Insurance--held more than $540 billion in federal securities, representing about 45 percent of the $1.2 trillion of debt issued to government accounts. CBO expects that the annual Social Security trust fund surplus will continue to grow slowly, reaching nearly $140 billion, or 1.2 percent of GDP, by 2005. The trust fund balance invested in federal securities will balloon from more than $400 billion today to $1.5 trillion in 10 years. Of course, that balance will then be drawn down as the baby-boom generation reaches retirement age.

The drawdown will occur much sooner with Hospital Insurance. CBO projects that under current policies the HI trust fund will run a surplus for only one more year. Beginning in 1996, HI will experience growing annual deficits that will deplete the fund's current invested balance of $130 billion by around the end of 2002. By 2005, the HI trust fund will run up a debt of more than $180 billion.

Table 2-15.
The Budget Outlook Through 2005 Without Discretionary Inflation After 1998 (By fiscal year)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
In Billions of Dollars											
Revenues	1,355	1,418	1,475	1,546	1,618	1,697	1,787	1,880	1,978	2,082	2,191
Outlays											
Discretionary	544	549	548	547	547	547	547	547	547	547	547
Net interest	235	260	270	279	293	308	319	334	348	363	378
All other	752	816	881	942	1,012	1,086	1,154	1,232	1,317	1,408	1,508
Total	1,531	1,625	1,699	1,769	1,852	1,941	2,021	2,113	2,213	2,318	2,433
Deficit	176	207	224	222	234	243	234	234	235	237	242
Debt Held by the Public	3,617	3,838	4,077	4,317	4,570	4,831	5,084	5,336	5,589	5,844	6,105
As a Percentage of GDP											
Revenues	19.3	19.2	19.0	19.0	18.9	18.8	18.8	18.8	18.8	18.8	18.8
Outlays											
Discretionary	7.7	7.4	7.1	6.7	6.4	6.1	5.8	5.5	5.2	5.0	4.7
Net interest	3.3	3.5	3.5	3.4	3.4	3.4	3.4	3.3	3.3	3.3	3.2
All other	10.7	11.1	11.4	11.6	11.8	12.0	12.2	12.3	12.5	12.7	13.0
Total	21.8	22.1	21.9	21.7	21.6	21.5	21.3	21.2	21.1	21.0	20.9
Deficit	2.5	2.8	2.9	2.7	2.7	2.7	2.5	2.3	2.2	2.1	2.1
Debt Held by the Public	51.4	52.1	52.6	53.0	53.3	53.6	53.6	53.5	53.2	52.9	52.5

SOURCE: Congressional Budget Office.

Freezing Discretionary Spending After 1998

The extended budget outlook differs markedly if discretionary spending is frozen after 1998--though that produces nowhere near enough change to balance the budget. In dollar terms, the deficit would be practically flat at about $240 billion (see Table 2-15). In relation to GDP, the deficit would peak at 2.9 percent in 1997 and then gradually fall to about 2.1 percent by 2005. The debt held by the public would grow more slowly, reaching $6.1 trillion by 2005--about $650 billion less than under the scenario discussed above. As a percentage of GDP, the debt held by the public would remain fairly steady after 1997 at about 53 percent. Net interest would peak at 3.5 percent of GDP in 1997, then edge down to 3.2 percent by 2005.

Freezing discretionary spending after 1998 would save more than $650 billion in the following seven years compared with the first path: $558 billion in lower discretionary outlays and $94 billion in lower interest costs. In conjunction with the current spending caps, which hold discretionary outlays virtually constant through 1998, such a freeze would keep discretionary spending below $550 billion for the next 10 years. Discretionary spending would dwindle steadily as a percentage of GDP, from 7.7 percent today to 4.7 percent in 2005--a level not seen since before World War II. Given current estimates of inflation, the freeze would force a decline of nearly one-third in real discretionary spending over the next 10 years.

