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THE ECONOMIC AND BUDGET OUTLOOK: FISCAL YEARS 1997-2006

According to Congressional Budget Office (CBO) projections, the deficit will decline for the fourth straight year in fiscal year 1996 and the economy will continue to expand at a moderate rate. But if current policies for revenues and entitlements are not changed, and if discretionary appropriations keep pace with inflation, the deficit will begin to grow steadily in 1997 (see table on back). If discretionary spending is not adjusted for inflation, however, the deficit will level off in nominal terms at about \$180 billion and shrink in relation to the size of the economy.

Both the Congress and the President have proposed changes in policies that would balance the budget by 2002. To aid consideration of such plans, CBO has also forecast what the economy is likely to look like if the budget is balanced by that year. CBO's budget projections using those economic assumptions indicate how much deficit reduction from policy changes would be required to eliminate the deficit, given the fiscal dividend that would result from improvements in the economy (see table).

In the budget that the President submitted in March, he presented a set of policy changes intended to eliminate the deficit by 2002. Under CBO's more cautious economic and technical assumptions, the basic policies outlined in the President's budget would bring the deficit down to about \$80 billion by 2002 instead of producing the budget surplus of almost \$45 billion that the Administration estimates. CBO estimates, however, that additional, contingent policies proposed in the budget--which are to be carried out if deficits are higher than those the Administration projects--would produce a small surplus in 2002.

Because CBO's detailed current-policy projections extend only through 2006, they do not reflect the aging of the baby-boom generation, which will first begin to affect deficits about 2010. The expected increase in the number of beneficiaries of federal programs for the elderly and a slowing in the rate of growth of the labor force--combined with the anticipated growth in the per-person cost of Medicare--will put enormous pressure on the budget. If those pressures are not dealt with by reducing spending or increasing taxes, the mounting deficits could seriously erode future economic growth. Balancing the budget by 2002 will help alleviate the pressures, particularly if the deficit reduction package that is enacted includes measures that slow the growth of entitlement spending. But the size of the future problem is so great that simply eliminating the deficit by 2002 without making additional changes in spending and taxes would not ensure that future deficits remained at an acceptable level.

Questions about the budget projections and reestimate of the President's budgetary proposals should be directed to CBO's Budget Analysis Division (202-226-2880) and inquiries about the economic forecast and long-term budget outlook to the Macroeconomic Analysis Division (226-2750). The Office of Intergovernmental Relations is CBO's Congressional liaison office and can be reached at 226-2600. For additional copies of the report, please call the Publications Office at 226-2809.



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CBO Deficit Projections (By fiscal year)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
In Billions of Dollars												
Baseline Total Deficit with Current-Policy Economic Assumptions												
Cap discretionary spending (with inflation after 1998)	164	144	171	194	219	244	259	285	311	342	376	403
Freeze discretionary spending at 1996 dollar level	164	144	159	176	182	187	174	178	178	181	187	179
Baseline Total Deficit with Balanced Budget Economic Assumptions												
Cap discretionary spending (with inflation after 1998)	164	144	165	175	182	191	194	210	225	244	265	278
Freeze discretionary spending at 1996 dollar level	164	144	154	157	145	136	111	106	96	88	84	64
As a Percentage of GDP												
Baseline Total Deficit with Current-Policy Economic Assumptions												
Cap discretionary spending (with inflation after 1998)	2.3	1.9	2.2	2.4	2.5	2.7	2.7	2.9	3.0	3.1	3.3	3.3
Freeze discretionary spending at 1996 dollar level	2.3	1.9	2.0	2.1	2.1	2.1	1.8	1.8	1.7	1.6	1.6	1.5
Baseline Total Deficit with Balanced Budget Economic Assumptions												
Cap discretionary spending (with inflation after 1998)	2.3	1.9	2.1	2.1	2.1	2.1	2.0	2.1	2.1	2.2	2.3	2.3
Freeze discretionary spending at 1996 dollar level	2.3	1.9	2.0	1.9	1.7	1.5	1.2	1.1	0.9	0.8	0.7	0.5

SOURCE: Congressional Budget Office.