CBO TESTIMONY

Statement of
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NOTICE

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Mr. Chairman and Members of the Committee, thank you for inviting me here this afternoon to discuss the budget for fiscal year 1993. Each year, at the request of this Committee, the Congressional Budget Office (CBO) prepares an analysis of the Administration's budgetary proposals. Although we have not yet finished our analysis of the 1993 budget, my statement will summarize some of our preliminary conclusions. Our complete report will be published in mid-March.

THE ECONOMIC OUTLOOK

Six months ago, in August 1991, CBO and most other forecasters expected the recovery to be fully under way by the start of 1992. Nineteen ninety-two is now here, but the recovery is not. What went wrong?

First, high vacancy rates for office buildings and rental housing continued to cast a pall over construction, which declined more than expected during the third quarter of 1991. Second, an unusually large share of the spurt in demand that occurred in the late spring and summer was satisfied by imports rather than domestic production. Industrial production then weakened in the fourth quarter. Third, the disappointing growth in personal income and frequent announcements of job layoffs shook consumer confidence.

Although the low level of consumer confidence raises the specter of a double-dip recession, CBO believes that a recovery, albeit mild and delayed, is a more likely prospect. Retail sales, including sales of automobiles, have picked up, and construction activity has stopped falling. Recent growth in the money supply and declines in interest rates should allow the economy to gather steam by spring. A moderate recovery should take hold in the second half of the year and continue into 1993. The pace of recovery will be slowed, however, by structural adjustments in commercial real estate, financial services, state and local governments, and other sectors of the economy.

Forecast for 1992 and 1993

CBO forecasts that real gross domestic product in 1992 and 1993 will grow about 3 percent a year, slightly above the *Blue Chip* average of private-sector forecasts but only about half the rate that normally occurs in the first two years of recovery (see Table 1). This lukewarm performance will only gradually reduce the hardships that the recession has brought to many parts of the country. The unemployment rate will remain high for some time, averaging close to 7 percent in 1992, as the recovery gradually entices discouraged, jobless workers back into the labor force.

Table 1.
Comparison of Forecasts for 1992 and 1993

	Actual 1990	Estimated 1991	Forecast 1992	Forecast 1993
	Fourth Quarter to Fourth Quarter (Percentage change)			
Real GDP				
CBO	-0.1	0	2.8	3.3
Blue Chip	-0.1	0.2	2.3	3.1
Administration	-0.1	0.2	2.2	3.0
Implicit GDP Deflator				
CBO	4.2	3.2	3.1	3.2
Blue Chip	4.2	3.0	2.9	3.3
Administration	4.2	3.3	3.2	3.4
Consumer Price Index[a]				
CBO	6.3	3.0	3.4	3.6
Blue Chip	6.3	2.9	3.3	3.7
Administration	6.3	2.9	3.1	3.3
	Calendar-Year Averages (Percent)			
Civilian Unemployment Rate				
CBO	5.5	6.7	6.9	6.4
Blue Chip	5.5	6.7	6.9	6.4
Administration	5.5	6.7	6.9	6.5
Three-Month Treasury Bill Rate				
CBO	7.5	5.4	4.4	5.1
Blue Chip	7.5	5.4	4.1	5.0
Administration	7.5	5.4	4.1	4.9
Ten-Year Treasury Note Rate				
CBO	8.6	7.9	7.1	7.1
Blue Chip[b]	8.6	7.9	7.1	7.5
Administration	8.6	7.9	7.0	6.9

SOURCES: Congressional Budget Office; Eggert Economic Enterprises, Inc., *Blue Chip Economic Indicators;* Department of Commerce, Bureau of Economic Analysis; Office of Management and Budget.

NOTE: The *Blue Chip* forecasts through 1993 are based on a survey of 50 private forecasters, published on February 10, 1992. These forecasts are reported on a basis that is consistent with the recent revision of the national income and product accounts.

a. The consumer price index for all urban consumers (CPI-U).

b. *Blue Chip* does not project a 10-year note rate. The values shown here for the 10-year note rate are based on the *Blue Chip* projections of the Aaa bond rate, adjusted by CBO to reflect the estimated spread between Aaa bonds and 10-year Treasury notes.

