CBO MEMORANDUM

THE ECONOMIC AND BUDGET OUTLOOK:

DECEMBER 1995 UPDATE

CONGRESSIONAL BUDGET OFFICE
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WASHINGTON, D.C. 20515

NOTE

Numbers in the text and tables of this report may not add to totals because of rounding.

This memorandum presents the Congressional Budget Office's (CBO's) updated analysis of the state of the economy and the budget, as called for in the third Continuing Resolution for Fiscal Year 1996 (H.J. Res. 122). It also includes estimates of the budgetary effects of the Balanced Budget Act passed by the Congress in November 1995 and vetoed by the President on December 6. In accordance with CBO's mandate to provide objective and impartial analysis, the memorandum contains no recommendations.

The analysis of the economic outlook was prepared by CBO's Macroeconomic Analysis Division under the direction of Robert Dennis and John F. Peterson. Benjamin Page wrote the economic outlook section of the report. Matthew Salomon carried out the economic forecast and projections. Laurie Brown, Douglas Hamilton, Adrienne Kearney, Kim Kowalewski, Joyce Manchester, Angelo Mascaro, Frank Russek, Matthew Salomon, Kent Smetters, John Sturrock, and Christopher Williams provided helpful comments and background analysis. Derek Briggs, John Romley, and Jennifer Wolfson provided research assistance.

The baseline outlay projections and estimates of the Balanced Budget Act were prepared by the staff of the Budget Analysis Division under the supervision of Paul N. Van de Water, Robert Sunshine, Paul Cullinan, Peter Fontaine, James Horney, Michael Miller, and Murray Ross. The baseline revenue estimates were prepared by the staff of the Tax Analysis Division under the supervision of Rosemary D. Marcuss and Richard Kasten. The revenue estimates of the Balanced Budget Act were provided by the Joint Committee on Taxation. Paul Van de Water wrote the budget outlook section of the report.

The economic outlook was discussed at two meetings of CBO's Panel of Economic Advisers. Members of the panel are Michael Boskin, Barry P. Bosworth, Robert Dederick, Martin Feldstein, Benjamin Friedman, Lyle E. Gramley, Robert E. Hall, Marvin Kosters, Anne Krueger, Burton Malkiel, Gregory Mankiw, Allan Meltzer, Rudolph Penner, James Poterba, William Poole, Robert Reischauer, Sherwin Rosen, Robert Solow, John Taylor, and James Tobin. Henry Aaron, Alan Auerbach, Stanley Fischer, Laurence Kotlikoff, Edward McKelvey, and Laurence Meyer attended as guests. Although these outside advisers provided considerable assistance, this document does not necessarily reflect their views.

Leah Mazade and Sherry Snyder edited the memorandum with the assistance of Christian Spoor. The authors owe thanks to Marion Curry, Janice Johnson, Linda Lewis, and Wanda Sivak for helping to prepare the tables. Kathryn Quattrone prepared the report for final publication.

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Director

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On November 20, 1995, the Congress cleared and the President signed the third Continuing Resolution for Fiscal Year 1996 (H.J. Res. 122). The resolution provided appropriations through December 15 and ended a six-day shutdown of the federal government. In the resolution, the Administration and the Congress agreed on the goal of balancing the federal budget by 2002 while protecting future generations, ensuring the solvency of Medicare, reforming welfare, stimulating economic growth, and providing adequate funding for certain high-priority programs.

On the same day, the Congress approved the Balanced Budget Act of 1995 (H.R. 2491), which would eliminate the federal budget deficit in seven years under the economic and technical estimating assumptions of the Congressional budget resolution. More recently, the Administration submitted a plan that would balance the budget in the same time period, using its own, more optimistic estimating assumptions. In an effort to resolve the difference between the Congress and the Administration over estimates, the continuing resolution provides that any budget agreement is to be estimated by the Congressional Budget Office (CBO) based on its most recent economic and technical assumptions.

As required by the continuing resolution, CBO has updated its economic and budget projections to reflect the most current available information. During the past three weeks, CBO has consulted with experts in both the Administration and the private sector, as the continuing resolution directs. CBO's Panel of Economic Advisers, which had met on November 16, was reconvened on November 30. CBO staff have also met or spoken with staff of the Bureau of Labor Statistics, Department of Agriculture, Federal Communications Commission, Health Care Financing Administration, and other federal agencies about aspects of the projections.

CBO's new economic projections differ from those underlying the budget resolution in two major respects. First, they incorporate an analysis of the effects that balancing the budget would have on the components of national income. In previous reports, CBO has explained how less government borrowing would both reduce interest rates, which would lower the government's debt-service costs, and increase economic growth. CBO's new projections incorporate an additional effect --namely, that lower interest rates would reduce the cost of borrowing by businesses and thereby increase corporate profits and federal income tax receipts.

Second, the new projections take account of economic data that have recently become available--in particular, slightly lower rates of inflation and projections of slower growth in the labor force. They also assume that in 1997 the Bureau of Labor Statistics will begin correcting the consumer price index for a bias that stems from the way in which goods and services are brought into the survey.

Under current policies, a reduction in inflation would have little effect on the deficit, because tax revenues and spending would drop in tandem. But under the policies of the Balanced Budget Act--which would place fixed dollar limits on spending for discretionary programs, Medicare, Medicaid, and some other federal activities--lower inflation would reduce tax revenues without a commensurate reduction in spending and would thus increase the projected deficit.

In addition to updating its projections of revenues and outlays to incorporate new economic data, CBO has reviewed its estimates of spending for the major entitlement programs in the light of recent developments. On balance, that review has led CBO to lower its projections of spending, particularly for Supplementary Medical Insurance (Part B of Medicare) and for Medicaid. Like the reduction in inflation, these changes reduce the projected deficit under current policies but have little effect on the deficit under the policies of the Balanced Budget Act.

The revisions to CBO's economic and budget projections have reduced both the projected baseline deficit and the estimated savings that the Balanced Budget Act would achieve. The projected baseline deficits, including the fiscal dividend from balancing the budget, decline by $288 billion in total over the next seven years. As a consequence of the lower baseline, the savings from the policy changes in the Balanced Budget Act shrink by $153 billion. For example, the proposed changes in Medicare would save $226 billion instead of $270 billion. Cumulatively, the deficit under the policies of the Balanced Budget Act would be $135 billion smaller over the 1996-2002 period than CBO previously estimated. In 2002, however, the estimated surplus would be virtually the same as before because the revenue-reducing effects of lower inflation and slower growth in the labor force would offset the other changes.

THE ECONOMIC OUTLOOK

CBO's December economic projections differ in a number of ways from its January and August projections. First, the December projections include the effects on the economy of balancing the budget by 2002, the overall policy goal specified in the continuing resolution. However, the projections do not take into account specific policy aspects of any balanced budget plan beyond the general effects of achieving balance. Second, the December projections incorporate information that has become available since the previous projections were completed. Among other things they reflect economic developments during 1995, particularly falling interest rates and lower inflation.

Nominal gross domestic product in CBO's December projections grows by an average of 4.9 percent per year from 1995 through 2002, reaching a level of $9.9 trillion in 2002 (see Table 1 on page 13). The rate of increase in the consumer price index (CPI) averages 3.0 percent annually over the same period. Unemployment also rises slightly, from its current unusually low level to 6.0 percent in 2002. By that same year, long-term interest rates fall to 5.5 percent, and short-term rates drop to 3.9 percent.