The Uncertainty of Extended Projections

The extended projection of the deficit has changed remarkably little over the past year. Last January, CBO projected that the deficit in 2004 would total $365 billion, assuming that discretionary programs kept pace with inflation after the caps expire. In August, that estimate was upped to $397 billion, mostly as a result of higher costs for net interest. Today, still higher outlays for net interest in 2004 are more than offset by lower Medicaid and Medicare costs, the result of a slight deceleration in the growth of health care spending. But the deficit for that year remains little changed at $383 billion.

All such extrapolations, however, involve a great deal of uncertainty, particularly concerning the performance of the economy. As explained in Chapter 1, CBO's medium-term projections of key economic variables are based on historical relationships and reflect CBO's judgment about such fundamental factors as growth in the labor force, productivity, and investment. They do not reflect any attempt to estimate the economy's inevitable ups and downs. CBO's assumptions about the 2001-2005 period resemble those employed for the late 1990s. CBO assumes that real economic growth will continue to average 2.3 percent a year and that unemployment will hover around 6 percent. Short-term interest rates (measured by three-month Treasury bills) will average 5.1 percent; long-term interest rates (measured by 10-year Treasury notes) will average 6.7 percent. Inflation will continue at about 3.4 percent. Although those assumptions appear reasonable from today's vantage point, the economy is bound to deviate from that path in ways that cannot now be anticipated. The potential budgetary effects of any such deviations are large.

Aside from the economy's performance, other factors create significant uncertainties about the budget projections. A flare-up in international tensions, unexpected changes in the caseloads and costs of health care programs and other entitlements, and unanticipated costs for open-ended commitments such as deposit insurance are just a few examples. Surprises could operate to make things better or worse. But the deficit will not simply fade from view without concerted action by policymakers.

Appendixes

Appendix A

Sequestration Preview Report for Fiscal Year 1996

The Budget Enforcement Act of 1990 amended the Balanced Budget and Emergency Deficit Control Act of 1985 (the Balanced Budget Act) and the Congressional Budget Act of 1974 to add new enforcement procedures for direct (mandatory) spending, receipts, and discretionary spending for fiscal years 1991 through 1995. The Omnibus Budget Reconciliation Act of 1993 further amended the two acts to apply the new procedures through 1998. The law requires the Congressional Budget Office (CBO) to issue a sequestration preview report five days before the President's budget submission in January or February, a sequestration update report on August 15, and a final sequestration report 10 days after the end of a session of Congress. The sequestration preview report must contain estimates of the following items:

- o The discretionary spending limits and any adjustments to them; and

- o The amount by which direct spending or receipt legislation enacted after the Budget Enforcement Act has increased or decreased the deficit and the amount of any required pay-as-you-go sequestration.

This report to the Congress and the Office of Management and Budget (OMB) provides the required information. In addition to the material presented here, reports in previous years were required to specify the amount of the adjusted maximum deficit for the coming fiscal year. That requirement is no longer in effect because the Budget Enforcement Act specified maximum deficit amounts only through 1995. Thus, there is no maximum deficit amount set by law for fiscal year 1996 or any subsequent year.

Discretionary Sequestration Report

The Omnibus Budget Reconciliation Act of 1993 (OBRA-93) established new limits on total discretionary budget authority and outlays for fiscal years 1996 through 1998. But it left in place the existing discretionary spending limits for 1993 through 1995 and the existing enforcement procedures, including the specific requirements for adjusting the discretionary limits. The Violent Crime Control and Law Enforcement Act of 1994, enacted in September 1994, excluded spending from the Violent Crime Reduction Trust Fund (VCRTF) from the constraints of the existing caps. It also lowered those caps by the assumed amount of trust fund spending for each year that the caps would be in effect and established separate limits through 1998 on outlays resulting from VCRTF appropriations.