CBO projects that inflation, as measured by the change in the consumer price index, will be 3.4 percent in 1992 and 3.6 percent in 1993 on a fourth-quarter-to-fourth-quarter basis. Excluding food and energy prices, the rate of inflation is projected to be 3.6 percent in 1992 and 1993, the smallest two-year increase since the mid-1960s (excluding the period of wage and price controls). But that considerable achievement, it should be noted, has been purchased at the cost of low wage growth and high unemployment.

Short-term interest rates will remain close to 4 percent in early 1992, but they are likely to rise modestly--to about 4.8 percent--by year's end. A further rise to 5.1 percent is expected in 1993 as the recovery continues and the demand for borrowed funds grows. The recovery is not expected to produce any large changes in long-term interest rates, however. The 10-year Treasury note rate, which is currently about 7.3 percent, is forecast to average about 7.1 percent in 1992 and 1993.

Projections for 1994-1997

CBO does not attempt to forecast cyclical fluctuations in the economy more than two years into the future. Beyond 1993, CBO makes projections based on trends in the labor force, productivity, and saving. Over the 1994-1997

period, CBO projects that the substantial economic slack left by the recession will be gradually eliminated through growth in real GDP that averages 2.6 percent a year (see Table 2). By comparison, potential output grows at an annual rate of only 2.1 percent.

The relatively low rate of inflation, brought about by the recession and tight monetary policy that preceded it, is likely to persist through much of the 1990s. The consumer price index is projected to rise 3.6 percent a year. The implicit GDP deflator will grow a bit less rapidly, reflecting a continued drop in the price of computers and their increasing importance in the economy.

The CBO projections assume that real (inflation-adjusted) interest rates will remain below prerecession levels. Long-term rates are projected to be flat, with short-term rates rising slightly after 1993. By 1997, real interest rates are projected to be about 1 percent below the 1986-1989 average.

Comparison with the Administration's Forecast

CBO's economic assumptions and those of the Administration show few significant differences. CBO forecasts slightly more robust growth in 1992 and 1993, but the Administration assumes somewhat faster growth in the 1994-

Table 2.
Medium-Term Economic Projections for Calendar Years 1992 Through 1997

	Estimated	Forecast		Projected			
	1991	1992	1993	1994	1995	1996	1997
Nominal GDP (Billions of dollars)							
CBO	5,671	5,931	6,337	6,714	7,104	7,520	7,961
Administration	5,675	5,926	6,307	6,712	7,141	7,589	8,054
Nominal GDP (Percentage change)							
CBO	2.9	4.6	6.9	5.9	5.8	5.9	5.9
Administration	2.9	4.4	6.4	6.4	6.4	6.3	6.1
Real GDP (Percentage change)							
CBO	-0.8	1.6	3.6	2.7	2.5	2.6	2.6
Administration	-0.8	1.5	3.0	3.0	3.0	2.9	2.8
Implicit GDP Deflator (Percentage change)							
CBO	3.7	2.9	3.2	3.2	3.2	3.2	3.2
Administration	3.7	2.9	3.3	3.3	3.3	3.2	3.2
CPI-U (Percentage change)							
CBO	4.2	3.3	3.6	3.6	3.6	3.6	3.6
Administration	4.2	3.0	3.3	3.2	3.2	3.2	3.1
Unemployment Rate (Percent)							
CBO	6.7	6.9	6.4	6.2	6.0	5.9	5.7
Administration	6.7	6.9	6.5	6.1	5.8	5.4	5.3
Three-Month Treasury Bill Rate (Percent)							
CBO	5.4	4.4	5.1	5.2	5.4	5.5	5.6
Administration	5.4	4.1	4.9	5.3	5.3	5.2	5.1
Ten-Year Treasury Note Rate (Percent)							
CBO	7.9	7.1	7.1	7.1	7.1	7.1	7.1
Administration	7.9	7.0	6.9	6.7	6.6	6.6	6.6

SOURCES: Congressional Budget Office; Office of Management and Budget.

NOTE: CPI-U is the consumer price index for all urban consumers.

1997 period. Both CBO and the Administration, however, assume almost identical rates of increase in the implicit GDP deflator. Thus, CBO shows a slightly higher level of nominal GDP in the short term but a marginally lower level in the long run.