With respect to fiscal policy, CBO's December projections assume that a balanced budget plan will be enacted; consequently, they incorporate the macroeconomic effects of such a plan in their underlying economic assumptions. In contrast, in the budget resolution, the macroeconomic effects of balancing the budget were added separately in the form of the so-called fiscal dividend. (This fiscal dividend represents, in dollar terms, the effects of deficit reduction on the economy and how those economic effects would in turn affect the budget.) The assumptions CBO used to calculate the fiscal dividend were detailed in its April 1995 study, *An Analysis of the President's Budgetary Proposals for Fiscal Year 1996*. CBO's December projections are therefore most comparable to the budget resolution's economic assumptions, adjusted to include the higher rate of economic growth and lower interest rates used in calculating the fiscal dividend. This memorandum refers to those adjusted projections as the adjusted budget resolution assumptions.

The December projections represent CBO's best estimate of future economic activity, assuming that a plan to balance the budget by 2002 is enacted. Economic projections are inherently uncertain, however, especially when estimates stretch out over a number of years, as these do. CBO views its projections as averages of a range of possible estimates, encompassing both more optimistic and more pessimistic outcomes.

Other uncertainties also attend the projections. CBO's estimates could be affected by the Bureau of Economic Analysis's annual benchmark revisions of the national accounts, to be released later this month. Those revisions could alter economists' views about the underlying trends of economic activity and income shares of national output.

CBO's Projections for 1996 Through 2002

The U.S. economy appears to have returned to a moderate, sustainable rate of growth following a brief slowdown in the second quarter of 1995. No strong indications point to either a major slowdown or acceleration. Output is currently at or close to its estimated potential level, and in CBO's December projections, output remains close to that potential. (The economy's potential is the level of real gross domestic product, or GDP, that is consistent with an unchanging rate of inflation.)

CBO's December projections differ only slightly in broad respects from the assumptions in the budget resolution, once allowance is made for the different ways the two sets of assumptions handle the effects of deficit reduction on the economy.

Compared with the adjusted budget resolution assumptions, CBO's December projections indicate slightly lower levels of growth and inflation, somewhat higher long-term interest rates, and a substantially larger share of profits as a percentage of GDP (see Tables 1 and 2). Lower levels of growth and inflation mean that the level of nominal GDP, already 0.6 percent below that in the budget resolution assumptions for 1995, would be 2.4 percent lower than the level in the adjusted budget resolution assumptions for 2002.

Growth and Inflation. On average, nominal GDP in CBO's December projections grows at an annual rate of 4.9 percent from 1995 through 2002, reaching a level of $9.9 trillion by 2002. The unadjusted budget resolution assumptions called for average growth of 5.1 percent, to a level of $10.1 trillion in 2002. Three factors account for the difference of 0.2 percentage points in annual nominal growth rates:

- Balancing the budget adds 0.1 percentage point;
- Revising downward the size of the future labor force subtracts 0.1 percentage point; and
- Lowering the estimated rate of inflation subtracts 0.2 percentage points.

The calculations of the fiscal dividend in the budget resolution assumed that balancing the budget would add a little less than 0.1 percentage point to the average rate of growth from 1995 through 2002. (That figure is the difference between the nominal growth rates of GDP under the unadjusted and adjusted budget resolution assumptions in Table 1.) The increase in growth was the result of less government borrowing, which would extend the current investment boom and raise the growth of the capital stock, thus increasing the potential growth of the economy. In its December projections, CBO foresees the same 0.1 percentage-point effect on growth rates from balancing the budget.

CBO now expects that the labor force will grow somewhat less than the budget resolution assumed, correspondingly reducing the growth of nominal GDP. CBO's forecasts for the labor force rely heavily on the projections of the Bureau of Labor Statistics (BLS) and of the Social Security Administration. The BLS has recently revised its projection. It now projects that the labor force will be about 2 percent smaller in 2002 than it forecast in November 1993. The budget resolution assumptions anticipated the BLS's revision in part and thus do not need to be revised as much--the change would be only 1.1 percent for 2002. Nevertheless, the revision slows the projected average rate of growth of nominal GDP by about 0.1 percentage point between 1995 and 2002.

Inflation seems likely to increase somewhat between 1995 and 1996, although the rise will probably be smaller than the budget resolution assumptions anticipated. Consumer price inflation in the last half of 1995 has been much lower than expected, but some of that development reflects special factors that are unlikely to be repeated in the near term, including lower prices for gasoline, airfares, and used cars. Growth in labor costs has also been low because employers' costs for fringe benefits have increased less than expected. As labor markets adjust, however, money wages should rise to make up the shortfall in compensation to workers.

Once these temporary influences abate, inflation in wages and prices is likely to edge up slightly, but it will remain a little lower than the rate in the adjusted or unadjusted budget resolution assumptions. Because the reduction in the projected rate of inflation represents a lower rate of increase in the actual dollar cost of goods and services, CBO's projected rate of growth of nominal GDP is lower as well.

The BLS will revise its formula for calculating the consumer price index in both 1997 and 1998, resulting in a reduction in the measured rate of inflation. Those changes will be purely statistical, however, and will not represent a change in the cost of goods and services. (The revisions only remove biases that would otherwise show up in the CPI.) Consequently, they will not alter the growth of nominal GDP. The projected revisions for 1998 were incorporated in the budget resolution assumptions and account for the projected slowdown in the growth of the CPI after 1998 (see Table 1). Recently, the BLS announced further changes that will take effect in 1997. Those revisions, which were not incorporated in the budget resolution assumptions, should reduce the growth of the CPI about another 0.2 percentage points.

The changes to nominal GDP and inflation leave CBO's December projection of real growth slightly lower than the projection in the adjusted budget resolution assumptions, which includes the effects of balancing the budget. Recent statistical changes to the traditional measure of real GDP make it difficult to compare real growth in the current projections with the assumptions of the budget resolution (see Box 1). However, those changes carry no implications for the budget.

<u>Interest Rates</u>. By 2002, nominal short-term interest rates in CBO's December projections are slightly lower than the rates in the adjusted budget resolution assumptions. Because the December projections assume lower levels of inflation, however, the real short-term rates are slightly higher. Nominal long-term rates are up about 50 basis points in 2002, and up close to 70 basis points in real terms, compared with the adjusted budget resolution assumptions. (A basis point is one-hundredth of a percentage point.) Those revisions reflect both a smaller estimate of the effect that balancing the budget would have on rates and a higher estimate of the

level of real rates that would result if no action was taken to bring the budget toward balance.

Despite the revisions, CBO's December projections assume declines in both short-term and long-term rates from the end of 1995 to 2002. Long-term rates have probably already begun to reflect the impact of prospective budget balancing; most of the decline in short-term rates seems likely to occur between 1997 and 2000. CBO's December projections assume that long-term rates would rise from their present level if no action was taken to balance the budget.

Interest rates have already fallen substantially over the past year: long-term rates are down some 150 basis points from the level that the budget resolution assumed, and short-term rates are 90 basis points lower. Although a small part of this year's drop in long-term rates (perhaps 30 basis points) may reflect anticipation of major reductions in the deficit, the drop in short-term rates probably stems from other causes, given that significant fiscal restraint still lies in the future. Thus, much of the decline in both short- and long-term rates this year seems to have arisen not from the prospect of a balanced budget but from forecasts in the financial

BOX 1.
THE CHANGE IN THE MEASURE OF REAL GROSS DOMESTIC PRODUCT

The national income and product accounts (NIPAs), which are the basis of the projections prepared by the Congressional Budget Office and other forecasters, are about to undergo a major change that affects the way the accounts measure real economic activity. By the end of December, the Department of Commerce's Bureau of Economic Analysis, which produces the NIPAs, will release changes it has made in the accounts that will better reflect economic activity but that will not fundamentally affect the budget outlook. CBO prepared its December projections using the new basis for the NIPAs in anticipation of that change. As a result, it is difficult to make comparisons between the assumptions in the budget resolution about real growth, which are based on the old NIPA measure, and CBO's December projections. However, the change in the calculation of real GDP does not affect nominal GDP.

