CONGRESSIONAL BUDGET OFFICE
U.S. Congress
Washington, DC 20515

Peter R. Orszag, Director

March 14, 2008

Honorable John M. Spratt Jr.
Chairman
Committee on the Budget
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

In response to your request, the Congressional Budget Office (CBO) has analyzed the long-term budgetary effects of several policy scenarios.

In *The Long-Term Budget Outlook,* published in December 2007, CBO presented various measures of long-term (75-year) outcomes for the budget under two projection scenarios: an "extended-baseline scenario" and an "alternative fiscal scenario." The extended-baseline scenario, which adheres closely to current law, follows CBO's 10-year baseline from 2008 to 2018 and then extends the baseline concept in its projections for the rest of the 75-year projection period, to 2082. Under that scenario, the Medicare program continues to operate as specified under current law and the changes in tax rates and in other provisions of the tax code that are specified in current law occur as scheduled. By comparison, the alternative fiscal scenario deviates from CBO's baseline projections even during the next 10 years, incorporating some changes in policy that are widely expected to occur and that policymakers have regularly made in the past.

As requested in your letter, CBO has analyzed three variations of the extended-baseline scenario, which would follow the assumptions of that scenario but with the following differences:

- The first variation would eliminate spending for Medicare Part D (the prescription drug benefit) in 2008 and later;

- The second variation would permanently extend the individual income tax provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA), and the Working Families Tax Relief Act of 2004 (WFTRA) that are currently scheduled to expire after 2010;[1] and

- The third variation would combine those two policies.

One of the measures of long-term outcomes that CBO presented in its December report was the fiscal gap. As used there and in this context, the gap is defined as the immediate and permanent change in spending or revenues that would reduce the government's projected debt in 2082 to its current level as a share of gross domestic product (GDP).

Under the extended-baseline scenario, the fiscal gap, measured as a percentage of GDP, would be 1.7 percent, CBO estimates. In 2082, federal debt would account for 240 percent of GDP, net interest would total 11 percent of GDP, and the total deficit would account for 18 percent of GDP.

For the alternative 75-year scenarios you specified, CBO's analysis indicates that outcomes would differ from those projected under the extended-baseline scenario as follows:

- Under the extended-baseline scenario's assumption about taxes (that is, provisions scheduled to expire are allowed to do so) and the assumption of no spending for Medicare Part D after 2007, the present value of outlays over the 2008–2082 period would be lower (by 0.9 percent of GDP). [2] The fiscal gap would be correspondingly reduced, resulting in a projected fiscal gap of 0.8 percent of GDP. Federal debt would rise to 130 percent of GDP in 2082 (rather than 240 percent of GDP). In that year, net interest would be 6 percent of GDP, and the total deficit would be 11 percent of GDP.

1. As noted in the text below, CBO's analysis does not incorporate the effects of extending the gift and estate tax provisions of this legislation. The fiscal gap (defined in the text) would increase by an additional 0.7 percent of gross domestic product over the next 75 years if the only result of extending the estate and gift tax provisions were to eliminate all revenues from those taxes from CBO's long-term baseline.

2. The present value is a single number that summarizes a flow of current and future revenues or outlays, taking into account the time value of money.

- Alternatively, under the assumptions that the expiring income tax provisions are instead extended and Medicare Part D continues to operate as it does under current law, the present value of revenues over the 75-year period would be lower (by 0.7 percent of GDP), resulting in a projected fiscal gap of 2.4 percent of GDP. Federal debt would rise to 326 percent of GDP in 2082. Net interest in 2082 would be 15 percent and the total deficit 23 percent of GDP.

- Under the assumptions that the expiring tax provisions are extended and no spending occurs for Medicare Part D after 2007, outlays and revenues would both be lower (by 0.9 percent and 0.7 percent of GDP, respectively), resulting in a fiscal gap of 1.5 percent of GDP. Federal debt would rise to 217 percent of GDP in 2082, and net interest would be 10 percent and the total deficit 16 percent of GDP.

CBO's estimates of the effects of extending the provisions of EGTRRA, JGTRRA, and WFTRA beyond their scheduled expiration at the end of 2010 are sensitive to assumptions about possible changes to the alternative minimum tax (AMT). Therefore, CBO also calculated the incremental effects of extending the tax provisions under the assumption that legislation had first been enacted to index the AMT's 2007 parameters (including the higher exemption amounts for that year) for inflation. If the AMT was indexed, the incremental effect of extending the individual income tax provisions would be greater: Such an extension would reduce the 75-year present value of revenues by 1.4 percent of GDP (in addition to the loss of revenues that would result from indexing the AMT) rather than by 0.7 percent of GDP—the reduction under the extended-baseline scenario.