The Administration is more optimistic than CBO about the outlook for inflation and nominal interest rates. The Administration's forecast of inflation, as measured by the increase in the consumer price index, is 0.3 percentage points lower than CBO's in 1992 and 0.5 percentage points lower by 1997. The Administration's assumptions for interest rates fall below CBO's figures by similar amounts.

The similarity between the two forecasts may seem surprising, since CBO's forecast assumes a continuation of current budgetary policies, whereas the Administration's assumes enactment of its budget and economic program. In CBO's view, however, the Administration's program would add little stimulus to the economy in the short term and would provide no appreciable boost in the 1990s. Some of the Administration's policies--notably, the reduction in income tax withholding, the investment tax allowance, and the credit for first-time homebuyers--could increase the growth rate by half a percent or so in 1992 by moving forward spending from later years, but would decrease the growth rate by a comparable amount in 1993. In the longer

term, the Administration's budget proposals would at best have only small effects on the federal deficit, saving and investment, and the growth of the economy.

THE BUDGET OUTLOOK

The Administration's proposals would do little to alter the fiscal policy course set by the 1990 budget agreement. The budget attempts to meet the legal limits on discretionary spending for 1993 through 1995. It also proposes changes in direct spending programs and in tax revenues that, the Administration asserts, would result in small decreases in the deficit. By CBO's initial reckoning, however, these proposals may slightly increase the deficit.

CBO projects that the federal deficit will exceed $350 billion in 1992, setting a new record for the second year in a row (see Table 3). In relation to the size of the economy, the 1992 deficit will amount to 6 percent of GDP, just shy of the postwar high reached in 1983. By the mid-1990s, the deficit will drop back to about $200 billion, or about 3 percent of GDP.

Yet the total deficit is not the most relevant measure for policy discussions. Its ups and downs obscure an underlying stability in federal fiscal

Table 3.
CBO Deficit Projections Assuming Current Policies (By fiscal year)

	1990	1991	1992	1993	1994	1995	1996	1997
			In Billions of Dollars					
Total Deficit	220	269	352	327	260	194	178	226
Deficit Excluding Deposit Insurance and Desert Storm Contributions	162	246	290	258	227	210	222	254
Standardized-Employment Deficit[a]	150	172	191	189	178	170	191	234
Deficit Excluding Social Security and Postal Service	277	321	404	391	337	281	276	335
			As a Percentage of GDP					
Total Deficit	4.0	4.8	6.0	5.2	3.9	2.8	2.4	2.9
Deficit Excluding Deposit Insurance and Desert Storm Contributions	3.0	4.4	5.0	4.1	3.4	3.0	3.0	3.2
Standardized-Employment Deficit[a]	2.7	2.9	3.1	2.9	2.6	2.4	2.5	3.0
Deficit Excluding Social Security and Postal Service	5.1	5.7	6.9	6.3	5.1	4.0	3.7	4.3
Memorandum: Gross Domestic Product	5,460	5,627	5,846	6,237	6,621	7,004	7,414	7,849

SOURCE: Congressional Budget Office.

NOTE: These projections are based on policies in place in December 1991. They do not include subsequent changes in income tax withholding and extended unemployment compensation.

a. Excluding deposit insurance and Desert Storm contributions. Shown as a percentage of potential gross domestic product.

policy. To appreciate the fundamental pattern, some temporary factors must be removed from the budget totals.

First, federal spending in recent years has been swelled by the cost of bailing out or closing hundreds of insolvent thrift institutions and commercial banks whose deposits are insured by the federal government. The costs of deposit insurance are expected to remain enormous through 1993, drop sharply in 1994, and turn negative in 1995, when proceeds from selling the assets of previously failed institutions will exceed the spending required to resolve new failures.

Contributions from U.S. allies to help finance Operation Desert Storm represent a second transitory item. Those contributions lower the deficit by $43 billion in 1991 and $5 billion in 1992. The large year-to-year swings in deposit insurance spending and our allies' contributions have little current effect on the economy and on interest rates.

Excluding deposit insurance and Desert Storm contributions, the deficit peaks at 5 percent of GDP in fiscal year 1992 and then declines gradually to 3 percent in 1995 and 1996. But even these deficit estimates are not the most relevant because they contain a cyclical element that should be less troubling than a structural imbalance. The standardized-employment deficit, which

removes the cyclical component, reaches a low of 2.4 percent of GDP in 1995 and then starts to rise again.

