Appendixes

Appendix A

CBO Baseline Budget Projections

Throughout this study, the Administration's proposals are contrasted with the Congressional Budget Office's (CBO's) baseline estimates of the budget. The baseline shows the path of revenues and spending if current laws and policies remain unchanged. It is not a forecast of budget outcomes, since policymakers will certainly seek to alter current priorities. But the baseline is a handy yardstick for gauging the potential impacts of proposed changes--those advocated in the President's budget as well as in competing packages.

The Baseline Concept

Baseline projections follow long-established rules. Revenues and entitlement programs (like Social Security and Medicare) continue on their course until the Congress changes the laws that underpin them--laws that define taxable incomes and set tax rates, benefit formulas and eligibility, and so forth. For these categories, therefore, the baseline represents CBO's best estimate of what will happen in the absence of any changes to current laws.

Unlike entitlement programs, discretionary programs are funded anew each year through the appropriation process. Discretionary programs encompass nearly all spending for defense and international affairs plus many domestic programs: space, energy, highway and airport grants, environmental protection, health research, and the salaries and expenses of civilian agencies, to name just a few. The Budget Enforcement Act of 1990 set caps on aggregate spending for these programs for the 1991-1995 period, and the Omnibus Budget Reconciliation Act of 1993 imposed caps through 1998. CBO's baseline assumes compliance with the caps, which, as explained below, will force trade-offs among many competing programs. No law specifies caps after 1998. Thus, the baseline projections for 1999 simply preserve discretionary spending at the same real level as in 1998, boosting it by about 3 percent solely for inflation.

Three categories of spending remain. The federal government has pledged to protect depositors in banks and savings and loan institutions, and the baseline for deposit insurance shows the net cost of meeting those promises. The category labeled offsetting receipts, which encompasses Medicare insurance premiums and similar fees and collections, represents CBO's best estimate of the amounts that the government will collect under current laws and policies. The last category is net interest, which is driven by market interest rates and future deficits rather than being directly controlled by policymakers; CBO estimates such spending consistent with its projections of those two fundamental determinants.

Baseline Projections

In January 1994, CBO published its baseline projections in *The Economic and Budget Outlook: Fiscal Years 1995-1999* and described the key factors that drive the federal government's revenues, spending, and deficit. Over the next two months, CBO revised its baseline projections modestly in the face of legislation and new information, and those revisions raise projected deficits in every year (see Table A-1). The California earthquake spurred additional funding for discretionary programs. A supplemental appropriation, plus the release of previously approved funds that were contingent on the occurrence of such an emergency, will boost spending by an estimated $2 billion to $5 billion a year through 1996 and by smaller amounts thereafter. Because this aid is labeled an emergency and hence will be accommodated through an upward revision to the discretionary spending caps, CBO includes it here; the formal adjustment to the caps will not appear until the next Office of Management and Budget (OMB) sequestration report in August 1994.

Technical revisions stem not from legislation but from new information that came to light through late February, much of it contained in the President's budget and supporting documents. One such revision reflects the decision by the Student Loan Marketing Association, nicknamed Sallie Mae, to repay some of its remaining debt to the government two years ahead of schedule. Because this collection is a receipt to the Treasury, CBO has pruned its projections of outlays by $3 billion in 1994 but upped them by an equal amount in 1996. (Sallie Mae apparently elected to pay off even more of its debt in March, after CBO had completed its baseline projections and the House and Senate had started work on their budget resolutions; those extra repayments are not reflected here.)

Other revisions to spending are scattered. New information about spending plans and likely proceeds from liquidations has led CBO to revise its

Table A-1.
Changes in CBO Baseline Deficit Projections (By fiscal year, in billions of dollars)

	1994	1995	1996	1997	1998	1999
January Baseline Deficit	223	171	166	182	180	204
Policy Changes (Discretionary spending)	3	5	2	a	a	a
Technical Revisions						
Student loan liquidating account	-3	a	3	a	a	a
Deposit insurance	1	-1	a	a	-1	a
Postal Service	a	1	1	1	a	a
Civil service retirement benefits	a	a	1	1	1	1
Military retirement contributions	a	a	1	1	1	1
Other mandatory spending and offsetting receipts	1	2	1	1	1	1
Discretionary spending	1	a	2	2	2	2
Net interest	a	1	2	3	3	3
Total	1	4	12	9	7	8
Total Changes	5	9	14	9	7	8
March Baseline Deficit	228	180	180	192	187	213

