



March 2, 2007

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 2008. This letter and the attached tables summarize the results of CBO's work. 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 16.

Fiscal Years 2007 and 2008

Collectively, the proposals in the President's budget would add \$37 billion to the deficit that CBO currently projects for this year, reducing revenues by \$9 billion and boosting outlays by \$28 billion (mostly for military operations in Iraq and Afghanistan). If the proposals were enacted, the deficit in 2007 would total \$214 billion, or 1.6 percent of gross domestic product (GDP), according to CBO's estimates (see Table 1 on page 9). By comparison, the deficit in 2006 was \$248 billion, or 1.9 percent of GDP.

In 2008, CBO estimates, the deficit under the President's budget would again total 1.6 percent of GDP (amounting to \$226 billion in nominal dollar terms)—about twice the shortfall that CBO projects under current laws and policies. That difference is attributable largely to proposals from the Administration that affect defense spending and revenues. The President is requesting additional 2007 appropriations of nearly \$100 billion for military operations in Iraq and Afghanistan and for other activities related to the war on terrorism, much of which would be spent in 2008; the President is also seeking \$145 billion for those activities next year. (CBO's baseline

projection for 2008 includes an extrapolation of the \$70 billion provided this year for military operations in Iraq and Afghanistan and for other activities related to the war on terrorism.) In addition, the President's budget proposes a one-year extension of the higher exemption levels that mitigate some of the effects of the alternative minimum tax (AMT).

The 2008–2017 Period

Under the President's proposals, the deficit would decline steadily from 2008 through 2012, at which point it would be close to balance and remain that way through 2017.¹ (Those results reflect the additional \$50 billion budgeted by the President for military operations in Iraq and Afghanistan in 2009 but no further funding thereafter. The results also reflect the fact that the Administration is not proposing any changes to the AMT beyond the one-year extension of the higher exemption levels.) Debt held by the public would stay at about 37 percent of GDP through 2009 and then gradually fall to 28 percent of GDP by 2017.

CBO has estimated a set of probabilities that the budget will be balanced under both its baseline projections (which assume the continuation of current laws and policies) and its evaluation of the President's proposals. On the basis of historical estimating experience, CBO calculates that, under baseline assumptions, there is roughly a 40 percent chance that the budget will be in deficit and a 60 percent chance that the budget will be balanced (or in surplus) in 2012. Assuming that the President's policies are enacted in their entirety and that no other legislation affecting spending or revenues is enacted in the next five years, the likelihood that the budget will be in deficit in 2012 is about equal to the likelihood that it will be in surplus.

If the President's proposals were enacted, revenues as a share of GDP would total 18.7 percent in 2008, CBO estimates. That share would fall slightly, to 18.3 percent of GDP, in 2010 and 2011 but would creep up thereafter (see Table 2 on page 10). Future growth in revenues as a percentage of GDP reflects the progressive structure of the tax code combined with increases in real (inflation-adjusted) income, withdrawals of tax-deferred retirement savings as workers with 401(k) plans and traditional individual retirement accounts begin to retire in increasing numbers, and the fact that the AMT is not indexed for inflation. According to estimates by JCT, the President's

1. The President's budget does not provide year-by-year estimates of spending and revenues after 2012. It does, however, specify the total effect of proposed changes in tax and mandatory spending laws for the 10-year period through 2017. For discretionary spending, the budget provides details only for 2007 and 2008; the request for 2009 through 2012 is provided only in the aggregate. CBO incorporated those aggregate levels in its estimates and calculated discretionary outlays for the 2013–2017 period by projecting the amount of discretionary budget authority that the President recommended for 2012 and adjusting it for inflation.

proposal on the taxation of health insurance would also contribute to the growth in revenues as a percentage of GDP.

Outlays would peak at 20.3 percent of GDP in 2008 under the President's policies and then fall to about 19 percent of GDP over the next few years. Spending for mandatory programs would grow faster than nominal GDP through 2017—by an average of 6.2 percent annually, versus 4.5 percent for nominal GDP. By contrast, discretionary outlays would decline over the next five years by \$82 billion; as a percentage of GDP, they would fall from 7.9 percent in 2008 to 6.1 percent in 2012.