THE ADMINISTRATION'S PROPOSALS

As indicated earlier, the policies proposed in the fiscal year 1993 budget are likely to have little effect on the outlook for the federal deficit. But the budget does raise some important issues involving spending priorities, tax policies, accounting for federal insurance programs, and the growth of entitlement programs. I will address each of these in turn.

Discretionary Spending

The Budget Enforcement Act of 1990 (BEA) established separate dollar limits on defense, international, and domestic discretionary spending for fiscal year 1993. A single aggregate limit applies to all discretionary spending in 1994 and 1995.

The Administration proposes to hold discretionary spending slightly below the legal limits in 1993. In total, discretionary budget authority would

be $11.6 billion lower than the caps, and outlays would be $5.8 billion lower. Almost 90 percent of the outlay savings and two-thirds of the reductions in budget authority would arise in the defense category.

In 1994 and later years, the Administration would keep discretionary budget authority for each category roughly constant at the 1993 level in nominal dollars. With inflation running at about 3 1/2 percent a year, each type of discretionary spending thus would suffer the same real annual reduction.

Even so, the budget meets the 1994 and 1995 outlay targets only with the aid of unspecified reductions in domestic discretionary outlays of $7.6 billion in 1994 and $4.6 billion in 1995. Without the unspecified savings, the Administration's proposals would exceed the 1994 outlay limit by $3.5 billion.

The budget thus underscores a point that CBO has been making for some time--namely, that it will be extremely hard to satisfy the discretionary spending caps in 1994 and 1995 if the full amount of available discretionary budget authority is appropriated in 1993. Even with budget authority almost $12 billion below the caps in 1993, the Administration is able to meet the 1994 outlay target only by reviving David Stockman's magic asterisk.

The Administration's proposals for domestic discretionary spending fall below the baseline by growing amounts (see Table 4). In 1993, the budget request is about $8 billion in budget authority and outlays below the levels required to maintain the 1992 program level. By 1995, the request falls short of the baseline by $24 billion in budget authority and $22 billion in outlays. Because the President's request is bumping up against the outlay limits in 1994 and 1995, these reductions in domestic spending may be avoided only by making correspondingly deeper cuts in defense.

The figures in the previous paragraphs reflect the Administration's numbers. CBO's numbers, which will be based on its own reestimate of the President's proposals, will differ. Already we can see instances where the Administration's estimates or interpretation of the Budget Enforcement Act are open to question. For example, the budget assumes $1.2 billion in domestic discretionary savings in 1993 as a result of a proposal to lease the naval petroleum reserves. In CBO's view, however, the proposed sale of rights to produce petroleum products at the Elk Hills oil field is an asset sale, the receipts from which may not be counted for purposes of the Budget Enforcement Act. Excluding this proposal, domestic discretionary outlays in the President's budget would exceed the cap by $0.6 billion in 1993. Other such problems may appear as we continue our review of the budget.

Table 4.
Domestic Discretionary Spending (By fiscal year, in billions of dollars)

	1993	1994	1995	1996	1997
Budget Enforcement Act Baseline[a]					
Budget authority	211	217	227	241	245
Outlays	232	244	254	263	273
President's Request					
Budget authority	203	204	203	203	203
Outlays	225	229	232	237	237
Difference					
Budget authority	-8	-14	-24	-38	-42
Outlays	-8	-15	-22	-26	-36

SOURCES: Congressional Budget Office; Office of Management and Budget.

a. As defined in the Budget Enforcement Act, the baseline is the most recently enacted level of appropriations--in this case, for fiscal year 1992--adjusted for inflation. The figures in the table treat 1992 emergency appropriations as one-time items.

Revenue Proposals

The budget contains a package of tax changes aimed at stimulating saving and investment. The major elements of this package include a reduction in the tax rate on realized capital gains, establishment of flexible Individual Retirement Accounts, a temporary tax credit for first-time homebuyers, a temporary investment tax allowance, and extension of certain expiring tax preferences, including the research and experimentation tax credit and allocation rules. The Administration also proposes to increase by $500 the personal income tax exemption for dependent children under age 18. The budget includes two major revenue-raising proposals--the extension of Medicare taxes and coverage to all employees of state and local governments and an increase in the contributions of federal workers to the Civil Service Retirement System--and a number of smaller ones. Finally, the budget also incorporates a reduction in income tax withholding, although this change has already been implemented by executive action and does not require legislation.