The revised NIPAs use a new measure of real gross domestic product, the “chain-type” measure, that corrects a serious bias in recent rates of real growth. The bias arises largely because of the continued and unprecedented steep drop in the prices of computers and other electronic items. The old fixed-weighted measures of real growth valued spending on computers at 1987's relatively high prices, thus grossly overstating the importance of such expenditures in today’s economy. The new chain-type measure does not use any specific base year; instead, it calculates each year’s real growth using as weights the prices of that year and the preceding year. As a result, the chain-type measure substantially reduces reported real rates of growth in recent years. In 1993, for example, growth measured on the old fixed-weighted basis was 3.1 percent; the chain-type measure puts growth at 2.5 percent.

markets of lower levels of inflation and economic activity, and from lower interest rates abroad.

Income Shares. CBO's December projections of income shares differ from those in the adjusted budget resolution assumptions largely because they take account of the effect of lower interest rates. CBO expects the lower interest rates that follow from balancing the budget to translate into lower corporate borrowing costs and higher corporate profits--a factor that the adjusted budget resolution assumptions did not take into account (see Table 2). The effects on income shares of balancing the budget would start to show up in 1996 and beyond.

The Fiscal Dividend

Deficit reduction affects the economy in many ways. By freeing up private savings that the government would otherwise borrow, a smaller deficit leads to higher levels of investment and less borrowing from foreigners, ultimately raising national income. In addition, a smaller deficit eases pressure on financial markets and brings down interest rates. Reducing the deficit may also change the mix of different types of income that make up the nation's output, partly as a consequence of lower interest rates.

The economic effects of reducing the deficit in turn affect the budget. Higher levels of income imply higher revenues; lower interest rates and lower levels of federal debt imply less government spending on interest payments. Changes in the shares of different types of income within GDP can also affect the budget, because different types of income tend to produce different amounts of revenue per dollar. CBO estimates that, on balance, the changes in income shares that come from reducing the deficit will increase revenues.

The impact on the budget of all these effects calculated in dollar terms is known as the fiscal dividend. The fiscal dividend is an automatic response to deficit reduction. In essence, it means that policies to reduce the deficit will gain an extra boost from the effects that deficit reduction induces in the economy. In calculating the fiscal dividend, CBO does not include the effects of any particular policies within a balanced budget plan but only the general effects listed above.

In April, CBO calculated the fiscal dividend from a hypothetical policy that balanced the budget over the 1996-2002 period and kept it balanced thereafter. The calculations used to estimate the dividend assumed that by 2002, the hypothetical policy would increase GDP by 0.5 percent and gross national product (GNP) by 0.8

percent (see Table 3).[1] GNP was affected more than GDP because GNP reflects the reduction in net borrowing from foreigners that stems from balancing the budget. The estimated impact of deficit reduction on GDP and GNP in CBO's December projections is unchanged from its April estimates.

CBO's calculation of the fiscal dividend in April also assumed that by 2002, a balanced budget strategy would reduce a weighted average of short- and long-term interest rates by 150 basis points. The net result of the higher output and lower interest rates was a total fiscal dividend of $170 billion over the seven-year period, with a $50 billion dividend in 2002 alone. In other words, CBO estimated that the favorable economic effects of balancing the budget would contribute $50 billion toward balance in 2002. Its estimate of the fiscal dividend was based only on changes in output and interest rates.

The economic effects of balancing the budget that CBO has incorporated into its December projections imply a larger fiscal dividend--$282 billion over the seven-year period, with $60 billion in 2002 (see Table A-6 in the appendix). CBO's estimate has changed primarily because the calculations now include the effects of deficit reduction on the income shares of GDP. The April estimate was based on a more limited analysis that did not take account of changes in income beyond those implied by higher growth. The more extensive and detailed analysis underlying CBO's December projections has revealed that balancing the budget would have a significant effect on income shares, and consequently a substantial effect on the budget. In addition, CBO has revised its estimates of the size and timing of the effects of deficit reduction on interest rates in the light of new information.

<u>New Estimates of Changes in Income Shares.</u> CBO anticipates that reducing the deficit will lower the income share of business interest and increase that of profits; as a result, federal tax revenues will rise. As deficit reduction pulls down interest rates, businesses will need to spend less on interest payments on their debts. Lower spending for that purpose will raise their profits--and correspondingly reduce the interest income received by those who own corporate debt. CBO expects that balancing the budget will reduce business interest payments as a share of GDP--and raise the share of profits--by 1.1 percentage points in 2002. Both profits and interest income are taxable, but much of interest income is received by tax-exempt entities such as pension funds. Thus, the shift of income from interest to profits would boost projected revenues.

The effects of the change in the shares of income received as interest and profits would be partly offset by lower federal interest payments to U.S. residents,

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1. GNP differs from GDP primarily by including the capital income that residents earn from investments abroad less the capital income that nonresidents earn from domestic investment.

which would reduce revenues. Unlike business interest payments, which are paid out of the income businesses earn on their assets, federal interest payments to residents are not considered part of GDP. The payments simply reshuffle income from taxpayers to bondholders and are not an addition to the goods and services that the economy produces. Therefore, the lower federal interest payments that will come with deficit reduction (stemming from lower interest rates and less debt) imply less taxable income relative to GDP, and thus lower revenues. CBO projects that balancing the budget will reduce the ratio of federal interest income to GDP by 0.8 percentage points in 2002. However, the impact on revenues will be relatively small because, as in the case of business interest, tax-exempt entities receive a large share of federal interest.

Balancing the budget would also affect income shares by increasing the annual amount of depreciation of business capital. That increase would occur because investment would rise and increase the growth of the capital stock. A larger capital stock implies that more capital will wear out each year--in other words, depreciation will be greater. Because depreciation is subtracted from income before paying taxes, an increase in its share of GDP tends to reduce revenues. CBO estimates that balancing the budget will increase the share of depreciation in GDP by 0.3 percentage points in 2002.

<u>New Estimates of Changes in Interest Rates</u>. CBO now estimates that interest rates will be about 120 basis points lower in 2002 under a seven-year balanced budget plan than they would be if the budget deficit followed the growing path implied by no policy changes (see Table 3). However, that estimate does not mean that interest rates would fall by 120 basis points from today's level. As noted earlier, in anticipation of an agreement to balance the budget, current long-term rates may already reflect as much as 30 basis points of the total projected decline. If no policy changes were made to reduce the deficit, long-term interest rates would climb to an estimated 6.7 percent by 2002.

The drop in interest rates from balancing the budget that CBO assumes in its December projections is somewhat smaller than its April estimate of 150 basis points. That change occurred primarily because real long-term interest rates are now substantially lower than when CBO prepared its April estimate, leaving less room for further declines. CBO's downward revision of the effect deficit reduction would have on interest rates is consistent with changes made by private forecasters over the past year.

The baseline budget deficit would rise slowly from $164 billion in 1995 to $172 billion in 1996, $182 billion in 1997, and $228 billion in 2002, according to CBO's updated estimates. On the one hand, those baseline projections understate the deficit under current budgetary policies because the underlying economic assumptions already take into account the benefits of balancing the budget by 2002. On the other hand, they provide a basis for evaluating proposals, such as the Balanced Budget Act, that would actually achieve budgetary balance. (The appendix provides further details on CBO's revised baseline budget projections.)