SOURCE: Congressional Budget Office.

a. Less than $500 million.

estimates of net spending by two deposit insurance agencies, the Resolution Trust Corporation and the Bank Insurance Fund, by small and roughly offsetting amounts. CBO now expects a larger deficit for the Postal Service Fund (as hikes in postage rates will be smaller than CBO had earlier assumed), higher costs for civil service retirement, and smaller receipts for military retirement. Upward revisions of as much as $2 billion a year in discretionary spending fundamentally reflect CBO's switch to the

Table A-2.
CBO Baseline Deficit Projections (By fiscal year)

	Actual 1993	1994	1995	1996	1997	1998	1999
In Billions of Dollars							
Total Deficit Assuming Discretionary Caps	255	228	180	180	192	187	213
Deficit Excluding Deposit Insurance	283	231	192	194	198	192	216
Standardized-Employment Deficit[a]	215	183	154	163	172	172	199
On-Budget Deficit (Excluding Social Security and Postal Service)	300	288	249	256	275	279	312
Memorandum:							
Deposit Insurance	-28	-3	-12	-14	-6	-5	-4
Off-Budget Surplus							
Social Security	46	62	70	75	84	92	99
Postal Service	-1	-2	-1	1	b	-1	b
Total, Off-Budget Surplus	45	60	69	76	84	91	100
Hospital Insurance Surplus	4	5	7	5	b	-5	-13
As a Percentage of GDP							
Total Deficit Assuming Discretionary Caps	4.0	3.4	2.6	2.4	2.5	2.3	2.5
Deficit Excluding Deposit Insurance	4.5	3.5	2.7	2.6	2.5	2.3	2.5
Standardized-Employment Deficit[a,c]	3.3	2.7	2.2	2.2	2.2	2.1	2.3

SOURCE: Congressional Budget Office.

a. Excludes cyclical deficit and deposit insurance.

b. Less than $500 million.

c. Expressed as a percentage of potential GDP.

caps published by OMB in the President's budget--a switch that acknowledges that OMB's figures, not CBO's, are ultimately used in enforcing compliance with the caps. Finally, net interest outlays are larger, chiefly because other revisions warrant an upward adjustment in CBO's estimates of future borrowing and hence debt-service costs. All told, technical revisions add to deficits by an average of $7 billion a year in 1994 through 1999.

The remaining tables in this appendix update some of the most widely used information in CBO's January report. Because the revisions are relatively minor, readers seeking a fuller explanation of un-

Table A-3.
CBO Baseline Budget Projections, Assuming Compliance with Discretionary Spending Caps (By fiscal year)

	Actual 1993	1994	1995	1996	1997	1998	1999
	In Billions of Dollars						
Revenues							
Individual income	510	547	596	635	668	708	748
Corporate income	118	128	130	133	138	144	148
Social insurance	428	468	499	526	551	578	604
Other	98	107	113	118	122	126	130
Total	1,154	1,251	1,338	1,411	1,479	1,556	1,630
On-budget	842	910	978	1,031	1,080	1,136	1,190
Off-budget	312	341	360	380	399	420	440
Outlays							
Discretionary							
Defense	292	280	273	277	283	291	298
International	22	21	21	21	22	22	23
Domestic	228	246	260	267	273	282	290
Unspecified reductions	0	0	-8	-15	-30	-45	-46
Subtotal	542	547	546	551	549	549	566
Mandatory	762	802	847	897	963	1,028	1,100
Deposit insurance	-28	-3	-12	-14	-6	-5	-4
Net interest	199	201	214	230	241	252	264
Offsetting receipts	-67	-68	-77	-72	-76	-82	-85
Total	1,408	1,478	1,518	1,591	1,670	1,743	1,843
On-budget	1,142	1,198	1,227	1,287	1,355	1,415	1,503
Off-budget	267	280	291	303	315	328	340
Deficit	255	228	180	180	192	187	213
On-budget deficit	300	288	249	256	275	279	312
Off-budget surplus	45	60	69	76	84	91	100

(Continued)

derlying trends in the budget can rely on that earlier publication.

