



May 11, 2010

Honorable Maurice D. Hinchey
U.S. House of Representatives
Washington, DC 20515

Dear Congressman:

In response to your letter of March 19, this letter provides information about the budgetary impact of certain tax and spending actions that you specified. In particular, you asked for an estimate of the budgetary effects of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA, Public Law 107-16) and the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA, 108-94); the ongoing military operations and related activities in Iraq, which began in March 2003; and the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (Public Law 108-391).

Tax Legislation

At the time EGTRRA and JGTRRA were considered in 2001 and 2003, respectively, CBO and the staff of the Joint Committee on Taxation (JCT) estimated that those acts would decrease the surplus or increase the deficit by amounts that totaled \$1.6 trillion through 2010. Neither CBO nor JCT has updated the estimates of the budgetary impact of EGTRRA and JGTRRA. However, economic performance and other factors have differed from those upon which the 2001 and 2003 estimates were based. Consequently, if JCT and CBO were to develop a new assessment now, the estimated budgetary effects of those tax laws would be different. More fundamentally, there is no way to precisely identify the actual effects of those tax changes from budget data. Measuring the actual impact of the legislation would require gauging what revenues and economic performance would have been in the absence of the legislation and then comparing those outcomes to those that occurred with the legislation. Such comparisons are impossible to do with any precision.

War-Related Spending

CBO does not have precise totals for spending on the war in Iraq. With some exceptions, the appropriation acts that have provided funding to the Department of Defense (DoD) and other agencies for the wars in Iraq and Afghanistan and related operations did not apportion those funds among the various operations. CBO has estimated the funding provided to date for military operations and other activities in Iraq based on information provided in conference reports for appropriations acts, as well as from information provided by DoD and the Department of State. Using those estimated funding levels, along with data on total outlays recorded by DoD and the State Department, CBO has estimated the portion of outlays resulting from the war in Iraq. According to those calculations, nearly \$540 billion was spent on such operations between 2003 and 2009. CBO estimates that another \$95 billion will be spent for such purposes in 2010, bringing the total to about \$635 billion over the 2003-2010 period. (Iraq accounts for roughly two-thirds of total war-related spending since 2003; operations in Afghanistan and other areas make up the remaining one-third.)

Medicare Part D Spending

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (Public Law 108-391) made a number of changes to the Medicare program, including establishing an outpatient prescription drug benefit (Part D) in Medicare, shifting responsibility for coverage of prescription drugs from Medicaid to Medicare for individuals dually enrolled in both programs, and making other changes to payment rates and benefits under Medicare.

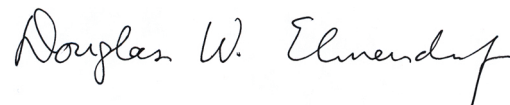
The cost of the primary component of the legislation, Medicare spending and receipts for the Part D program, is reported separately in the budget and thus the actual amounts spent for benefits and received for premiums and other offsetting receipts can be determined: Between 2005 (when a transitional benefit first became available) and 2009, net outlays for the program totaled \$148 billion. CBO estimates that such outlays will amount to \$55 billion in 2010, a figure that incorporates a change of less than \$0.5 billion in 2010 for amendments to the program contained in the Patient Protection and Affordable Care Act, which was enacted on March 23, 2010. Thus, through 2010, Medicare's net spending for Part D will total about \$203 billion.

Honorable Maurice D. Hinchey
Page 3

Other provisions of P.L. 108-391 were expected to produce net budgetary savings. However, we cannot directly measure either the savings to Medicaid from shifting responsibility to Medicare for paying for prescription drugs for dually enrolled individuals or the effects of the other changes to payment rates and benefits under Medicare. Those savings cannot be measured directly because the affected payments are commingled in budget accounts with other payments. At the time of enactment, CBO estimated that those provisions would offset almost 30 percent of the cost of the Part D program. While we now know that the initial years' cost for the Part D program (by itself) is significantly lower than CBO originally estimated in 2003, we do not have any data or sufficient analytical basis for providing an updated estimate of the net savings for those other provisions of the law.

I hope this information is helpful to you. If you would like further details about this estimate, the CBO staff contact is Barry Blom.

Sincerely,



Douglas W. Elmendorf
Director

cc: Honorable Carolyn B. Maloney
Chair
Joint Economic Committee

Honorable Charles E. Schumer
Vice Chairman

Honorable Kevin Brady
Ranking House Republican

Honorable Sam Brownback
Ranking Senate Republican