

# **CBO TESTIMONY**

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**Statement of  
Douglas Holtz-Eakin  
Director**

**The Budget and Economic Outlook: An Update**

**before the  
Committee on the Budget  
U.S. House of Representatives**

**September 8, 2004**

*The statement by CBO Director Douglas Holtz-Eakin was based on CBO's report The Budget and Economic Outlook: An Update. The report itself served as CBO's written submission.*



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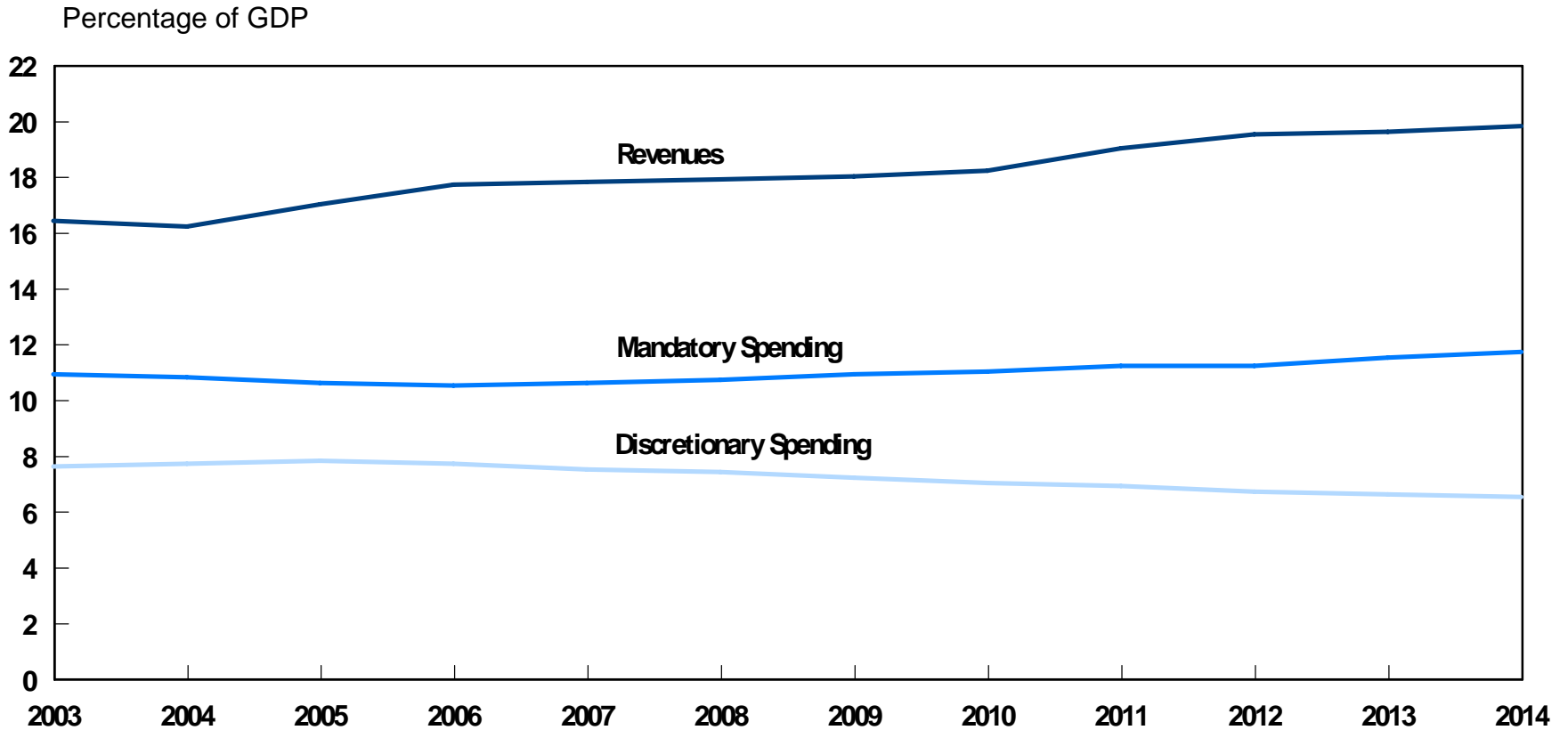