Clearly, much of the concern about the budget stems from the sheer size of the federal deficit, and Table A-2 on page 39 displays several alternative measures of this gap. The most commonly used measure of the deficit is simply the difference between total revenues and spending. But participants in the budget debate often cite other measures as well--most usefully, the standardized-employment or structural deficit. This figure shows what is left after removing the cyclical deficit--that is, the weakened revenues and extra benefit spending that result

Table A-3.
Continued

	Actual 1993	1994	1995	1996	1997	1998	1999
	As a Percentage of GDP						
Revenues							
Individual income	8.1	8.2	8.5	8.6	8.6	8.6	8.7
Corporate income	1.9	1.9	1.9	1.8	1.8	1.8	1.7
Social insurance	6.8	7.1	7.1	7.1	7.1	7.1	7.0
Other	1.6	1.6	1.6	1.6	1.6	1.5	1.5
Total	18.3	18.8	19.1	19.1	19.0	19.0	19.0
On-budget	13.4	13.7	14.0	14.0	13.9	13.9	13.8
Off-budget	5.0	5.1	5.1	5.1	5.1	5.1	5.1
Outlays							
Discretionary							
Defense	4.6	4.2	3.9	3.8	3.6	3.5	3.5
International	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Domestic	3.6	3.7	3.7	3.6	3.5	3.4	3.4
Unspecified reductions	0	0	-0.1	-0.2	-0.4	-0.6	-0.5
Subtotal	8.6	8.2	7.8	7.5	7.1	6.7	6.6
Mandatory	12.1	12.1	12.1	12.1	12.4	12.6	12.8
Deposit insurance	-0.4	-0.1	-0.2	-0.2	-0.1	-0.1	a
Net interest	3.2	3.0	3.0	3.1	3.1	3.1	3.1
Offsetting receipts	-1.1	-1.0	-1.1	-1.0	-1.0	-1.0	-1.0
Total	22.4	22.3	21.7	21.5	21.5	21.3	21.4
On-budget	18.1	18.1	17.5	17.4	17.4	17.3	17.5
Off-budget	4.2	4.2	4.2	4.1	4.1	4.0	4.0
Deficit	4.0	3.4	2.6	2.4	2.5	2.3	2.5
On-budget deficit	4.8	4.3	3.6	3.5	3.5	3.4	3.6
Off-budget surplus	0.7	0.9	1.0	1.0	1.1	1.1	1.2

SOURCE: Congressional Budget Office.

a. Less than 0.05 percent of GDP.

when the economy operates below its potential. With the recovery on a solid footing, the distinction between the structural deficit and the conventionally measured deficit becomes less and less relevant.

Spending and receipts for a number of large programs are often tracked separately; chief among them are Social Security and the Postal Service (both of them off-budget under different statutory provisions) and Medicare's Hospital Insurance. The narrowly defined surpluses (or deficits) of these programs are depicted in Table A-2. Despite these programs' special status, they loom so large in the revenue and spending totals that any measure of the budget that omits them yields a distorted picture of the government's drain on credit markets and its role in the economy.

Federal government revenues by source and outlays by broad category, both in dollar terms and in relation to gross domestic product (GDP), are presented in Table A-3 on page 40. Spending for entitlements and other mandatory programs, by far the largest major spending category, tops $800 billion a year and is growing fast. Table A-4 displays more information about this huge cluster of programs.