The Impact of the President's Proposals on the Budget Outlook

From 2008 to 2012, the cumulative deficit would be \$439 billion higher under the President's policies than in CBO's baseline projections (see Table 3 on page 11). Over that period, tax policies would reduce revenues by an estimated \$435 billion, mostly in 2011 and 2012. Spending under the President's policies would be \$4 billion higher between 2008 and 2012 than is projected in the baseline. Over that five-year period, discretionary spending would be about the same as in CBO's baseline but higher for defense programs and lower for nondefense programs; mandatory spending would be \$53 billion lower and net interest \$55 billion higher.

Under the tax and spending policies embodied in the baseline, deficits would be followed by surpluses in the vicinity of 1 percent of GDP starting in 2012, CBO projects. Under the President's policies, by contrast, the budget would show a slight deficit (0.1 percent to 0.3 percent of GDP) for most of those years. Between 2008 and 2017, the President's proposals would reduce revenues by more than \$1.4 trillion (4 percent) from baseline levels, CBO and JCT estimate, mainly by extending tax provisions that are scheduled to expire by 2011. Over that same period, proposals in the President's budget would increase mandatory spending by a total of \$117 billion (0.6 percent) from baseline levels and decrease discretionary spending by \$424 billion (3.7 percent), mostly for nondefense activities. The deficits that would result under the President's budget would require additional federal borrowing; debt-service costs on that borrowing would add another \$285 billion to the cumulative deficit between 2008 and 2017. Overall, the President's policies would reduce outlays over the 10-year period by \$22 billion relative to CBO's baseline projection.

Revenue Proposals. 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. Most of the budgetary impact (totaling \$1.8 trillion over the 2008–2017 period, according to JCT) would stem from proposals to permanently extend various provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001 and the Jobs and Growth Tax Relief Reconciliation Act of 2003, most of which are set to expire at the end of 2010. 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.

The President also proposes to extend through 2007 relief from the AMT. In addition, the budget proposes other changes to current tax law, including extending the research and experimentation tax credit and modifying or eliminating taxes related to air transportation.

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 President proposes to eliminate most existing tax exclusions and deductions for health insurance premiums and out-of-pocket expenses; as a result, employers' contributions to health insurance would be included in employees' taxable income. Instead, a new standard deduction would be created for those covered by qualifying health insurance plans. JCT estimates that the proposal would increase revenues by \$557 billion between 2008 and 2017—substantially more than the Administration's estimate of \$5 billion over the 10-year period. (JCT also estimates that the proposal would increase outlays for refundable credits by \$30 billion over the 2008-2017 period.)

Mandatory Spending Proposals. The proposal for mandatory spending that would have the largest effect on the budget over the 10-year period is the creation of individual Social Security accounts. That policy would increase outlays by an estimated \$270 billion, mostly between 2013 and 2017, CBO estimates.²

The President's budget also contains proposals that would reduce mandatory spending (relative to that authorized under current law), mainly for Medicare and Medicaid. Proposed changes to Medicare—such as reducing annual updates to payment rates for most nonphysician services by about half of the expected gains from productivity improvements—would reduce spending for that program by \$232 billion, or by about 4 percent, over the 2008–2017 period. In tandem with other changes to Medicaid, lowering to 50 percent the federal matching payment for expenditures by state Medicaid programs on targeted case management and administrative activities would diminish Medicaid outlays by \$49 billion (about 2 percent) over the 10-year period, CBO estimates. About \$12 billion of that total would be offset by proposals to increase spending for the State Children's Health Insurance Program.

2. The Administration projects much higher outlays—\$637 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 addition, CBO assumes that contributions would be transferred to individual accounts with a lag; therefore, CBO estimates that most outlays resulting from the establishment of individual accounts would first be recorded in 2013 (rather than in 2012, as estimated by the Administration).

Several of the tax policies described above would also add to mandatory spending: The extension of expiring tax provisions and other proposals (particularly the proposed standard deduction for health insurance) would result in increased 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 \$117 billion over the 2008–2017 period, mostly after 2011.

