Order Code RL32812

CRS Report for Congress

Received through the CRS Web

The Budget for Fiscal Year 2006

Updated July 21, 2005

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Summary

The Congressional Budget Office (CBO) released *The Budget and Economic Outlook: Fiscal Years 2006-2015* on January 25, 2005. CBO's baseline assumptions, for fiscal year (FY) 2005 through FY2015, had a FY2006 deficit of $295 billion (2.3% of gross domestic product (GDP)). This would be smaller than CBO's estimated FY2005 baseline deficit ($368 billion, 3.0% of GDP). Baseline estimates do not include assumptions about possible or likely future legislative budget changes. CBO's baseline assumes that the tax cuts of 2001 and 2003 will expire as currently scheduled in 2010, reverting the tax code to pre-tax cut levels and that there will be no additional funding for actions in Afghanistan or Iraq after FY2005.

On February 7, 2005, the President presented his FY2006 budget, containing proposals and estimates for FY2006 through FY2010. The proposal has a deficit of $390 billion (3.0% of GDP) in FY2006, and steadily declining deficits through FY2010. The budget did not include estimates of the cost of the war on terror beyond FY2005. It did not include cost estimates of the Administration's proposals for changes in Social Security. It did include specific proposals that, over five years, would reduce spending among the non-defense discretionary programs; slow the growth in defense spending; slow the growth in selected categories of mandatory spending; and make further tax cuts along with making permanent the 2001 and 2003 tax cuts.

CBO's estimate of the President's policy proposals (March 2005) had a smaller deficit ($332 billion, 2.6% of GDP), from slightly higher revenues and slightly lower outlays, than in the President's budget. Although the pattern of spending and receipts varies somewhat between the Administration totals and CBO reestimates, their cumulative amounts for receipts, outlays, and the deficit for FY2006 through FY2010 were similar.

Both the House (H.Con.Res.95) and Senate (S.Con.Res.18) adopted their respective budget resolutions for FY2006 on March 17, 2005. After extensive leadership discussions, a conference reported (H.Rept. 109-62) an agreement on the resolution on April 28, which both the House and Senate adopted later that day. The conference agreement included reconciliation instructions for three separate bills for spending reductions, tax cuts, and an increase in the debt limit.

By mid-July, 2005, the House had passed all 11 of its regular appropriation bills for FY2006; the Senate is expected to finish passing some, but not all of its 12 regular appropriation bills by August.

Actual and expected higher receipts allowed the Administration to reduce, in its *Mid-Session Review* (July 13, 2005), the deficit estimates throughout its forecast period (through FY2010). The smaller deficit estimates do not eliminate the deficit by FY2010 nor do they resolve the existing long-term budget imbalance.

This report will be updated as events warrant.

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Background and Analysis

Presidents submit their budget proposals for the upcoming fiscal year (FY) early in each calendar year. The Bush Administration released its FY2006 budget (*The Budget of the U.S. Government, Fiscal Year 2006)* on February 7, 2005. The multiple volumes contain general and specific descriptions of the Administration's policy proposals and expectations for the budget for FY2006 through FY2010. It includes a section on long-term fiscal issues facing the nation and provides limited information on the revenue and mandatory spending changes after 2010. The full set of budget documents (*Budget, Appendix, Analytical Perspectives, Historical Tables*, among several others) contains extensive and detailed budget information, including estimates of the budget without the proposed policy changes (current service baseline estimates), historical budget data, detailed budget authority, outlay and receipt data, selected analysis of specific budget related topics, and the Administration's economic forecast.[1] In addition to its presentation of the Administration's proposals, the budget documents are an annual reference source for federal budget information, including enacted appropriations.

The Administration's annual budget submission is followed by congressional action on the budget. This usually includes the annual budget resolution, appropriations, and, possibly, a reconciliation bill (or bills) as required by the budget resolution. Over the course of deliberation on the budget, the Administration often revises its original proposals as it interacts with Congress and as conditions change in the economy and the world.

The Current Situation

Since the adoption of the budget resolution in late April, both the House and Senate have begun passing appropriation bills for FY2006. The House has passed all 11 of its regular appropriations (by July 4, 2005). The Senate may pass up to half of its 12 regular appropriations by the beginning of August.

[1] Current services baseline estimates, and baseline estimates in general, are not meant to be predictions of future budget outcomes but instead are designed to provide a neutral measure against which to compare proposed policy changes. In general, they project current policy and enacted future changes into the future. Discretionary spending is increased by the rate of inflation. Their construction generally follows instructions in the Balanced Budget and Emergency Deficit Control Act of 1985 (DCA) and the Congressional Control and Impoundment Act of 1974.

The Administration's *Mid-Session Review* (July 13, 2005) included a smaller deficit estimate for FY2006 than was included in the original budget request (February 2005). Unexpectedly higher receipts in 2005 led the Administration to lower its deficit estimate for FY2006 (and for FY2005) from $390 billion (3.0% of GDP) to $341 billion (2.6% of GDP). The report also estimated that the cumulative five-year reduction in the deficit (including policy, economic, and technical changes) would come to $326 billion. The improved short-term deficit outlook has little effect on the long-term budget imbalance.

Budget Totals

Table 1 contains budget estimates for FY2006 from the Congressional Budget Office (CBO) and the Administration (the Office of Management and Budget, OMB); revisions produced by both during the year, as they become available; and data from congressional budget deliberations. Differences in totals result from differing underlying economic, technical, and budget-estimating assumptions and techniques, as well as differences in policy assumptions. Often the *policy*-generated dollar differences for an upcoming fiscal year are relatively small compared to the budget as a whole. These small differences may grow over time, sometimes substantially, producing widely divergent future budget paths. Budget estimates are generally expected to change over time from those originally proposed or estimated by the President, CBO, or Congress.

Table 1. Budget Estimates for FY2006

(in billions of dollars)

	Receipts	**Outlays**	**Deficit (-)/ Surplus**
CBO, BEO Baseline, 1/05	$2,212	$2,507	$-295
OMB, Budget Proposals, 2/05	2,178	2,568	-390
OMB, Budget, Current Services Baseline, 2/05	2,178	2,539	-361
CBO, Revised Baseline, 3/05	2,212	2,510	-298
CBO, EPP 3/05	2,210	2,542	-332
House Budget Resolution, 3/05	2,195	2,571	-376
Senate Budget Committee, 3/05	2,197	2,559	-362
Senate FY06 Budget Resolution 3/05	2,193	2,562	-368
Conf. Rept. Budget Resolution 4/28/05	2,195	2,577	-383
OMB MSR 7/13/05	2,273	2,613	-341

BEO — The *Budget and Economic Outlook*, CBO.
EPP — CBO's estimates of the President's proposals.
CSB — The Administration's current services baseline.
MSR — OMB's *Mid-Session Review*.