In its baseline projections, CBO assumes that policymakers will continue to abide by the discretionary spending limits set in law through 1998. Separate caps apply to both budget authority (the authority to commit funds, the basic currency of the appropriation process) and outlays (actual spending); the stricter constraint governs. The caps have no unique implications for particular programs but rather force a bruising competition for resources. A glance confirms that the outlay constraint will be tougher to satisfy than the budget authority constraint in the 1995 budget cycle. As Table A-5 on page 44 suggests, a virtual freeze on appropriations at this year's levels will be required to comply with the outlay caps in 1995, even though such a choice would seem to leave much of the permissible budget authority unused. Specifically, the cap on outlays--estimated at $546 billion--is far below the $554 billion that would be spent if real appropriations remained at this year's level and barely above the $543 billion in outlays that would result if appropriations were strictly frozen across the board.

According to CBO's projections, under current policies the deficit excluding deposit insurance is virtually flat in 1995 through 1998 but then jumps in 1999, the last year of the baseline. That spurt is not an aberration. By 1998, discretionary outlays, in dollar terms, will have been virtually frozen for six years in a row. But the caps on discretionary spending expire after 1998. If the programs governed by the caps then resume growing--even if they grow no faster than is needed to keep pace with inflation--the deficit is likely to climb, not just in 1999 but in later years as well (see Table A-6 on page 45).

Long-range budget projections are highly uncertain because no one can foresee the path of the economy or such important trends as growth in health care spending. CBO's long-run extrapolations thus contain considerably less detail than its five-year projections, which are required under the Congressional budget process. Nevertheless, CBO's broad-brush overview suggests that after 1998--in the absence of concerted action by policymakers--the deficit is likely to continue climbing both in dollar terms and, more worrisomely, as a percentage of GDP. Sustained growth in the two big health care programs, Medicare and Medicaid, is the major reason, as they mount steadily from 3.7 percent of GDP today to 6.3 percent of GDP in 2004. Most other spending programs, along with federal revenues, are expected to be roughly flat as a percentage of GDP over the 10-year period. The exception, discretionary spending, drops precipitously (relative to GDP) through 1998. In 1999 and beyond, its fall is less steep and is no longer sufficient to overcome the steady upward pressure from health-related spending.

Table A-4.
CBO Baseline Projections for Mandatory Spending, Excluding Deposit Insurance
(By fiscal year, in billions of dollars)

	Actual 1993	1994	1995	1996	1997	1998	1999
	Means-Tested Programs						
Medicaid	76	86	96	108	121	135	151
Food Stamps[a]	25	25	26	27	28	29	30
Supplemental Security Income	21	25	24	24	29	32	35
Family Support	16	17	18	18	19	20	20
Veterans' Pensions	4	3	3	3	3	3	3
Child Nutrition	7	7	7	8	8	9	9
Earned Income Tax Credit	9	11	15	18	20	21	22
Student Loans	2	2	2	2	2	2	2
Other	3	3	3	4	4	4	5
Total, Means-Tested Programs	162	180	196	212	234	254	277
	Non-Means-Tested Programs						
Social Security	302	318	335	352	370	388	408
Medicare	143	160	177	195	216	238	263
Subtotal	445	478	512	547	585	626	671
Other Retirement and Disability							
Federal civilian[b]	39	40	42	44	46	49	51
Military	26	26	27	29	30	32	35
Other	4	5	5	5	5	5	4
Subtotal	69	71	74	78	81	86	90
Unemployment Compensation	35	27	24	25	25	26	27
Other Programs							
Veterans' benefits[c]	17	18	17	16	18	18	19
Farm price supports	16	11	7	8	8	8	9
Social services	5	6	6	6	6	6	5
Credit reform liquidating accounts	2	-1	-1	-4	-5	-5	-6
Other	11	13	11	10	10	10	8
Subtotal	51	46	41	35	37	37	36
Total, Non-Means-Tested Programs	600	622	651	685	729	774	824
	Total						
All Mandatory Spending, Excluding Deposit Insurance	762	802	847	897	963	1,028	1,100

SOURCE: Congressional Budget Office.

NOTE: Outlays for most of the benefit programs shown above do not include administrative costs, which are classified as domestic discretionary spending. Outlays for Medicare do not include premium collections, which are classified as offsetting receipts.

a. Includes nutrition assistance to Puerto Rico.

