

March 5, 2010

Honorable Daniel K. Inouye
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 staff of the Joint Committee on Taxation (JCT), has analyzed the President's budget submission for fiscal year 2011. This letter and the attached tables summarize the results of our work to date. A report that presents the full analysis, including CBO's assessment of the macroeconomic effects of the President's proposals, will be published later this month.¹

CBO's preliminary analysis indicates the following:

- If the President's proposals were enacted, the federal government would record deficits of \$1.5 trillion in 2010 and \$1.3 trillion in 2011. Those deficits would amount to 10.3 percent and 8.9 percent of gross domestic product (GDP), respectively. By comparison, the deficit in 2009 totaled 9.9 percent of GDP.
- Measured relative to the size of the economy, the deficit under the President's proposals would fall to about 4 percent of GDP by 2014 but would rise steadily thereafter. Compared with CBO's baseline projections, deficits under the proposals would be about 2 percentage points of GDP higher in fiscal years 2011 and 2012, 1.3 percentage points greater in 2013, and above baseline levels by growing amounts thereafter. By 2020, the deficit would reach 5.6 percent of GDP, compared with 3.0 percent under CBO's baseline projections.

1. The estimates presented in this letter and the attached tables do not take into consideration any impact that the President's budgetary proposals might have on gross domestic product or other broad measures of economic activity.

- Under the President's budget, debt held by the public would grow from \$7.5 trillion (53 percent of GDP) at the end of 2009 to \$20.3 trillion (90 percent of GDP) at the end of 2020. As a result, net interest would more than quadruple between 2010 and 2020 in nominal dollars (without an adjustment for inflation); it would expand from 1.4 percent of GDP in 2010 to 4.1 percent in 2020.
- Revenues under the President's proposals would be \$1.4 trillion (or 4 percent) below CBO's baseline projections from 2011 to 2020, largely because of the President's proposals to index the parameters of the alternative minimum tax (AMT) for inflation starting at their 2009 levels and to extend many of the tax reductions enacted in the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) and the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA). CBO's baseline projections reflect current law, under which the parameters of the AMT revert to earlier levels and the reductions under EGTRRA and JGTRRA expire as scheduled at the end of December 2010. Other proposals—including ones associated with significant changes in the nation's health insurance system—would, on net, increase revenues.²
- Mandatory outlays under the President's proposals would be above CBO's baseline projections by \$1.9 trillion (or 8 percent) over the 2011–2020 period, about one-third of which would stem from net additional spending related to proposed changes to the health insurance system and health care programs. Much of the rest of the increase in mandatory spending would result from increased spending for refundable tax credits and for the Pell Grant program for postsecondary students.
- Discretionary spending under the President's budget would be about \$0.3 trillion (or 2 percent) lower than the cumulative amount in CBO's baseline, which assumes that appropriations continue each year at their 2010 amounts with adjustments for inflation. The largest factor in that reduction relates to funding for the wars in Iraq and Afghanistan: The President's request includes a placeholder of \$50 billion a year after 2011, whereas CBO's baseline assumes that funding will continue, with adjustments for inflation, at the level provided so far this year, which is \$130 billion. Excluding funding for war-related activities and the Pell Grant program (which the President proposes to convert to a mandatory program), discretionary outlays over the 2011-2020 period would be \$0.5 trillion (or 4 percent) greater than the amounts projected in CBO's baseline.

2. The President's budget does not contain details regarding the President's proposal to expand health insurance coverage and make other changes to the health care system. Instead, the budget contains a placeholder calculated as the average of the effects estimated by CBO and JCT for the House-passed bill and legislation similar to the Senate-passed bill. The Administration extrapolated those estimates for an additional year, through 2020. CBO has incorporated that placeholder in this analysis. The placeholder does not include the effects of four provisions contained in those bills that the Administration shows separately in the budget.

For 2010, CBO's estimate of the deficit under the President's budget is \$56 billion less than the Administration's figure, largely because of differences in baseline estimates of spending. In contrast, largely because it projects lower baseline revenues in future years, CBO estimates deficits that are \$75 billion higher for 2011 and \$1.2 trillion greater over the 2011–2020 period than what the Administration anticipates under the President's budget.

CBO has also updated its baseline budget projections, which—unlike the President's budget—assume that current tax and spending laws and policies remain unchanged. CBO has not modified its economic forecast, so those updated projections just take into account new information obtained about various aspects of the budget since the previous projections were completed in January. The resulting changes are modest, adding \$11 billion to the projected deficit in 2010 and reducing projected deficits over the 2011–2020 period by a total of \$63 billion.

CBO's Estimate of the Budgetary Effects of the President's Budget

If the President's proposals were enacted, the resulting \$1.5 trillion deficit for 2010 would be \$140 billion more than the shortfall that CBO projects under current law (see Table 1). Those policies would reduce revenues by nearly \$60 billion and boost outlays by more than \$80 billion relative to the current-law baseline.³

In 2011, the \$1.3 trillion deficit under the President's budget would be \$346 billion more than the deficit that CBO projects in its March baseline. The cumulative deficit over the 2011–2020 period would equal \$9.8 trillion (5.2 percent of GDP), \$3.8 trillion more than the cumulative deficit projected in the baseline. Of that difference, roughly \$3.0 trillion stems directly from proposed changes in policy and another \$0.8 trillion results from additional interest on the public debt.