Budget Estimates and Proposals

CBO's first budget report for FY2006, the *Budget and Economic Outlook: Fiscal Years 2006-2015* (January 2005), contained baseline estimates and projections for FY2005 through FY2015. The report estimated a FY2006 deficit of $295 billion (down from an estimated $368 billion deficit in FY2005). By FY2010, the baseline deficit estimate had fallen to $189 billion. Under the baseline assumptions, CBO estimates increase discretionary spending at the rate of inflation; do not include extending the 2001 and 2003 tax cuts after 2010; and allow the alternative minimum tax (AMT) relief to expire as currently scheduled. The effects of these assumptions increase receipts in the near-term (because of the reversion of the AMT to previous law) and increase receipts by substantial amounts after FY2010 when most of the tax cuts from 2001 and 2003 expire under current law. The result of the assumptions that CBO must follow likely understates the size and persistence of the deficit over the next 10 years.

The CBO baseline assumptions show the budget remaining in deficit through FY2011 ($80 billion) followed by surpluses through FY2015 ($141 billion). The reduction in the deficit after calendar year 2010, leading to the surpluses, is largely explained by the required inclusion of the expiration of major tax cuts in the baseline estimates, producing a rapid increase in revenues.

CBO's budget reports generally include the estimated budgetary costs (including higher or lower debt-service costs) of selected policies not included in the baseline estimates. They usually reflect possible future policy, such as making the tax cuts permanent and fixing the AMT problem, or changing the rate of discretionary spending growth. In CBO's report, making the tax cuts permanent increases the five-year (FY2006-FY2010) cumulative deficit (including higher debt-service costs) by $156 billion, and by a cumulative $1.9 trillion over the 10-year period, FY2006-FY2015). CBO's estimate of reforming the alternative minimum tax produces a $218 billion five-year cumulative increase in the deficit and a $503 billion increase over 10 years (FY2006-FY2015). If discretionary spending grows at the rate of GDP, rather than at the rate of inflation, the five-year cumulative deficit increases by $378 billion and the 10-year cumulative deficit increases by $1.7 trillion. Freezing discretionary appropriations at the FY2005 level would *reduce* the five-year cumulative deficit by $294 billion and the 10-year cumulative deficit by $1.3 trillion.

President Bush's FY2006 budget called for extending and making permanent most of the tax cuts adopted in 2001 and 2003. The budget showed this reducing receipts by $53 billion between FY2006 and FY2010 and by $1.1 trillion between FY2006 and FY2015 (these estimates do not include the resulting higher debt-service costs resulting from the change). The Administration's total receipt proposals, which include other revenue changes, would reduce five-year receipts by $106 billion and 10-year receipts by $1.3 trillion.

The Administration again this year used a slightly modified set of assumptions to produce the OMB current services baseline estimates, moving the estimates somewhat closer together. Instead of following the traditional method of constructing baseline estimates, the Administration's FY2006 current services baseline assumed the extension of certain tax provisions (that by current law are scheduled to expire), excluded the future cost of one-time events, and included a timing adjustment to the calculation of federal pay increases. For FY2006, the differences produced an Administration current services baseline deficit estimate $9 billion smaller than the traditional baseline estimate. By FY2010, the Administration's estimated baseline deficit is $16 billion smaller than the traditional baseline deficit estimate.

The Administration's budget provided a limited amount of information for the years beyond FY2010. The budget did include estimates of the cumulative proposed revenue changes and proposed mandatory spending changes for the periods FY2006 through FY2010 and FY2006 through FY2015, but it contained no information for the individual years after FY2010.

The President's budget included a list of 150 discretionary program eliminations or reductions. According to Administration documentation, these changes would produce approximately $11 billion in budget authority (not outlay) savings in FY2006. The documentation did not indicate the size of the outlay savings that would result from the reduced budget authority.

CBO's March 2005 report analyzed the President's policy proposals using CBO's own underlying assumptions (such as the economic outlook) and budget estimating methods. The analysis produced smaller deficits in the first couple of years of the five year period in the President's budget and somewhat larger deficits in the later years. CBO extrapolated the policy proposals through FY2015, finding the budget remaining in deficit throughout the period. In CBO's estimates and projections, the deficit falls as a percentage of GDP from an estimated 2.6% of GDP in FY2006 to approximately 1.3% of GDP in FY2012, where it remains through FY2015.

The House-passed budget resolution (H.Con.Res. 95) closely followed the President's budget. The Senate passed budget resolution (S.Con.Res. 18) deviated from the House resolution by including smaller mandatory spending cuts in reconciliation instructions, larger tax cuts in reconciliation instructions, and a higher discretionary spending cap. The Senate made these changes to the Senate Budget Committee's reported resolution. The changes moved the House- and Senate-passed resolutions further apart, making reaching an agreement difficult and time consuming.

The conference agreement on the budget resolution passed by the House and Senate on April 28, 2005, included revenues of $2,195 billion, outlays of $2,577 billion, and a deficit of $383 billion. The resolution also included three reconciliation instructions that would, over five years, reduce mandatory spending (with the sources of the savings spread among several committees of jurisdiction in the House and Senate) by $35 billion, reduce total revenues by $70 billion, and raise the debt limit to $8.965 trillion. Over the five years covered by the budget resolution, its proposals will produce larger deficits than would have occurred without the included policy changes. CBO's March 2005 baseline deficit estimate was $298 billion while the resolution has a proposed deficit of $383 billion. Under the budget resolution proposals, the cumulative five-year deficit (for FY2006 through FY2010) is $1,797 billion; under CBO's March baseline (no policy changes), the five-year cumulative deficit is $1,232 billion, more than $550 billion smaller than the amounts proposed in the budget resolution.

The July 13, 2005 OMB release of the *Mid-Session Review* reflected the effect on the estimates of the higher than expected receipts flowing into the Treasury in 2005. The Administration showed the higher receipts (along with technical and economic changes) reducing the deficit through the five years forecast. Whether the higher receipts will persist through the years shown by the Administration or will disappear in a short time, is unsettled at this time.

Uncertainty in Budget Projections

All budget estimates and projections are inherently uncertain. Their dependence on assumptions that are themselves subject to substantial variation over short time periods makes budget estimates and projections susceptible to fairly rapid and dramatic changes.[2] Small changes in economic conditions, particularly the rate of GDP growth (from those used in the estimates) can produce large changes in the budget estimates. According to CBO, a persistent 0.1% increase in the growth rate of real GDP (beginning in January 2004) would reduce the deficit (including interest costs) by $51 billion cumulatively over a five-year period. This change would reduce the cumulative deficit by $236 billion over the next 10 years. Reductions in the rate of growth would increase the deficit by similar amounts over the same time periods.