# CBO's Baseline Budget Outlook

	Actual 2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total, 2005- 2009	Total, 2005- 2014
<b>In Billions of Dollars</b>														
Total Revenues	1,782	1,871	2,094	2,279	2,406	2,531	2,673	2,821	3,077	3,308	3,471	3,648	11,983	28,308
Total Outlays	2,158	2,293	2,442	2,577	2,714	2,849	2,985	3,119	3,276	3,378	3,547	3,713	13,568	30,601
<b>Total Deficit</b>	<b>-375</b>	<b>-422</b>	<b>-348</b>	<b>-298</b>	<b>-308</b>	<b>-318</b>	<b>-312</b>	<b>-298</b>	<b>-200</b>	<b>-70</b>	<b>-75</b>	<b>-65</b>	<b>-1,584</b>	<b>-2,294</b>
Debt Held by the Public	3,914	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.
<b>As a Percentage of GDP</b>														
Total Revenues	16.4	16.2	17.0	17.7	17.8	17.9	18.0	18.2	19.0	19.5	19.6	19.8	17.7	18.6
Total Outlays	19.9	19.8	19.8	20.0	20.1	20.1	20.1	20.1	20.2	20.0	20.1	20.1	20.0	20.1
<b>Total Deficit</b>	<b>-3.5</b>	<b>-3.6</b>	<b>-2.8</b>	<b>-2.3</b>	<b>-2.3</b>	<b>-2.2</b>	<b>-2.1</b>	<b>-1.9</b>	<b>-1.2</b>	<b>-0.4</b>	<b>-0.4</b>	<b>-0.4</b>	<b>-2.3</b>	<b>-1.5</b>
Debt Held by the Public	36.1	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.



# CBO's Baseline Budget Projections of Revenues and Mandatory and Discretionary Spending





# CBO's Baseline Budget Projections (Percentage of GDP)

	Actual												2005-	2005-
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2009	2014
<b>Revenues</b>														
Individual income taxes	7.3	7.0	7.5	8.0	8.2	8.3	8.6	8.9	9.7	10.2	10.4	10.6	8.1	9.2
Corporate income taxes	1.2	1.6	1.8	1.9	1.9	1.8	1.7	1.7	1.6	1.6	1.6	1.5	1.8	1.7
Social insurance taxes	6.6	6.3	6.4	6.5	6.5	6.5	6.5	6.4	6.4	6.4	6.4	6.4	6.5	6.5
Other	1.3	1.3	1.2	1.3	1.2	1.3	1.2	1.2	1.2	1.3	1.3	1.3	1.2	1.2
<b>Total</b>	<b>16.4</b>	<b>16.2</b>	<b>17.0</b>	<b>17.7</b>	<b>17.8</b>	<b>17.9</b>	<b>18.0</b>	<b>18.2</b>	<b>19.0</b>	<b>19.5</b>	<b>19.6</b>	<b>19.8</b>	<b>17.7</b>	<b>18.6</b>
<b>Outlays</b>														
Discretionary spending	7.6	7.7	7.8	7.7	7.5	7.4	7.2	7.0	6.9	6.7	6.6	6.5	7.5	7.1
Mandatory spending	10.9	10.8	10.6	10.5	10.6	10.7	10.9	11.0	11.2	11.2	11.5	11.7	10.7	11.1
Net interest	1.4	1.4	1.4	1.7	1.9	2.0	2.0	2.1	2.0	2.0	1.9	1.9	1.8	1.9
<b>Total</b>	<b>19.9</b>	<b>19.8</b>	<b>19.8</b>	<b>20.0</b>	<b>20.1</b>	<b>20.1</b>	<b>20.1</b>	<b>20.1</b>	<b>20.2</b>	<b>20.0</b>	<b>20.1</b>	<b>20.1</b>	<b>20.0</b>	<b>20.1</b>
<b>Deficit</b>	<b>-3.5</b>	<b>-3.6</b>	<b>-2.8</b>	<b>-2.3</b>	<b>-2.3</b>	<b>-2.2</b>	<b>-2.1</b>	<b>-1.9</b>	<b>-1.2</b>	<b>-0.4</b>	<b>-0.4</b>	<b>-0.4</b>	<b>-2.3</b>	<b>-1.5</b>
Debt Held by the Public	36.1	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.

