



September 8, 2005

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 August 17, 2005, the Congressional Budget Office has estimated the effect on its most recent baseline projections of the policy alternatives that you specified. The enclosed table shows CBO's estimate of revenues, outlays, the total budget deficit, and debt held by the public incorporating the following adjustments to its August 2005 baseline:

- Assume enactment of the revenue policies proposed in the President's budget for fiscal year 2006;
- Assume that the exemption amount for the alternative minimum tax (AMT) is extended at the level in effect for 2005 and, together with the AMT tax brackets, is indexed for inflation after 2005;
- Assume enactment of the mandatory spending proposals included in the President's budget, including the President's plan to create personal accounts in the Social Security program. CBO does not have enough information about that proposal to do its own estimate, so it used the figures prepared by the Office of Management and Budget and shown in the *Mid-Session Review* of the President's budget issued on July 13 (outlays totaling \$662 billion over the 2006-2015 period);
- For discretionary programs funded through the regular appropriation process, adopt the levels of budget authority proposed in the President's budget for 2006 through 2010 and the extrapolation of that budget

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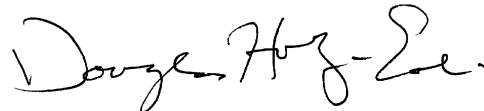
authority through 2015 as presented in CBO's *Analysis of the President's Budgetary Proposals for Fiscal Year 2006* (March 2005); and

- Assume that spending associated with activities in Iraq and Afghanistan and the war on terrorism—which has been funded through supplemental appropriations—slows gradually instead of continuing over the next 10 years at the level funded for 2005, as assumed in the baseline; use the scenario specified in Table 1-6 of *The Budget and Economic Outlook: An Update* (August 2005).

The estimates in this letter include most legislation enacted through August, but do not include any funding in response to Hurricane Katrina. Funding already provided or proposed will add tens of billions of dollars to deficits over the next few years.

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

Sincerely,



Douglas Holtz-Eakin  
Director

Enclosure

cc: Honorable Jim Nussle  
Chairman

Honorable Judd Gregg  
Chairman  
Senate Committee on the Budget

Honorable Kent Conrad  
Ranking Member

**Budgetary Projections Incorporating the Assumptions Specified by Congressman Spratt  
in his Letter of August 17, 2005**

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total, 2006- 2010	Total, 2006- 2015
<b>In Billions of Dollars</b>													
Revenues <sup>a</sup>	2,142	2,266	2,358	2,470	2,590	2,723	2,829	2,967	3,112	3,263	3,424	12,407	28,003
Outlays													
Discretionary spending <sup>b</sup>	962	988	989	996	996	995	1,012	1,027	1,055	1,079	1,106	4,965	10,243
Mandatory spending <sup>a,c</sup>	1,329	1,393	1,470	1,550	1,666	1,791	1,940	2,044	2,193	2,339	2,500	7,870	18,885
Net interest	182	208	238	272	298	322	346	372	397	427	458	1,337	3,336
Total	2,473	2,589	2,697	2,818	2,960	3,107	3,297	3,442	3,644	3,845	4,064	14,172	32,464
Deficit	-331	-323	-339	-348	-370	-384	-468	-475	-532	-582	-640	-1,765	-4,462
Debt Held by the Public	4,621	4,952	5,305	5,667	6,049	6,445	6,923	7,406	7,944	8,530	9,172	n.a.	n.a.
<b>As a Percentage of GDP</b>													
Revenues <sup>a</sup>	17.5	17.5	17.3	17.2	17.1	17.2	17.1	17.1	17.2	17.3	17.4	17.2	17.2
Outlays													
Discretionary spending <sup>b</sup>	7.8	7.6	7.2	6.9	6.6	6.3	6.1	5.9	5.8	5.7	5.6	6.9	6.3
Mandatory spending <sup>a,c</sup>	10.8	10.7	10.8	10.8	11.0	11.3	11.7	11.8	12.1	12.4	12.7	10.9	11.6
Net interest	1.5	1.6	1.7	1.9	2.0	2.0	2.1	2.1	2.2	2.3	2.3	1.9	2.1
Total	20.2	20.0	19.8	19.6	19.6	19.6	19.9	19.9	20.1	20.3	20.6	19.7	20.0
Deficit	-2.7	-2.5	-2.5	-2.4	-2.4	-2.4	-2.8	-2.7	-2.9	-3.1	-3.2	-2.5	-2.7
Debt Held by the Public	37.7	38.2	38.8	39.4	40.0	40.7	41.8	42.7	43.9	45.1	46.5	n.a.	n.a.
<b>Memorandum:</b>													
Deficit in CBO's Baseline													
In billions of dollars	-331	-314	-324	-335	-321	-317	-218	-78	-80	-66	-57	-1,612	-2,110
As a percentage of GDP	-2.7	-2.4	-2.4	-2.3	-2.1	-2.0	-1.3	-0.4	-0.4	-0.3	-0.3	-2.2	-1.3
Debt Held by the Public in CBO's Baseline													
In billions of dollars	4,621	4,943	5,281	5,630	5,964	6,292	6,520	6,605	6,691	6,762	6,820	n.a.	n.a.
As a percentage of GDP	37.7	38.1	38.7	39.2	39.5	39.7	39.3	38.1	37.0	35.8	34.6	n.a.	n.a.

SOURCE: Congressional Budget Office.

- a. Assumes enactment of revenue proposals contained in the President's budget for fiscal year 2006 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 2005. Several of the proposals affect estimates of refundable tax credits, which are incorporated into the projections for mandatory spending.
- b. Funding for 2006 and beyond is assumed at the levels proposed in the President's budget for 2006. (Since the Administration's budget only extended through 2010, CBO extrapolated such levels through 2015.) 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, August 2005).
- c. Mandatory outlays include spending for the President's proposal to create personal accounts in the Social Security program. The estimates used were prepared by the Office of Management and Budget; CBO does not have enough information on the proposal to do its own estimate.