Under the policies of the Balanced Budget Act, the deficit would decline to $151 billion in 1996, $159 billion in 1997, and $34 billion in 2001. In 2002, the budget would show a surplus of $3 billion (see Table 4). Over the seven-year period from 1996 through 2002, the Balanced Budget Act would reduce the deficit by a cumulative total of $750 billion. The growth of spending would be cut by $968 billion, divided as follows:

- $408 billion from extending and reducing the limits on discretionary appropriations;

- $226 billion from establishing MedicarePlus plans, reducing payment rates to certain health care providers in traditional fee-for-service Medicare, increasing premiums paid by beneficiaries, and making other changes to reduce the growth of Medicare spending;

- $133 billion from repealing the Medicaid entitlement and replacing it with a new block grant to states to provide medical assistance for low-income families;

- $122 billion from changes in means-tested benefits for low-income families, federal employee retirement, farm price supports, and other mandatory spending programs; and

- $80 billion from lower debt-service costs.

In addition, the Joint Committee on Taxation (JCT) estimates that tax revenues would be reduced by $218 billion, offsetting part of the reductions in spending.

Changes in Estimates of the Balanced Budget Act

Using the assumptions of the Congressional budget resolution, CBO and JCT previously estimated that the Balanced Budget Act would produce deficits of $178 billion in 1996, $189 billion in 1997, and $46 billion in 2001, and a surplus of $4 billion in 2002 (see Table 5). Compared with those earlier figures, the new estimates show lower deficits in 1996 through 2001, but the estimate of the surplus in 2002 is virtually unchanged. Over the 1996-2002 period, the cumulative reduction in the estimated deficits under the Balanced Budget Act would be $135 billion (see Table 6).

The largest single factor reducing the deficits projected under the Balanced Budget Act is the revised estimate of the fiscal dividend. That item alone brings down the deficit by $112 billion. However, reductions in revenues stemming from lower inflation and slightly slower growth in the labor force offset most of that change. Lower projected interest rates in the early years reduce interest costs by $50 billion. Although interest rates are now forecast to be lower in 1996 and 1997 than CBO estimated last winter, the projected level of rates in the long run is the same, aside from changes in the estimated fiscal dividend. Revisions in the calculation of the CPI and lower inflation will shave cost-of-living adjustments for Social Security and other benefit programs, reducing mandatory spending by $43 billion. Together, those changes reduce debt-service costs by $29 billion.

The revisions to CBO's baseline budget projections reduce the deficit projected under current policies by $288 billion (see Table 7). That figure is greater than the reduction in the deficit under policies of the Balanced Budget Act because the act specifies fixed dollar levels for several major categories of spending. Therefore, reductions in baseline projections of discretionary spending, Medicare, Medicaid, and farm price supports would have little or no effect on the level of spending under the Balanced Budget Act. As a result, the spending levels set in the act for those programs would represent a smaller reduction from the baseline than previously estimated. Under CBO's updated estimates, the bill would save $408 billion instead of $440 billion from discretionary appropriations, $226 billion instead of $270 billion from Medicare, $133 billion instead of $163 billion from Medicaid, and $4 billion instead of $12 billion from agricultural programs. As a result of those differences, debt-service savings would be $80 billion instead of $100 billion.

Changes in Baseline Budget Projections

For the 1996-2002 period, CBO has reduced its baseline projections of Medicare benefits by $45 billion, almost entirely in spending for Supplementary Medical Insurance (SMI, or Part B of Medicare) (see Table 7). CBO has made this change in part because SMI spending fell about $2 billion below its estimate for fiscal year 1995. That information and data for previous years suggest that the volume performance standards for physicians, implemented in 1992, may have slowed the rate of growth of spending for physician services. Lower projected inflation will also hold down the increase in SMI outlays. In contrast, spending for Hospital Insurance (HI, or Part A of Medicare) exceeded CBO's estimate for 1995 by about $1 billion. Although the detailed components of HI spending are not yet available, one explanation is that this rise may be associated with a recent increase in the rate of hospital admissions. CBO estimates, however, that lower inflation will largely offset the rise in spending.

Although CBO's estimate of Medicaid outlays for 1995 was almost exactly on target, CBO has reduced the projected rate of growth of Medicaid spending slightly to reflect the slower growth rates of the past few years. Over the seven-year period, Medicaid spending has been reduced by a total of $31 billion.

Under current law, discretionary spending is limited by statutory caps on budget authority and outlays through 1998. The baseline assumes that, in the aggregate, appropriations keep pace with inflation thereafter. The drop in the projected rate of inflation reduces the baseline for discretionary programs by $31 billion.

Changes in other programs are smaller. Because caseloads for the Food Stamp program, Supplemental Security Income, and Aid to Families with Dependent Children all fell slightly below the estimates for 1995, CBO has reduced its projections of spending for those means-tested programs. Spending for farm price support programs is also likely to be lower for the next few years as a result of strong demand and low inventories, but in the long run it will not differ much from previous estimates. In a recent decision, the U.S. Court of Appeals for the Federal Circuit held that federal bank regulators cannot renege on agreements allowing healthy financial institutions that took over failing thrifts to meet capital requirements with "supervisory goodwill." If that decision is upheld by the U.S. Supreme Court, as seems likely, it could increase federal outlays by billions of dollars over the next several years.

TABLE 1. THE ECONOMIC FORECAST AND PROJECTIONS FOR CALENDAR YEARS 1995 THROUGH 2005

		Forecast		Projected								
	1994[a]	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Nominal GDP (Billions of dollars)												
Budget resolution	6,735	7,127	7,456	7,847	8,256	8,680	9,128	9,604	10,105	10,633	11,188	11,772
Budget resolution (Adjusted)[b]	6,735	7,127	7,459	7,857	8,272	8,704	9,160	9,645	10,156	10,694	11,261	11,858
December	6,738	7,079	7,418	7,788	8,173	8,577	9,002	9,447	9,915	10,408	10,924	11,467
Nominal GDP (Percentage change)												
Budget resolution	6.2	5.8	4.6	5.3	5.2	5.1	5.2	5.2	5.2	5.2	5.2	5.2
Budget resolution (Adjusted)[b]	6.2	5.8	4.7	5.3	5.3	5.2	5.2	5.3	5.3	5.3	5.3	5.3
December	6.2	5.1	4.8	5.0	5.0	4.9	5.0	4.9	5.0	5.0	5.0	5.0
CPI-U (Percentage change)[c]												
Budget resolution	2.6	3.1	3.4	3.4	3.3	3.2	3.2	3.2	3.2	3.2	3.2	3.2
Budget resolution (Adjusted)[b]	2.6	3.1	3.4	3.4	3.3	3.2	3.2	3.2	3.2	3.2	3.2	3.2
December	2.6	2.9	3.0	3.1	3.0	2.9	2.9	2.9	3.0	3.0	3.0	3.0
Unemployment Rate (Percent)												
Budget resolution	6.1	5.5	5.7	5.8	5.9	6.0	6.0	6.0	6.0	6.1	6.1	6.1
Budget resolution (Adjusted)[b]	6.1	5.5	5.7	5.8	5.9	6.0	6.0	6.0	6.0	6.1	6.1	6.1
December	6.1	5.6	5.9	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Three-Month Treasury Bill Rate (Percent)												
Budget resolution	4.2	6.2	5.7	5.3	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1
Budget resolution (Adjusted)[b]	4.2	6.2	5.5	4.9	4.4	4.2	4.0	4.0	4.0	4.0	4.0	4.0
December	4.2	5.5	5.3	5.0	4.7	4.2	3.9	3.9	3.9	3.9	3.9	3.9
Ten-Year Treasury Note Rate (Percent)												
Budget resolution	7.1	7.7	7.0	6.7	6.7	6.7	6.7	6.7	6.7	6.7	6.7	6.7
Budget resolution (Adjusted)[b]	7.1	7.7	6.8	6.2	5.9	5.6	5.3	5.0	5.0	5.0	5.0	5.0
December	7.1	6.6	5.8	5.6	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5

SOURCES: Congressional Budget Office; Department of Commerce, Bureau of Economic Analysis; Department of Labor, Bureau of Labor Statistics; Federal Reserve Board.