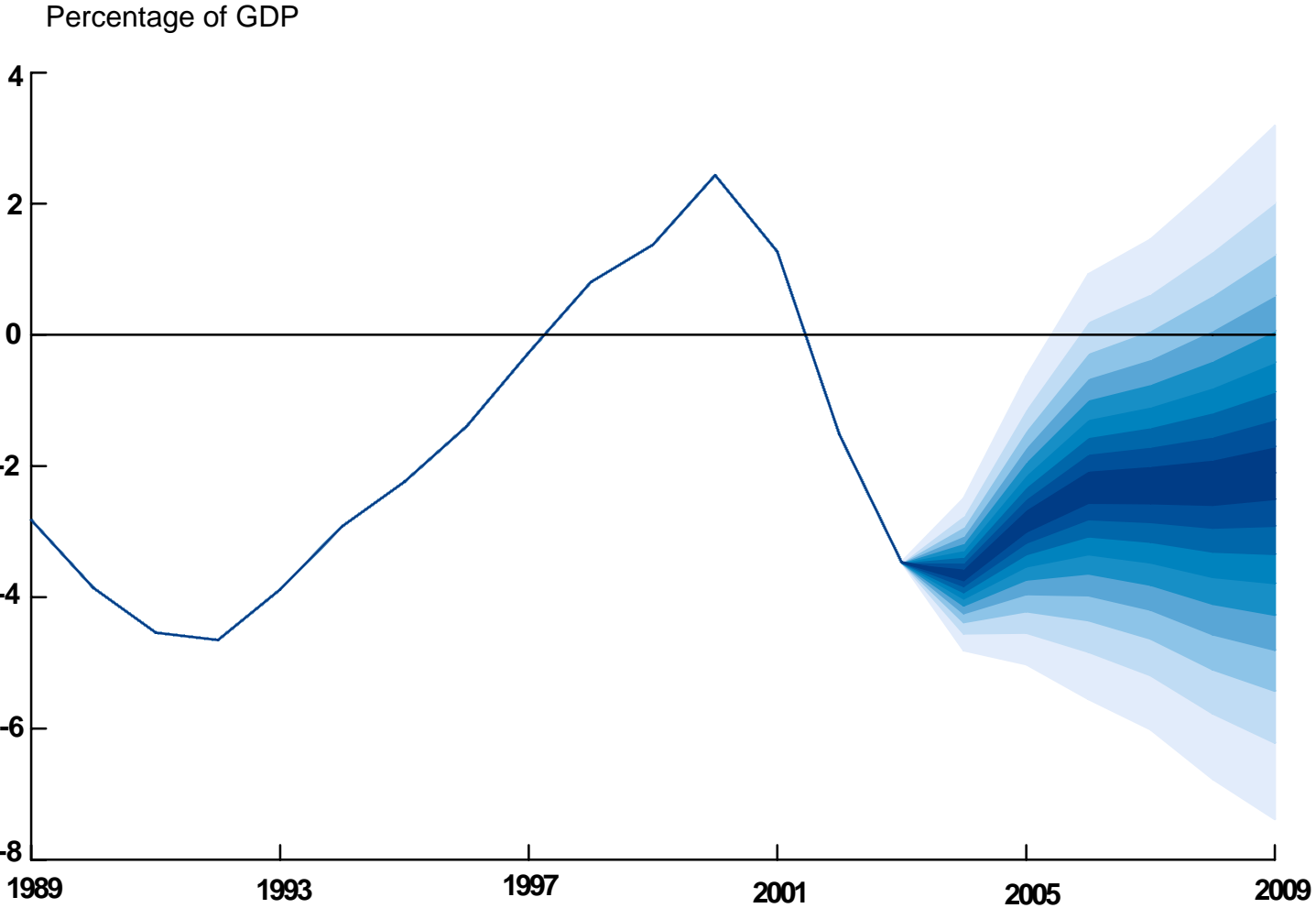


# CBO's Economic Projections for Calendar Years 2004 Through 2014

	Actual	Forecast		Projected Annual Average	
	2003	2004	2005	2006-2009	2010-2014
Nominal GDP (Percentage change)	4.9	6.8	6.1	4.8	4.4
Real GDP (Percentage change)	3.0	4.5	4.1	3.0	2.6
GDP Price Index (Percentage change)	1.8	2.2	1.8	1.7	1.8
Consumer Price Index (Percentage change)	2.3	2.6	2.0	2.2	2.2
Unemployment Rate (Percent)	6.0	5.6	5.2	5.2	5.2
Three-Month Treasury Bill Rate (Percent)	1.0	1.3	2.6	4.5	4.6
Ten-Year Treasury Note Rate (Percent)	4.0	4.6	5.4	5.5	5.5
Tax Bases (Percentage of GDP)					
Corporate book profits	7.9	8.9	11.7	10.0	9.1
Wages and salaries	46.4	45.7	45.8	46.1	46.1