For its long-term budget outlook, CBO limited its analysis to the estimated effects of extending the individual income tax provisions of EGTRRA, JGTRRA, and WFTRA and did not assess the effects of permanently extending provisions applicable to the estate and gift tax. If the only result of extending the estate and gift tax provisions were to eliminate all revenues from those taxes from CBO's long-term baseline, the fiscal gap would increase by an additional 0.7 percent of GDP over the next 75 years.

The attached tables present estimates of the 75-year present values of revenues and outlays, the 75-year fiscal gap, the budget deficit and net interest spending in 2082, and the ratio of debt to GDP under the specified scenarios. (The values for those estimates under CBO's extended-baseline and alternative fiscal scenarios are taken from *The Long-Term Budget Outlook.*)

I hope this information is helpful to you. The staff contact is Noah Meyerson, who can be reached at 225-2592.

Sincerely,

Peter R. Orszag
Director

Attachment: Tables 1–3

cc: Honorable Paul Ryan
Ranking Member

Table 1.

CBO's Projections of the Present Value of Total Outlays and Revenues for the 2008–2082 Period as a Percentage of Gross Domestic Product Under Various Budget Scenarios

	Revenues	Outlays	Fiscal Gap[a]
Extended-Baseline Scenario[b]	22.1	23.8	1.7
Variations of the Extended-Baseline Scenario[b]			
Eliminate Medicare Part D beginning in 2008	22.1	22.9	0.8
Extend individual income tax provisions of major tax bills[c]	21.4	23.8	2.4
Eliminate Medicare Part D beginning in 2008 and extend individual income tax provisions of major tax bills[c]	21.4	22.9	1.5
Memorandum:			
Alternative Fiscal Scenario[d]	19.2	26.1	6.9

Source: Congressional Budget Office.

Note: AMT = alternative minimum tax.

a. The extended-baseline scenario adheres closely to current law, following CBO's 10-year baseline budget projections from 2008 to 2017 and then extending the baseline concept in its projections for the rest of the years in the 75-year projection period, to 2082.

b. The fiscal gap is the immediate and permanent change in spending or revenues that would reduce the government's projected debt in 2082 to its current level as a share of GDP.

c. Specifically, provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001, the Jobs and Growth Tax Relief Reconciliation Act of 2003, and the Working Families Tax Relief Act of 2004. CBO did not assess the effects of permanently extending provisions applicable to the estate and gift tax.

d. The alternative fiscal scenario deviates from CBO's baseline projections even during the next 10 years, incorporating some changes in policy that are widely expected to occur and that policymakers have regularly made in the past.

Table 2.

CBO's Projections of the Primary Deficit, Net Interest Costs, and the Total Deficit in 2082 as a Percentage of Gross Domestic Product Under Various Budget Scenarios

	Primary Deficit[a]	Net Interest	Total Deficit
Extended-Baseline Scenario[b]	7.1	11.0	18.1
Variations of the Extended-Baseline Scenario[b]			
Eliminate Medicare Part D beginning in 2008	4.9	5.9	10.8
Extend individual income tax provisions of major tax bills[c]	7.8	15.1	22.9
Eliminate Medicare Part D beginning 2008 and extend individual income tax provisions of major tax bills[c]	5.7	10.0	15.7
Memorandum:			
Alternative Fiscal Scenario[d]	14.4	40.1	54.5

Source: Congressional Budget Office.

a. The primary deficit equals all outlays other than those for net interest minus revenues.

b. The extended-baseline scenario adheres closely to current law, following CBO's 10-year baseline budget projections from 2008 to 2017 and then extending the baseline concept in its projections for the rest of the years in the 75-year projection period, to 2082.

c. Specifically, provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001, the Jobs and Growth Tax Relief Reconciliation Act of 2003, and the Working Families Tax Relief Act of 2004. CBO did not assess the effects of permanently extending provisions applicable to the estate and gift tax.

d. The alternative fiscal scenario deviates from CBO's baseline projections even during the next 10 years, incorporating some changes in policy that are widely expected to occur and that policymakers have regularly made in the past.

Table 3.