NOTE: GDP = gross domestic product.

a. The unadjusted and adjusted assumptions for the budget resolution for 1994 were estimated values. The December assumptions are actual values.

b. Budget resolution (adjusted) figures incorporate CBO's April estimates of the economic effects of balancing the budget by 2002.

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

TABLE 2. INCOME SHARES FOR CALENDAR YEARS 1995 THROUGH 2005 (As a percentage of GDP)

		Forecast		Projected								
	1994[a]	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Budget Resolution Assumptions[b]												
Corporate profits[c]	8.0	7.9	7.6	7.4	7.3	7.1	7.0	6.9	6.8	6.8	6.7	6.6
Wage and salary disbursements	48.7	48.9	48.9	48.8	48.7	48.6	48.5	48.4	48.4	48.3	48.2	48.1
Other taxable income	20.2	20.4	20.4	20.4	20.5	20.5	20.6	20.6	20.7	20.7	20.8	20.8
Total	76.8	77.1	76.9	76.7	76.4	76.3	76.1	76.0	75.9	75.7	75.6	75.5
December Assumptions												
Corporate profits[c]	8.1	8.3	8.7	8.8	8.6	8.5	8.4	8.3	8.2	8.1	8.0	8.0
Wage and salary disbursements	48.7	48.7	48.6	48.6	48.6	48.6	48.5	48.5	48.5	48.5	48.5	48.5
Other taxable income	20.2	20.8	20.1	19.8	19.7	19.6	19.4	19.2	19.2	19.1	19.1	19.1
Total	76.9	77.7	77.4	77.2	76.9	76.6	76.3	76.0	75.8	75.8	75.7	75.6

SOURCES: Congressional Budget Office; Department of Commerce, Bureau of Economic Analysis; Department of Labor, Bureau of Labor Statistics; Federal Reserve Board.

NOTES: These income shares add up to less than 100 percent of GDP because they exclude items--such as depreciation and employer-paid health insurance--that are not taxable. Numbers may not add to totals because of rounding.

GDP = gross domestic product.

a. The assumptions for the budget resolution for 1994 were estimated values. The December assumptions are actual values.

b. The calculations of the fiscal dividend for the budget resolution did not incorporate any changes to income shares. Consequently, income shares for the unadjusted and adjusted assumptions for the budget resolution are the same.

c. Corporate profits are calculated using economic rather than tax depreciation.

TABLE 3. ESTIMATED ECONOMIC EFFECTS OF BALANCING THE BUDGET BY 2002 (By calendar year)

	1995	1996	1997	1998	1999	2000	2001	2002
April 1995 Estimates Reflected in the Budget Resolution's Fiscal Dividend								
Real Gross National Product								
Percentage change in level from base	0	0.1	0.2	0.3	0.4	0.6	0.7	0.8
Change in growth rate (Percentage points)	0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Real Gross Domestic Product								
Percentage change in level from base	0	0	0.1	0.2	0.3	0.3	0.4	0.5
Change in growth rate (Percentage points)	0	0	0.1	0.1	0.1	0.1	0.1	0.1
Interest Rates (Percentage points)								
Three-month Treasury bills	0	-0.2	-0.4	-0.7	-0.9	-1.1	-1.1	-1.1
Ten-year Treasury notes	0	-0.2	-0.5	-0.8	-1.1	-1.4	-1.7	-1.7
Estimates Incorporated in CBO's December Assumptions								
Real Gross National Product								
Percentage change in level from base	0	0.1	0.2	0.3	0.4	0.6	0.7	0.8
Change in growth rate (Percentage points)	0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Real Gross Domestic Product								
Percentage change in level from base	0	0	0.1	0.2	0.3	0.3	0.4	0.5
Change in growth rate (Percentage points)	0	0	0.1	0.1	0.1	0.1	0.1	0.1
Interest Rates (Percentage points)								
Three-month Treasury bills	0	0	-0.2	-0.4	-0.9	-1.2	-1.2	-1.2
Ten-year Treasury notes	-0.1	-0.7	-1.1	-1.2	-1.2	-1.2	-1.2	-1.2
Income Shares (Percentage of GDP)								
Corporate profits[a]	0.1	0.6	1.1	1.2	1.2	1.2	1.1	1.1
Wage and salary disbursements	0	0	0	0	0	0	0	0
Other taxable income	-0.1	-0.6	-1.1	-1.3	-1.5	-1.7	-1.8	-1.8
Memorandum (Percentage of GDP):								
Federal Net Interest	0	0	-0.2	-0.3	-0.5	-0.8	-0.9	-0.9
Business Interest	-0.1	-0.6	-1.0	-1.1	-1.1	-1.1	-1.1	-1.1
Dividends	0	0	0	0.1	0.1	0.2	0.2	0.2
Depreciation	0	0	0	0	0.1	0.2	0.3	0.3

SOURCE: Congressional Budget Office.

a. Corporate profits are calculated using economic rather than tax depreciation.

TABLE 4. BALANCED BUDGET ACT CHANGES FROM CBO'S DECEMBER BASELINE
(By fiscal year, in billions of dollars)

	1996	1997	1998	1999	2000	2001	2002	Total, 1996-2002
CBO December Baseline Deficit[a]	172	182	183	195	204	211	228	*
Baseline Adjustments[b]	1	2	2	2	2	2	2	12
Adjusted December Baseline	173	183	185	197	206	213	231	*
Balanced Budget Act Policies								
Outlays								
Discretionary[c]								
Freeze[d]	-8	-9	-11	-32	-49	-66	-84	-258
Additional savings	-10	-21	-27	-24	-20	-24	-25	-151
Subtotal	-18	-30	-39	-56	-68	-89	-109	-408
Mandatory								
Medicare	-6	-13	-23	-35	-42	-50	-57	-226
Medicaid	e	-3	-9	-16	-24	-34	-45	-133
Other	-3	-12	-18	-22	-22	-22	-23	-122
Subtotal	-10	-28	-50	-73	-88	-106	-125	-481
Net Interest	-1	-2	-4	-8	-13	-21	-31	-80
Total Outlays	-28	-60	-92	-137	-170	-217	-265	-969
Revenues[f]	6	36	34	36	37	38	31	218
Total Balanced Budget Act Policies	-22	-24	-58	-100	-133	-179	-234	-750
Balanced Budget Act Deficit	151	159	127	97	73	34	-3	*

SOURCES: Congressional Budget Office; Joint Committee on Taxation.

NOTES: CBO's estimates of the budgetary effects of the Balanced Budget Act are illustrative because the legislation was not enacted by the November 15, 1995, date assumed by its drafters. Legislative modifications required to reflect a later enactment date would determine the actual budgetary effects of the bill.

* = not applicable.

Numbers may not add to totals because of rounding.

a. Projections assume that discretionary spending is equal to the spending limits that are in effect through 1998 and will increase with inflation after 1998.
b. The budget resolution baseline made adjustments to reflect revised accounting of the cost of direct student loans and the expiration of excise taxes dedicated to the Superfund trust fund as provided under current law.
c. Discretionary spending specified in the Concurrent Resolution on the Budget for Fiscal Year 1996 (H. Con. Res. 67).
d. Savings from freezing 1996-2002 appropriations at the nominal level appropriated for 1995.
e. Less than $500 million.
f. Revenue decreases are shown with a positive sign because they increase the deficit.