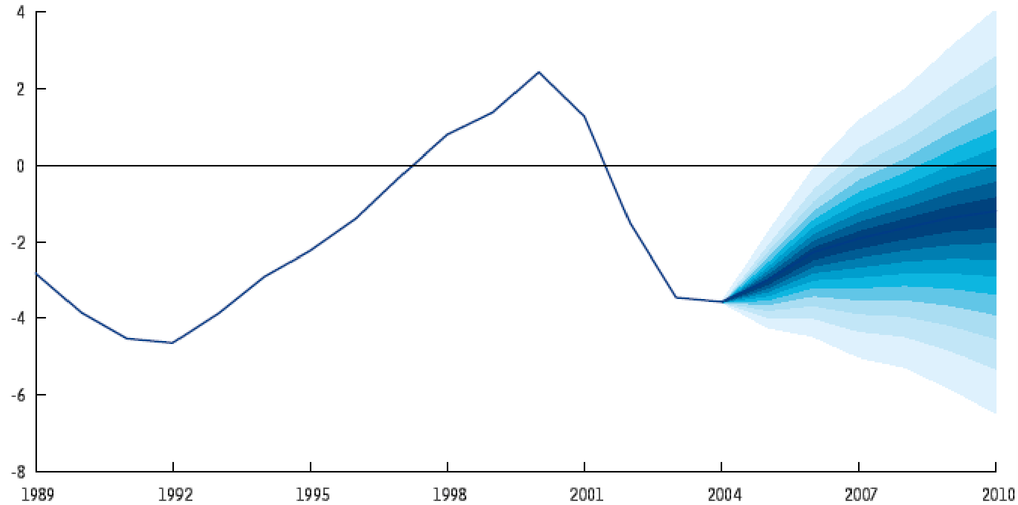
Figure 1 is from CBO's January 2005 *Budget and Economic Outlook*. CBO indicates that the most likely deficit or surplus outcomes (as percentages of GDP), through FY2010, are clustered in the center of the figure, in the darkest area. The lighter shades indicate the less likely outcomes. The distance from the top to the bottom of the image in the chart (the fan) represents the range within which CBO predicts that the deficit (or surplus) has a 90% chance of occurring. In FY2010 this ranges from a surplus of 4% of GDP to a deficit of 5% of GDP.

The President's (FY2006) budget included a chapter in the *Analytical Perspectives* volume titled "Comparison of Actual to Estimated Totals." The chapter examined the causes of the changes from the initial budget estimates for FY2004 through the actual results for that year. Like the CBO information, this provides another example of the uncertainty surrounding budget estimates. The chapter included a chart based on historical experience, that indicates the possible range of budget balance (surplus or deficit) outcomes with a 90% certainty. The range for the current year and following year (which the Administration calls the budget year) rise

[2] Some things are known with certainty about the direction of future spending and receipts. Demographics can partly determine the shape of future budgets. In the next decade, the growing retirements in the baby boom generation will rapidly drive higher the spending for Social Security and Medicare as well as other federal spending or tax breaks for the elderly. Because virtually all those who will become eligible for these benefits are alive today, estimating the growth in the populations eligible for these programs is relatively straightforward.

from $256 billion to $548 billion.[3] By five years beyond the current year, the range exceeds $1 trillion.

Figure 1. Uncertainty in CBO's Projections of the Surplus or Deficit Under Current Policies (Deficit or surplus as a percentage of GDP)



Source: Chart created by CBO; from *The Budget and Economic Outlook: FY2006-FY2015*, January 2005, p. 11.

Note: This figure, calculated on the basis of CBO's forecasting track record, shows the estimated likelihood of alternative projections of the budget deficit or surplus under current policies. The baseline projections described in this chapter fall in the middle of the darkest area of the figure. Under the assumption that tax and spending policies will not change, the probability is 10% that actual deficits or surpluses will fall in the darkest area and 90% that they will fall within the whole shaded area. Actual deficits or surpluses will be affected by legislation enacted in future years, including decisions about discretionary spending. The effects of future legislation are not reflected in this figure.

Budget projections are very dependent on the underlying assumptions about the direction of the economy, expected future government policy, and how these interact, along with other factors (such as changing demographics) that affect the budget. Any deviation from the assumptions used in the budget estimates, such as faster or slower economic growth, higher or lower inflation, differences from the expected or proposed spending and tax policies, or changes in the technical components of the budget models can have substantial effects on the budget estimates and projections.

Budget Action

CBO and the Administration released their first budget reports for FY2006, in late January and early February 2005, respectively. CBO's report provided baseline estimates for FY2005 through FY2015. The CBO baseline estimates, following the

[3] The current year is the fiscal year we are in: 2005. The budget year is the year that the President's budget covers — 2006 — and that Congress will pass legislation to implement.

instructions mandated by law, did not include any estimated cost for ongoing operations in Afghanistan and Iraq after FY2005 or any estimates of the Administration's proposed, but undefined, change in Social Security. The estimates assumed that the tax cuts adopted over the Administration's first term will expire in 2010 as required by current law and that the Alternative Minimum Tax (AMT) will revert to its previous incarnation when the temporary relief provisions expire at the end of FY2005. Some alternative assumptions about likely future policy might better represent the budget's likely future than the baseline estimates.

OMB's documents provided estimates for FY2005 through FY2010 with a few instances of cumulative estimates for FY2006 through FY2015 (these were limited to revenues and mandatory spending and provided no data for the individual fiscal years after FY2010). The budget also lacked detailed data on program or account spending beyond FY2005. The *Analytical Perspectives* volume of the President's budget provided the Administration's current services baseline estimates for the years through FY2010.

On March 4, 2005, CBO provided its preliminary estimates of the President's 2006 budget. The estimates takes the policies in the Administration's budget and recalculates the effect of those policy proposals using CBO's underlying assumptions and budget estimating methods. CBO's estimates produced smaller deficits than the Administration for FY2005 through FY2007. They were essentially the same in FY2008 and were larger than the Administration's proposals in FY2009 and FY2010. The full CBO report contained more details, a fuller discussion of the differences, and unchanged reestimates.

During the week of March 7, 2005, both the House and Senate Budget Committees adopted their respective versions of the budget resolution for FY2006 (H.Con.Res. 95; S.Con.Res. 18), on party-line votes. Both resolutions followed the general outline of the Administration's proposals: constraining discretionary spending; cutting the growth of some entitlement programs; and extending or making permanent various tax cuts, and some additional tax reduction. The House and Senate adopted their resolutions on March 17. The House, after defeating several substitutes, adopted the budget resolution as approved by the HBC. The Senate, after debate and a number or amendments, including increasing the size of the tax cut covered by the reconciliation instructions, reducing the mandatory spending cuts (from baseline estimates), and increasing the discretionary spending caps, adopted its budget resolution.

Resolving some of the differences between the House and Senate resolution became more difficult than initially hoped. By the end of April, the House and Senate leadership had reached an agreement on the FY2006 budget resolution. A conference committee reported (H.Rept. 109-62) the agreement on April 28, 2005, which was quickly (on the same day) adopted by the House and Senate. The House and Senate committees affected by the resolution's three sets of reconciliation instructions (reducing mandatory spending, reducing revenues, and raising the debt limit) are scheduled to report during September 2005.

By July 4, 2005, the House had passed all 11 of its regular appropriation bills for FY2006. The Senate had passed three of its twelve regular appropriation bills.

The Senate is expected to continue considering the appropriation bills through the rest of the summer. Differences between the House and Senate coverage in the various appropriations, as well as the differing content of the bills, may make for difficult conferences on the legislation.

