       | -207        | -213       | -93         | 105         | 70          | 90          | 104         | 79          | 134         | 202         | -339                    | 270                     |
| Effect of the President's Proposals   |            |             |            |             |             |             |             |             |             |             |             |                         |                         |
| Revenues  |            |             |            |             |             |             |             |             |             |             |             |                         |                         |
| Extension of expiring EGTRRA and JGTRRA provisions                                  |            |             |            |             |             |             |             |             |             |             |             |                         |                         |
| General tax rates, child tax credit, and tax brackets <sup>a</sup>                  | 0          | 0           | 0          | -96         | -152        | -155        | -158        | -162        | -167        | -171        | -176        | -403                    | -1,237                  |
| Estate and gift taxes   | 0          | -1          | -2         | -31         | -69         | -77         | -84         | -91         | -97         | -105        | -112        | -181                    | -670                    |
| Tax rates on dividends and capital gains  | 0          | *           | -2         | -18         | -21         | -42         | -43         | -45         | -47         | -49         | -51         | -82                     | -318                    |
| Expensing for small businesses  | 0          | 0           | 0          | -3          | -6          | -4          | -3          | -2          | -2          | -1          | -1          | -13                     | -23                     |
| Education, retirement, and other provisions   | 0          | 0           | 0          | -1          | -2          | -2          | -2          | -3          | -3          | -3          | -3          | -5                      | -18                     |
| Subtotal, proposed extensions   | 0          | -1          | -4         | -148        | -250        | -280        | -291        | -303        | -316        | -330        | -344        | -683                    | -2,266                  |
| Health insurance taxation and standard deduction <sup>a</sup>                       | 0          | -17         | -13        | 5           | 24          | 45          | 46          | 56          | 75          | 94          | 115         | 43                      | 429                     |
| Research and experimentation tax credit   | -3         | -5          | -6         | -8          | -9          | -10         | -11         | -12         | -13         | -15         | -16         | -38                     | -105                    |
| Air transportation taxes  | 0          | 0           | -7         | -8          | -9          | -9          | -10         | -10         | -11         | -11         | -12         | -33                     | -87                     |
| AMT extension   | -6         | -70         | 15         | 0           | 0           | 0           | 0           | 0           | 0           | 0           | 0           | -55                     | -55                     |
| Other proposals <sup>a</sup>  | *          | -1          | -1         | -1          | -5          | -3          | -1          | -1          | -2          | -2          | -2          | -12                     | -21                     |
| <b>Total Effect on Revenues</b>   | <b>-9</b>  | <b>-94</b>  | <b>-16</b> | <b>-161</b> | <b>-248</b> | <b>-258</b> | <b>-268</b> | <b>-271</b> | <b>-267</b> | <b>-263</b> | <b>-258</b> | <b>-777</b>             | <b>-2,105</b>           |
| Outlays   |            |             |            |             |             |             |             |             |             |             |             |                         |                         |
| Mandatory   |            |             |            |             |             |             |             |             |             |             |             |                         |                         |