TABLE 5. BALANCED BUDGET ACT CHANGES FROM CBO'S APRIL BASELINE
(By fiscal year, in billions of dollars)

	1996	1997	1998	1999	2000	2001	2002	Total, 1996-2002
CBO April Baseline Deficit[a]	210	230	232	266	299	316	349	*
Baseline Adjustments[b]								
CPI rebenchmarking[c]	0	0	0	-1	-3	-6	-9	-18
Other adjustments[d]	1	1	1	2	2	1	1	10
Fiscal dividend[e]	-3	-7	-14	-23	-32	-41	-50	-170
Debt service	f	-1	-2	-4	-8	-14	-21	-49
Total	-2	-6	-14	-27	-41	-59	-79	-228
Adjusted April Baseline	208	224	218	240	258	257	271	*
Balanced Budget Act Policies								
Outlays								
Discretionary[g]								
Freeze[h]	-8	-9	-12	-35	-55	-75	-96	-289
Additional savings	-10	-21	-27	-24	-20	-24	-25	-151
Subtotal	-18	-29	-39	-59	-75	-99	-121	-440
Mandatory								
Medicare	-7	-14	-27	-42	-49	-60	-71	-270
Medicaid	-2	-6	-13	-21	-30	-40	-50	-163
Other	-8	-18	-20	-24	-25	-24	-25	-144
Subtotal	-17	-38	-60	-87	-104	-125	-146	-577
Net Interest	-1	-3	-6	-11	-17	-26	-37	-100
Total Outlays	-36	-70	-105	-157	-195	-249	-304	-1,117
Revenues[i]	6	36	34	35	36	38	30	215
Total Balanced Budget Act Policies	-31	-35	-71	-122	-159	-211	-275	-903
Balanced Budget Act Deficit	178	189	146	118	100	46	-4	*

SOURCES: Congressional Budget Office; Joint Committee on Taxation.

NOTES: * = not applicable; CPI = consumer price index.

Numbers may not add to totals because of rounding.

a. Projections assume that discretionary spending is equal to the spending limits that are in effect through 1998 and will increase with inflation after 1998.
b. The budget resolution was based on CBO's April 1995 baseline projections of mandatory spending and revenues, except for a limited number of adjustments.
c. The budget resolution baseline assumed that the 1998 rebenchmarking of the CPI by the Bureau of Labor Statistics would result in a 0.2 percentage-point reduction in the CPI compared with CBO's December 1994 economic projections.
d. The budget resolution baseline made adjustments to reflect revised accounting of the cost of direct student loans, the expiration of excise taxes dedicated to the Superfund trust fund as provided under current law, the effects of enacted legislation, and technical corrections.
e. CBO estimated that balancing the budget by 2002 would result in lower interest rates and slightly higher real growth that could lower federal interest payments and increase revenues by $170 billion over the fiscal year 1996-2002 period. See Appendix B of CBO's April 1995 report, *An Analysis of the President's Budgetary Proposals for Fiscal Year 1996*.
f. Less than $500 million.
g. Discretionary spending specified in the Concurrent Resolution on the Budget for Fiscal Year 1996 (H. Con. Res. 67).
h. Savings from freezing 1996-2002 appropriations at the nominal level appropriated for 1995.
i. Revenue decreases are shown with a positive sign because they increase the deficit.

TABLE 6. CHANGES TO CBO'S ESTIMATE OF THE BALANCED BUDGET ACT
(By fiscal year, in billions of dollars)

	1996	1997	1998	1999	2000	2001	2002	Total, 1996-2002
Deficit Under Balanced Budget Act with Budget Resolution Assumptions	178	189	146	118	100	46	-4	*
Changes								
Change in fiscal dividend[a]	-4	-14	-22	-24	-22	-17	-10	-112
Other changes in revenues[b]	c	3	14	15	15	26	34	106
Other changes in net interest	-14	-11	-5	-5	-6	-5	-5	-50
Cost-of-living adjustments	-2	-3	-5	-6	-8	-9	-11	-43
Other reestimates to outlays	-6	-2	1	2	-1	-1	-1	-7
Debt service	-1	-2	-4	-4	-5	-6	-7	-29
Total	-26	-30	-20	-21	-27	-12	c	-135
Deficit Under Balanced Budget Act with CBO's December Assumptions	151	159	127	97	73	34	-3	*

SOURCE: Congressional Budget Office.

NOTE: * = not applicable.

a. Comprises changes in revenues and net interest.

b. Revenue decreases are shown with a positive sign because they increase the deficit.

c. Less than $500 million.

TABLE 7. CHANGES TO CBO'S BASELINE BUDGET PROJECTIONS
(By fiscal year, in billions of dollars)

	1996	1997	1998	1999	2000	2001	2002	Total, 1996-2002
Adjusted April Baseline Deficit	208	224	218	240	258	257	271	*
Changes								
Revenues								
Increase in fiscal dividend	-5	-12	-17	-18	-16	-15	-13	-96
Other changes	a	2	13	14	15	26	32	103
Subtotal	-4	-11	-4	-4	-1	11	20	6
Outlays								
Discretionary appropriations	a	a	a	-3	-6	-9	-12	-31
Medicare	-3	-3	-4	-5	-7	-10	-13	-45
Medicaid	-2	-3	-4	-5	-6	-6	-5	-31
Cost-of-living adjustments	-2	-3	-5	-6	-8	-9	-11	-43
Farm programs	-5	-3	a	a	a	a	a	-8
Food stamps	-1	-1	-1	-1	-1	-2	-2	-8
Earned income credit	-2	-2	-2	-3	-3	-3	-3	-18
Claims and judgments	a	2	2	2	2	2	2	10
Net interest								
Change in fiscal dividend	1	-2	-4	-6	-6	-2	2	-16
Other changes in interest rates	-14	-11	-5	-5	-6	-5	-5	-52
Debt service	-1	-3	-5	-7	-9	-11	-13	-48
Other outlays	-2	-1	-1	a	a	a	-1	-2
Subtotal	-31	-30	-28	-39	-51	-55	-60	-294
Total Changes	-35	-41	-33	-43	-52	-44	-40	-288
Adjusted December Baseline Deficit	173	183	185	197	206	213	231	*

SOURCE: Congressional Budget Office.

NOTE: * = not applicable.

a. Less than $500 million.

APPENDIX: ADDITIONAL INFORMATION

This appendix provides additional information about the Congressional Budget Office's (CBO's) December 1995 baseline projections of spending and revenues for fiscal years 1996 through 2005 and its revised estimates of the budgetary effects of the Balanced Budget Act (H.R. 2491, which the Congress passed in November 1995 and the President vetoed on December 6). The estimates reflect the assumptions underlying the projections.

- Table A-1 shows CBO's baseline projections of revenues (by source), outlays (by major category), deficits, and debt held by the public. The projections are shown both as dollar levels and as percentages of gross domestic product. The projections of discretionary spending assume that spending will comply with the statutory limits on appropriations in effect through 1998 and will grow at the rate of inflation after that. The projections for mandatory spending, deposit insurance, and offsetting receipts assume that current laws are unchanged.

- Table A-2 shows CBO's projections of mandatory spending for major programs. It divides those programs into two categories: means-tested programs, which limit eligibility to people who fall below some specified income level; and non-means-tested programs, which do not limit eligibility based on income.

- Table A-3 shows changes in CBO's baseline projections since the most recent baseline update, which occurred in August 1995. The changes are divided into those that result from legislation (which are quite small), those that result from revisions in CBO's economic forecast, and those labeled as technical, which result from revised assessments of all the noneconomic factors that affect the projections. In addition, the changes in the deficit resulting from those reestimates produce a change in debt-service payments.