Several proposals in the President's budget are related to higher education. The largest impact would result from increasing the maximum size of a Pell grant to \$5,400 over the next five years. That proposal would cost \$47 billion from 2008 to 2017. Much of that spending would be offset by reductions in payments to lenders and other changes to the student loan program. Overall, proposals for higher education would boost outlays by \$19 billion over the 10-year period.

The President's budget includes proposals to revise and extend expiring provisions of the Farm Security and Rural Investment Act of 2002. CBO estimates that the proposals, which would affect commodity, conservation, trade, rural development, nutrition, and other programs, would increase spending by \$9 billion over the next 10 years relative to CBO's baseline projection.

Discretionary Spending Proposals. The President's budget proposes about \$1,078 billion in discretionary budget authority for 2008, CBO estimates (see Table 4 on page 12).³ By comparison, discretionary budget authority for 2007 will total \$1,054 billion if requests for supplemental budget authority of \$103 billion—mostly for military operations in Iraq and Afghanistan—are enacted. (Funding for such purposes in the amount of \$70 billion has been enacted thus far for this year.)

If funding for activities in Iraq and Afghanistan and relief from hurricane damage were excluded from the comparison, discretionary budget authority under the President's proposals would grow by about 5.8 percent in nominal terms, or \$51 billion, from 2007 to 2008. Appropriations for defense would grow by 11.4 percent, and funding for homeland security activities would rise by 3.2 percent. Other appropriations, in aggregate, would remain at about the 2007 level.

The budget does not specify detailed appropriation amounts beyond 2008. Rather, the Administration has provided aggregate funding totals through 2012 for two categories of spending: that designated for the Department of Defense and that

3. For a number of reasons—including differences in projections of offsetting collections, estimates for the defense health program, and other technical factors—the Administration's estimate of budget authority for 2008 is \$2.7 billion lower than CBO's estimate.

designated for all other agencies.⁴ Because funding for military operations in Iraq and Afghanistan and other activities related to the war on terrorism is eliminated after 2009 in the President's budget, budget authority proposed for the Department of Defense falls from \$625 billion in 2008 to \$536 billion in 2012. With funding for military operations in Iraq and Afghanistan and other activities related to the war on terrorism excluded, proposed funding for the Department of Defense would grow by \$53 billion from 2008 to 2012—an average annual rate of growth of 2.6 percent (somewhat faster than the 2.2 percent rate of inflation that CBO projects for the period).

Discretionary funding for programs and activities of all other agencies would grow slightly from the level proposed for 2008—rising from \$453 billion next year to \$463 billion in 2012. Such a level in 2012 would represent a reduction of 6 percent in inflation-adjusted terms.

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 13). Those updates 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.⁵

Most of the changes to CBO's baseline projection stem from the enactment of appropriations for discretionary programs for the remainder of this year (Public Law 110-5). Funding through mid-February for 2007 for departments other than Defense and Homeland Security had been provided through a series of short-term continuing resolutions; the appropriations that were provided for the rest of the year boosted discretionary appropriations by \$7 billion relative to the amounts in the previous resolution. In addition, budgetary resources provided in the form of obligation limitations for certain transportation programs were raised by nearly \$4 billion. Extrapolating those amounts through 2017 increases projected discretionary outlays by \$12 billion to \$14 billion annually over the 2008–2017 period.

On the basis of new data about participation in benefit programs and other information, CBO has made modest adjustments to its estimates of mandatory spending. The largest revisions were made to outlays for Medicare (up by a total of \$38 billion over the 2008–2017 period), Medicaid (up by \$29 billion), veterans' compensation (up by

4. The defense discretionary category in Table 4 also includes spending for atomic energy and other defense-related programs that are not administered by the Department of Defense. The Administration included its request for such funding for 2009 through 2012 in its "all other" category.

5. For the previous baseline projection, see Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2008 to 2017* (January 2007).

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\$17 billion), and Social Security (down by \$17 billion). In total, such changes amount to \$72 billion between 2008 and 2017.