| Medicare  | *          | -9          | -23        | -34         | -40         | -46         | -52         | -58         | -65         | -73         | -81         | -151                    | -481                    |
| Social Security individual accounts   | 0          | 0           | 0          | 0           | 1           | 1           | 23          | 47          | 67          | 72          | 78          | 2                       | 287                     |
| Earned income and child tax credits   | 0          | 3           | 1          | *           | 20          | 19          | 18          | 17          | 17          | 16          | 16          | 42                      | 126                     |
| Medicaid and SCHIP  | *          | -2          | -1         | -2          | -3          | -3          | -3          | -3          | -2          | -2          | -2          | -11                     | -24                     |
| PBG C premiums  | 0          | *           | -2         | -2          | -2          | -2          | -2          | -2          | -2          | -2          | -2          | -9                      | -19                     |
| Social Services Block Grant   | 0          | 0           | -1         | -2          | -2          | -2          | -2          | -2          | -2          | -2          | -2          | -7                      | -15                     |
| Other proposals   | 1          | -1          | -1         | -3          | -1          | -1          | -2          | *           | -1          | -3          | -4          | -8                      | -18                     |
| Subtotal, mandatory   | 1          | -11         | -28        | -43         | -27         | -34         | -20         | *           | 11          | 6           | 2           | -143                    | -143                    |
| Discretionary   |            |             |            |             |             |             |             |             |             |             |             |                         |                         |
| Defense   | 28         | 50          | -2         | -48         | -71         | -81         | -85         | -88         | -90         | -92         | -94         | -151                    | -599                    |
| Nondefense  | 1          | -1          | -23        | -41         | -56         | -68         | -74         | -76         | -79         | -82         | -84         | -189                    | -583                    |
| Subtotal, discretionary   | 29         | 49          | -25        | -89         | -127        | -148        | -159        | -164        | -169        | -173        | -178        | -340                    | -1,183                  |
| Net interest  | *          | 3           | 5          | 7           | 11          | 15          | 21          | 27          | 33          | 40          | 46          | 41                      | 207                     |
| <b>Total Effect on Outlays</b>  | <b>30</b>  | <b>41</b>   | <b>-48</b> | <b>-125</b> | <b>-143</b> | <b>-167</b> | <b>-158</b> | <b>-138</b> | <b>-125</b> | <b>-127</b> | <b>-129</b> | <b>-442</b>             | <b>-1,119</b>           |
| <b>Total Impact on the Deficit or Surplus<sup>b</sup></b>                           | <b>-39</b> | <b>-136</b> | <b>31</b>  | <b>-35</b>  | <b>-105</b> | <b>-91</b>  | <b>-110</b> | <b>-133</b> | <b>-143</b> | <b>-136</b> | <b>-129</b> | <b>-336</b>             | <b>-987</b>             |
| Total Deficit (-) or Surplus<br>Under the President's Proposals                     | -396       | -342        | -182       | -129        | *           | -21         | -20         | -29         | -64         | -3          | 73          | -674                    | -717                    |
| <b>Memorandum:</b>  |            |             |            |             |             |             |             |             |             |             |             |                         |                         |
| Total Deficit (-) or Surplus Under the President's<br>Proposals as Estimated by OMB | -410       | -407        | -160       | -95         | 48          | 29          | n.a.        | n.a.        | n.a.        | n.a.        | n.a.        | -585                    | n.a.                    |