For several reasons, current estimates of the limits on total general-purpose (non-VCRTF) discretionary spending for 1995 through 1998 differ from those in CBO's December 1994 final sequestration report (see Table A-1). First, the estimates have been re-

Table A-1.
CBO Estimates of Discretionary Spending Limits for Fiscal Years 1995 Through 1998 (In millions of dollars)

	1995		1996		1997		1998	
	Budget Authority	Outlays	Budget Authority	Outlays	Budget Authority	Outlays	Budget Authority	Outlays
General-Purpose Spending Limits in CBO's December 1994 Final Report	518,050	547,437	514,344	547,549	522,555	544,220	524,592	542,427
Adjustments								
Technical differences from OMB's December 1994 final report	-1,027	-1,005	0	-270	0	-73	0	-48
Contingent emergency appropriations designated since OMB's December 1994 final report	44	6	0	14	0	17	0	5
Concepts and definitions								
Wetlands reserve	0	0	-37	-4	-37	-29	-37	-37
Conservation reserve	0	0	-20	-20	118	118	-6	-6
Market promotion	0	0	0	12	0	0	0	0
Morrill-Nelson	0	0	3	3	3	3	3	3
Cottonseed and sunflower	0	0	-30	-27	0	-3	0	0
Emergency preparedness grants	0	0	-9	-5	0	-4	0	0
Pipeline safety fees	0	0	18	18	19	19	20	20
Members of Congress's pay	0	0	2	2	2	2	2	2
Judges' pay	0	0	6	6	6	6	6	6
FHA Mutual Mortgage Insurance	0	0	3	3	3	3	3	3
FHA nonjudicial disclosure	0	0	4	4	5	5	5	5
Subtotal	0	0	-60	-8	119	120	-4	-4
Change in 1994 inflation	0	0	-1,393	-571	-1,440	-1,008	-1,490	-1,252
Total	-983	-999	-1,453	-835	-1,321	-944	-1,494	-1,299
General-Purpose Spending Limits as of January 23, 1995	517,067	546,438	512,891	546,714	521,234	543,276	523,098	541,128
Violent Crime Reduction Trust Fund Spending Limits	2,423	703	4,287	2,334	5,000	3,936	5,500	4,904
Total Discretionary Spending Limits[a]	519,490	547,141	517,178	549,048	526,234	547,212	528,598	546,032

SOURCE: Congressional Budget Office.

NOTE: OMB = Office of Management and Budget; FHA = Federal Housing Administration.

a. The limits assumed in CBO's January 1995 baseline, discussed in Chapter 2, are higher than those shown here for 1997 and 1998 because the baseline caps include estimated adjustments that will be made in later sequestration reports.

vised to reflect differences between the spending limits in that report and those in OMB's final report. Second, the limits have been increased slightly to account for emergency funds made available since OMB issued its final report. Third, they have been adjusted to reflect changes in concepts and definitions. Finally, the limits for 1996 through 1998 have been reduced because inflation in 1994 was lower than had been anticipated when those limits were set by OBRA-93. CBO's estimates of the limits for this report do not include any prospective adjustments--changes that cannot legally be made until future sequestration reports. The limits on VCRTF outlays are not subject to any adjustment. (The CBO baseline for discretionary spending in 1996 through 1998 detailed in Chapter 2 equals the sum of the VCRTF limits and an estimate of the general-purpose limits. That estimate does include CBO's projections of prospective adjustments for differences between anticipated and actual inflation, which will be made in future preview reports. As a result, the estimated caps described in Chapter 2 are slightly higher than the caps depicted here. The baseline caps do not include the adjustment contained in this preview report for contingent emergency designations that the President made after the baseline had been completed.)

Differences Between the Limits in CBO's and OMB's Final Reports

The Balanced Budget Act requires both CBO and OMB to calculate changes in the discretionary spending limits specified in the act. OMB's estimates of the limits are controlling, however, in determining whether enacted appropriations are within the limits or whether a sequestration is required to eliminate a breach of the limits. CBO's estimates are advisory. In acknowledgment of OMB's statutory role, when CBO calculates changes in the limits for a report, it first adjusts for the differences between the limits in its most recent report and the limits in OMB's most recent report--in effect, using OMB's official estimates as the starting point for the adjustments that CBO is required to make in the new report.

