



September 23, 2004

Honorable John M. Spratt Jr.
Ranking Member
Committee on the Budget
U.S. House of Representatives
Washington, DC 20515

Dear Congressman:

As requested in your letter of September 14, 2004, the Congressional Budget Office has estimated the effect on its most recent baseline projections of the policy alternatives that you specified. The attached table shows CBO's estimate of revenues, outlays, the total budget deficit, and debt held by the public incorporating the following adjustments to its September 2004 baseline:

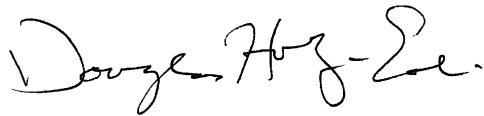
- C Assume enactment of the revenue policies proposed in the President's budget for fiscal year 2005;
- C Assume that the exemption amount for the alternative minimum tax (AMT) is extended at the level in effect for 2004 and, together with the AMT tax brackets, is indexed for inflation after 2004;
- C For discretionary programs other than those under the jurisdiction of the Defense Appropriations Subcommittee, adopt the levels of budget authority proposed in the President's budget for 2005 through 2009 and the extrapolation of that budget authority through 2014 as presented in CBO's *Analysis of the President's Budgetary Proposals for Fiscal Year 2005* (March 2004); and

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- C For defense appropriations, incorporate the 2005 funding enacted in August (Public Law 108-287) and assume the levels of budget authority proposed by the President for 2006 through 2009 (extrapolated through 2014). In addition, incorporate the estimate from Table 1-6 of *The Budget and Economic Outlook: An Update* (September 2004) regarding a slowdown in spending for military activities in Iraq and Afghanistan.¹

If you would like further details on the information provided with this letter, we would be pleased to provide them. The staff contact is Jeff Holland.

Sincerely,



Douglas Holtz-Eakin
Director

Attachment

cc: Honorable Jim Nussle
Chairman

Honorable Don Nickles
Chairman
Senate Committee on the Budget

Honorable Kent Conrad
Ranking Member

1. The figures for spending related to military activities in Iraq and Afghanistan assume that such activities slow gradually instead of continuing over the next 10 years at the level funded for 2004 adjusted for inflation, as assumed in the baseline. See pages 14-15 of *The Budget and Economic Outlook: An Update* (September 2004) for more details on that assumption.

**Budgetary Projections Incorporating the Assumptions Specified by Congressman Spratt
in his Letter of September 14, 2004**

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total, 2005- 2009	Total, 2005- 2014
In Billions of Dollars													
Revenues ^a	1,871	2,065	2,222	2,344	2,461	2,582	2,718	2,823	2,958	3,097	3,244	11,673	26,514
Outlays													
Discretionary spending ^b	888	940	946	958	977	991	1,004	1,027	1,042	1,070	1,096	4,812	10,052
Mandatory spending ^a	1,247	1,299	1,370	1,451	1,533	1,625	1,717	1,828	1,919	2,053	2,186	7,278	16,981
Net interest	159	178	218	257	283	305	324	341	361	380	402	1,241	3,049
Total	2,293	2,418	2,534	2,665	2,793	2,922	3,044	3,197	3,322	3,503	3,684	13,332	30,081
Deficit	-422	-353	-312	-321	-333	-339	-326	-374	-364	-406	-439	-1,658	-3,567
Debt Held by the Public	4,334	4,699	5,027	5,361	5,706	6,058	6,397	6,782	7,157	7,575	8,027	n.a.	n.a.
As a Percentage of GDP													
Revenues ^a	16.2	16.8	17.2	17.3	17.4	17.4	17.5	17.4	17.5	17.5	17.6	17.2	17.4
Outlays													
Discretionary spending ^b	7.7	7.6	7.3	7.1	6.9	6.7	6.5	6.3	6.2	6.1	5.9	7.1	6.6
Mandatory spending ^a	10.8	10.6	10.6	10.7	10.8	10.9	11.1	11.3	11.3	11.6	11.9	10.7	11.1
Net interest	1.4	1.4	1.7	1.9	2.0	2.1	2.1	2.1	2.1	2.1	2.2	1.8	2.0
Total	19.8	19.6	19.6	19.7	19.7	19.7	19.6	19.7	19.6	19.8	20.0	19.7	19.7
Deficit	-3.6	-2.9	-2.4	-2.4	-2.3	-2.3	-2.1	-2.3	-2.1	-2.3	-2.4	-2.4	-2.3
Debt Held by the Public	37.5	38.2	38.9	39.6	40.3	40.8	41.2	41.8	42.3	42.9	43.5	n.a.	n.a.
Memorandum:													
Deficit in CBO's Baseline													
In billions of dollars	-422	-348	-298	-308	-318	-312	-298	-200	-70	-75	-65	-1,584	-2,294
As a percentage of GDP	-3.6	-2.8	-2.3	-2.3	-2.2	-2.1	-1.9	-1.2	-0.4	-0.4	-0.4	-2.3	-1.5
Debt Held by the Public in CBO's Baseline													
In billions of dollars	4,334	4,694	5,009	5,329	5,660	5,984	6,295	6,506	6,588	6,675	6,753	n.a.	n.a.
As a percentage of GDP	37.5	38.2	38.8	39.4	39.9	40.3	40.5	40.1	38.9	37.8	36.6	n.a.	n.a.

SOURCE: Congressional Budget Office.

- a. Assumes enactment of revenue proposals contained in the President's budget for fiscal year 2005 and that the current exemption amount for the Alternative Minimum Tax is extended and, together with the AMT tax brackets, is indexed for inflation after 2004. Several of the proposals affect estimates of refundable tax credits, which are incorporated into the projections for mandatory spending.
- b. Reflects all discretionary budget authority enacted to date for fiscal years 2004 and 2005. Future funding is assumed at the levels proposed in the President's budget for 2005. (Since the Administration's budget only extended through 2009, CBO extrapolated such levels through 2014.) Discretionary outlays also include spending to reflect potential costs of military operations in Iraq and Afghanistan (see Table 1-6 in The Budget and Economic Outlook: An Update, September 2004).