The President's proposals to index the AMT for inflation and to extend various tax provisions contained in EGTRRA and JGTRRA would have, by far, the greatest budgetary impact. Over the next 10 years, those policies would reduce revenues and boost outlays for refundable tax credits by a total of \$3.0 trillion.

Other policies would have smaller but still significant effects on the budget and would largely offset one another. Freezing Medicare's payment rates for physicians at the current level through 2020, as the President proposes, would boost the cumulative deficit by \$0.3 trillion. Various changes that the President proposes to the Pell Grant program would add another \$0.2 trillion to the deficit between 2011 and 2020. Other proposals would reduce projected deficits. Defense spending under the President's

3. CBO's baseline does not include the effects of the Temporary Extension Act of 2010 (Public Law 111-144), which was enacted on March 2. That law will increase the deficit by an estimated \$8.6 billion in 2010 and by \$1.7 billion from 2011 to 2020.

budget would total \$0.3 trillion less than the amount projected in the baseline, largely because of the smaller sums assumed for war-related activities. A proposal to limit, to 28 percent, the rate at which itemized deductions reduce an individual's tax liability would decrease the deficit by \$0.3 trillion. The President's proposal to expand insurance coverage and make other changes to the health care system would lower the deficit by \$0.2 trillion. Other proposals would have smaller effects over the 10-year period.

In a few cases, sufficient details about the President's proposals were not provided by the Administration, so this analysis incorporates the Administration's estimates as placeholders to indicate the approximate effects of the proposed policies. Essentially, CBO has interpreted the Administration's estimates as indicating a target for the budgetary effect of the detailed policies to be proposed in the future. For example, the budget refers to a policy on climate change but provides no details; such a policy could have a significant effect on both revenues and outlays, but the Administration has indicated its intent that the policy have no net effect on the deficit. In the absence of details, CBO's analysis of the budget assumes that this intent would be realized.

Revenues

The President proposes a number of changes to tax law over the next decade. If enacted, those policies would decrease revenues relative to CBO's baseline by \$1.4 trillion over the 2011–2020 period (and would increase outlays, through refundable tax credits, by \$0.4 trillion over the same period). The reductions in revenues from some proposals in the President's budget would be partly offset by increases in revenues from others. As a share of GDP, revenues would grow from 14.5 percent this year to 19.6 percent in 2020 (see Table 2); the average share of GDP during the past 40 years was 18.1 percent.

One proposal would provide relief from the AMT mainly by permanently setting at the 2009 level the amount exempted from the tax and indexing that amount for inflation, which, along with other changes to the AMT, JCT estimates would reduce revenues by \$6 billion in 2010 and a further \$577 billion over the next 10 years (see Table 3).

Another set of proposals would permanently extend or modify certain provisions of EGTRRA and JGTRRA that are set to expire at the end of December 2010. Those provisions include reductions in tax rates on dividends, capital gains, and other income;⁴ relief from the so-called marriage penalty; and an increase in the child tax

4. The President proposes to permanently extend at 2010 levels those tax rates for married taxpayers earning less than \$250,000 per year and single taxpayers earning less than \$200,000. For taxpayers with income above those amounts, the President proposes to maintain various provisions—the income tax rates, the phaseout of the personal exemption, and the limits on itemized deductions—scheduled to go into effect in 2011 under current law; those higher-income taxpayers would also be subject to a tax rate of 20 percent on dividends and capital gains.

credit. Other proposals would modify estate, gift, and generation-skipping transfer taxes by extending 2009 law permanently. If enacted, those changes would reduce revenues, relative to the baseline, by \$2.2 trillion through 2020, according to estimates provided by JCT.⁵

A proposed one-year extension of the Making Work Pay credit would reduce revenues by \$42 billion through 2012. In addition, the President's "Jobs Initiatives" proposal, which includes temporary tax credits for businesses that hire new employees, would reduce revenues by \$16 billion in 2010 and \$24 billion in 2011, JCT estimates.

The proposal that would raise the most revenues, relative to the baseline, is health insurance reform. The President's budget includes a placeholder of \$743 billion in related revenues between 2011 and 2020. Because the Administration did not provide the details of the underlying legislative proposal, for the purposes of this analysis CBO assumed that the policies would have the effect set forth in the budget.

Another initiative that would raise revenues would limit, to 28 percent, the rate at which itemized deductions reduce an individual's tax liability, which would increase revenues by \$289 billion, according to JCT. Furthermore, the President proposes a series of changes to the U.S. system of taxing international income, including modifying tax rules as they relate to calculating foreign tax credits and strengthening information-reporting requirements. JCT estimates that those provisions, in sum, would raise revenues by \$122 billion over 10 years.

In addition, the President seeks to impose a fee on large financial institutions equal to about 0.15 percent of the value of certain types of liabilities that they hold. Pending further specification of the details of the proposal, this analysis incorporates the Administration's estimate that the fee would raise \$90 billion through 2020.