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

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

Table A-5.
How Tight Are the Discretionary Caps? (By fiscal year, in billions of dollars)

	1995	1996	1997	1998
Budget Authority				
Discretionary Caps[a]	518	519	530	533
Amount Needed to Preserve 1994 Real Resources				
Defense	269	278	287	295
International	21	22	22	23
Domestic	227	240	248	261
Total	518	540	557	579
Amount over or under (-) caps	-1	20	27	45
Amount Needed to Freeze 1994 Dollar Resources				
Defense	260	260	260	260
International	20	20	20	20
Domestic	220	225	226	232
Total	501	506	507	513
Amount over or under (-) caps	-17	-13	-22	-21
Outlays				
Discretionary Caps[a]	546	551	549	549
Amount Needed to Preserve 1994 Real Resources				
Defense	273	277	283	291
International	21	21	22	22
Domestic	260	267	273	282
Total	554	565	578	595
Amount over or under (-) caps	8	15	30	45
Amount Needed to Freeze 1994 Dollar Resources				
Defense	267	264	261	261
International	21	20	21	20
Domestic	255	255	255	256
Total	543	539	536	537
Amount over or under (-) caps	-4	-11	-12	-13

SOURCE: Congressional Budget Office.

NOTE: Amounts needed to preserve 1994 real resources include adjustments for inflation of about 3 percent a year. Amounts needed to freeze 1994 dollar resources include no adjustment for inflation. Both paths include the budget authority necessary to renew expiring contracts for subsidized housing.

a. The estimated caps are based on those published in Office of Management and Budget, "Budget Enforcement Act Preview Report," in *Budget of the United States Government: Analytical Perspectives* (February 1994), as modified by CBO for expected adjustments.

Table A-6.
The Budget Outlook Through 2004 (By fiscal year)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
					In Billions of Dollars						
Revenues	1,251	1,338	1,411	1,479	1,556	1,630	1,706	1,783	1,868	1,958	2,054
Outlays											
Discretionary	547	546	551	549	549	566	584	602	621	640	660
Mandatory											
Social Security	318	335	352	370	388	408	429	450	473	497	523
Medicare	160	177	195	216	238	263	290	320	354	391	434
Medicaid	86	96	108	121	135	151	168	186	206	227	250
Civil Service and Military Retirement	62	65	68	71	74	79	82	86	90	94	99
Other	176	174	174	185	192	199	206	212	219	226	233
Subtotal	802	847	897	963	1,028	1,100	1,175	1,255	1,342	1,436	1,538
Deposit insurance	-3	-12	-14	-6	-5	-4	-2	-2	-1	-1	-1
Net interest	201	214	230	241	252	264	276	291	307	325	345
Offsetting receipts	-68	-77	-72	-76	-82	-85	-88	-92	-95	-99	-104
Total	1,478	1,518	1,591	1,670	1,743	1,843	1,945	2,054	2,173	2,300	2,439
Deficit	228	180	180	192	187	213	240	271	305	343	385
Deficit Excluding Deposit Insurance	231	192	194	198	192	216	242	273	306	344	386
Debt Held by the Public	3,465	3,653	3,846	4,055	4,260	4,492	4,751	5,041	5,366	5,728	6,132
					As a Percentage of GDP						
Revenues	18.8	19.1	19.1	19.0	19.0	19.0	18.9	18.9	18.8	18.8	18.8
Outlays											
Discretionary	8.2	7.8	7.5	7.1	6.7	6.6	6.5	6.4	6.3	6.1	6.0
Mandatory											
Social Security	4.8	4.8	4.8	4.8	4.7	4.7	4.8	4.8	4.8	4.8	4.8
Medicare	2.4	2.5	2.6	2.8	2.9	3.1	3.2	3.4	3.6	3.8	4.0
Medicaid	1.3	1.4	1.5	1.6	1.7	1.8	1.9	2.0	2.1	2.2	2.3
Civil Service and Military Retirement	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Other	2.6	2.5	2.4	2.4	2.4	2.3	2.3	2.2	2.2	2.2	2.1
Subtotal	12.1	12.1	12.1	12.4	12.6	12.8	13.0	13.3	13.5	13.8	14.1
Deposit insurance	-0.1	-0.2	-0.2	-0.1	-0.1	a	a	a	a	a	a
Net interest	3.0	3.0	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.2
Offsetting receipts	-1.0	-1.1	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-0.9
Total	22.3	21.7	21.5	21.5	21.3	21.4	21.6	21.7	21.9	22.1	22.3
Deficit	3.4	2.6	2.4	2.5	2.3	2.5	2.7	2.9	3.1	3.3	3.5
Deficit Excluding Deposit Insurance	3.5	2.7	2.6	2.5	2.3	2.5	2.7	2.9	3.1	3.3	3.5
Debt Held by the Public	52.2	52.1	52.1	52.1	52.1	52.3	52.7	53.3	54.1	55.0	56.1

