



November 6, 2003

Honorable Charles W. Stenholm
U.S. House of Representatives
Washington, DC 20515

Dear Congressman:

As requested in your letter of October 14, 2003, the Congressional Budget Office has estimated the effect on its baseline projections of the policy alternatives that you specified. The attached table shows CBO's estimate of the total budget deficit and debt held by the public incorporating the following adjustments to its August 2003 baseline:

- Extend all provisions contained in the Economic Growth and Tax Relief Reconciliation Act of 2001 and the Jobs and Growth Tax Relief Reconciliation Act of 2003;
- Assume that the exemption amount for the alternative minimum tax is extended at its level for 2004 and indexed for inflation;
- Assume enactment of Medicare reform (including a prescription drug benefit) at the level assumed in the budget resolution;
- Adopt the levels of discretionary budget authority proposed in the President's budget for 2004 through 2008 and the extrapolation through 2013 as presented in CBO's *Analysis of the President's Budgetary Proposals for Fiscal Year 2004* (March 2003). Furthermore, include estimated spending from supplemental appropriations enacted in April and November 2003, and additional spending through 2013 for Iraq, Afghanistan, and Operation Noble Eagle.¹

1. For 2005, CBO estimates that military operations related to the global war on terrorism would require about \$30 billion in budget authority. As you requested, that figure assumes about 180,000 military personnel would participate in such operations—enough to maintain a 100,000-person occupation force in Iraq and current troop levels associated with Operations Enduring Freedom (Afghanistan) and Noble Eagle (domestic homeland security). The size of the military force associated with the global war on terrorism would decline to about 73,000 in fiscal year 2008 and require about \$14 billion in budgetary resources in that year. The force level would then remain at that size through 2013 and costs would increase with inflation.

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If you would like further details on the information provided in this letter, we would be pleased to provide them. The staff contact is Jeff Holland.

Sincerely,

A handwritten signature in black ink that reads "Douglas Holtz-Eakin". The signature is written in a cursive, flowing style.

Douglas Holtz-Eakin
Director

Attachment

cc: Honorable Jim Nussle
Chairman
House Committee on the Budget

Honorable John M. Spratt Jr.
Ranking Member

Honorable Don Nickles
Chairman
Senate Committee on the Budget

Honorable Kent Conrad
Ranking Member

Identical letters sent to Honorable Dennis Moore and Honorable Mike Thompson.

The Budgetary Effect of Adjustments to CBO's August 2003 Baseline as Requested by the Congressional Blue Dog Coalition (In billions of dollars)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total, 2004- 2008	Total, 2004- 2013
Total Deficit (-) or Surplus in CBO's August 2003 Baseline	-480	-341	-225	-203	-197	-170	-145	-9	161	211	-1,445	-1,397
Effect on the Deficit or Surplus of Specified Adjustments												
Extend Provisions of EGTRRA and JGTRRA ^a	2	-55	-102	-98	-87	-86	-81	-213	-316	-325	-340	-1,361
Reform the AMT ^b	0	-8	-24	-34	-46	-60	-74	-64	-40	-49	-112	-400
Interaction Effect Between Extending Expiring Provisions and Reforming the AMT	0	-3	-6	-6	-4	-2	-2	-25	-64	-72	-19	-184
Reform Medicare, Including Adding a Prescription Drug Benefit, at the Level Assumed in the Budget Resolution	-7	-10	-33	-38	-43	-46	-50	-53	-56	-64	-131	-400
Discretionary Outlays ^c	-4	24	42	51	54	54	53	53	53	54	166	432
Debt Service	-6	-23	-44	-70	-96	-120	-144	-168	-193	-217	-238	-1,080
Total Effect on the Deficit or Surplus	-14	-75	-168	-195	-221	-260	-299	-471	-616	-674	-673	-2,993
Total Deficit (-) with Adjustments Specified by the Blue Dog Coalition	-494	-415	-393	-398	-417	-430	-443	-480	-455	-463	-2,118	-4,389
Debt Held by the Public (End of Year)												
CBO August 2003 Baseline	4,443	4,790	5,027	5,242	5,450	5,631	5,784	5,800	5,645	5,438	n.a.	n.a.
CBO August 2003 Baseline with Adjustments Specified by the Blue Dog Coalition	4,457	4,879	5,284	5,694	6,123	6,563	7,015	7,502	7,964	8,430	n.a.	n.a.
Memorandum:												
Deficit (-) or Surplus as a Percentage of GDP												
CBO August 2003 Baseline	-4.3	-2.9	-1.8	-1.5	-1.4	-1.2	-0.9	-0.1	1.0	1.2	-2.3	-1.0
CBO August 2003 Baseline with Adjustments Specified by the Blue Dog Coalition	-4.4	-3.5	-3.1	-3.0	-3.0	-2.9	-2.9	-3.0	-2.7	-2.6	-3.4	-3.1
Debt Held by the Public as a Percentage of GDP												
CBO August 2003 Baseline	39.5	40.4	40.1	39.7	39.2	38.5	37.6	36.0	33.4	30.7	n.a.	n.a.
CBO August 2003 Baseline with Adjustments Specified by the Blue Dog Coalition	39.6	41.1	42.1	43.1	44.0	44.8	45.6	46.5	47.1	47.6	n.a.	n.a.

SOURCE: 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; AMT = Alternative Minimum Tax; n.a. = not applicable.

- This estimate does not include the effects of extending the increased exemption amount for the AMT, which expires in 2004. See the adjustment for the AMT.
- This adjustment assumes that the exemption amount for the AMT, which was increased through 2004 in the Jobs and Growth Tax Relief Reconciliation Act of 2003, is extended at its higher level and, together with the AMT tax brackets, is indexed for inflation after 2004.
- Assumes discretionary budget authority at the levels requested in the President's budget for fiscal years 2004-2008 and extrapolated from that point at the projected rate of inflation for 2009-2013. Also includes estimated spending from supplemental appropriations enacted in April 2003 and November 2003, and additional spending through 2013 for Iraq, Afghanistan, and Operation Noble Eagle.