Outlays

The Administration's FY2006 budget proposed $2,568 billion in outlays for FY2006, rising to $3,028 billion in FY2010, the last year shown in the President's budget. The Administration's proposals, if adopted, would raise outlays by $83 billion (3.6%) above the Administration's FY2005 outlay estimate and by 17.9% from FY2006 to FY2010. (Outlays are expected to grow by 8.2% between FY2004 and FY2005.) Measured against the Administration's FY2006 current services baseline outlay estimates, the proposed level of outlays grow by $29 billion (1.1%). The difference between the current services baseline outlay estimate and proposed outlays for FY2006 indicates the "cost" of the Administration's proposed policies. The year-to-year change (the $83 billion increase) combines the "costs" of policy changes from year to year with the relatively automatic growth in large parts of the budget. These automatic increases include cost-of-living adjustments, growth in populations eligible for program benefits, and inflation driven cost of goods and services bought by the government.

Table 2. Outlays for FY2004-FY2010 and FY2015

(in billions of dollars)

	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2015
CBO Baseline, 1/05	*$2,292* [a]	$2,425	$2,507	$2,618	$2,743	$2,869	$2,996	$3,706
President's FY06 Budget, 2/05		2,479	2,568	2,656	2,758	2,883	3,028	—
President's FY06 CSB, 2/05		2,443	2,539	2,650	2,770	2,897	3,048	—
CBO, Revised Baseline, 3/05		2,444	2,538	2,621	3,731	2,860	2,987	3,777
CBO, EPP 3/05		2,451	2,542	2,629	2,742	2,872	2,999	3,796
House FY06 Budget Resolution, 3/05		2,451	2,571	2,635	2,743	2,864	2,987	—
Senate Budg. Comm. Budg. Res., 3/05		2,455	2,559	2,651	2,755	2,874	2,999	—
Senate FY06 Budget Resolution 3/05		2,455	2,562	2,658	2,760	2,880	3,007	—
Conf. Rept. Budget Resolution 4/05		2,455	2,577	2,644	2,750	2,873	2,995	—
OMB MSR 7/13/05		2,472	2,613	2,661	2,750	2,888	3,063	—

a. Actual outlays for FY2004.
EPP — CBO's estimates of the President's proposals.
CSB — The Administration's current services baseline.
MSR — OMB's *Mid-Session Review*.

As it did in last year's budget, the Administration modified some of the underlying policy assumptions in creating its current services baseline estimates for

FY2006.[4] The modifications had a relatively minor effect on the current services outlay estimates this year.

Discretionary and Mandatory Spending

The President's budget includes, in its glossary, the general definition of discretionary spending as "...budgetary resources ... provided in appropriation acts." Mandatory spending is defined as "...spending controlled by laws other than appropriations acts...."

Currently, discretionary spending produces 38% of total outlays (42% of total discretionary spending is for defense) and mandatory spending, including net interest, produces the other 62% (net interest is approximately 8% of total outlays).

Discretionary spending is not completely discretionary and mandatory spending is not completely mandatory. All government activities require some discretionary spending to pay salaries and other operating expenses of the government. The laws underlying mandatory spending can be changed by Congress, altering the nature of the programs, how much they spend, and how they are funded.

The President's budget did not include the estimated costs of ongoing action in Afghanistan or Iraq after the end of FY2005 (except for outlays flowing from the supplemental appropriation the Administration proposed for FY2005 — see below). Although unknown, the amount is unlikely to be zero. This implies that the Administration's initial outlay estimate for FY2006 (and for the following years) is smaller than actual outlays will be, even if the estimates for the remaining parts of the budget are accurate. A week after the budget became available, the Administration proposed, on February 14, 2005, an $82 billion supplemental appropriation (budget authority) mostly for these costs. Approximately $35 billion of this will become outlays in FY2005 and $25 billion in FY2006, with the remaining being spent in following years. Although this produces some outlays for the war on terror in FY2006, the Administration is expected to request another supplemental (although when is unclear) specifically for FY2006.

As shares of gross domestic product (GDP), the Administration's proposals showed outlays falling from 19.9% of GDP in FY2006 to 19.0% of GDP in FY2010. CBO's preliminary estimate of the President's outlay proposals (March 2004) showed the shares falling from 19.7% of GDP in FY2006 to 19.0% of GDP in FY2010, before rising to 19.3% of GDP in FY2015. These outlays-as-shares-of-GDP are below both the average from FY1980 through FY2004 (21.0% of GDP) or the average from FY1990 through FY2004 (20.2% of GDP). CBO's *baseline* estimates showed outlays falling from 19.5% of GDP in FY2006 to 19.0% of GDP in FY2010 and sliding slightly to 18.9% of GDP in FY2015. Using two of CBO's alternative scenarios for spending — assuming the

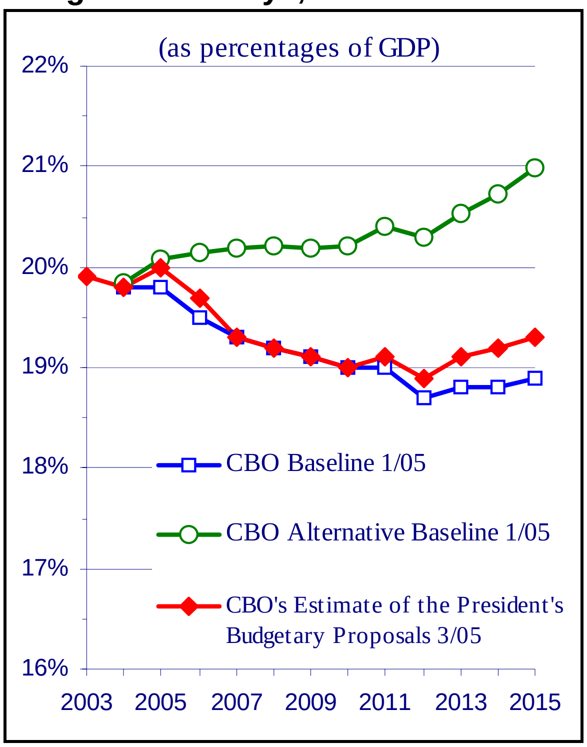
[4] The current services baseline estimates, like CBO's baseline estimates, are designed to provide "a neutral benchmark against which policy proposals can be measured." For outlays, the modified baseline used this year assumes emergencies are one-time only, that federal pay adjustment assumptions reflect the (usual) January 1 start of inflation adjusted raises rather than October 1, and the debt service (interest payment) changes resulting from these (and revenue related) modifications are included in the baseline.

phase-down of activities in Iraq and Afghanistan over a number of years and that total discretionary spending increases at the rate of nominal GDP growth (rather than the rate of inflation), outlays as shares of GDP would rise from 20.1% of GDP in FY2006 to 21.0% of GDP in FY2015.

Figure 2 shows three possible paths for outlays through FY2015 as percentages of GDP. CBO's estimates and projections and the President's proposals (as estimated by CBO) are relatively similar throughout the period. They both fall as percentages of GDP through FY2012 before rising over the last three years. They both remain below the current (FY2005) level of outlays as a percentage of GDP. The third line, labeled the CBO alternative baseline, incorporating assumptions about continued funding for Iraq and Afghanistan and faster rates of growth for discretionary spending (than in the baseline estimates), rises as a percentage of GDP over time. Larger outlays make the future deficit reductions more difficult.