CBO now projects that, under current policies, the cumulative deficit for the 2008–2012 period would total \$283 billion rather than the \$194 billion projected in January (most of that change stems from the extrapolation of additional funding in 2007 for discretionary programs). Deficits would still turn to surpluses in 2012 under the CBO baseline, but the cumulative surplus over the 10-year period would drop to \$586 billion (0.3 percent of GDP)—down from the \$800 billion (0.5 percent of GDP) projected in January.

Sincerely,

A handwritten signature in black ink, appearing to read "Peter R. Orszag". The signature is written in a cursive, slightly slanted style.

Peter R. Orszag
Director

Attachments

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 2007 Baseline

(Billions of dollars)

	Actual												Total, 2008-	Total, 2008-
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2012	2017
CBO's Estimate of the President's Budget for 2008														
On-Budget Deficit	-434	-400	-428	-411	-371	-368	-262	-293	-267	-242	-255	-189	-1,841	-3,087
Off-Budget Surplus ^a	186	186	202	206	219	238	253	244	231	221	221	220	1,119	2,257
Total Deficit (-) or Surplus	-248	-214	-226	-205	-152	-130	-9	-48	-36	-20	-34	31	-722	-830
CBO's Baseline														
On-Budget Deficit	-434	-363	-315	-351	-388	-281	-102	-123	-104	-82	-104	-46	-1,438	-1,897
Off-Budget Surplus ^a	186	186	202	217	232	247	257	263	266	268	267	263	1,155	2,482
Total Deficit (-) or Surplus	-248	-177	-113	-134	-157	-35	155	139	163	186	163	217	-283	586
Difference (President's budget minus baseline)^b														
On-Budget Deficit	0	-37	-113	-60	17	-87	-160	-169	-163	-159	-152	-143	-404	-1,190
Off-Budget Surplus ^a	0	0	*	-11	-12	-8	-4	-18	-35	-47	-46	-43	-35	-225
Total Deficit or Surplus	0	-37	-113	-71	4	-95	-164	-188	-198	-207	-197	-186	-439	-1,415
Memorandum:														
Total Deficit as a Percentage of GDP														
CBO's estimate of the President's budget														
	-1.9	-1.6	-1.6	-1.4	-1.0	-0.8	-0.1	-0.3	-0.2	-0.1	-0.2	0.1	-0.9	-0.5
CBO's baseline														
	-1.9	-1.3	-0.8	-0.9	-1.0	-0.2	0.9	0.8	0.9	1.0	0.8	1.0	-0.4	0.3
Debt Held by the Public as a Percentage of GDP														
CBO's estimate of the President's budget														
	37.0	37.0	37.0	36.7	36.1	35.3	33.9	32.8	31.7	30.5	29.4	28.1	n.a.	n.a.
CBO's baseline														
	37.0	36.7	35.9	35.2	34.7	33.4	31.1	29.1	27.0	25.0	23.2	21.2	n.a.	n.a.
Probability of a Budget Deficit (Percent)														
CBO's estimate of the President's budget														
	n.a.	97	87	76	68	62	51	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
CBO's baseline														
	n.a.	94	72	68	68	53	38	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Source: Congressional Budget Office.

Note: * = between zero and \$500 million; 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 in the deficit or a decrease in the surplus.