The differences between estimates of spending limits by the two agencies in their December 1994 final reports result almost entirely from different estimates of emergency spending that was made available after the agencies had issued their update reports in August 1994 (see Table A-1). The Balanced Budget Act requires that the discretionary spending limits be increased for appropriations that are classified as emergency spending by the law providing them and designated as such by the President. Most of the emergency spending reflected in the final reports comes from appropriations provided in seven of the regular appropriation acts for 1995. The remainder reflects the release of appropriations that had been enacted previously. Those contingent emergency appropriations (funding that becomes available for obligation only if and when the President designates it as emergency spending) were enacted before OMB issued its update report on August 19, but they were designated by the President after that report was released.

The discrepancy between the estimates of emergency budget authority in the two final reports largely results from the different ways in which CBO and OMB account for contingent emergency appropriations in their estimates of appropriation bills. OMB includes only the effects of the contingent emergency appropriations that the President designates as emergency spending when he signs the bill. CBO, however, includes the cost of all contingent emergency appropriations in its estimate of a bill, both because it must often issue its estimates before the President has signed the bill and in order to reflect the full amount of spending that could result from Congressional action.

Since OMB does not include the cost of undesignated contingent emergency appropriations in its estimates of bills, it adjusts the spending limits for all such appropriations subsequently designated by the President. Because CBO includes the effects of the undesignated contingent emergencies in its bill estimates, it makes a further adjustment only for designations that relate to contingent appropriations enacted before OMB's most recent sequestration report. That adjustment is necessary because the effects of those appropriations are included neither in the limits from that OMB report--which represent the starting point for CBO's adjustments--nor in CBO's adjustments for newly enacted emergency legislation.

As a result of the different treatment of contingent emergencies, CBO estimated almost $1 billion more in 1995 emergency spending than OMB estimated and attributed more of the emergency spending to the appropriation acts and less to the release of contingent funds. The different estimates of 1995 emergency budget authority also produced differences in outlays for 1995 through 1998.

Emergency Funding Made Available Since OMB's Final Report

In addition to the adjustments resulting from differences between the caps in CBO's and OMB's final reports, changes are made in the discretionary spending limits to reflect emergency appropriations made available since OMB's final report. The only new emergency funds were made available by two new designations of previously appropriated funds: a December 27, 1994, designation of $32 million of contingent emergency budget authority enacted in 1995 appropriation bills for community development grants and economic development assistance programs, and a January 9, 1995, designation of $12 million appropriated to the President in a 1994 supplemental appropriation act for unanticipated needs related to natural disasters.

Changes in Concepts and Definitions

The Balanced Budget Act provides for adjustments that reflect changes in budgetary concepts and definitions. All such adjustments in this report are of one kind: reclassifications of spending from one budget category to another. The category changes reported here derive from the practice of assigning certain legislated changes in mandatory spending to the discretionary spending side of the Balanced Budget Act ledger and certain legislated changes in discretionary programs to the pay-as-you-go (PAYGO) side, which is generally supposed to deal with mandatory spending and tax legislation. OMB and the budget committees have determined that any costs or savings that result from provisions in an appropriation act should be reflected in enforcing the discretionary spending limits, even if the costs or savings are in a mandatory spending program. Similarly, any appropriation for a discretionary program provided in authorizing legislation is included on the PAYGO scorecard.

Changes in current year or budget year mandatory spending that are made in appropriation acts are included in the estimate of discretionary spending for that year, but appropriations provided in authorizing legislation for those years are not. Estimates of discretionary spending attributed to future appropriation acts will include all such spending provided in previous years--whether in appropriation or authorization acts--and exclude mandatory spending provided in previous appropriation acts. Consequently, the discretionary spending limits for future years are adjusted to ensure that the appropriations committees are held responsible for the future effects of changes in mandatory programs included in their legislation but are not affected by appropriations for discretionary programs provided by other committees. Without compromising enforcement of the Balanced Budget Act, adjustments of that sort offer a simple alternative to permanently tracking all mandatory spending effects of appropriation actions and all discretionary spending enacted in authorizing legislation.