The House and Senate budget resolutions (H.Con.Res. 95; S.Con.Res. 18) and the conference agreement held total outlay growth to less than 5% from FY2005 to FY2006. For the period FY2005 through FY2010, the resolutions show outlays growing at a 3.8% to 4.1% annual rate. These outlay totals included, in the Allowances function, $50 billion in budget authority and $32 billion in outlays for FY2006 (that is expected to used for the global war on terror).[5] No additional funding is assumed or provided in the budget resolutions for subsequent years.

Figure 2. Outlays, FY2003-FY2015



The growth proposed for discretionary spending (and non-defense discretionary spending in particular) in the budget resolution conference agreement differs markedly from that for mandatory spending and total outlays. Total outlays grow at an average annual rate of 3.8% between FY2006 and FY2010. Mandatory spending grows at an average annual rate of 6.1% (even with the reduction in

[5] The effect of the supplemental in FY2005 and the one allowed for in FY2006 boosts defense budget authority and outlays in those two years compared to the amounts in subsequent years through FY2010. The result is a peak in defense funding in FY2006 followed by reductions in defense funding. Excluding the additional funding, defense spending would grow slowly throughout the five-year period.

mandatory spending proposed in the reconciliation instructions).[6] Total discretionary spending over the period would actually fall at an average annual rate of 0.3%. Discretionary defense spending would grow at an average annual rate of 3.1%, even without assumptions about future spending for operations in Iraq and Afghanistan or the global war on terror. Since defense discretionary spending grows, non-defense discretionary spending must fall fairly rapidly for total discretionary spending to fall, and it does. Non-defense discretionary spending falls at an average annual rate of 3.5% from FY2006 to FY2010.

The two resolutions and the conference agreement included reconciliation instructions to constrain growth in mandatory spending between FY2006 and FY2010. The House instructions were for $69 billion in savings while the Senate included $17 billion in mandatory spending savings. The conference agreement included $35 billion in mandatory savings for the FY2006 through FY2010 period.

The conference agreement included a discretionary spending cap, for the Appropriations Committees, of $917 billion in outlays ($843 billion in budget authority) for FY2006, similar to the levels included in the House and Senate versions of the budget resolution for FY2006. The cap does not include the $50 billion allowance that is expected to become a defense supplemental appropriation sometime during the year.

The Administration's *Mid-Session Review* (MSR; OMB; July 13, 2005) increased the FY2006 outlay estimates by $46 billion over the President's outlay estimates in the FY2006 budget in February. Most of the increase ($37 billion) came from additional war funding; the rest was a combination of small policy changes and the effect of technical and economic revisions on outlays. The inclusion of the Administration's proposed Social Security policy changes (the personal or private accounts) raise the new outlay estimates above the Administration's previous estimates, beginning in FY2009. As has been the Administration's practice, the MSR did not include any estimates for future costs for the operations in Iraq and Afghanistan. Such costs, which are likely to occur in future years, will raise outlays in those years above the levels shown in the MSR.

Receipts

The Administration's FY2006 budget proposed extending and making permanent many of the tax cuts adopted in the first term that otherwise would expire (as required by law), mostly in 2010. The change, incorporated in the Administration's receipt proposals, produced relatively little change from the Administration's baseline estimates. Much of the budgetary effect of making the tax cuts permanent would not occur until after FY2010, the last year shown in the budget. The Administration estimated that making the cuts permanent would reduce

[6] Between FY2006 and FY2010, the budget resolution shows cumulative mandatory spending totaling $9.068 trillion. The $34 billion five-year reduction in mandatory spending in the reconciliation instructions is 0.37% (a little over one third of one percent) of cumulative mandatory spending over the period.

receipts by $53 billion between FY2006 and FY2010 and by $1.0 trillion between FY2011 and FY2015. CBO's estimate of these proposals put the cost at $143 billion for the FY2006 through FY2010 period and $1.5 trillion for the FY2011 through FY2015 period.[7]

Under the initial request, receipts would grow from an estimated $2,178 billion in FY2006 to $2,821 billion in FY2010. The increases continue the dollar growth in receipts that began in FY2005, following three years of dollar declines in receipts (FY2001 to FY2003). Receipts had reached their highest level both in dollars ($2,025 billion) and as a percentage of GDP (20.9% of GDP) in FY2000. By FY2003, receipts had fallen for three years in a row in both dollars (to $1,782 billion) and as a percentage of GDP (to 16.4%), with that share of GDP being the lower than in any year since FY1955. Receipts grew to $1,880 billion, but fell to 16.3% of GDP in FY2004. The Administration estimated receipts of $2,053 billion (16.8% of GDP) in FY2005, exceeding FY2000 receipts in dollars, and $2,178 billion (16.9% of GDP — still below recent averages) in 2006.

Table 3. Receipts for FY2004-FY2010 and FY2015

(in billions of dollars)

	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2015
CBO Baseline, 1/05	*$1,880* [a]	$2,057	$2,212	$2,357	$2,508	$2,662	$2,806	$3,847
President's FY06 Budget, 2/05		2,053	2,178	2,344	2,507	2,650	2,821	—
President's FY06 CSB 2/05		2,053	2,178	2,347	2,518	2,668	2,841	—
CBO, Revised Baseline, 3/05		2,057	2,213	2,357	2,508	2,662	2,807	3,847
CBO, EPP 3/05		2,057	2,210	2,350	2,492	2,625	2,770	3,540
House, FY06 Budget Resolution, 3/05		2,057	2,195	2,331	2,496	2,635	2,784	—
Senate Budg. Comm. Budg. Res., 3/05		2,057	2,197	2,352	2,496	2,638	2,792	—
Senate, FY06 Budget Resolution 3/05		2,057	2,193	2,343	2,483	2,623	2,775	—
Conf. Agree. Budget Resolution 4/05		2,057	2,195	2,331	2,496	2,635	2,784	—
OMB MSR 7/13/05		2,140	2,273	2,428	2,588	2,727	2,893	—

a. Actual receipts for FY2004.
EPP — CBO's estimates of the President's proposals.
CSB — The Administration's current services baseline.
MSR — OMB's *Mid-Session Review*.

The Administration's proposals did not include any extension of the current relief from the alternative minimum tax (AMT)after the end of FY2005. Without a further extension, a growing number of middle-class taxpayers will find themselves subject to the AMT.[8] CBO estimated (January 2005) that providing extended or

[7] These amounts from CBO do not include the outlay effects (usually interest costs associated with larger deficits) of the extensions.