The President also proposes to modify the Build America Bonds program, which was created by the American Recovery and Reinvestment Act of 2009 (ARRA). That program currently provides a subsidy payment to state and local governments for 35 percent of their interest costs on taxable government bonds issued to finance capital expenditures. The proposal would expand and permanently extend the program, but it would lower the subsidy rate to 28 percent. By substituting taxable for tax-exempt bonds, the program increases taxable interest income. According to JCT's estimates, the proposed changes would increase revenues by \$80 billion over the 2011–2020 period.⁶

5. That estimate includes the additional loss of revenues that would result from interactions between these proposals and the proposal for the AMT.

6. The subsidy payments made by the federal government to states and localities are recorded on the outlay side of the budget. The proposed changes would increase outlays by an estimated \$88 billion over 10 years.

All other proposals would have the net effect of raising revenues by \$29 billion over 10 years. Proposals that would raise revenues include repealing the “last-in, first-out” method of accounting for inventories and reducing tax preferences for the production of fossil fuels. Partly offsetting those increases would be reductions in revenues from extending temporary “bonus” depreciation for certain property and making permanent the research and experimentation tax credit, among other proposals.

Outlays

On the outlay side of the budget, the President’s policies would increase spending (relative to CBO’s baseline projections) by \$81 billion in 2010 and \$2.3 trillion between 2011 and 2020. Outlays would average 24.1 percent of GDP over the next 10 years—well above the 40-year average of 20.7 percent. The Administration’s proposals would boost mandatory outlays by \$72 billion in 2010 and by \$1.9 trillion from 2011 to 2020. Discretionary outlays under the President’s budget would be slightly higher than CBO’s baseline projections this year but would be almost \$330 billion lower than those projections over the 10-year period. The additional borrowing related to the President’s revenue and spending proposals would generate about \$800 billion more in interest costs over the 2011–2020 period.

Proposals Affecting Mandatory Spending. The proposal with the largest effect on mandatory spending is the one to expand health insurance coverage and make other changes to the health care system. The President’s budget estimates that such legislation would increase mandatory spending by \$6 billion in 2010 and \$593 billion between 2011 and 2020—about \$150 billion less than the added revenues assumed to result from such legislation. As in the case of revenues, that estimate of outlays is a placeholder calculated by the Administration; pending the development of detailed legislation, CBO has incorporated that placeholder in this analysis.

The Administration proposes to extend or expand various refundable tax credits, including the earned income, child, Making Work Pay, and certain education credits, which would boost outlays by an estimated \$401 billion over the 2011–2020 period.⁷ Some of that amount also derives from the effect of other tax proposals, of which a portion would be classified as refundable and therefore would be recorded on the outlay side of the budget.

Most of the President’s proposals for education fall into two areas. The first would replace the existing discretionary funding for Pell grants with new mandatory spending, index the maximum award for inflation for future years beginning in 2011, and make changes to the formulas that determine eligibility for grants. Under current law, the program is funded with a combination of annual discretionary appropriations and mandatory funds. The proposed changes would boost mandatory spending by \$374 billion over the 2011–2020 period, of which \$177 billion would replace discre-

7. An income tax credit is refundable if the taxpayer receives a refund when the allowable credit exceeds the amount of income tax owed.

tionary spending in CBO's baseline; thus, the net effect of the proposal would be an increase of \$197 billion in outlays over the next 10 years.

The second major proposal for education would eliminate the federal program providing guarantees for student loans, replacing guaranteed loans with direct loans made by the Department of Education. Under the Federal Credit Reform Act, the budgetary cost of guaranteed loans and direct loans is the estimated present value of the total cash flows over the life of each loan, with such cash flows discounted to the time of loan disbursement using the rates on U.S. Treasury securities of comparable maturity. The direct loan program is estimated to have a lower cost per dollar loaned than the guaranteed loan program has. Therefore, replacing the guaranteed loan program by providing additional direct loans would, by CBO's estimates, yield budgetary savings totaling \$67 billion over the 2011–2020 period.

Under current law, Medicare's payment rates for physicians' services are slated to be reduced by 21 percent beginning in April 2010, by about 6 percent in 2011, and by about 2 percent a year for most of the rest of the decade.⁸ The President proposes to avoid those reductions by freezing such payment rates at the 2009 levels through 2020. The higher payments to physicians that would result under the proposal (relative to those under current law) would increase outlays by \$6 billion in 2010 and by \$286 billion from 2011 to 2020.

Besides increasing revenues by \$80 billion, the President's proposal to extend, expand, and modify the subsidy rate for the Build America Bonds program would increase outlays by \$88 billion over the 2011–2020 period, JCT estimates.

As part of its "Jobs Initiative," the Administration has proposed to spend a total of \$50 billion on unspecified policies. The budget states that, as a result, outlays would increase by \$12 billion this year and \$38 billion over the 2011–2014 period; CBO assumes that the President will propose policies consistent with those figures and has therefore included those outlays in its analysis.

Some proposals in the President's budget would increase spending only this year or next. Such proposals include an extension of benefits for the unemployed, which would cost \$31 billion in 2010, and a one-time payment of \$250 this year for Social Security beneficiaries, which would cost \$14 billion. In addition, the Administration would extend for one year the temporarily enhanced matching rates for Medicaid that were enacted in ARRA—at a cost of \$24 billion in 2011.

8. The Temporary Extension Act of 2010 continued Medicare payment rates for physicians at 2009 levels through March 30, 2010. CBO's estimate of the President's proposal, based on current law at the time the baseline estimate was completed, assumes that, in the absence of the proposal, payment rates dropped from 2009 levels at the end of February.