The Congressional Budget Office and the Joint Committee on Taxation (JCT) estimate that the Administration's pay-as-you-go revenue proposals would reduce governmental receipts by $5 billion in 1992, $2 billion in 1993, and $13 billion in 1997 (see Table 5). Even larger reductions in revenues are likely in later years as a result of the proposal to exclude from taxation the

TABLE 5. PRELIMINARY CBO/JCT ESTIMATES OF ADMINISTRATION'S PAY-AS-YOU-GO REVENUE PROPOSALS (By fiscal year, in billions of dollars)

	1992	1993	1994	1995	1996	1997	1992-1997
Reduce Capital Gains Tax Rate	0.8	3.7	-3.4	-5.7	-5.6	-5.2	-15.4
Establish Flexible Individual Retirement Accounts	a	2.0	0.8	0.5	-0.8	-1.9	0.6
Provide Tax Credit to First-Time Homebuyers	-0.3	-2.7	-2.5	-0.5	-0.1	a	-6.1
Provide Investment Tax Allowance	-6.1	-1.6	3.6	1.0	0.8	0.6	-1.7
Extend Expiring Tax Provisions	-0.4	-1.9	-2.5	-2.2	-2.3	-2.7	-11.9
Extend Medicare Taxes and Coverage to State and Local Employees	0.4	1.7	1.7	1.7	1.6	1.6	8.7
Increase Employee Contributions to Civil Service Retirement	b	0.4	1.0	1.1	1.0	1.0	4.5
Other Proposals	0.2	-0.1	-1.9	-1.8	-1.4	-0.7	-6.2
Subtotal	-5.4	1.5	-3.3	-5.9	-6.7	-7.3	-27.4
Increase Personal Exemption for Children	b	-3.4	-5.0	-5.0	-5.1	-5.3	-23.8
Total Including Increase in Personal Exemption for Children	-5.4	-1.9	-8.3	-10.9	-11.8	-12.6	-51.2
Memorandum: Administration's Estimate of Proposal to Reduce Capital Gains Tax Rate	0.6	3.8	2.1	0.3	0.3	-0.2	6.9

SOURCES: Joint Committee on Taxation; Congressional Budget Office.

a. Less than $50 million.

b. Not yet in effect.

earnings on flexible Individual Retirement Accounts. Including the effects of the increased exemption for children, the revenue loss over the the 1992-1997 period is estimated to total $51 billion.

For only one item--the proposal to reduce taxes on capital gains--does the CBO/JCT estimate differ significantly from that of the Administration. CBO/JCT and the Administration concur that the proposal would boost revenues in 1992 and 1993, when taxpayers respond with a burst of asset sales. The Administration believes that the proposal would generate extra revenues in 1994, 1995, and 1996 as well. In contrast, CBO and JCT believe the proposal would reduce revenues beginning in 1994.

The pay-as-you-go requirement of the Budget Enforcement Act provides that, taken together, changes in mandatory spending programs and tax laws must not increase the deficit in any year. The Administration proposes to offset the cost of its tax proposals through a variety of reductions in mandatory spending programs, including the accrued savings from changes in deposit and pension insurance. As just indicated, however, the CBO/JCT estimate of the revenue loss is greater than that of the Administration. Moreover, as explained in the following section, CBO believes that no pay-as-you-go savings should be recorded for the proposed changes in the insurance programs. Thus, in CBO's preliminary assessment, the Administration's

budget is unlikely to conform to the pay-as-you-go requirements of the Budget Enforcement Act.

As an alternative to some of its pay-as-you-go proposals, the Administration indicates that it would be willing to consider modifying the BEA to allow the projected reduction in defense outlays (below the level in the Administration's fiscal year 1992 budget) to offset the proposed increase in the personal exemption. The Administration would make this step conditional on a commensurate reduction in the discretionary spending caps and on an extension of the enforcement provisions of the BEA until the budget is balanced. Obviously, to the extent that defense reductions are used to finance tax cuts, they are not available to protect domestic discretionary spending or to reduce the deficit.