Table 2.
CBO's Estimate of the President's Budget for 2008

	Actual												Total,	Total,	
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2008-	2008-	
	In Billions of Dollars													2012	2017
Revenues															
On-budget	1,799	1,895	2,010	2,106	2,162	2,254	2,384	2,481	2,619	2,765	2,920	3,087	10,915	24,787	
Off-budget	608	638	669	692	724	764	804	845	887	931	976	1,022	3,653	8,313	
Total	2,407	2,533	2,679	2,797	2,886	3,018	3,188	3,326	3,505	3,695	3,896	4,110	14,568	33,100	
Outlays															
Mandatory spending	1,413	1,454	1,527	1,613	1,700	1,817	1,867	2,023	2,162	2,309	2,490	2,618	8,524	20,126	
Discretionary spending	1,016	1,056	1,123	1,124	1,064	1,047	1,041	1,061	1,083	1,109	1,139	1,161	5,399	10,952	
Net interest	227	236	256	264	275	283	289	291	295	298	301	300	1,367	2,852	
Total	2,655	2,747	2,905	3,002	3,038	3,147	3,197	3,374	3,541	3,716	3,930	4,079	15,290	33,930	
On-budget	2,233	2,296	2,439	2,517	2,533	2,622	2,646	2,774	2,885	3,006	3,176	3,276	12,757	27,874	
Off-budget	422	451	467	485	505	525	551	601	655	709	754	803	2,533	6,056	
Deficit (-) or Surplus	-248	-214	-226	-205	-152	-130	-9	-48	-36	-20	-34	31	-722	-830	
On-budget	-434	-400	-428	-411	-371	-368	-262	-293	-267	-242	-255	-189	-1,841	-3,087	
Off-budget	186	186	202	206	219	238	253	244	231	221	221	220	1,119	2,257	
Debt Held by the Public	4,829	5,048	5,286	5,507	5,676	5,820	5,841	5,900	5,945	5,971	6,010	5,984	n.a.	n.a.	
Memorandum:															
Gross Domestic Product	13,065	13,645	14,300	15,014	15,742	16,465	17,205	17,973	18,764	19,582	20,425	21,295	78,726	176,766	
As a Percentage of Gross Domestic Product															
Revenues															
On-budget	13.8	13.9	14.1	14.0	13.7	13.7	13.9	13.8	14.0	14.1	14.3	14.5	13.9	14.0	
Off-budget	4.7	4.7	4.7	4.6	4.6	4.6	4.7	4.7	4.7	4.8	4.8	4.8	4.6	4.7	
Total	18.4	18.6	18.7	18.6	18.3	18.3	18.5	18.5	18.7	18.9	19.1	19.3	18.5	18.7	
Outlays															
Mandatory spending	10.8	10.7	10.7	10.7	10.8	11.0	10.9	11.3	11.5	11.8	12.2	12.3	10.8	11.4	
Discretionary spending	7.8	7.7	7.9	7.5	6.8	6.4	6.1	5.9	5.8	5.7	5.6	5.5	6.9	6.2	
Net interest	1.7	1.7	1.8	1.8	1.7	1.7	1.7	1.6	1.6	1.5	1.5	1.4	1.7	1.6	
Total	20.3	20.1	20.3	20.0	19.3	19.1	18.6	18.8	18.9	19.0	19.2	19.2	19.4	19.2	
On-budget	17.1	16.8	17.1	16.8	16.1	15.9	15.4	15.4	15.4	15.4	15.5	15.4	16.2	15.8	
Off-budget	3.2	3.3	3.3	3.2	3.2	3.2	3.2	3.3	3.5	3.6	3.7	3.8	3.2	3.4	
Deficit (-) or Surplus	-1.9	-1.6	-1.6	-1.4	-1.0	-0.8	-0.1	-0.3	-0.2	-0.1	-0.2	0.1	-0.9	-0.5	
On-budget	-3.3	-2.9	-3.0	-2.7	-2.4	-2.2	-1.5	-1.6	-1.4	-1.2	-1.2	-0.9	-2.3	-1.7	
Off-budget	1.4	1.4	1.4	1.4	1.4	1.4	1.5	1.4	1.2	1.1	1.1	1.0	1.4	1.3	
Debt Held by the Public	37.0	37.0	37.0	36.7	36.1	35.3	33.9	32.8	31.7	30.5	29.4	28.1	n.a.	n.a.	

Source: Congressional Budget Office.