Sources: Congressional Budget Office; Joint Committee on Taxation.

Note: \* = between -\$500 million and \$500 million; EGTRRA = Economic Growth and Tax Relief Reconciliation Act of 2001; JGTRRA = Jobs and Growth Tax Relief Reconciliation Act of 2003; AMT = alternative minimum tax; SCHIP = State Children's Health Insurance Program; PBGC = Pension Benefit Guaranty Corporation; OMB = Office of Management and Budget.

- a. The estimates shown include the effect on revenues only; however, refundable earned income and child tax credits are also affected and shown in the outlay section of the table.
- b. Negative numbers indicate an increase in the deficit or a decrease in the surplus.

**Table 4.**

**Proposed Changes in Discretionary Budget Authority in the President's Budget, 2007 to 2009**

(Billions of dollars)

|  | Actual<br>2007 | Administration's Request |       | Percentage Change |           |
|--|----------------|--------------------------|-------|-------------------|-----------|
|  |                | 2008                     | 2009  | 2007-2008         | 2008-2009 |
| Budget Authority   |                |                          |       |                   |           |
| Defense  | 622            | 690 <sup>a</sup>         | 608   | 10.8              | -11.9     |
| Nondefense   |                |                          |       |                   |           |
| Homeland security <sup>b</sup>   | 32             | 35 <sup>a</sup>          | 37    | 7.9               | 7.8       |
| Other  | 418            | 429 <sup>a</sup>         | 422   | 2.6               | -1.6      |
| Subtotal, nondefense   | 450            | 464 <sup>a</sup>         | 460   | 3.0               | -0.9      |
| <b>Total</b>   | 1,073          | 1,153 <sup>a</sup>       | 1,067 | 7.5               | -7.5      |
| Budget Authority, Excluding Funding for Operations in Iraq and Afghanistan and Other Activities Related to the War on Terrorism <sup>c</sup> |                |                          |       |                   |           |
| Defense  | 457            | 502                      | 538   | 9.8               | 7.2       |
| Nondefense   |                |                          |       |                   |           |
| Homeland security <sup>b</sup>   | 32             | 35                       | 37    | 7.9               | 7.8       |
| Other  | 412            | 424                      | 422   | 2.8               | -0.5      |
| Subtotal, nondefense   | 445            | 459                      | 460   | 3.2               | 0.2       |
| <b>Total</b>   | 902            | 961                      | 997   | 6.5               | 3.8       |

Source: Congressional Budget Office.

Note: These numbers do not include obligation limitations for certain transportation programs.

- a. Includes the Administration's request totaling \$108 billion for supplemental appropriations to fund military operations in Iraq and Afghanistan and various other programs.
- b. CBO's classification of homeland security funding is based on designations established by the Administration. Those designations are not limited to the activities of the Department of Homeland Security. In fact, some of the department's activities (such as disaster relief) are not included in the Administration's definition of homeland security, whereas non-departmental activities (such as some defense-related programs and some funding for the National Institutes of Health) fall within that definition. About 55 percent of all spending considered to be for homeland security is for activities outside the Department of Homeland Security.
- c. In 2007, the Congress and the President provided \$170 billion in funding for military operations in Iraq and Afghanistan and for activities related to the war on terrorism. Thus far in 2008, \$88 billion in funding has been provided for operations in Iraq and Afghanistan. In his 2009 budget, the President requests another \$108 billion in supplemental funding for 2008 and \$70 billion for 2009 for operations in Iraq and Afghanistan and for the war on terrorism.

**Table 5.**

**Changes in CBO's Baseline Projections of the Deficit or Surplus Since January 2008**

(Billions of dollars)