Proposals Affecting Discretionary Spending. For 2010, the Administration is requesting \$47 billion in supplemental funding. Of that amount, nearly \$35 billion would be appropriated for war-related activities in Iraq and Afghanistan—\$31 billion for military operations and \$4 billion for diplomatic operations and foreign aid. (The Department of Defense has also requested \$2 billion to address higher fuel costs in operations and activities unrelated to the war.) In addition, the President requests \$5 billion for disaster relief and almost \$5 billion to resolve discrimination claims by certain black farmers as well as to fund a settlement related to the management of funds held by the government for Native Americans. In total, CBO estimates, the proposed supplemental funding would increase outlays by \$10 billion this year and by \$37 billion in future years. Providing funding for the Pell Grant program through permanent law (rather than through appropriations) would also reduce discretionary outlays by nearly \$2 billion in 2010 (and \$177 billion from 2011 through 2020).

For 2011, the President has requested \$1.3 trillion in discretionary budget authority, an amount that is nearly identical to the total provided in 2010 if the requested supplemental funding is included in the latter (see Table 4). Total discretionary funding would drop over the following two years, to \$1.2 trillion, but would grow thereafter, reaching nearly \$1.5 trillion by 2020.

From 2010 to 2011, total funding for discretionary defense programs in the President's budget would grow by \$16 billion, or 2.2 percent. Budget authority unrelated to military operations in Iraq and Afghanistan would grow by more than 3 percent, or \$18 billion. Partially offsetting that increase, appropriations for the wars would edge down from \$161 billion (with the requested supplemental appropriations included) to \$159 billion.

For the period after 2011, the Administration's budget includes a placeholder of \$50 billion a year for war-related operations. As a result, proposed funding for defense overall would drop from \$733 billion in 2011 to \$642 billion in 2012 and would remain below the 2011 amount until 2018. Funding for defense activities other than for military operations in Iraq and Afghanistan would grow by an average of 3 percent annually through 2020.

Total nondefense discretionary budget authority requested by the President would fall from \$556 billion in 2010 to \$537 billion in 2011. Much of that drop would result from the proposal to change funding for Pell grants to mandatory from discretionary, which would reduce discretionary funding by \$18 billion in 2011. In that year, most programs in the nondefense discretionary category would receive about the same funding as appropriated for this year; however, programs the Administration classified as related to "security" would see a \$14 billion increase. Some decreases would occur because the supplemental funding requested for 2010 would not be repeated next year, and funding for the census would drop to \$1 billion in 2011 (from \$7 billion this year). All other nondefense appropriations would grow by \$4 billion. After 2011, programs classified as related to security would increase gradually, but funding for

other programs would remain flat through 2013; after that point, funding for programs not classified as related to security would also rise gradually through 2020.

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). Those revisions take into account new information gleaned from the President's budget and other sources, as well as any legislation enacted since the completion of the previous baseline in January.⁹

As is typical for CBO's March analyses, the agency used the same set of economic assumptions as in the January baseline. The information about the economy that has become available since the January forecast was developed indicates stronger growth in output during the second half of last year and slower growth in wages and salaries, but most other economic data—on inflation, interest rates, employment, total personal income, household spending, and business fixed investment—have been similar to the figures in the January forecast. On balance, the recent information indicates that CBO's January forecast remains a reasonable basis for budget projections.

CBO's March revisions to its baseline produce modest net changes to the estimates of the deficit this year and the cumulative 10-year total. CBO's current estimate of the deficit for 2010 is \$11 billion higher than the amount projected in January. The agency now estimates that, in the absence of further legislation affecting spending or revenues, the deficit in 2010 will reach \$1.36 trillion, up slightly from the \$1.35 trillion it projected earlier this year. (The President's proposals would add to CBO's baseline projections of this year's and future deficits.) Changes to projections of the cumulative deficit for the 2011–2020 period are similarly modest but result in a net decrease; assuming the continuation of current laws and policies, CBO estimates a 10-year deficit totaling \$5.98 trillion, down \$63 billion from the \$6.05 trillion projected in January. As a share of GDP, CBO's estimate of the baseline deficit over the 2011–2020 period is unchanged, at 3.2 percent.

The revisions to CBO's baseline projections result almost entirely from technical updates. Although some pieces of legislation have been enacted into law since the agency published its January baseline, the estimated changes in revenues and outlays associated with them are negligible.

For revenues, CBO raised its projections by relatively small amounts, about \$2 billion for 2010 and \$4 billion per year from 2011 to 2020. The largest change stems from increased projections of taxable income resulting from the Build America Bonds program.

9. For CBO's previous baseline projections, see Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2010 to 2020* (January 2010).

For 2010, the largest increase in estimated outlays, \$11 billion, is for the Troubled Asset Relief Program (TARP), resulting mostly from an updated assessment of the cost of assistance to the American International Group (AIG). CBO now estimates that the total cost of the TARP will be \$109 billion, compared with \$99 billion in the January baseline projections. In addition, the estimate of net spending in 2010 for Medicare has been boosted by \$6 billion, mainly because of a recent decision by the Department of Health and Human Services that will reduce payments from states that are used to offset some of the federal government's spending for Medicare's prescription drug program. Partially offsetting the increases in spending for the TARP and Medicare are reductions, of \$8 billion and \$4 billion, respectively, in projected outlays for federal higher education programs and discretionary programs.