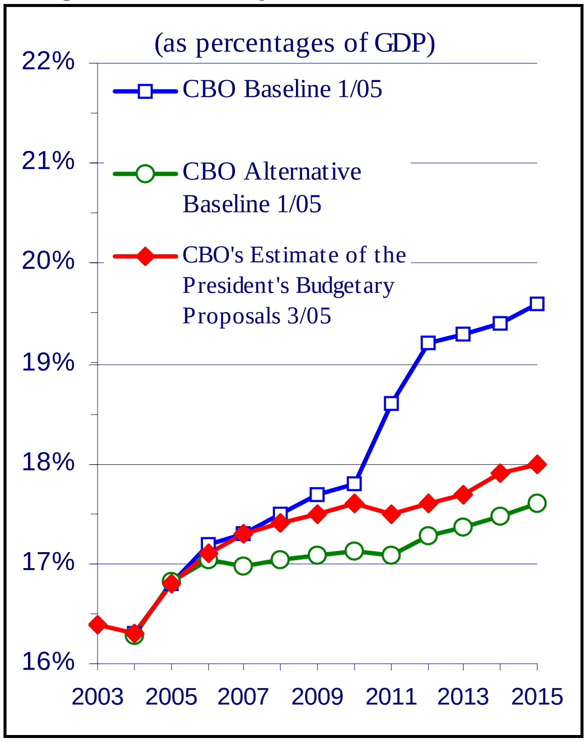
[8] For discussions of the AMT issue, see CRS Report RL30149, *The Alternative Minimum Tax for Individual*s; and CRS Report RS22100, *The Alternative Minimum Tax for*
(continued...)

permanent AMT relief would reduce receipts by $198 billion between FY2006 and FY2010 and by $395 billion between FY2006 and FY2015. Without some adjustment to the AMT, it will recapture much of the tax reduction provided in the 2001 and 2003 tax cuts.[9]

The CBO baseline and OMB's proposed and baseline estimates are fairly similar from FY2006 through FY2010. Under both baselines, receipts rise from 16.8% of GDP in FY2005 to between 17.8% (CBO) and 17.7% of GDP (OMB) in FY2010. CBO's baseline, which assumed the scheduled expiration of the tax cuts, extended the projections through FY2015. In the CBO baseline, receipts rise rapidly after FY2010 (the year the tax cuts expire) and reach 19.6% of GDP in FY2015.

Using CBO's estimates of alternative revenue policies — to extend the tax cuts and to reform the alternative minimum tax (AMT) — results in a much slower growth in receipts in dollars and as shares of GDP.[10] Receipts still rise as a percentage of GDP, but much more slowly than in the President's proposal or CBO's baseline. By FY2010, receipts have risen to $2,727 billion and 17.3% of GDP. By FY2015, the alternative estimated receipts rise to $3,508 billion and 17.9% of GDP.

Figure 3. Receipts, FY2003-FY2015



CBO's March 2005 estimates of the President's revenue proposals (using CBO's underlying assumptions and budget model) produced numbers similar to those in the President's budget (a bit larger in the early years and a bit smaller in the later years of the FY2006 to FY2010 period).

Figure 3 shows receipts as percentages of GDP for the fiscal years 2003 through 2015 (projected). The two lines following similar paths are CBO's estimates of the President's policy proposals and an alternative baseline based on CBO's baseline.

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[8] (...continued)
Individuals: Legislative Initiatives and Their Revenue Effects, by Gregg A. Esenwein.

[9] See CRS Report RS21817, *The Alternative Minimum Tax (AMT): Income Entry Points and "Take Back" Effects*, by Gregg A. Esenwein, for more information on the interaction of the AMT and the tax cuts.

[10] CBO indicates that combining the reform of the AMT and the tax extenders produces an interactive effect that makes the combined loss greater than the sum of the two estimates separately.

Both of these series include the assumption that the tax cuts from the first term of the Administration will not expire, as currently required by law, in FY2010. The result is of revenues growing slowly throughout most of the period shown as percentages of GDP. Under the Administration's proposals, revenues would rise from less than 17% of GDP (a very low level in modern history) to about 17.5% in FY2010 to 18% in FY2015. The alternative baseline rises to just over 17% in FY2010 to a little over 17.5% of GDP in FY2015. The CBO baseline in **Figure 3** reflects the growth in revenues after FY2010 if the tax cuts are allowed to expire. Revenue grow from just under 18% of GDP in FY2010 to somewhat over 19% of GDP by FY2012.

The House and Senate budget resolutions followed the lead of the President's budget and included tax cuts or other tax changes for the period FY2006 through FY2010. The resolutions did not address the expiration of the tax cuts in 2010. The House resolution included $106 billion in revenue reductions over five years, $45 billion of which were included in reconciliation instructions. The Senate, in amending the resolution as presented by the Senate Budget Committee, increased the five-year revenue reduction to $129 billion (from $70 billion), all of which was included within reconciliation instructions.

The conference agreement on the budget resolution included five-year revenue reductions of almost $106 billion, $70 billion of which fell under reconciliation instructions. The $11 billion reconciliation protected reduction for FY2006 is not large enough (by an estimated $5 billion) to accommodate all of the tax breaks that expire this year. Among those tax breaks expiring is the relief from the Alternative Minimum Tax (AMT) for many (and growing) middle-class taxpayers. The House Ways and Means Committee and the Senate Finance Committees will determine what is included and excluded from the tax cut reconciliation bill that each Chamber will initially consider. Whether a separate tax cut bill, continuing or extending other expiring tax cuts, will be introduced is uncertain.

The Administration expects that the unforeseen increase in receipts in 2005, reported in the *Mid-Session Review* (MSR; OMB; July 14, 2005), will persist through FY2010, with each succeeding year (after FY2006) showing slightly smaller increases.[11] The Administration attributes the higher revenues to stronger economic growth, which the Administration claims results in large part from its tax cut policies. The stronger economic growth is not reflected in the economic data included in the MSR. The MSR and the President's February FY2006 Budget contain the same rate of economic growth for FY2005 (and the MSR contains a marginally lower rate of GDP growth for FY2006).[12] Future receipts may also be smaller than the MSR indicates if Congress and the President continue adjusting the Alternative Minimum Tax (AMT) to provide relief to middle-class taxpayers.

All major types of federal receipts, corporate income taxes, payroll taxes, and individual income taxes are growing faster than expected. The sources of the income

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[11] Receipts are $87 billion larger for FY2005 and by $95 billion larger for FY2006 than in the President's FY2006 budget from February, 2005.

[12] Some analysts have pointed out that if the higher receipts are due to faster economic growth, why is the faster GDP growth not reflected in the economic estimates in the MSR.

generating the taxes is uncertain. Those data are not available at the time taxes are collected and will not be available for many months. The data, when available, will help determine whether the increased income producing the larger receipts in 2005 comes from temporary or more permanent factors. Without this information, analysts find it difficult to accurately determine whether or not the increase is a one-time event owing to special circumstances or a longer-lasting increase in income and receipts.

Deficits (and Surpluses)

Deficits and surpluses are the residuals left after Congress and the President set policies for spending and receipts. Surpluses, in which receipts are greater than outlays, reduce federal debt held by the public which can lead to lower net interest payments (among other effects). Deficits, in which outlays exceed receipts, increase government debt held by the public, generally increasing net interest payments (assuming no change in interest rates). Reducing the deficit and eventually reaching a balanced budget or generating and keeping a surplus (the government had its first surplus in 30 years in FY1998) was a major focus of the budget debates in the late 1980s and throughout the 1990s.