For example, the fiscal year 1995 Rural Development, Agriculture, and Related Agencies appropriation act (Public Law 103-330) contained a provision that reduced 1995 spending for the mandatory wetlands reserve program by $186 million in budget authority and $20 million in outlays. One result of that provision, however, is that in 1996, 1997, and 1998, budget authority in the program will increase by $37 million a year; outlays for those later years will increase by $4 million, $29 million, and $37 million, respectively. The 1995 savings were included in the estimate of the appropriation act, but rather than attribute the 1996-1998 costs to the appropriation acts for those years, the discretionary limits for 1996 through 1998 have been reduced by the appropriate amounts.

Change in 1994 Inflation

The Balanced Budget Act requires that the discretionary spending limits for 1996 through 1998 be adjusted for the difference between the actual inflation rate in 1994 and the rate for that year anticipated when the 1996-1998 limits were enacted in 1993. Because actual inflation (measured by the implicit gross domestic product deflator) was lower in 1994 than had been expected in 1993, the adjustment reduces the spending limits--for budget authority, by close to $1.5 billion each year, and for outlays, from $571 million in 1996 to $1,252 million in 1998.

In estimating the adjustment for inflation, CBO used the method that OMB adopted in its 1993 sequestration preview report issued in January 1992. That method entails adjusting only nonpersonnel costs instead of adjusting all discretionary spending. Although CBO has consistently disagreed with OMB's interpretation of the inflation adjustment provision in the Balanced Budget Act, OMB's cap adjustments are controlling. Therefore, CBO follows its lead in order to avoid confusion.

Pay-As-You-Go Sequestration Report

If changes in direct spending programs or governmental receipts enacted since the Budget Enforcement Act increase the combined current and budget year deficits, a pay-as-you-go sequestration is triggered at the end of the Congressional session, and nonexempt mandatory programs are cut enough to eliminate the increase. The pay-as-you-go provisions of the Balanced Budget Act had applied through fiscal year 1995, but OBRA-93 extended them through 1998.

The Budget Enforcement Act requires both CBO and OMB to estimate the net change in the deficit

Table A-2.
Budgetary Effects of Direct Spending and Receipt Legislation Enacted Since the Budget Enforcement Act (By fiscal year, in millions of dollars)

	1995	1996	1997	1998
Total from OMB's December 1994 Final Report[a]	-2,009	-148	-357	-9
Adjustments Due to Legislation Enacted Since OMB's Final Report[b]	0	0	0	0
Total Change in the Deficit Since the Budget Enforcement Act	-2,009	-148	-357	-9

SOURCE: Congressional Budget Office.

NOTE: OMB = Office of Management and Budget.

a. Section 254 of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, calls for a list of all bills enacted since the Budget Enforcement Act that are included in the pay-as-you-go calculation. Because the data in this table assume OMB's estimate of the overall changes in the deficit resulting from bills enacted through the end of the 103rd Congress, readers are referred to the lists of those bills included in Table 6 of the *OMB Final Sequestration Report to the President and Congress for Fiscal Year 1995* (December 16, 1994) and in previous sequestration reports issued by OMB.

b. The Congressional Accountability Act of 1995 (S. 2) passed the Congress on January 17, 1995, but had not been signed or vetoed by the President as of January 20, 1995. Since that bill affects direct spending by less than $500,000 in any year through 1998, no adjustment to the effect on the deficit of direct spending or receipt legislation is made.