Deposit and Pension Insurance

The Administration proposes to convert the budgetary accounting for deposit insurance and the Pension Benefit Guaranty Corporation (PBGC) from a cash to an accrual basis. In addition, the Administration recommends a number of program changes to reduce the government's long-run liability for deposit and pension insurance. The Administration would allow banks to branch across

state lines, offer additional financial services, and become part of financial-services holding companies. The pension proposals include raising required contributions for sponsors of underfunded single-employer pension plans, freezing the level of the federal guarantee for chronically underfunded plans, and improving the status of PBGC claims in bankruptcy proceedings.

The Administration's insurance proposals would produce small changes in cash flows in the next few years, but they could create large immediate savings under the Administration's accrual accounting plan. The budget shows outlay reductions, on an accrual basis, of $9.4 billion in 1992, $4.3 billion in 1993, and $38.0 billion over the 1992-1997 period for the deposit and pension insurance proposals combined.

Clearly, cash-based accounting for insurance programs provides incomplete information about the cost of these activities. Cash flows for deposit insurance include the distorting effects of outlays for the acquisition of assets and receipts from the disposition of those assets. Similarly, cash flows give the false impression that the government is earning profits from pension insurance.

Nevertheless, CBO believes that the accrual accounting measures proposed by the Administration are not suitable for use in the budget at this

time. First, without sufficient justification, the Administration proposes to create different accrual concepts for deposit insurance and the PBGC. Second, the Administration's methods for estimating accrued costs are very complicated, would be difficult to replicate and implement, and are not necessarily the best way to estimate costs.

CBO also believes that no pay-as-you-go savings should be recorded for the Administration's deposit and pension insurance proposals, regardless of whether the proposed accounting changes are enacted. Using highly uncertain future savings to offset real current costs is dubious budgetary policy. Moreover, since both bank and pension insurance are intended to be self-financing, any savings are likely to benefit the premium-payer more than the taxpayer.

In CBO's view, the Budget Enforcement Act effectively removed the cash flows associated with deposit insurance from the pay-as-you-go calculations. Unless explicitly changed, this exclusion would continue to apply under an accrual accounting system.

Ideally, the BEA should be amended to exclude pension insurance, like deposit insurance, from pay-as-you-go. The proposed changes in the PBGC are designed to pay for existing, but previously unrecognized, commitments of

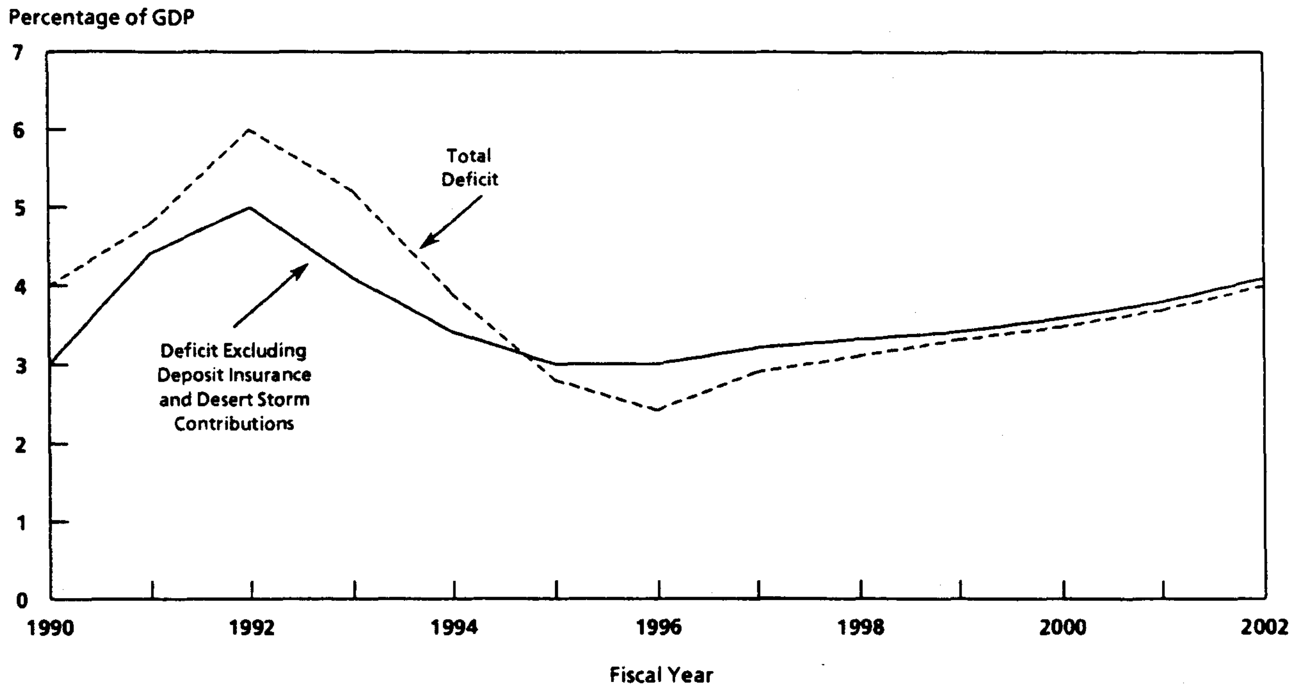
the federal government. Any savings in pension insurance should be applied to these as yet unrecognized insurance costs and not used to pay for other budgetary initiatives. In the absence of such an exclusion, however, CBO will continue to use cash-based accounting for proposed changes in pension insurance.