- Table A-4 shows the levels of spending and revenues that CBO estimates would result from enacting the Balanced Budget Act, using the economic and technical assumptions underlying CBO's December 1995 baseline and assuming the annual levels of discretionary spending specified by the Concurrent Resolution on the Budget for Fiscal Year 1996 (H. Con. Res. 67). Those estimates are illustrative because the legislation was not enacted by the November 15, 1995, date assumed by its drafters. Legislative modifications required to reflect a later enactment date would determine the actual budgetary effects of the bill.

- o Table A-5 shows the changes in direct spending and revenues that CBO estimates would result from enacting each title of the Balanced Budget Act. Those estimates are based on CBO's December baseline assumptions. They are illustrative because the legislation was not enacted by November 15.

- o Table A-6 shows CBO's revised estimate of the fiscal dividend--the budgetary savings flowing from the lower interest rates and higher real economic growth that CBO estimates would result from eliminating the deficit by 2002.

TABLE A-1. CBO'S DECEMBER BASELINE PROJECTIONS WITH DISCRETIONARY INFLATION AFTER 1998
(By fiscal year)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
In Billions of Dollars										
Revenues										
Individual income	628	657	690	727	766	807	853	901	953	1,008
Corporate income	168	179	186	193	200	208	215	223	232	242
Social insurance	506	529	552	579	608	635	666	697	729	766
Other	121	122	124	126	129	133	138	144	150	156
Total	1,423	1,487	1,553	1,625	1,703	1,783	1,871	1,965	2,064	2,172
On-budget	1,056	1,103	1,151	1,202	1,259	1,319	1,385	1,456	1,531	1,611
Off-budget	367	384	402	423	444	464	486	509	533	560
Outlays										
Discretionary[a]	552	554	556	572	589	606	624	643	662	682
Mandatory	881	945	1,007	1,075	1,147	1,215	1,297	1,380	1,473	1,580
Deposit insurance	-8	-4	-3	-2	-2	-2	-1	-1	-1	-1
Net interest	243	249	252	255	256	262	271	282	293	307
Offsetting receipts	-73	-75	-77	-79	-82	-86	-91	-94	-98	307
Total	1,595	1,668	1,736	1,820	1,907	1,994	2,100	2,209	2,330	2,466
On-budget	1,292	1,354	1,407	1,476	1,548	1,618	1,708	1,800	1,902	2,020
Off-budget	303	315	329	345	359	376	392	409	427	446
Deficit	172	182	183	195	204	211	228	244	266	294
On-budget deficit	236	251	256	273	289	299	323	344	372	408
Off-budget surplus	63	69	73	78	86	88	94	100	106	114
Debt Held by the Public	3,791	3,987	4,184	4,395	4,614	4,841	5,085	5,345	5,627	5,936
Memorandum:										
Gross Domestic Product	7,328	7,694	8,075	8,474	8,894	9,334	9,796	10,282	10,793	11,329

(Continued)

TABLE A-1. CONTINUED

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
	As a Percentage of GDP									
Revenues										
Individual income	8.6	8.5	8.5	8.6	8.6	8.6	8.7	8.8	8.8	8.9
Corporate income	2.3	2.3	2.3	2.3	2.2	2.2	2.2	2.2	2.2	2.1
Social insurance	6.9	6.9	6.8	6.8	6.8	6.8	6.8	6.8	6.8	6.8
Other	1.6	1.6	1.5	1.5	1.4	1.4	1.4	1.4	1.4	1.4
Total	19.4	19.3	19.2	19.2	19.1	19.1	19.1	19.1	19.1	19.2
On-budget	14.4	14.3	14.3	14.2	14.2	14.1	14.1	14.2	14.2	14.2
Off-budget	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	4.9	4.9
Outlays										
Discretionary[a]	7.5	7.2	6.9	6.8	6.6	6.5	6.4	6.3	6.1	6.0
Mandatory	12.0	12.3	12.5	12.7	12.9	13.0	13.2	13.4	13.7	13.9
Deposit insurance	-0.1	-0.1	b	b	b	b	b	b	b	b
Net interest	3.3	3.2	3.1	3.0	2.9	2.8	2.8	2.7	2.7	2.7
Offsetting receipts	-1.0	-1.0	-1.0	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9
Total	21.8	21.7	21.5	21.5	21.4	21.4	21.4	21.5	21.6	21.8
On-budget	17.6	17.6	17.4	17.4	17.4	17.3	17.4	17.5	17.6	17.8
Off-budget	4.1	4.1	4.1	4.1	4.0	4.0	4.0	4.0	4.0	3.9
Deficit	2.4	2.4	2.3	2.3	2.3	2.3	2.3	2.4	2.5	2.6
On-budget deficit	3.2	3.3	3.2	3.2	3.3	3.2	3.3	3.3	3.4	3.6
Off-budget surplus	0.9	0.9	0.9	0.9	1.0	0.9	1.0	1.0	1.0	1.0
Debt Held by the Public	51.7	51.8	51.8	51.9	51.9	51.9	51.9	52.0	52.1	52.4

SOURCE: Congressional Budget Office.

a. Projections assume that discretionary spending is equal to the spending limits that are in effect through 1998 and grows at the rate of inflation after that.

b. Less than 0.05 percent.

TABLE A-2. CBO'S BASELINE PROJECTIONS FOR MANDATORY SPENDING (By fiscal year, in billions of dollars)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Means-Tested Programs										
Medicaid	97	107	118	130	142	157	173	190	209	229
Food Stamps[a]	26	28	29	31	32	33	35	36	38	40
Supplemental Security Income	24	29	32	35	41	37	44	47	51	59
Family Support	18	18	19	19	20	20	21	22	23	23
Veterans' Pensions	3	3	3	3	3	3	3	3	3	3
Child Nutrition	8	8	9	10	10	11	11	12	12	13
Earned Income Credit	19	20	21	22	23	24	25	25	26	27
Student Loans[b]	2	2	2	2	3	3	3	3	3	3
Other	4	4	5	5	5	6	6	7	7	8
Total, Means-Tested Programs	201	220	238	256	279	294	320	345	371	405
Non-Means-Tested Programs										
Social Security	349	367	386	405	425	447	469	493	518	545
Medicare	196	216	236	258	281	305	332	362	396	435
Subtotal	546	583	622	663	706	752	801	855	915	981
Other Retirement and Disability										
Federal civilian[c]	44	46	49	51	54	57	59	62	65	68
Military	28	29	31	33	34	35	37	38	40	41
Other	4	4	4	4	5	5	5	5	5	5
Subtotal	77	80	84	89	93	97	101	105	109	114
Unemployment Compensation	24	25	26	27	28	29	31	32	33	34
Other Programs										
Veterans' benefits[d]	17	19	19	20	22	23	23	24	25	26
Social Services	6	6	6	6	6	6	6	6	6	6
Credit reform liquidating accounts	-4	-6	-7	-6	-6	-6	-6	-6	-6	-7
Other	15	18	19	21	20	21	21	20	20	20
Subtotal	34	36	37	40	41	44	44	44	45	46
Total, Non-Means-Tested Programs	680	724	769	819	868	922	977	1,036	1,102	1,175
Total										
All Mandatory Spending	881	945	1,007	1,075	1,147	1,215	1,297	1,380	1,473	1,580

SOURCE: Congressional Budget Office.