resulting from direct spending or receipt legislation. As is the case with the discretionary spending limits, however, OMB's estimates are controlling in determining whether a sequestration is required. CBO therefore adopts the estimates of the changes in the deficit specified in OMB's December final report as the starting point for this report. Table A-2 shows CBO's estimates of changes in the deficit for 1995 through 1998 that result from direct spending or receipt legislation enacted since the Budget Enforcement Act. Those figures reflect OMB's estimates of changes caused by legislation enacted through the end of the 103rd Congress. The estimates do not include any changes in the deficit for 1996 through 1998 resulting from legislation enacted before OBRA-93 because the pay-as-you-go procedures did not apply to those years until OBRA-93 was enacted. Because the only legislation affecting direct spending or revenues that has been enacted thus far in the 104th Congress--the Congressional Accountability Act of 1995 (S. 2)--increases spending by less than $500,000 in any year, there is no adjustment to the estimates from OMB's final report.

The changes in direct spending and revenues reported by OMB in December 1994 yield a net decrease in the combined 1995 and 1996 deficits of more than $2 billion and smaller decreases for each of the two subsequent two-year periods. According to OMB's estimates, if no further changes are made in laws governing direct spending or receipts, no sequestration would be required for 1996, 1997, or 1998. In its December final report, CBO also determined that legislation enacted thus far should not trigger a sequestration in 1996. That report concluded, however, that a pay-as-you-go sequestration would be required in 1997 and 1998 unless legislation was enacted to reduce direct spending or increase revenues. The difference between OMB's and CBO's conclusions is largely the result of different estimates of the costs resulting from enactment of the Federal Crop Insurance Reform and Department of Agriculture Reorganization Act of 1994 (Public Law 103-354). OMB estimated that increased annual costs for the crop insurance program resulting from that legislation would be largely offset by savings from eliminating ad hoc disaster assistance. Because CBO did not include any costs for ad hoc disaster assistance in its baseline, it estimated that the legislation would increase the deficit by about $350 million in 1995 and $1 billion a year in 1996 through 1998.

Appendix B

An Analysis of Congressional Budget Estimates

In March 1993, the Congress adopted a budget resolution for fiscal year 1994 that anticipated a deficit of $254 billion in that year--a target that necessitated the passage of an ambitious deficit reduction package. Over the next five months, the Congress crafted and passed the substantive legislation needed to carry out the resolution's goals. And over the ensuing year, the deficit outlook steadily improved; when fiscal year 1994 ended, the Treasury Department announced an actual deficit of $203 billion--more than $50 billion smaller than the figure in the resolution.

Fiscal year 1994, like 1993 before it, stands in contrast to the historical pattern. Beginning in 1980, the actual deficit exceeded the figure in the budget resolution for 13 years in a row. Fiscal year 1993 ended that streak. But a single, notoriously unpredictable category of spending--deposit insurance--more than explained the 1993 overshoot. In 1994, in contrast, a broad variety of spending programs and revenues contributed to the story.

Sources of Differences

The Congressional Budget Office (CBO) divides the differences between budget resolutions and actual outcomes into three categories: policy, economic, and technical.

Policy differences reflect the passage of legislation that was not explicitly anticipated in the budget resolution or legislation that cost (or saved) more money than was assumed. An example is emergency appropriations, such as those for Operation Desert Storm and aid to victims of natural disasters, which are by definition difficult to anticipate. Policy differences can also reflect the failure to enact legislation that was assumed in the resolution. For example, had the Congress failed to pass the Omnibus Budget Reconciliation Act of 1993 (OBRA-93) or some equivalent, it would have seriously breached the 1994 budget resolution.

Economic differences can be blamed on the failure to anticipate the actual performance of the economy. Every budget resolution contains assumptions about several key economic variables--chiefly gross domestic product (GDP), unemployment, inflation, and interest rates--that are needed to develop estimates of revenues and spending for benefit programs and net interest. Typically (as for the 1994 budget resolution), the economic assumptions are drawn from a CBO forecast, although in about one-third of the cases--notably in 1982 and for most of the years between 1988 and 1992--the Congress chose a non-CBO forecast, generally one from the Administration.