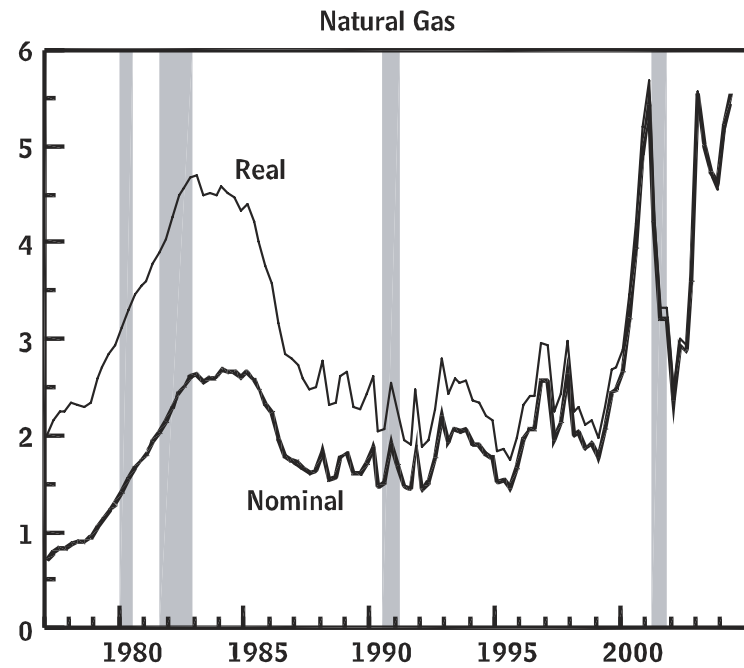
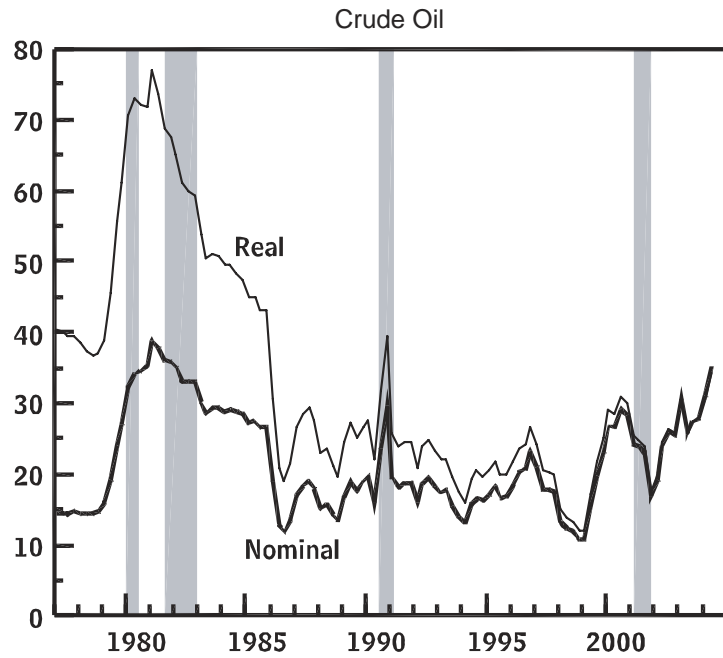
# Uncertainty of CBO's Projections of the Budget Deficit or Surplus Under Current Policies