Over the 2011–2020 period, changes in estimated outlays lower the projected cumulative deficit by \$26 billion, a net change dominated by a nearly \$100 billion decrease (about 3 percent) in projected outlays for Medicaid. However, roughly \$68 billion in additional spending projected for veterans' benefits and services, Medicare, and Social Security offsets more than half of that reduction.

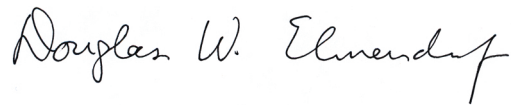
CBO reduced its estimate of federal outlays for Medicaid to reflect a change in its expectations about states' policies regarding the program. Recent evidence suggests that the weak economy, projected shortfalls in state budgets, and the December 31, 2010, expiration of the higher federal matching share established under ARRA will lead states to take steps to lower the rate of growth in enrollment and their payments to providers; such actions will reduce federal outlays under this program as compared with the amounts in CBO's January baseline.

In the other direction, CBO has raised its estimate of outlays for veterans' benefits and services by \$21 billion over the 10-year period, mostly to account for additional compensation payments to veterans for certain service-connected disabilities. Projected outlays for Medicare are also up, by a total of \$24 billion over the period, largely as a result of changes in projected enrollment and in the annual growth rate of per capita spending for the prescription drug program. CBO has also raised its estimate of outlays for Social Security by \$23 billion for the 2011–2020 period. That change stems from an increase in the number of beneficiaries and in the average monthly benefit payment expected in the Old-Age and Survivors Insurance program, coupled with a rise in applications in the Disability Insurance program.

Honorable Daniel K. Inouye
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I hope that you find CBO's analysis useful. If you have any questions about it, please contact me.

Sincerely,

A handwritten signature in black ink that reads "Douglas W. Elmendorf". The signature is written in a cursive style with a large initial 'D' and a long, sweeping tail on the 'f'.

Douglas W. Elmendorf
Director

Attachments: Tables 1-5

Identical letter sent to the Honorable Thad Cochran.

Table 1.

Comparison of Projected Revenues, Outlays, and Deficits in CBO's March 2010 Baseline and CBO's Estimate of the President's Budget

(Billions of dollars)

	Actual												Total, 2011-	Total, 2011-
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2015	2020
CBO's Baseline														
Revenues	2,105	2,177	2,673	2,967	3,221	3,469	3,629	3,818	4,000	4,174	4,355	4,567	15,959	36,874
Outlays	3,518	3,537	3,668	3,608	3,746	3,931	4,100	4,330	4,520	4,707	4,996	5,250	19,054	42,857
Total Deficit	-1,413	-1,360	-995	-641	-525	-462	-471	-512	-520	-533	-640	-683	-3,094	-5,984
CBO's Estimate of the President's Budget														
Revenues	2,105	2,118	2,461	2,807	3,095	3,341	3,504	3,693	3,869	4,031	4,212	4,417	15,208	35,429
Outlays	3,518	3,618	3,802	3,722	3,842	4,065	4,297	4,587	4,808	5,032	5,364	5,670	19,728	45,190
Total Deficit	-1,413	-1,500	-1,341	-915	-747	-724	-793	-894	-940	-1,001	-1,152	-1,253	-4,520	-9,761
Difference Between CBO's Estimate of the President's Budget and CBO's Baseline														
Revenues	n.a.	-59	-213	-160	-127	-128	-125	-125	-131	-143	-144	-150	-752	-1,444
Outlays	n.a.	81	134	114	96	134	197	257	288	325	368	420	674	2,333
Total Deficit^a	n.a.	-140	-346	-274	-222	-262	-322	-382	-420	-468	-512	-570	-1,426	-3,777
Memorandum:														
Total Deficit as a Percentage of GDP														
CBO's baseline	-9.9	-9.3	-6.6	-4.1	-3.1	-2.6	-2.6	-2.7	-2.6	-2.6	-3.0	-3.0	-3.7	-3.2
CBO's estimate of the President's budget	-9.9	-10.3	-8.9	-5.8	-4.5	-4.1	-4.3	-4.7	-4.7	-4.8	-5.3	-5.6	-5.4	-5.2
Debt Held by the Public as a Percentage of GDP														
CBO's baseline	53.0	61.7	65.7	67.0	66.6	65.9	65.6	65.8	65.9	66.2	66.8	67.5	n.a.	n.a.
CBO's estimate of the President's budget	53.0	63.2	70.1	73.6	74.8	75.7	77.4	79.6	81.8	84.3	87.1	90.0	n.a.	n.a.

Source: Congressional Budget Office.

Notes: GDP = gross domestic product; n.a. = not applicable.

a. Negative numbers indicate an increase relative to the deficit in CBO's baseline.