Table 4. Surpluses/Deficits(-) for FY2004-FY2010 and FY2015

(in billions of dollars)

	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2015
CBO Baseline, 1/05	*$-412*[a]	$-368	$-295	$-261	$-235	$-207	$-189	$141
President's FY06 Budget, 2/05		-427	-390	-312	-251	-233	-207	—
President's FY06 CSB 2/05		-390	-361	-303	-251	-229	-207	—
CBO Revised Baseline 3/05		-365	-298	-268	-246	-219	-201	122
CBO EPP 3/05		-394	-332	-278	-250	-246	-229	-256
House FY06 Budget Resolution, 3/05		-394	-376	-304	-247	-229	-203	—
Senate Budg. Comm. Budg. Res., 3/05		-397	-361	-299	-258	-236	-208	—
Senate, FY06 Budget Resolution, 3/05		-397	-368	-315	-277	-257	-232	—
Conf. Agree. Budget Resolution 4/05		-398	-383	-313	-254	-238	-211	—
OMB MSR 7/13/05		-333	-341	-233	-162	-162	-170	—

a. Actual deficit for FY2004.
EPP — CBO's estimates of the President's proposals.
CSB — The Administration's current services baseline.
MSR — OMB's *Mid-Session Review*.

The President's FY2006 budget proposals included an estimated deficit of $427 billion (3.5% of GDP) in FY2005 falling to $390 billion (3.0% of GDP) in FY2006. The deficit would fall to an estimated $207 billion (1.3% of GDP) in FY2010. The President's budget indicated that its policies would produce the halving of the deficit as a percentage of GDP by the end of the five years in the budget. This goal could be frustrated if additional AMT relief is implemented, additional defense supplementals are adopted, and non-defense discretionary spending grows rather than falls after FY2006.

The Administration's deficit reduction proposals require strict limits on the growth in domestic discretionary spending, a modest reduction (from baseline estimates) in some entitlements, slowing defense spending growth, allowing AMT relief to end after FY2006, some revenue-reducing tax cuts. An inability to hold to these spending and revenue levels, a task that may prove difficult, would result in larger deficits than those expected in the President's budget. On the other hand, faster than expected economic growth (some hints of which occurred during the spring of 2005) would tend to reduce the deficit below the levels in the President's budget.

Incorporating selected CBO alternative policies (to reflect faster discretionary spending growth, ongoing spending for the war on terror, extending the expiring tax cuts, retaining relief from the AMT, and incorporating the increased debt servicing costs), results in deficit estimates that do not fall below 2.5% of GDP throughout the forecast period (FY2005-FY2015). If the President's proposal to make the tax cuts permanent succeeds, the budget might remain in deficit over the next 10 years.

CBO's estimates of the President's proposals put the FY2005 deficit at an estimated $394 billion (3.2% of GDP) and the FY2006 deficit at an estimated $332 billion (2.6% of GDP). Both are below the deficits for those years proposed in the budget. CBO's reestimated deficits are below the Administration's deficits through FY2008 and larger than the Administration's deficit estimates in FY2009 and FY2010. CBO extended the reestimates through FY2015 (beyond the FY2010 endpoint of the President's budget).

Figure 4. Deficits/Surpluses, FY2003-FY2015

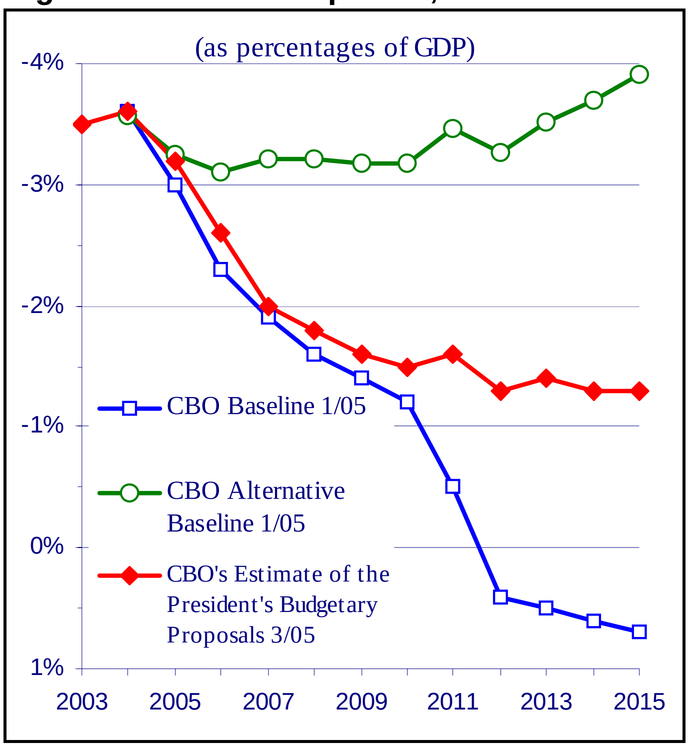

Figure 4 shows the changes in the deficit (or surplus) for the fiscal years 2003 through 2015 (projected).[13] CBO's estimates of the President's policy proposals show the deficit falling from approximately 3.5% of GDP in FY2004 to approximately 1.5% of GDP in FY2010 and dropping a bit more to about 1.3% of GDP in FY2015. These CBO reestimates of the President's proposals include the assumption that additional revenue

[13] Note that falling deficits move towards zero, which is lower than the negative percentages of GDP. Surpluses appear at the bottom of the chart.

reductions occur over the next five years, that spending, both mandatory and discretionary are constrained, and that the 2001 and 2003 tax cuts do not revert to previous law in 2010.

The CBO baseline represents the future deficit and surplus path under existing policies, including the currently scheduled expiration of the 2001 and 2003 tax cuts, no future adjustments to lessen the coverage expansion of the alternative minimum tax (AMT), and no further funding for the military activities in Iraq and Afghanistan. The result is a falling deficit that becomes a surplus in FY2012.

The alternative baseline path, which assumes faster spending growth, the extension of the tax cuts, future adjustments to the AMT, and future funding for military action in Iraq and Afghanistan, produces almost steady or rising deficits as percentages of GDP throughout the period. By FY2015, the alternative baseline deficit approaches 4% of GDP.

The House and Senate budget resolutions, in following the Administration's lead, showed declining deficits throughout the five years covered by the resolution. The conference agreement on the resolution followed the same pattern. The differences among these deficit estimates were slight (see Table 4). The conference agreement set a FY2006 deficit of $383 billion (3.0% of GDP) falling to $211 billion (1.1% of GDP) in FY2010.

The *Mid-Session Review* (MSR) included smaller deficit estimates for each year in the five-year forecast (compared to the President's FY2006 February budget). Most of the improvement came from higher than previously expected receipts. A small amount came from smaller than expected interest payments resulting from the slower growth in federal debt (because of the smaller deficits).

CBO's Alternative Policies Not Included in the Baseline

CBO's January 2005 budget report included estimates of the "budgetary effects of policy alternatives not included in CBO's baseline." The alternative policies are those that represent a different path that future policy may follow (other than CBO's baseline or the President's proposals). The amounts shown estimate the costs or savings of these alternatives when measured against CBO's baseline estimate of the deficit. The alternative policies include making the 2001 and 2003 tax cuts permanent and adjusting the alternative minimum tax to reduce its expansion among middle class taxpayers. Another alternative policy would freeze discretionary spending at FY2005 levels instead of growing at the rate of inflation as baseline does, which would reduce the estimated deficit.