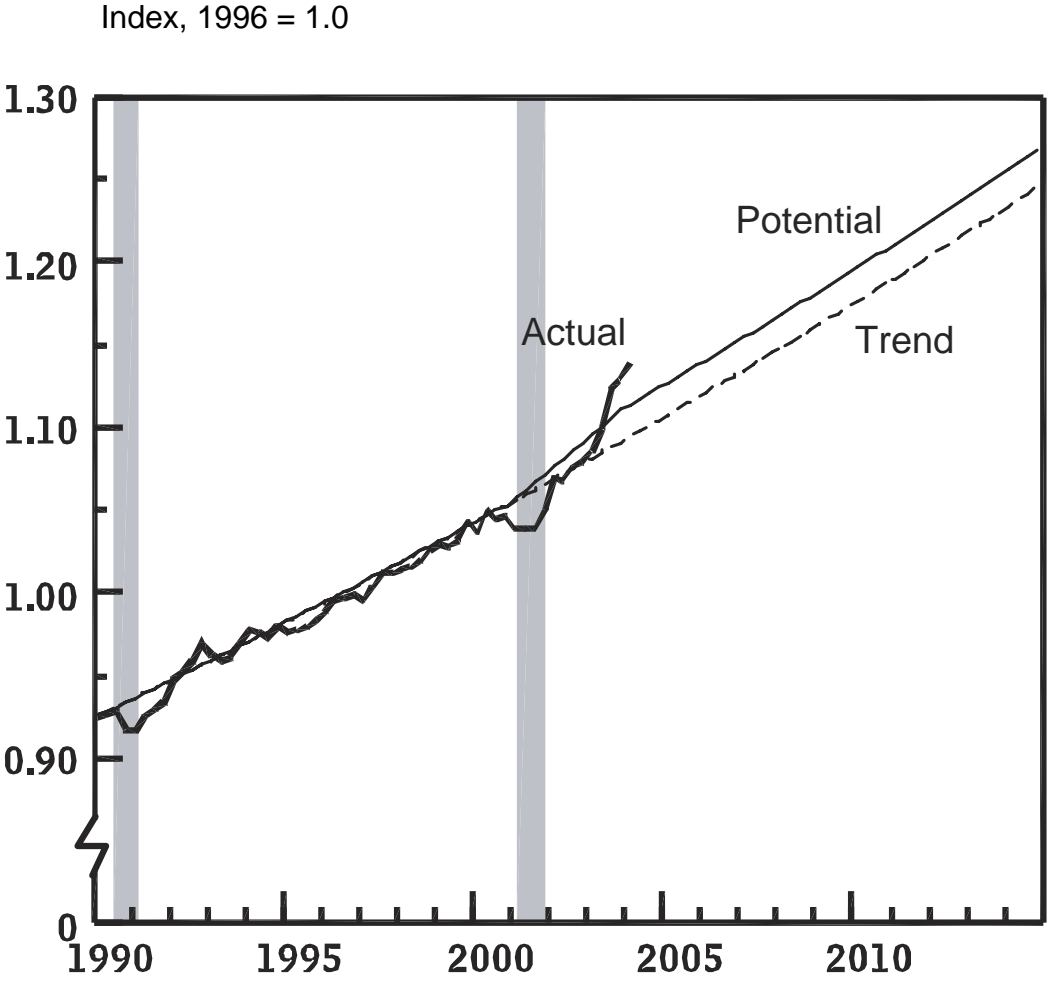
# Energy Prices

Dollars per unit





# Total Factor Productivity





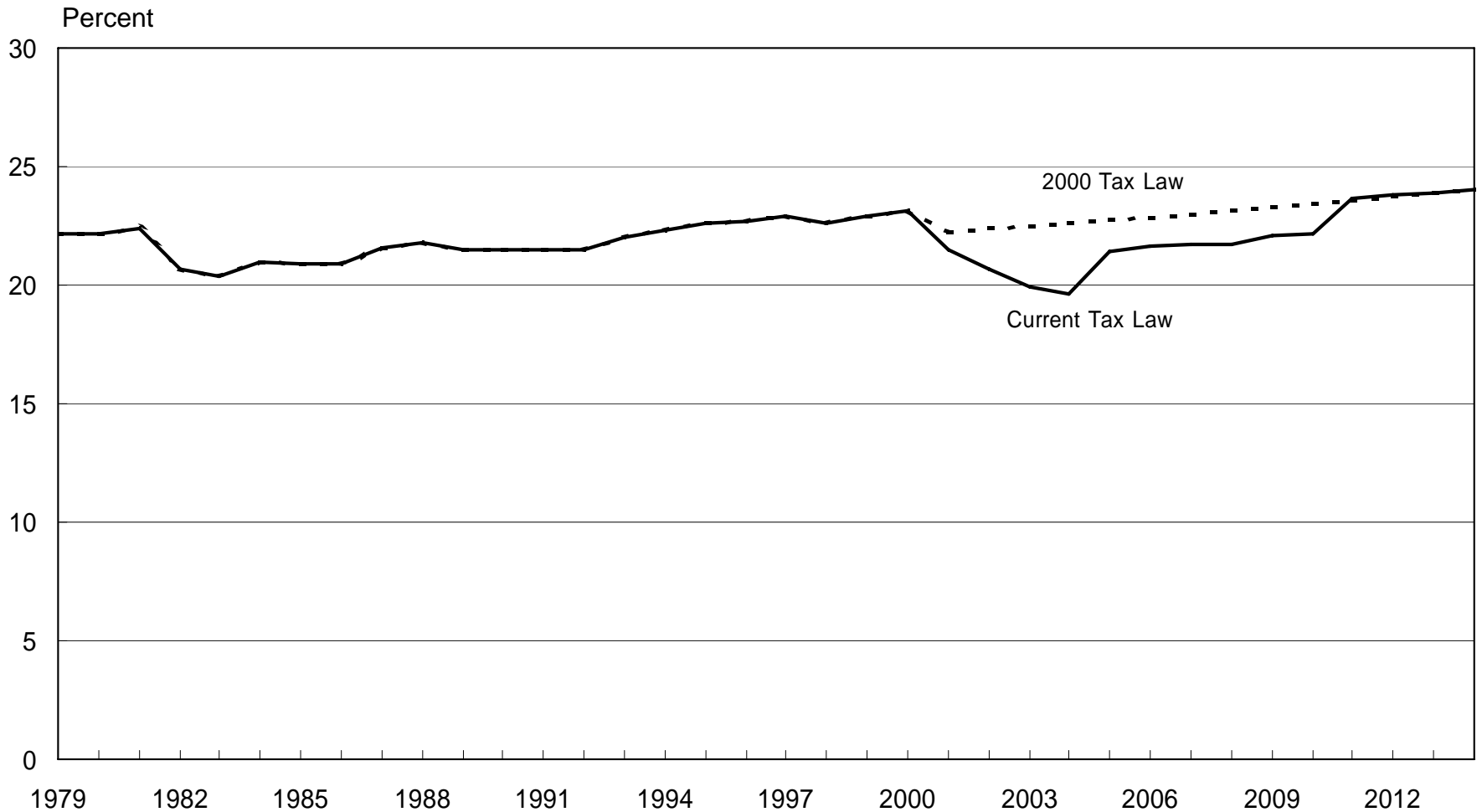


# The Budgetary Effects of Policy Alternatives Not Included in CBO's Baseline

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total, 2005- 2009	Total, 2005- 2014
<b>Policy Alternatives That Primarily Affect Discretionary Spending for Activities in Iraq and Afghanistan</b>												
Remove Supplementals After 2004	39	96	121	135	146	156	168	178	191	203	536	1,433
Assume the Slowdown of Such Activities	19	53	68	83	99	117	131	139	150	160	321	1,018
<b>Other Policy Alternatives That Affect Discretionary Spending</b>												
Increase Discretionary Approps. at Growth Rate of Nominal GDP	-10	-30	-55	-83	-113	-146	-180	-217	-256	-299	-290	-1,388
Freeze Discretionary Appropriations	10	29	52	78	107	138	173	207	247	288	277	1,331
<b>Policy Alternatives That Affect the Tax Code</b>												
Extend Expiring Provisions--												
EGTRRA and JGTRRA	-13	-33	-35	-34	-42	-39	-175	-280	-292	-306	-157	-1,249
Partial expensing	-38	-71	-66	-58	-48	-40	-33	-28	-26	-28	-281	-437
Other and debt service	-7	-11	-21	-32	-40	-50	-64	-84	-108	-134	-111	-551
Total	-59	-115	-123	-124	-130	-129	-272	-393	-426	-469	-550	-2,237
Reform the AMT	-7	-21	-29	-39	-52	-65	-59	-42	-50	-60	-149	-425