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

	Actual												Total, 2011-	Total, 2011-
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2015	2020
In Billions of Dollars														
Revenues														
On-budget	1,451	1,477	1,788	2,097	2,339	2,545	2,667	2,819	2,956	3,081	3,224	3,386	11,436	26,901
Off-budget	654	642	673	711	755	796	837	874	913	950	988	1,031	3,772	8,528
Total	2,105	2,118	2,461	2,807	3,095	3,341	3,504	3,693	3,869	4,031	4,212	4,417	15,208	35,429
Outlays														
Mandatory spending	2,094	2,034	2,157	2,091	2,176	2,322	2,454	2,636	2,752	2,871	3,084	3,267	11,199	25,808
Discretionary spending	1,237	1,375	1,401	1,334	1,301	1,303	1,323	1,355	1,381	1,407	1,446	1,487	6,662	13,737
Net interest	187	209	244	298	365	440	520	596	676	755	834	916	1,867	5,645
Total	3,518	3,618	3,802	3,722	3,842	4,065	4,297	4,587	4,808	5,032	5,364	5,670	19,728	45,190
On-budget	3,001	3,061	3,223	3,117	3,205	3,398	3,598	3,852	4,032	4,212	4,497	4,751	16,541	37,884
Off-budget	517	557	579	606	637	667	699	736	776	820	867	920	3,187	7,306
Deficit (-) or Surplus	-1,413	-1,500	-1,341	-915	-747	-724	-793	-894	-940	-1,001	-1,152	-1,253	-4,520	-9,761
On-budget	-1,550	-1,585	-1,435	-1,020	-865	-854	-931	-1,033	-1,076	-1,131	-1,273	-1,365	-5,105	-10,983
Off-budget	137	85	93	105	118	130	138	139	136	130	121	112	585	1,222
Debt Held by the Public	7,545	9,221	10,510	11,578	12,467	13,329	14,256	15,297	16,396	17,558	18,875	20,298	n.a.	n.a.
Memorandum:														
Gross Domestic Product	14,236	14,595	14,992	15,730	16,676	17,606	18,421	19,223	20,036	20,823	21,667	22,544	83,425	187,719
As a Percentage of Gross Domestic Product														
Revenues														
On-budget	10.2	10.1	11.9	13.3	14.0	14.5	14.5	14.7	14.8	14.8	14.9	15.0	13.7	14.3
Off-budget	4.6	4.4	4.5	4.5	4.5	4.5	4.5	4.5	4.6	4.6	4.6	4.6	4.5	4.5
Total	14.8	14.5	16.4	17.8	18.6	19.0	19.0	19.2	19.3	19.4	19.4	19.6	18.2	18.9
Outlays														
Mandatory spending	14.7	13.9	14.4	13.3	13.0	13.2	13.3	13.7	13.7	13.8	14.2	14.5	13.4	13.7
Discretionary spending	8.7	9.4	9.3	8.5	7.8	7.4	7.2	7.0	6.9	6.8	6.7	6.6	8.0	7.3
Net interest	1.3	1.4	1.6	1.9	2.2	2.5	2.8	3.1	3.4	3.6	3.9	4.1	2.2	3.0
Total	24.7	24.8	25.4	23.7	23.0	23.1	23.3	23.9	24.0	24.2	24.8	25.2	23.6	24.1
On-budget	21.1	21.0	21.5	19.8	19.2	19.3	19.5	20.0	20.1	20.2	20.8	21.1	19.8	20.2
Off-budget	3.6	3.8	3.9	3.9	3.8	3.8	3.8	3.8	3.9	3.9	4.0	4.1	3.8	3.9
Deficit (-) or Surplus	-9.9	-10.3	-8.9	-5.8	-4.5	-4.1	-4.3	-4.7	-4.7	-4.8	-5.3	-5.6	-5.4	-5.2
On-budget	-10.9	-10.9	-9.6	-6.5	-5.2	-4.8	-5.1	-5.4	-5.4	-5.4	-5.9	-6.1	-6.1	-5.9
Off-budget	1.0	0.6	0.6	0.7	0.7	0.7	0.8	0.7	0.7	0.6	0.6	0.5	0.7	0.7
Debt Held by the Public	53.0	63.2	70.1	73.6	74.8	75.7	77.4	79.6	81.8	84.3	87.1	90.0	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