Controlling Growth in Entitlement Spending

CBO's five-year budget projections indicate that, under current policies, the federal deficit is likely to start rising again as a percentage of GDP after 1996. Longer-run extrapolations show this trend continuing. Excluding deposit insurance, the deficit is projected to climb from 3.0 percent of GDP in 1996 to 4.1 percent in 2002 (see Figure 1).

This growth in the deficit is propelled by the growth in mandatory spending, especially for health care services. Excluding Social Security, deposit insurance, and net interest, mandatory spending could balloon from 7.2 percent of GDP in 1992 to 8.9 percent in 2002. All of this growth is concentrated in Medicare and Medicaid, which are projected to soar from 3.4 percent of GDP in 1992 to 4.4 percent in 1997 and 5.8 percent in 2002.

Figure 1.
Federal Budget Deficit (As a percentage of GDP)



SOURCE: Congressional Budget Office.

To check the growth in entitlements, the Administration proposes to place a limit, or cap, on the overall growth of mandatory programs. If the Congressional reconciliation process fails to eliminate any mandatory spending above the limit, an automatic sequestration of mandatory programs would be triggered. Most mandatory programs that are now exempt, except Social Security, would become subject to this new sequestration, although it is not entirely clear how such a sequestration would be implemented.

The proposal for a cap on growth in mandatory spending deserves two comments. First, experience with the fixed deficit targets of the Gramm-Rudman-Hollings legislation suggests that mechanical budget formulas can present serious problems. In particular, the required reductions can become so large that the threat of a sequestration to achieve them is no longer credible. As an alternative to the entitlement cap, the BEA could be amended to require a specified amount of deficit reduction--say, $35 billion to $50 billion a year--for a number of years, or until a target deficit is reached.

Second, as the figures cited earlier show, the problem of the growth in entitlement spending is really a manifestation of the rapid rise in the cost and use of medical care. Thus, the abstract concept of an entitlement cap cannot be turned into reality without squarely addressing the problems of health care costs. Also, to the extent that access to health care is improved, the cost

problem will become even more acute. The experience of the past two decades suggests that greater control over health spending probably cannot be achieved without signifiant changes in the health care system--changes that may limit desirable features such as freedom of choice of insurance plans and providers, rapid access to new technologies and treatments, and sustained levels of research and development. The priority the nation places on these other goals will determine how effectively cost containment is pursued.

CONCLUSION

Although the recession has made further deficit reduction inadvisable this year, the deficit should soon return to the top of the political agenda. Excluding deposit insurance, the deficit is likely to exceed $200 billion for the foreseeable future and move higher toward the end of the 1990s. Deficits of those magnitudes cripple economic growth by reducing national saving and capital formation. They also create a vicious cycle of more federal borrowing and higher debt service costs, which in turn make it still more difficult to reduce the deficit. The Administration's fiscal year 1993 budget does little to address this fundamental fiscal problem and leaves its resolution to yet another year.