|  | 2008        | 2009       | 2010       | 2011       | 2012       | 2013       | 2014       | 2015       | 2016       | 2017       | 2018       | Total,<br>2009-<br>2013 | Total,<br>2009-<br>2018 |
|--|-------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|-------------------------|-------------------------|
| Total Deficit (-) or Surplus as<br>Projected in January 2008 | -219        | -198       | -241       | -117       | 87         | 61         | 96         | 117        | 95         | 151        | 223        | -408                    | 274                     |
| <b>Changes to Revenue Projections</b>                        |             |            |            |            |            |            |            |            |            |            |            |                         |                         |
| Legislative  | -114        | -12        | 12         | 9          | 8          | 6          | 4          | 2          | 1          | 1          | 1          | 22                      | 31                      |
| Economic   | -1          | -15        | -6         | 8          | 12         | 9          | 5          | 5          | 6          | 6          | 7          | 7                       | 36                      |
| Technical  | 6           | 3          | 4          | 2          | 1          | *          | -1         | -1         | *          | *          | -1         | 11                      | 8                       |
| <b>Total Revenue Changes</b>                                 | <b>-108</b> | <b>-24</b> | <b>9</b>   | <b>19</b>  | <b>21</b>  | <b>15</b>  | <b>8</b>   | <b>6</b>   | <b>7</b>   | <b>7</b>   | <b>8</b>   | <b>40</b>               | <b>76</b>               |
| <b>Changes to Outlay Projections</b>                         |             |            |            |            |            |            |            |            |            |            |            |                         |                         |
| Legislative  |             |            |            |            |            |            |            |            |            |            |            |                         |                         |
| Mandatory  |             |            |            |            |            |            |            |            |            |            |            |                         |                         |
| Refundable tax credits                                       | 38          | 4          | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 4                       | 4                       |
| Other  | *           | *          | *          | *          | *          | *          | *          | *          | *          | *          | *          | *                       | *                       |
| Subtotal, mandatory  | 38          | 4          | *          | *          | *          | *          | *          | *          | *          | *          | *          | 4                       | 4                       |
| Discretionary  | *           | *          | *          | *          | *          | *          | *          | *          | *          | *          | *          | 2                       | 3                       |
| Net interest (Debt service)                                  | 1           | 4          | 6          | 7          | 7          | 7          | 8          | 8          | 8          | 9          | 9          | 31                      | 73                      |
| <b>Subtotal, legislative</b>                                 | <b>39</b>   | <b>8</b>   | <b>6</b>   | <b>7</b>   | <b>7</b>   | <b>8</b>   | <b>8</b>   | <b>8</b>   | <b>9</b>   | <b>9</b>   | <b>10</b>  | <b>37</b>               | <b>80</b>               |
| Economic   |             |            |            |            |            |            |            |            |            |            |            |                         |                         |
| Mandatory  |             |            |            |            |            |            |            |            |            |            |            |                         |                         |
| Medicare <sup>a</sup>  | *           | -1         | -2         | -2         | -2         | -3         | -3         | -4         | -5         | -5         | -6         | -10                     | -34                     |
| Social Security  | 0           | 0          | -2         | -4         | -4         | -4         | -4         | -3         | -3         | -2         | -2         | -14                     | -28                     |
| Other  | -1          | -1         | -2         | -3         | -2         | -2         | -2         | -2         | -2         | -1         | -1         | -11                     | -19                     |
| Subtotal, mandatory  | -1          | -2         | -6         | -9         | -9         | -9         | -9         | -9         | -9         | -9         | -10        | -36                     | -81                     |
| Discretionary  | 0           | -1         | -1         | -1         | *          | *          | *          | *          | *          | *          | *          | -4                      | -4                      |
| Net interest   |             |            |            |            |            |            |            |            |            |            |            |                         |                         |
| Debt service   | *           | *          | -2         | -3         | -5         | -7         | -8         | -10        | -11        | -12        | -14        | -18                     | -73                     |
| Rate effect/inflation  | -10         | -31        | -25        | -19        | -9         | -7         | -5         | -3         | -2         | -2         | -2         | -92                     | -106                    |
| Subtotal, net interest                                       | -10         | -32        | -27        | -22        | -15        | -14        | -13        | -13        | -13        | -15        | -16        | -109                    | -180                    |
| <b>Subtotal, economic</b>                                    | <b>-10</b>  | <b>-35</b> | <b>-34</b> | <b>-32</b> | <b>-24</b> | <b>-24</b> | <b>-23</b> | <b>-21</b> | <b>-22</b> | <b>-24</b> | <b>-26</b> | <b>-149</b>             | <b>-265</b>             |

Continued

**Table 5.**  
**Continued**

(Billions of dollars)

