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

CBO recently transmitted to the Congress a table showing budget projections for policy paths that may serve as useful alternatives to CBO's current-law baseline projections. The new table is very similar to the table of selected policy alternatives that CBO published in January in our *Budget Outlook* report, reflecting CBO's updated March baseline projections.

As we often remind consumers of CBO reports, the baseline is not a forecast of future outcomes but rather a benchmark that encompasses present laws and policies, which lawmakers and others can use to assess the potential impact of future policy decisions. Actual budgetary outcomes are almost certain to differ from CBO's baseline projections because of future legislative actions, unanticipated changes in conditions affecting the economy and national security, and many other factors that affect federal programs and sources of revenues.

CBO projected the budgetary impact of several different policy actions:

Activities Related to Operations in Iraq and Afghanistan and the War on Terrorism. CBO's projections of discretionary spending for future years include outlays for operations in Iraq and Afghanistan and for other activities related to the war on terrorism that arise from funding provided in 2008 and prior years, from the $68 billion in partial funding already provided for the first part of 2009, and from the $720 billion in budget authority that is projected by inflating current funding for those activities over the 2010-2019 period. Recently, the President has requested additional war-related funding of $81 billion (which would increase outlays by about $25 billion in 2009, CBO estimates) but since those funds have not been provided yet, they are not reflected in baseline projections.

Because of considerable uncertainty about future military operations, CBO has formulated two budget scenarios involving the deployment of U.S. forces to Iraq, Afghanistan, and elsewhere in support of the war on terrorism. Under both scenarios, reductions in force levels in Iraq beginning in 2009 are partially offset by a temporary increase in forces deployed to Afghanistan. As a result, the number of deployed troops declines from an average of 210,000 in 2008 but, under the two scenarios, at different rates and to different sustained levels.

Under the first scenario, troop levels decline more rapidly, reaching 30,000 at the start of 2011, reducing discretionary outlays (relative to the baseline) by $256 billion over the 2010-2019 period. Under the second scenario, the number of troops overseas would decline more gradually, falling to 75,000 by 2013, increasing discretionary outlays relative to the baseline by about $190 billion over the 10-year period.

Other Discretionary Spending. Many alternative assumptions are possible about the future growth of discretionary spending. For example, if appropriations (other than those for operations in Iraq and Afghanistan) were assumed to grow through 2019 at the same rate as nominal GDP instead of at the rate of inflation, total projected discretionary spending would be $1.6 trillion higher than the amount in the current baseline. In contrast, if lawmakers did not increase appropriations after 2009 to account for inflation, cumulative discretionary outlays would be $850 billion lower.

Revenues. The baseline assumes that the major provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001, the Jobs and Growth Tax Relief Reconciliation Act of 2003, and the American Recovery and Reinvestment Act of 2009—such as the introduction of the 10 percent tax bracket, increases in the child tax credit, the repeal of the estate tax, and lower rates on capital gains and dividends—will expire as scheduled at the end of 2010. If, however, all expiring tax provisions (except those related to the amount of the exemption for the Alternative Minimum Tax, or AMT) were extended, total revenues over the 2010–2019 period would be $4.1 trillion lower than in the projection in the current baseline, according to estimates by the Joint Committee on Taxation and CBO. (Those effects include increases in outlays for refundable tax credits.)

Another change in policy that could affect revenues involves the modification of the AMT, which many observers believe cannot be maintained in its current form. Because the AMT's exemption amount and brackets are not indexed for inflation, the impact of the tax will grow in coming years as more taxpayers become subject to it. CBO estimates that if the AMT was indexed for inflation after 2009 and no other changes were made to the tax code, federal revenues over the next 10 years would be $448 billion lower than the amount in the baseline.

Because the number of taxpayers who are subject to the AMT will depend on whether the tax provisions originally enacted in 2001 and 2003 remain in effect, the combination of indexing the AMT for inflation and extending the expiring provisions would reduce revenues by more than the sum of the effects of each policy enacted alone. The interactive effect would lower revenues by an additional $514 billion between 2011 and 2019.