NOTE: Spending for major benefit programs shown in this table includes benefits only. Outlays for administrative costs of most benefit programs are classified as domestic discretionary spending; Medicare premium collections are classified as offsetting receipts.

a. Includes nutrition assistance to Puerto Rico.

b. Formerly known as guaranteed student loans.

c. Includes Civil Service, Foreign Service, Coast Guard, and other retirement programs, and annuitants' health benefits.

d. Includes veterans' compensation, readjustment benefits, life insurance, and housing programs.

TABLE A-3. CHANGES IN CBO'S BASELINE DEFICIT PROJECTIONS SINCE AUGUST 1995
(By fiscal year, in billions of dollars)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
August Baseline Deficit with Discretionary Inflation After 1998[a]	189	218	229	261	288	308	340	375	414	462
Legislative Changes	b	b	b	b	b	b	b	b	b	b
Economic Changes										
Fiscal dividend	-7	-21	-36	-47	-54	-58	-60	-63	-66	-69
Other	-7	-6	-4	-8	-13	-16	-20	-26	-32	-37
Subtotal	-14	-27	-40	-55	-67	-73	-81	-89	-97	-106
Technical Changes	-3	-7	-2	-4	-7	-9	-12	-17	-18	-22
Debt Service	b	-2	-4	-7	-10	-14	-19	-25	-32	-40
Total Changes	-17	-37	-46	-66	-85	-97	-112	-131	-148	-168
December Baseline Deficit with Discretionary Inflation After 1998[a]	172	182	183	195	204	211	228	244	266	294

SOURCE: Congressional Budget Office.

a. Projections assume that discretionary spending is equal to the spending limits that are in effect through 1998 and grows at the rate of inflation after that.

b. Less than $500 million.

TABLE A-4. OUTLAYS, REVENUES, AND DEFICITS UNDER THE BALANCED BUDGET ACT, USING CBO'S DECEMBER BASELINE ASSUMPTIONS (By fiscal year, in billions of dollars)

	1996	1997	1998	1999	2000	2001	2002
Outlays							
Discretionary	534	524	518	516	520	516	515
Mandatory							
Medicare[a]	193	207	218	229	248	267	289
Medicaid	97	104	109	113	118	122	127
Other	501	526	551	580	610	632	664
Subtotal	791	838	878	922	975	1,021	1,081
Net Interest	243	247	249	247	242	241	240
Total	1,568	1,609	1,644	1,685	1,738	1,779	1,836
Revenues	1,417	1,450	1,518	1,588	1,666	1,745	1,839
Deficit	151	159	127	97	73	34	-3

SOURCE: Congressional Budget Office.

NOTE: CBO's estimates of the budgetary effects of the Balanced Budget Act are illustrative because the legislation was not enacted by the November 15, 1995, date assumed by its drafters. Legislative modifications required to reflect a later enactment date would determine the actual budgetary effects of the bill.

a. Includes spending for Medicare benefit payments only; excludes Medicare premium receipts and spending for graduate medical education. Including premiums, net Medicare spending would be $170 billion in 1996, $182 billion in 1997, $190 billion in 1998, $199 billion in 1999, $213 billion in 2000, $228 billion in 2001, and $246 billion in 2002.

TABLE A-5. SAVINGS FROM POLICY CHANGES IN THE BALANCED BUDGET ACT BASED ON CBO'S DECEMBER BASELINE ASSUMPTIONS, BY TITLE
(By fiscal year, in billions of dollars)

Title	1996	1997	1998	1999	2000	2001	2002	Total, 1996-2002
I—Agriculture								
Outlays	2.8	1.1	-1.0	-1.4	-1.4	-2.3	-2.4	-4.6
II—Banking and Housing								
Outlays	-4.3	a	-0.1	0.2	0.1	0.1	-0.5	-4.4
III—Communication and Spectrum Allocation								
Outlays	-0.2	-1.8	-2.7	-3.6	-3.1	-2.7	-1.4	-15.3
IV—Education								
Outlays	-0.8	-0.3	-0.4	-0.6	-0.8	-0.8	-0.8	-4.5
V—Energy and Natural Resources								
Outlays	-1.4	-1.0	-0.3	-1.0	-0.8	-0.6	-0.5	-5.6
VI—Federal Retirement								
Outlays	-0.5	-1.0	-1.0	-1.6	-1.0	-1.0	-1.0	-7.1
Revenues[b]	-0.2	-0.4	-0.5	-0.6	-0.6	-0.6	-0.6	-3.5
Deficit	-0.7	-1.4	-1.5	-2.1	-1.6	-1.6	-1.6	-10.6
VII—Medicaid								
Outlays	-0.1	-2.9	-9.4	-16.3	-24.4	-34.5	-45.2	-132.7
VIII—Medicare								
Outlays	-6.2	-13.2	-22.8	-34.6	-41.8	-50.0	-57.2	-225.7
IX—Transportation								
Outlays	a	a	a	-0.1	-0.1	-0.1	-0.1	-0.3
X—Veterans								
Outlays	-0.3	-0.3	-0.5	-1.2	-1.4	-1.3	-1.5	-6.5
XI—Revenues								
Outlays	0	0	0	a	a	a	-0.1	-0.1
Revenues[b]	5.8	37.7	36.0	37.9	38.6	39.5	33.4	229.0
Deficit	5.8	37.7	36.0	37.9	38.6	39.4	33.4	228.8

(Continued)

TABLE A-5. CONTINUED

Title	1996	1997	1998	1999	2000	2001	2002	Total, 1996-2002
XII—Teaching Hospitals, Asset Sales, and Welfare								
Outlays	1.2	-9.0	-11.7	-12.6	-13.7	-13.4	-14.9	-73.9
Revenues[b]	-0.1	-1.0	-1.1	-1.1	-1.2	-1.3	-1.4	-7.2
Deficit	1.2	-10.0	-12.8	-13.7	-14.9	-14.7	-16.3	-81.1
Interactive Effects								
Outlays	0	0	0	a	a	a	0.1	0.1
Total								
Outlays	-9.6	-28.5	-49.8	-72.7	-88.3	-106.4	-125.4	-480.7
Revenues[b]	5.6	36.3	34.4	36.2	36.8	37.6	31.4	218.3
Deficit	-4.0	7.9	-15.4	-36.5	-51.4	-68.9	-94.0	-262.4

SOURCES: Congressional Budget Office; Joint Committee on Taxation.

NOTE: CBO's estimates of the budgetary effects of the Balanced Budget Act are illustrative because the legislation was not enacted by the November 15, 1995, date assumed by its drafters. Legislative modifications required to reflect a later enactment date would determine the actual budgetary effects of the bill.

a. Less than $50 million.

b. Revenue increases are shown with a negative sign because they reduce the deficit.

TABLE A-6. CHANGE IN THE DEFICIT RESULTING FROM THE ECONOMIC EFFECTS OF BALANCING THE BUDGET IN 2002 (By fiscal year, in billions of dollars)

	1996	1997	1998	1999	2000	2001	2002	Total, 1996-2002
Change Resulting from Lower Interest Rates								
Outlays (Net interest)	-1	-8	-16	-26	-34	-38	-40	-162
Revenues[a]								
Federal Reserve earnings	b	1	1	3	4	5	5	20
Shift in income shares	-5	-12	-18	-19	-18	-17	-16	-105
Subtotal	-6	-19	-32	-42	-48	-50	-50	-247
Change Resulting from Higher Gross Domestic Product								
Revenues[a]	-1	-2	-3	-5	-6	-8	-10	-35
Total Effect on the Deficit	-7	-21	-36	-47	-54	-58	-60	-282

SOURCE: Congressional Budget Office.

NOTE: This estimate does not include debt service on the estimated change in the deficit.

a. Revenue reductions are shown as positive because they increase the deficit.

b. Less than $500 million.