CBO's Projections of Debt as a Percentage of Gross Domestic Product Under Various Budget Scenarios

		Variations of the Extended-Baseline Scenario[a]			
	Extended-Baseline Scenario[a]	Eliminate Medicare Part D Beginning in 2008	Extend Individual Income Tax Provisions of Major Tax Bills[b]	Eliminate Medicare Part D Beginning in 2008 and Extend Individual Income Tax Provisions of Major Tax Bills[b]	Memorandum: Alternative Fiscal Scenario[c]
2007	36	36	36	36	36
2008	36	36	36	36	36
2009	35	35	35	35	36
2010	34	34	34	34	36
2011	32	32	34	34	36
2012	30	30	33	33	37
2013	28	28	32	32	38
2014	26	26	31	31	39
2015	24	24	30	30	41
2016	22	22	29	29	43
2017	20	20	28	28	45
2018	18	18	27	27	47
2019	17	16	27	26	50
2020	15	14	26	25	53
2021	14	12	26	24	56
2022	13	11	26	24	60
2023	12	9	26	23	64
2024	12	8	27	23	68
2025	11	7	28	24	73
2026	11	6	29	24	79
2027	11	6	30	24	85
2028	12	5	31	25	90
2029	12	5	32	25	96
2030	12	5	34	26	103
2031	13	4	36	27	109
2032	14	5	38	28	116
2033	15	5	39	29	123
2034	16	5	42	30	131
2035	18	5	44	32	139
2036	19	6	46	33	147
2037	21	6	49	34	156
2038	23	7	52	36	165
2039	24	8	55	38	174
2040	26	8	57	39	183
2041	28	9	61	41	193
2042	30	10	64	43	203
2043	33	11	67	45	213

Continued

Table 3. **Continued**

CBO's Projections of Debt as a Percentage of Gross Domestic Product Under Various Budget Scenarios

		Variations of the Extended-Baseline Scenario[a]			
	Extended-Baseline Scenario[a]	Eliminate Medicare Part D Beginning in 2008	Extend Individual Income Tax Provisions of Major Tax Bills[b]	Eliminate Medicare Part D Beginning in 2008 and Extend Individual Income Tax Provisions of Major Tax Bills[b]	Memorandum: Alternative Fiscal Scenario[c]
2044	35	12	70	47	223
2044	35	12	70	47	223
2045	37	13	74	49	234
2046	40	14	77	51	245
2047	42	15	81	53	257
2048	45	16	84	56	268
2049	47	17	88	58	280
2050	50	18	92	60	292
2051	53	20	96	63	304
2052	56	21	101	65	317
2053	60	23	105	68	330
2054	63	24	109	71	344
2055	66	26	114	73	357
2056	70	28	119	76	372
2057	74	29	124	80	386
2058	78	31	129	83	401
2059	82	34	134	86	415
2060	87	36	140	90	431
2061	91	38	146	94	447
2062	96	41	152	98	463
2063	101	44	158	102	479
2064	106	47	165	106	495
2065	111	50	171	110	512
2066	117	53	178	115	529
2067	123	56	185	120	547
2068	129	60	193	125	565
2069	135	64	200	130	584
2070	142	68	208	135	602
2071	149	72	217	141	622
2072	156	76	225	147	641
2073	163	81	234	152	661
2074	170	85	243	159	681
2075	178	90	252	165	701
2076	186	95	262	172	721
2077	194	100	272	178	743

Continued

Table 3. **Continued**

CBO's Projections of Debt as a Percentage of Gross Domestic Product Under Various Budget Scenarios

		Variations of the Extended-Baseline Scenario[a]			
	Extended-Baseline Scenario[a]	Eliminate Medicare Part D Beginning in 2008	Extend Individual Income Tax Provisions of Major Tax Bills[b]	Eliminate Medicare Part D Beginning in 2008 and Extend Individual Income Tax Provisions of Major Tax Bills[b]	Memorandum: Alternative Fiscal Scenario[c]
2078	203	106	282	185	765
2079	211	111	292	193	787
2080	221	117	303	200	810
2081	230	123	314	208	835
2082	240	130	326	217	859

Source: Congressional Budget Office.

a. The extended-baseline scenario adheres closely to current law, following CBO's 10-year baseline budget projections from 2008 to 2017 and then extending the baseline concept in its projections for the rest of the years in the 75-year projection period, to 2082.

b. Specifically, provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001, the Jobs and Growth Tax Relief Reconciliation Act of 2003, and the Working Families Tax Relief Act of 2004. CBO did not assess the effects of permanently extending provisions applicable to the estate and gift tax.

c. The alternative fiscal scenario deviates from CBO's baseline projections even during the next 10 years, incorporating some changes in policy that are widely expected to occur and that policymakers have regularly made in the past.