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(Billions of dollars)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total, 2010-2014	Total, 2010-2019
							Policy Alternatives That Affect Discretionary Spending						
Reduce the Number of Troops Deployed for Military Operations in Iraq and Afghanistan and Other Activities Related to the War on Terrorism to 30,000 by 2011[a]													
Effect on the deficit[b]	-24	-25	-2	18	29	35	38	39	41	41	42	55	256
Debt service	0	0	-1	-1	-1	1	2	4	7	9	12	-2	33
Reduce the Number of Troops Deployed for Military Operations in Iraq and Afghanistan and Other Activities Related to the War on Terrorism to 75,000 by 2013[c]													
Effect on the deficit[b]	-26	-51	-64	-45	-22	-9	-4	0	2	2	1	-191	-190
Debt service	0	-1	-2	-5	-7	-10	-11	-12	-13	-14	-14	-24	-88
Increase Regular Discretionary Appropriations at the Growth Rate of Nominal GDP[d]													
Effect on the deficit[b]	0	-3	-28	-64	-105	-147	-185	-219	-252	-284	-317	-347	-1,605
Debt service	0	0	0	-2	-6	-13	-22	-34	-48	-65	-84	-21	-273
Freeze Total Discretionary Appropriations at the Level Provided for 2009													
Effect on the deficit[b]	0	15	27	38	50	64	82	106	130	155	183	194	850
Debt service	0	0	1	2	4	7	12	17	25	33	44	14	145
							Policy Alternatives That Affect the Tax Code						
Extend EGTRRA and JGTRRA[e]													
Effect on the deficit[b]	0	-4	-121	-217	-247	-260	-271	-281	-290	-298	-307	-849	-2,296
Debt service	0	0	-1	-7	-18	-33	-49	-67	-86	-107	-128	-59	-496
Extend Other Expiring Tax Provisions[f]													
Effect on the deficit[b]	0	-47	-141	-198	-202	-201	-199	-198	-199	-203	-205	-790	-1,794
Debt service	0	0	-2	-8	-19	-31	-44	-58	-72	-87	-103	-61	-425
Other													
Index the AMT for Inflation[g]													
Effect on the deficit[b]	0	-7	-69	-31	-34	-37	-41	-46	-53	-60	-70	-177	-448
Debt service	0	0	-1	-3	-5	-7	-10	-13	-16	-20	-25	-15	-100
Memorandum:													
Interactive Effect of Extending EGTRRA and JGTRRA and Indexing the AMT													
Effect on the deficit[b]	0	0	-13	-44	-49	-53	-58	-64	-70	-77	-85	-159	-514
Debt service	0	0	0	-1	-3	-6	-9	-13	-18	-22	-28	-10	-101
Total Discretionary Outlays in CBO's Baseline	1,221	1,302	1,285	1,240	1,239	1,244	1,256	1,279	1,300	1,320	1,352	6,310	12,816
Total Outlays for Operations in Iraq and Afghanistan in CBO's Baseline	143	109	83	73	72	71	71	72	73	74	75	407	773
Total Deficit in CBO's Baseline	-1,667	-1,139	-693	-331	-300	-310	-282	-327	-312	-325	-423	-2,772	-4,441

Sources: Congressional Budget Office; Joint Committee on Taxation.

Notes: Negative numbers denote increases in the projected deficit.

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

a. This alternative does not extrapolate the $68 billion in funding for military operations and associated costs in Iraq and Afghanistan provided for 2009. However, it incorporates the in budget authority will be provided in 2009 to carry out operations in those countries. Future funding for operations in Iraq, Afghanistan, or elsewhere would total $92 billion in 2010 in 2011, and then about $32 billion a year from 2012 on---for a total of $388 billion over the 2010-2019 period.

b. Excluding debt service.

c. This alternative does not extrapolate the $68 billion in funding for military operations and associated costs in Iraq and Afghanistan provided for 2009. However, it incorporates the in budget authority will be provided in 2009 to carry out operations in those countries. Future funding for operations in Iraq, Afghanistan, or elsewhere would total $149 billion in 201 in 2011, $95 billion in 2012, and about $70 billion a year from 2013 on---for a total of $867 billion over the 2010-2019 period.

d. Under this alternative, appropriations for 2009 for activities in Iraq and Afghanistan (as well as other emergency appropriations) are extrapolated according to baseline rules.

e. These estimates do not include the effects of extending the increased exemption amount or the treatment of personal credits for the AMT that are scheduled to expire at the end of 2009 under current law. The effects of that alternative are shown below.

f. The estimates include the effects of several expiring provisions that were enacted or modified in the American Recovery and Reinvestment Act of 2009 (P.L. 111-5), such as the Making Work Pay tax credit, the American Opportunity tax credit, and the exclusion from taxable income of certain amounts of unemployment benefits. However, they do not include the effects of several other expiring provisions with relatively small effects as estimates of extending those provisions are not available.

g. This alternative incorporates the assumption that the exemption amount for the AMT (which was increased through 2009 in P.L 111-5) is extended at its higher level and, together with the AMT tax brackets, is indexed for inflation after 2009. In addition, the treatment of personal credits against the AMT (which was also extended through the end of 2009) is assumed to be extended. The estimates shown are relative to figures under current law. If this alternative was enacted jointly with the extension of the expiring tax provisions, an interactive effect would occur after 2010 that would make the combined revenue loss over the 2011-2019 period greater than the sum of the two separate estimates by $514 billion (plus $101 billion in debt-service costs).