(Billions of dollars)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total, 2011-	Total, 2011-
												2015	2020
Total Deficit as Projected in CBO's March 2010 Baseline	-1,360	-995	-641	-525	-462	-471	-512	-520	-533	-640	-683	-3,094	-5,984
Effect of the President's Proposals													
Revenues													
Provisions related to EGTRRA and JGTRRA ^a													
Modify individual income tax rates ^b	0	-67	-99	-106	-113	-118	-123	-128	-133	-138	-143	-503	-1,169
Provide relief from the marriage penalty	0	-18	-26	-28	-30	-31	-32	-33	-34	-35	-36	-134	-306
Modify capital gains and dividend tax rates ^c	*	-5	-16	-20	-22	-25	-27	-29	-30	-32	-33	-88	-238
Modify estate and gift tax rates	*	5	-18	-21	-25	-28	-30	-32	-33	-35	-37	-87	-253
Extend child tax credit provisions ^d	0	-6	-12	-12	-13	-13	-13	-13	-13	-13	-13	-56	-120
Other provisions	0	-4	-9	-8	-8	-7	-7	-6	-6	-6	-7	-37	-68
Subtotal	*	-95	-180	-196	-210	-223	-232	-241	-250	-259	-269	-904	-2,154
Index the AMT starting from 2009 levels ^a	-6	-66	-32	-36	-41	-46	-52	-60	-70	-81	-93	-221	-577
Allowance for health care legislation	0	16	18	41	57	76	90	98	107	116	127	207	743
Limit the tax rate at which itemized deductions reduce tax liability	0	7	22	24	26	29	31	34	36	38	41	109	289
Reform the U.S. international tax system	0	6	12	12	13	13	14	14	8	14	15	57	122
Impose a "Financial Crisis Responsibility Fee"	0	8	8	9	9	9	9	9	9	10	10	43	90
Modify and extend the Build America													
Bonds program	0	*	2	4	5	7	9	10	12	14	16	19	80
Extend the Making Work Pay tax credit	0	-29	-13	0	0	0	0	0	0	0	0	-42	-42
Jobs initiatives	-16	-24	0	0	0	0	0	0	0	0	0	-24	-24
Other proposals	-36	-37	3	17	13	9	7	6	4	4	4	5	29
Total Effect on Revenues	-59	-213	-160	-127	-128	-125	-125	-131	-143	-144	-150	-752	-1,444
Outlays													
Mandatory													
Allowance for health care legislation	6	-7	-17	2	30	73	102	100	101	104	107	80	593
Refundable tax credits	*	*	61	42	42	41	42	42	43	44	45	185	401
Modify Pell grants ^e	2	14	33	35	38	37	39	41	43	46	49	157	374
Freeze Medicare's physician payment rates	6	15	19	22	23	26	29	32	35	40	45	105	286
Modify and extend the Build America													
Bonds program	0	1	3	4	6	8	10	11	13	15	17	21	88
Jobs initiatives	12	25	8	3	2	0	0	0	0	0	0	38	38
Direct lending for student loans	-1	-6	-8	-7	-7	-7	-7	-6	-6	-7	-7	-35	-67
Other proposals	47	57	9	12	12	10	10	9	8	7	6	100	139
Subtotal, mandatory	72	99	108	112	145	188	223	229	237	250	262	652	1,853

Continued

Table 3.

Continued

CBO's Estimate of the Effect of the President's Budget on Baseline Deficits

(Billions of dollars)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total, 2011- 2015	Total, 2011- 2020
Outlays (Continued)													
Discretionary													
Defense	8	33	-1	-36	-49	-50	-50	-48	-47	-46	-44	-105	-339
Nondefense	<u>1</u>	<u>-4</u>	<u>-9</u>	<u>-8</u>	<u>-3</u>	<u>1</u>	<u>4</u>	<u>5</u>	<u>5</u>	<u>7</u>	<u>14</u>	<u>-24</u>	<u>11</u>
Subtotal, discretionary	8	29	-10	-44	-53	-50	-46	-44	-42	-39	-30	-128	-329
Net interest	<u>1</u>	<u>6</u>	<u>16</u>	<u>28</u>	<u>42</u>	<u>59</u>	<u>80</u>	<u>103</u>	<u>130</u>	<u>157</u>	<u>188</u>	<u>150</u>	<u>808</u>
Total Effect on Outlays	81	134	114	96	134	197	257	288	325	368	420	674	2,333
Total Effect on the Deficit^f	-140	-346	-274	-222	-262	-322	-382	-420	-468	-512	-570	-1,426	-3,777
Total Deficit Under the President's Proposals as Estimated by CBO	-1,500	-1,341	-915	-747	-724	-793	-894	-940	-1,001	-1,152	-1,253	-4,520	-9,761
Memorandum:													
Total Deficit Under the President's Proposals as Estimated by OMB	-1,556	-1,267	-828	-727	-706	-752	-778	-778	-785	-908	-1,003	-4,280	-8,532

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; OMB = Office of Management and Budget.

- a. The estimated effects of the President's proposals related to EGTRRA and JGTRRA interact with the proposal to index the AMT. This analysis first estimates the revenue effects of the proposal for the AMT relative to projections under current law, and it then estimates the proposals related to EGTRRA and JGTRRA relative to projections under current law modified for the proposed changes to the AMT. Thus, the estimate for the proposals related to EGTRRA and JGTRRA includes estimated losses in revenues that would result from interactions with the AMT proposal.
- b. The estimates include the effects of maintaining, for taxpayers with income above certain levels, the income tax rates of 36 percent and 39.6 percent scheduled to go into effect in 2011 under current law. For the remaining taxpayers, tax rates would be at the levels for 2010 specified in EGTRRA.
- c. The estimates include the effects of imposing a 20 percent tax rate on capital gains and dividends for taxpayers with income above certain levels, starting in January 2011. Tax rates for the remaining taxpayers would be at the levels for 2010 specified in JGTRRA.
- d. The estimates include the effects of extending the \$1,000 child tax credit enacted in EGTRRA and the reduced earnings threshold for the refundable portion, which was enacted in the American Recovery and Reinvestment Act of 2009.
- e. The current Pell Grant program includes both discretionary and mandatory components. CBO's estimate of the costs of modifying Pell grants includes indexing the maximum award level for future years (beginning in 2011), making changes to the formulas that determine eligibility for grants, and replacing the existing discretionary spending with new mandatory spending. That change would result in eliminating discretionary spending for Pell grants from CBO's baseline, which currently includes \$177 billion in outlays for new grant awards over the 2011–2020 period.
- f. Negative numbers indicate an increase in the deficit.

Table 4.