SOURCE: Congressional Budget Office.

a. Less than 0.05 percent of GDP.

Appendix B

Major Contributors to the Revenue and Spending Projections

The following analysts prepared the revenue and spending projections in this report:

Revenue Projections

Mark Booth	Corporate income taxes, Federal Reserve System earnings
Maureen Griffin	Social insurance contributions, excise taxes, estate and gift taxes
Matthew Melillo	Excise taxes, national income and product account receipts
Linda Radey	Excise taxes
Melissa Sampson	Customs duties, miscellaneous receipts
David Weiner	Individual income taxes

Spending Projections

Defense, International Affairs, and Veterans' Affairs

Elizabeth Chambers	Military retirement, defense
Kent Christensen	Defense
Christopher Duncan	International affairs
Victoria Fraider	Veterans' benefits, defense
Raymond Hall	Defense
William Myers	Defense
Mary Helen Petrus	Veterans' compensation and pensions
Amy Plapp	Defense
Kathleen Shepherd	Veterans' benefits
Lisa Siegel	Defense
Joseph Whitehill	International affairs

Human Resources

Wayne Boyington	Civil Service Retirement, Railroad Retirement
Paul Cullinan	Social Security
Alan Fairbank	Hospital Insurance
Scott Harrison	Medicare
Jean Hearne	Medicaid
Lori Housman	Medicare
Julia Isaacs	Food stamps, foster care, child care
Deborah Kalcevic	Education
Lisa Layman	Medicare
Jeffrey Lemieux	Federal employee health benefits
Cory Oltman	Unemployment insurance, training programs
Pat Purcell	Supplemental Security Income, Medicaid
Dorothy Rosenbaum	Social service programs, Head Start
Connie Takata	Public Health Service
John Tapogna	Aid to Families with Dependent Children, child support enforcement

Natural and Physical Resources

Michael Buhl	General government, Postal Service
Kim Cawley	Energy, pollution control and abatement
Patricia Conroy	Community and regional development, natural resources, general government
Peter Fontaine	Energy, Outer Continental Shelf receipts
Mark Grabowicz	Science and space, justice
Theresa Gullo	Water resources, conservation, land management
James Hearn	General government, deposit insurance
David Hull	Agriculture
Mary Maginniss	Deposit insurance
Eileen Manfredi	Agriculture
Ian McCormick	Agriculture
Susanne Mehlman	Justice, Federal Housing Administration
David Moore	Spectrum auction receipts
John Patterson	Transportation
Deborah Reis	Recreation, water transportation
Judith Ruud	Deposit insurance
Brent Shipp	Housing and mortgage credit
John Webb	Commerce, disaster relief
Aaron Zeisler	Deposit insurance

Other

Janet Airis	Appropriation bills
Edward Blau	Appropriation bills
Jodi Capps	Appropriation bills
Karin Carr	Budget projections, historical data
Betty Embrey	Appropriation bills
Kenneth Farris	Computer support

Glen Goodnow	Authorization bills
Leslie Griffin	Budget projections, civilian agency pay
Vernon Hammett	Computer support
Ellen Hays	Other interest, credit programs
Sandra Hoffman	Computer support
Jeffrey Holland	Net interest on the public debt, national income and product accounts
Deborah Keefe	Computer support
Terri Linger	Computer support
Fritz Maier	Computer support
Kathy Ruffing	Treasury borrowing, interest, and debt
Robert Sempsey	Appropriation bills

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