|   | 2008        | 2009       | 2010       | 2011      | 2012      | 2013      | 2014      | 2015       | 2016       | 2017       | 2018       | Total,<br>2009-<br>2013 | Total,<br>2009-<br>2018 |
|---|-------------|------------|------------|-----------|-----------|-----------|-----------|------------|------------|------------|------------|-------------------------|-------------------------|
| Changes to Outlay Projections (Continued)                 |             |            |            |           |           |           |           |            |            |            |            |                         |                         |
| Technical   |             |            |            |           |           |           |           |            |            |            |            |                         |                         |
| Mandatory   |             |            |            |           |           |           |           |            |            |            |            |                         |                         |
| Medicare <sup>a</sup>                                     | 1           | 5          | 8          | 13        | 12        | 16        | 20        | 23         | 26         | 26         | 26         | 56                      | 177                     |
| Veterans' benefits and services                           | 1           | 1          | 1          | 2         | 2         | 2         | 2         | 2          | 2          | 2          | 2          | 8                       | 18                      |
| Spectrum auction and OCS receipts                         | -11         | 1          | -1         | *         | -1        | -1        | -1        | -1         | -1         | -1         | -1         | -2                      | -5                      |
| Other   | -1          | 2          | 1          | 1         | 1         | *         | 1         | *          | *          | *          | 2          | 5                       | 8                       |
| Subtotal, mandatory                                       | -10         | 9          | 9          | 16        | 14        | 18        | 22        | 25         | 28         | 28         | 29         | 66                      | 198                     |
| Discretionary   | 3           | 2          | 2          | 2         | 1         | 1         | 1         | 1          | 1          | 1          | 3          | 8                       | 16                      |
| Net interest  |             |            |            |           |           |           |           |            |            |            |            |                         |                         |
| Debt service  | *           | *          | *          | 1         | 3         | 4         | 5         | 7          | 9          | 11         | 13         | 8                       | 54                      |
| Other   | 8           | 1          | -2         | 1         | 1         | -1        | -1        | -1         | -2         | -2         | *          | 1                       | -4                      |
| Subtotal, net interest                                    | 8           | 1          | -2         | 3         | 4         | 3         | 5         | 6          | 7          | 9          | 13         | 9                       | 49                      |
| <b>Subtotal, technical</b>                                | <b>1</b>    | <b>11</b>  | <b>9</b>   | <b>21</b> | <b>20</b> | <b>22</b> | <b>28</b> | <b>32</b>  | <b>36</b>  | <b>38</b>  | <b>44</b>  | <b>83</b>               | <b>263</b>              |
| <b>Total Outlay Changes</b>                               | <b>30</b>   | <b>-16</b> | <b>-18</b> | <b>-5</b> | <b>3</b>  | <b>6</b>  | <b>14</b> | <b>19</b>  | <b>23</b>  | <b>24</b>  | <b>29</b>  | <b>-29</b>              | <b>79</b>               |
| <b>Total Impact on the Deficit or Surplus<sup>b</sup></b> | <b>-138</b> | <b>-8</b>  | <b>28</b>  | <b>24</b> | <b>18</b> | <b>9</b>  | <b>-6</b> | <b>-13</b> | <b>-16</b> | <b>-17</b> | <b>-21</b> | <b>69</b>               | <b>-4</b>               |
| Total Deficit (-) or Surplus as Projected in March 2008   | -357        | -207       | -213       | -93       | 105       | 70        | 90        | 104        | 79         | 134        | 202        | -339                    | 270                     |
| <b>Memorandum:</b>  |             |            |            |           |           |           |           |            |            |            |            |                         |                         |
| Total Legislative Changes <sup>b</sup>                    | -153        | -20        | 5          | 2         | *         | -2        | -4        | -6         | -7         | -8         | -9         | -15                     | -49                     |
| Total Economic Changes <sup>b</sup>                       | 10          | 20         | 27         | 41        | 36        | 32        | 27        | 26         | 28         | 30         | 33         | 156                     | 300                     |
| Total Technical Changes <sup>b</sup>                      | 5           | -8         | -5         | -19       | -18       | -22       | -29       | -33        | -37        | -39        | -45        | -72                     | -255                    |

Source: Congressional Budget Office.

Note: \* = between -\$500 million and \$500 million; OCS = Outer Continental Shelf.

a. Includes offsetting receipts.

b. Negative numbers indicate an increase in the deficit or a decrease in the surplus.