Note: 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)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total, 2008- 2012	Total, 2008- 2017
Total Deficit (-) or Surplus as Projected in CBO's March 2007 Baseline	-177	-113	-134	-157	-35	155	139	163	186	163	217	-283	586
Effect of the President's Proposals													
Revenues													
Extension of expiring EGTRRA and JGTRRA provisions													
General tax rates, child tax credit, and tax brackets	0	0	0	0	-93	-150	-152	-154	-157	-160	-164	-243	-1,030
Estate and gift taxes	0	-2	-1	-3	-36	-60	-67	-74	-79	-85	-91	-102	-499
Tax rates on dividends and capital gains	0	*	1	-2	-17	-15	-33	-35	-37	-38	-41	-33	-216
Expensing for small businesses	0	0	0	-3	-5	-4	-3	-2	-1	-1	-1	-12	-19
Education, retirement, and other provisions	0	0	0	0	-1	-2	-2	-2	-3	-3	-3	-3	-15
Subtotal, proposed extensions	0	-2	*	-8	-152	-231	-257	-266	-277	-287	-299	-392	-1,779
Health insurance taxation and standard deduction	0	0	-4	3	18	35	55	75	99	124	152	52	557
Research and experimentation tax credit	0	-3	-5	-7	-8	-10	-11	-12	-13	-14	-15	-33	-99
Air transportation taxes	0	0	-7	-7	-7	-7	-8	-8	-9	-9	-9	-28	-71
AMT extension	-9	-37	0	0	0	0	0	0	0	0	0	-37	-37
Expansion of information reporting	0	*	1	1	2	2	2	3	3	3	3	5	19
Expansion of expensing for small businesses	0	-1	-2	-1	-1	-1	-1	*	*	*	*	-6	-8
Expansion of tax-free savings accounts	0	3	5	4	*	-5	-3	-1	-1	-2	-2	6	-3
Other proposals	*	-1	-1	*	*	-1	-2	-2	-3	-3	-3	-2	-16
Total Effect on Revenues	-9	-41	-12	-15	-150	-217	-225	-213	-201	-189	-175	-435	-1,437
Outlays													
Mandatory													
Social Security individual accounts	0	0	0	0	1	1	21	44	62	68	73	2	270
Medicare	0	-4	-8	-11	-16	-20	-24	-28	-33	-40	-48	-58	-232
Earned income and child tax credits	0	*	*	3	3	18	18	18	18	19	19	25	117
Medicaid and SCHIP	*	-1	-2	-4	-4	-4	-4	-4	-5	-5	-5	-14	-37
Higher education	0	-5	*	1	1	3	4	4	4	4	4	*	19
Farm bill	0	1	1	1	2	2	2	1	1	*	-1	7	9
Other proposals	*	*	-3	-5	-3	-3	-3	-3	-3	-3	-3	-14	-30
Subtotal, mandatory	*	-9	-11	-14	-15	-3	14	32	45	42	38	-53	117
Discretionary													
Defense	26	77	80	16	-15	-25	-32	-35	-36	-37	-37	132	-44
Nondefense	1	*	-18	-30	-38	-46	-47	-48	-49	-51	-53	-131	-380
Subtotal, discretionary	27	77	62	-14	-53	-71	-79	-83	-85	-88	-90	1	-424
Net interest	*	5	8	9	13	21	28	37	46	55	64	55	285
Total Effect on Outlays	28	72	59	-20	-54	-53	-37	-14	5	9	12	4	-22
Total Impact on the Deficit or Surplus^a	-37	-113	-71	4	-95	-164	-188	-198	-207	-197	-186	-439	-1,415
Total Deficit (-) or Surplus Under the President's Proposals	-214	-226	-205	-152	-130	-9	-48	-36	-20	-34	31	-722	-830

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.

a. 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, 2006 to 2008

(Billions of dollars)

	Actual 2006	Administration's Request		Percentage Change	
		2007 ^a	2008	2006-2007	2007-2008
Budget Authority					
Defense	557	616 ^b	646	10.7	4.8
Nondefense					
Homeland security ^c	29	31 ^b	32	6.0	3.1
Other	410	407 ^b	400	-0.7	-1.8
Subtotal, nondefense	439	438 ^b	432	-0.3	-1.4
Total	996	1,054^b	1,078	5.8	2.2
Budget Authority, Excluding Funding for Activities in Iraq and Afghanistan and Supplemental Appropriations ^d					
Defense	433	452	504	4.4	11.4
Nondefense					
Homeland security ^c	29	31	32	6.5	3.2
Other	389	398	397	2.4	-0.3
Subtotal, nondefense	418	429	429	2.6	*
Total	851	881	932	3.6	5.8

Source: Congressional Budget Office.