Table 5, on the next page, contains data from the CBO budget report for three time periods, FY2006-FY2010, FY2011-FY2015, and FY2006-FY2015. The alternative policies would substantially increase or decrease the cumulative deficit over these periods. Freezing discretionary spending produces larger estimated surpluses sooner than in CBO's baseline estimates. Increasing discretionary spending at the rate of GDP growth raises the cumulative deficit estimate by almost $350 billion between FY2006 and FY2010 and by another $1.4 trillion between FY2011 and FY2015.

Making the 2001 and 2003 tax cuts permanent would increase the cumulative deficit estimate by $143 billion from FY2006 through FY2010 and by another $1.5 trillion over the subsequent five-year period as measured against the CBO baseline. The big increase in the cost of the tax cuts after FY2010 occurs because that is when the 2001 and 2003 tax cuts expire and tax law reverts to pre-tax cut (higher) levels. The "loss" of this additional revenue, as measured from CBO's baseline estimates indicates the estimate cost of making the cuts permanent.

Table 5. The Budgetary Effects of Selected Policy Alternatives Not Included in CBO's Baseline

(billions of dollars)

	Total, 2006-2010	Total, 2011-2015	Total, 2006-2015
Policy Alternatives That Affect Discretionary Spending			
Assume Phasedown of Activities in Iraq and Afghanistan and Continued Spending for the Global War on Terrorism[a]			
Effect on the deficit	-285	-133	-418
Debt service	-51	-121	-172
Increase Total Discretionary Appropriations at the Growth Rate of Nominal GDP			
Effect on the deficit	-347	-1,090	-1,437
Debt service	-31	-237	-268
Freeze Total Discretionary Appropriations at the Level Provided for 2005			
Effect on the deficit	269	849	1,118
Debt service	25	183	208
Policy Alternatives That Affect the Tax Code			
Extend Expiring Tax Provisions[b]			
Effect on the deficit			
EGTRRA and JGTRRA	-60	-1,261	-1,321
Other	-83	-212	-295
Total	-143	-1,473	-1,616
Debt service	-13	-225	-238
Reform the Alternative Minimum Tax[c]			
Effect on the deficit	-198	-197	-395
Debt service	-20	-88	-108
Memorandum:			
Total Deficit (-) or Surplus in CBO's Baseline	-1,188	333	-855

Sources: Congressional Budget Office; Joint Committee on Taxation.

Notes: EGTRRA = Economic Growth and Tax Relief Reconciliation Act of 2001; JGTRRA = Jobs and Growth Tax Relief Reconciliation Act of 2003.

Positive amounts indicate a reduction in the deficit or an increase in the surplus. "Debt service" refers to changes in interest payments on federal debt resulting from changes in the government's borrowing needs.

a. This alternative assumes an eventual slowdown of U.S. activities in Iraq and Afghanistan but continued spending for the global war on terrorism throughout the 10-year period. It also includes funding for domestic military operations for homeland security. The details are described in *An Alterative Budget Path Assuming Continued Spending for Military Operations in Iraq and Afghanistan and in Support of the Global War on Terrorism* (February 2005).

b. This estimate does not include the effects of extending the increased exemption amount for the alternative minimum tax, which expires in December 2005. The effects of that alternative are shown below.

c. This alternative assumes that the exemption amount for the AMT (which was increased through December 2005 in the Working Families Tax Relief Act of 2004) is extended at its higher level and, together with the AMT tax brackets, is indexed for inflation after 2005. The estimates are shown relative to current law. If this alternative was enacted jointly with the extension of expiring tax provisions, an interactive effect would occur that would make the combined revenue loss greater than the sum of the two separate estimates by about $247 billion (plus $24 billion in debt-service costs) over the 2006-2015 period.

The Longer Run

Over a longer time period, one beginning in the next decade and lasting for decades into future, CBO indicates (in its January 2005 budget documents) that it expects, under existing policies and assumptions, that demographic pressures will produce large and persistent deficits. CBO states

> In the decades beyond CBO's projection period, the aging of the baby-boom generation, combined with rising health care costs, will cause a historic shift in the United States' fiscal situation....
>
> Driven by rising health care costs, spending for Medicare and Medicaid is increasing faster than can be explained by the growth of enrollment and general inflation alone. If excess cost growth continued to average 2.5 percentage points in the future, federal spending for Medicare and Medicaid would rise from 4.2 percent of GDP today to about 11.5 percent of GDP in 2030....
>
> Outlays for Social Security as a share of GDP are projected to grow by more than 40 percent in the next three decades under current law: from about 4.2 percent of GDP to more than 6 percent....
>
> Together, the growing resource demands of Social Security, Medicare, and Medicaid will exert pressure on the budget that economic growth alone is unlikely to alleviate. Consequently, policymakers face choices that involve reducing the growth of federal spending, increasing taxation, boosting federal borrowing, or some combination of those approaches.[14]

The Administration indicated similar concerns about the outlook for the budget over the long term but tied much of its discussion to the President's proposed reforms to Social Security. Less was said about Medicare and Medicaid.

The short-term budget outlook can change when it is buffeted by economic or policy changes. The long-term budget outlook is expected to be dominated by the expansion of the population eligible for Social Security, Medicare, Medicaid, and other programs for the elderly as the baby boom generation begins retiring in large numbers. The steady price increases experienced by the health programs, if unchanged, could begin to dominate future budget debates. Not only will these programs be affected, but their constant growth will put great stress on the rest of the budget, the government's ability to finance its obligations, and the ability of the economy to provide the resources needed. The tax cuts, spending increases, and policy changes of the last few years have not produced the difficult fiscal future, but they appear to have made an already difficult situation more difficult.

The Budget and the Economy

The budget and the economy affect each other unequally. Small economic changes have a more significant effect on the budget than the effect large policy

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[14] CBO, *The Budget and Economic Outlook: Fiscal Years 2006-2015*, Jan. 2004, pp. 10-11.

changes generally have on the economy. The worse-than-previously-expected economic conditions that lasted from 2001 into 2003, played a minor role, directly and indirectly, in the deterioration of the budget outlook over those years. CBO expects continued economic growth during calendar years 2005 and 2006, which should result in higher revenues and lower spending than would occur if the economy were to grow at a slower rate. Because there is no way of predicting the timing of economic ups and downs, especially as estimates run into the future, CBO projects that GDP will grow at a rate close to potential GDP for the period 2007 through 2015.[15]

Under governmental policies that are in fiscal balance, a return to normal economic growth (growth close to that of potential GDP) should reduce or eliminate a deficit or produce a surplus. In both the President's budget and in CBO's budget reports, the budget under current policies experiences a shrinking deficit and, under CBO's January 2006 baseline, moves into surplus in FY2012. Under the CBO alternative policies, the deficit grows as a percentage of GDP; it does not shrink or disappear, during a period of expected normal economic growth. This result implies that the budget, using the alternative assumptions, has a basic fiscal imbalance that cannot be eliminated by economic growth. To produce a balanced budget or one in surplus under those policy conditions would require spending reductions or tax increases.

[15] Potential GDP represents an estimate of what GDP would be if both labor and capital were as fully employed as is possible.

For Additional Reading

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