Proposed Changes in Discretionary Budget Authority in the President's Budget, 2009 to 2011

	Actual 2009	Administration's Request		Percentage Change	
		2010	2011	2009-2010	2010-2011
Discretionary Budget Authority					
Defense					
War-related	146	161	159	10.0	-1.0
Other	<u>549</u>	<u>556</u>	<u>574</u>	1.4	3.2
Subtotal	695	717	733	3.2	2.2
Nondefense					
War-related	8	4	0	-41.0	-100.0
Other	<u>791</u>	<u>552</u>	<u>537</u>	-30.2	-2.7
Subtotal	798	556	537	-30.3	-3.5
Total	1,493	1,273	1,270	-14.7	-0.3
Memorandum:					
Discretionary Budget Authority					
Excluding Funding for ARRA					
Defense					
War-related	146	161	159	10.0	-1.0
Other	<u>536</u>	<u>556</u>	<u>574</u>	3.8	3.2
Subtotal	682	717	733	5.1	2.2
Nondefense					
War-related	8	4	0	-41.0	-100.0
Other	<u>523</u>	<u>552</u>	<u>537</u>	5.6	-2.7
Subtotal	530	556	537	4.9	-3.5
Total	1,213	1,273	1,270	5.0	-0.3

Source: Congressional Budget Office.

Notes: Does not include obligation limitations for certain transportation programs.

ARRA = American Recovery and Reinvestment Act of 2009.

Table 5.

Changes in CBO's Baseline Projections of the Deficit Since January 2010

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total, 2011- 2015	Total, 2011- 2020
Total Deficit as Projected in January 2010	-1,349	-980	-650	-539	-475	-480	-521	-525	-542	-649	-687	-3,124	-6,047
Changes to Revenue Projections													
Legislative changes	*	*	0	0	0	0	0	0	0	0	0	*	*
Technical changes	<u>2</u>	<u>4</u>	<u>4</u>	<u>4</u>	<u>4</u>	<u>4</u>	<u>4</u>	<u>4</u>	<u>4</u>	<u>4</u>	<u>4</u>	<u>18</u>	<u>37</u>
Total Changes to Revenues	2	4	4	4	4	4	4	4	4	4	4	18	37
Changes to Outlay Projections													
Legislative changes													
Mandatory outlays	*	*	*	*	*	*	*	*	*	*	*	*	*
Net interest	*	*	*	*	*	*	*	*	*	*	*	*	*
Subtotal, legislative	*	*	*	*	*	*	*	*	*	*	*	*	*
Technical changes													
Mandatory outlays													
Medicaid	-3	-5	-5	-8	-11	-11	-11	-10	-11	-13	-14	-41	-99
Student loans	-8	*	-3	-3	-3	-3	-3	-3	-3	-3	-3	-13	-26
Medicare	6	6	-2	-3	-1	2	4	4	4	4	5	2	24
Social Security	2	2	2	2	2	2	2	2	2	3	4	9	23
Veterans' benefits and services	5	4	1	1	2	2	2	2	2	2	2	10	21
Unemployment compensation	4	4	0	0	0	0	0	0	0	0	0	4	4
TARP	11	*	*	*	*	*	*	*	*	*	*	*	-1
Other	<u>-1</u>	<u>1</u>	<u>1</u>	<u>-3</u>	<u>1</u>	<u>3</u>	<u>4</u>	<u>4</u>	<u>1</u>	<u>1</u>	<u>3</u>	<u>4</u>	<u>17</u>
Subtotal, mandatory outlays	16	13	-7	-14	-11	-6	-2	-1	-4	-4	-3	-24	-39

Continued

Table 5.

Continued

Changes in CBO's Baseline Projections of the Deficit Since January 2010

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total, 2011-	Total, 2011-	
												2015	2020	
Changes to Outlay Projections (Continued)														
Discretionary outlays	-4	2	*	-1	-1	-1	-1	-1	-1	-1	-2	-1	-2	-8
Net interest														
Debt service	1	2	1	1	1	1	2	3	5	6	9	7	31	
Other	<u>1</u>	<u>2</u>	<u>1</u>	<u>3</u>	<u>2</u>	<u>1</u>	<u>-4</u>	<u>-3</u>	<u>-4</u>	<u>-5</u>	<u>-4</u>	<u>8</u>	<u>-11</u>	
Subtotal, net interest	2	4	2	4	3	2	-2	1	1	1	5	15	21	
Subtotal, technical	13	18	-5	-10	-9	-5	-5	-1	-5	-5	1	-11	-26	
Total Changes to Outlays	13	18	-5	-10	-9	-5	-5	-1	-5	-5	1	-11	-26	
Total Impact on the Deficit^a	-11	-15	8	14	13	9	9	5	9	8	3	29	63	
Total Deficit as Projected in March 2010	-1,360	-995	-641	-525	-462	-471	-512	-520	-533	-640	-683	-3,094	-5,984	
Memorandum:														
Total Legislative Changes	*	*	*	*	*	*	*	*	*	*	*	*	*	*
Total Technical Changes	-11	-15	8	14	13	9	9	5	9	8	3	29	63	

Source: Congressional Budget Office.

Note: * = between -\$500 million and \$500 million; TARP = Troubled Asset Relief Program.

a. Negative numbers indicate an increase in the deficit.