**Table 6.**

**CBO's Current and Previous Economic Projections for Calendar Years  
2008 to 2018**

|   | Actual<br>2007 | Forecast |        | Projected Annual Average |                     |
|---|----------------|----------|--------|--------------------------|---------------------|
|   |                | 2008     | 2009   | 2010 to 2013             | 2014 to 2018        |
| Nominal GDP (Billions of dollars)                     |                |          |        |                          |                     |
| February 2008   | 13,843         | 14,358   | 14,946 | 18,278 <sup>a</sup>      | 22,625 <sup>b</sup> |
| January 2008  | 13,828         | 14,330   | 14,997 | 18,243 <sup>a</sup>      | 22,593 <sup>b</sup> |
| Nominal GDP (Percentage change)                       |                |          |        |                          |                     |
| February 2008   | 4.9            | 3.7      | 4.1    | 5.2                      | 4.4                 |
| January 2008  | 4.8            | 3.6      | 4.7    | 5.0                      | 4.4                 |
| Real GDP (Percentage change)                          |                |          |        |                          |                     |
| February 2008   | 2.2            | 1.9      | 2.3    | 3.2                      | 2.5                 |
| January 2008  | 2.2            | 1.7      | 2.8    | 3.1                      | 2.5                 |
| GDP Price Index (Percentage change)                   |                |          |        |                          |                     |
| February 2008   | 2.7            | 1.8      | 1.7    | 1.9                      | 1.9                 |
| January 2008  | 2.5            | 1.9      | 1.8    | 1.9                      | 1.9                 |
| Consumer Price Index <sup>c</sup> (Percentage change) |                |          |        |                          |                     |
| February 2008   | 2.9            | 2.8      | 1.9    | 2.1                      | 2.2                 |
| January 2008  | 2.8            | 2.9      | 2.3    | 2.2                      | 2.2                 |
| Unemployment Rate (Percent)                           |                |          |        |                          |                     |
| February 2008   | 4.6            | 5.2      | 5.5    | 4.9                      | 4.8                 |
| January 2008  | 4.6            | 5.1      | 5.4    | 4.9                      | 4.8                 |
| Three-Month Treasury Bill Rate (Percent)              |                |          |        |                          |                     |
| February 2008   | 4.4            | 2.1      | 2.4    | 4.6                      | 4.7                 |
| January 2008  | 4.4            | 3.2      | 4.2    | 4.6                      | 4.7                 |
| Ten-Year Treasury Note Rate (Percent)                 |                |          |        |                          |                     |
| February 2008   | 4.6            | 3.6      | 3.8    | 5.1                      | 5.2                 |
| January 2008  | 4.6            | 4.2      | 4.9    | 5.2                      | 5.2                 |
| Tax Bases (Billions of dollars)                       |                |          |        |                          |                     |
| Economic profits                                      |                |          |        |                          |                     |
| February 2008   | 1,601          | 1,588    | 1,588  | 1,831 <sup>a</sup>       | 2,310 <sup>b</sup>  |
| January 2008  | 1,599          | 1,620    | 1,649  | 1,842 <sup>a</sup>       | 2,320 <sup>b</sup>  |
| Wages and salaries                                    |                |          |        |                          |                     |
| February 2008   | 6,367          | 6,651    | 6,936  | 8,421 <sup>a</sup>       | 10,364 <sup>b</sup> |
| January 2008  | 6,368          | 6,615    | 6,913  | 8,401 <sup>a</sup>       | 10,354 <sup>b</sup> |
| Tax Bases (Percentage of GDP)                         |                |          |        |                          |                     |
| Economic profits                                      |                |          |        |                          |                     |
| February 2008   | 11.6           | 11.1     | 10.6   | 10.2                     | 10.0                |
| January 2008  | 11.6           | 11.3     | 11.0   | 10.3                     | 10.1                |
| Wages and salaries                                    |                |          |        |                          |                     |
| February 2008   | 46.0           | 46.3     | 46.4   | 46.2                     | 45.9                |
| January 2008  | 46.0           | 46.2     | 46.1   | 46.1                     | 45.9                |
| <b>Memorandum:</b>                                    |                |          |        |                          |                     |
| Real Potential GDP (Percentage change)                |                |          |        |                          |                     |
| February 2008   | 2.8            | 2.8      | 2.7    | 2.6                      | 2.5                 |
| January 2008  | 2.8            | 2.8      | 2.7    | 2.6                      | 2.5                 |

Sources: Congressional Budget Office; Department of Commerce, Bureau of Economic Analysis; Department of Labor, Bureau of Labor Statistics; Federal Reserve Board.

Note: GDP = gross domestic product; percentage changes are measured from one year to the next.

a. Level in 2013.

b. Level in 2018.

c. The consumer price index for all urban consumers.