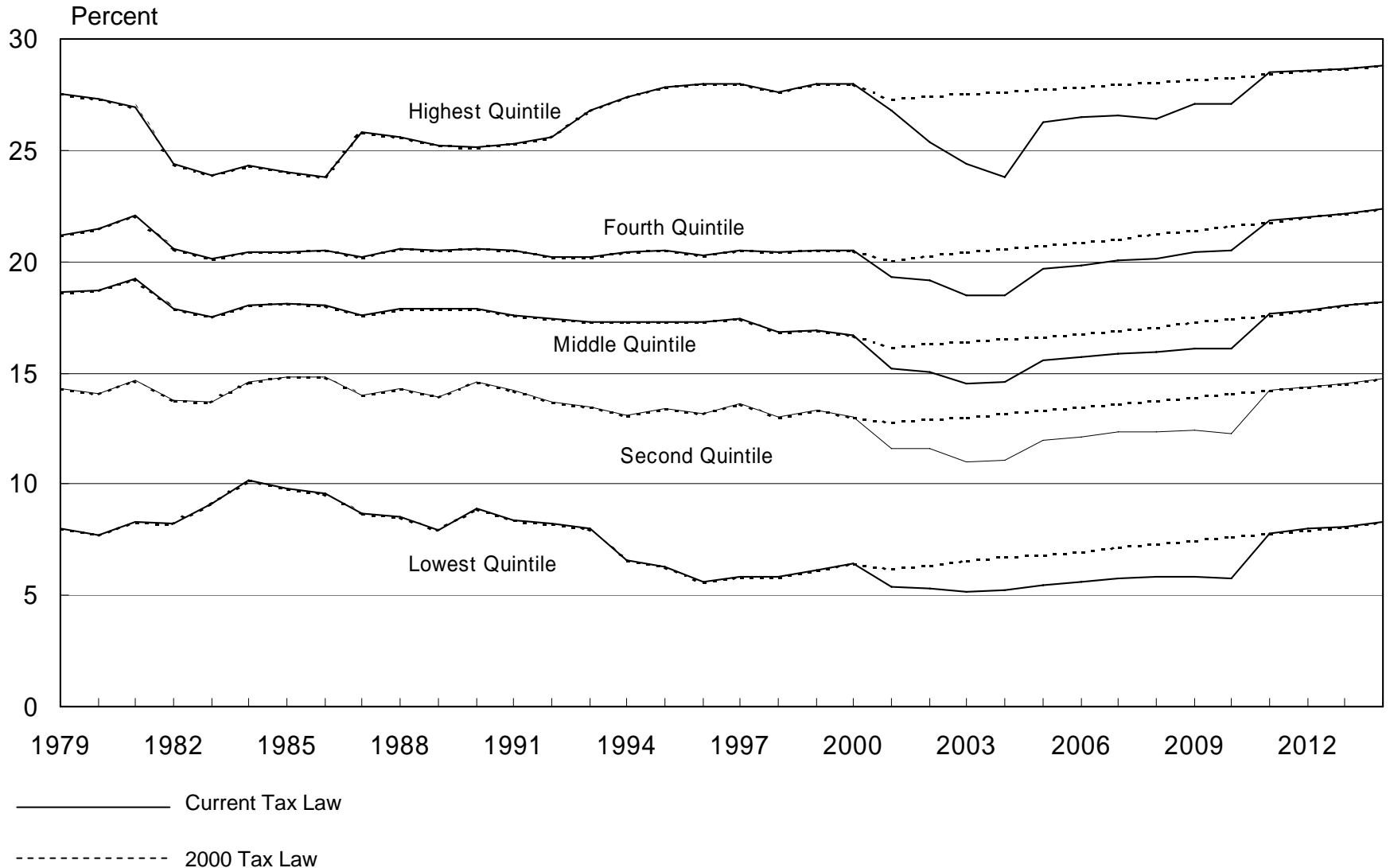


# Effective Federal Tax Rate for All Households, 1979 to 2014





# Effective Federal Tax Rate for All Households, by Income Quintile, 1979 to 2014





# Effective Federal Tax Rate for Households with the Highest Income, 1979 to 2014





# Effective Federal Tax Rate Without the 2002 to 2004 Investment Provisions for Households with the Highest Income, 1979 to 2014