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

* = between -0.05 percent and zero.

- a. Includes the effects of the full-year continuing resolution (which had not been enacted at the time that the President released his budget).
- b. Includes the Administration's request for supplemental appropriations to fund military operations in Iraq and Afghanistan and for further hurricane relief and recovery.
- c. 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 nondepartmental activities (such as some defense-related programs and some funding for the National Institutes of Health) fall within that definition. About 60 percent of all spending considered to be for homeland security is for activities outside the Department of Homeland Security.
- d. In 2006, the Congress and the President provided \$120 billion in funding for activities in Iraq and Afghanistan and for the war on terrorism and nearly \$25 billion in supplemental appropriations in response to Hurricanes Katrina and Rita. Thus far in 2007, \$70 billion in funding has been provided for operations in Iraq and Afghanistan. For 2007, the President's budget requests another \$100 billion in supplemental funding for activities in Iraq and Afghanistan and for the war on terrorism, as well as \$3 billion for hurricane relief and recovery. In addition, the President's budget requests \$145 billion for 2008 for activities 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 2007

(Billions of dollars)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total, 2008- 2012	Total, 2008- 2017
Total Deficit (-) or Surplus as Projected in January 2007	-172	-98	-116	-137	-12	170	159	185	208	192	249	-194	800
Changes to Revenue Projections (Technical)	*	*	*	1	1	1	1	1	1	1	1	2	6
Changes to Outlay Projections													
Legislative													
Mandatory	*	*	*	*	*	*	*	*	*	*	0	*	*
Discretionary													
Defense	1	2	2	2	3	3	3	3	3	3	3	11	26
Nondefense	7	11	11	10	10	10	10	11	11	11	11	52	106
Subtotal, discretionary	8	13	13	13	12	13	13	13	14	14	14	63	132
Net interest (Debt service)	*	1	1	2	3	3	4	5	6	7	8	10	40
Subtotal, legislative	8	13	14	15	15	16	17	18	20	21	22	74	172
Technical													
Mandatory													
Medicare ^a	-2	1	4	5	7	2	4	4	3	5	3	19	38
Medicaid	*	*	1	1	1	2	3	4	5	6	7	5	29
Social Security	-1	-1	-1	-1	-1	-1	-2	-2	-2	-3	-3	-6	-17
Veterans' compensation	1	1	1	1	1	1	2	2	2	3	3	5	17
Other	1	2	*	1	2	*	1	*	-1	-1	2	5	6
Subtotal, mandatory	-2	3	5	6	11	4	7	8	7	10	12	29	72
Discretionary	-3	-1	-1	-2	-2	-1	-2	-2	-2	-2	-2	-7	-17
Net interest													
Debt service	*	*	1	1	1	1	2	2	2	2	3	5	15
Other	1	*	-1	1	-3	-5	-4	-3	-3	-2	-2	-8	-22
Subtotal, net interest	1	*	*	2	-1	-3	-2	-2	-1	*	1	-3	-7
Subtotal, technical	-4	2	3	6	8	*	3	4	3	8	11	19	48
Total Outlay Changes	5	15	18	20	23	16	21	23	23	29	33	92	220
Total Impact on the Deficit or Surplus^b	-5	-15	-17	-20	-22	-15	-20	-22	-22	-28	-32	-90	-214
Total Deficit (-) or Surplus as Projected in March 2007	-177	-113	-134	-157	-35	155	139	163	186	163	217	-283	586
Memorandum:													
Total Legislative Changes ^b	-8	-13	-14	-15	-15	-16	-17	-18	-20	-21	-22	-74	-172
Total Technical Changes ^b	4	-2	-3	-5	-7	1	-3	-3	-3	-7	-10	-16	-42

Source: Congressional Budget Office.

Note: * = between -\$500 million and \$500 million.

a. Includes offsetting receipts.

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