Soon after the end of the fiscal year, CBO judges how much of the difference between the budget resolution and the actual revenue and outlay totals should be ascribed to economic factors, using information available at that time; that allocation is not subsequently changed, even though revisions to data about GDP and taxable incomes continue to trickle in

Table B-1.
Comparison of the CBO March 1993 Baseline, the 1994 Budget Resolution, and Actual Outcomes for Fiscal Year 1994 (In billions of dollars)

	CBO March 1993 Baseline	Budget Resolution	Actual	Actual Minus CBO March 1993 Baseline	Actual Minus Budget Resolution
Revenues	1,214	1,242	1,257	43	15
Outlays	1,501	1,496	1,461	-41	-35
Deficit	287	254	203	-83	-50

SOURCE: Congressional Budget Office using data from the Concurrent Resolution on the Budget--Fiscal Year 1994 (March 1993) and Department of the Treasury, *Final Monthly Treasury Statement, Fiscal Year 1994* (October 1994).

NOTE: Totals include Social Security and the Postal Service, which are off-budget.

thereafter. Only the differences that can be linked rigorously to those major variables are labeled economic. Other differences that might be tied to economic performance (for example, higher support payments to farmers in response to weak agricultural exports) are not included in this category because their relationship to the published forecast is more tenuous.

Technical differences are all other types of discrepancies. The portions of the budget that have contributed the biggest technical differences since 1980 are noted at the end of this appendix. Not surprisingly, technical misestimates are concentrated in revenues and in open-ended commitments of the government such as entitlement programs. By convention, nearly all of the differences in deposit insurance outlays are classified as technical--even if the misestimates stemmed in part from Congressional delays in enacting the funds necessary to forge ahead with the savings and loan cleanup.[1] Large technical differences often prompt both CBO and the Administration to review their methods of projection, but some such differences are inevitable given the size and complexity of the budget.

The Budget Resolution for Fiscal Year 1994

The Congressional budget process for fiscal year 1994 began soon after President Clinton's inauguration in January 1993. Under the terms of the Budget Enforcement Act of 1990, policymakers could have chosen to do nothing about the huge deficits that were projected to pile up. After all, the deficit's growth was not traceable to any actions taken by the Congress after the 1990 budget summit but instead to factors outside policymakers' direct control, such as the rapid growth of health care spending.[2]

Nevertheless, the Congress and the Administration agreed that the deficit outlook was too grim to permit inaction. Thus, the new Administration submitted a package of budget recommendations in February 1993.[3] The Congressional budget resolution, which drew many of its elements from the Administration's proposals, followed a little over a month later. It called for a deficit of $254 billion, $33 billion below CBO's baseline of that time (see Table B-1). It also assigned responsibility for drafting

1. For a fuller discussion of why the misestimates of deposit insurance are labeled technical, see Congressional Budget Office, *The Economic and Budget Outlook: Fiscal Years 1995-1999* (January 1994), Appendix B.

2. See Congressional Budget Office, *The Economic and Budget Outlook: Fiscal Years 1994-1998* (January 1993), Box 6-1.

3. See Congressional Budget Office, "An Analysis of the President's February Budgetary Proposals," CBO Paper (March 1993).

language that would achieve the deficit reductions to Congressional committees with jurisdiction over particular areas of the budget. The committees responded to that mandate; their contributions were stitched together into OBRA-93, which was enacted in August. Ultimately, revenues came in higher, outlays lower, and the deficit smaller than envisioned in the resolution.

Changes in Policies

Over the 18-month period following the budget resolution's passage, OBRA-93 was by far the most important budget-related legislation. Relative to CBO's baseline of early 1993, the reconciliation act chopped an estimated $33 billion from the 1994 deficit--the first installment of a package estimated by CBO to

Table B-2.
Sources of Differences Between Actual Budget Totals, CBO March 1993 Baseline Projections, and the Budget Resolution for Fiscal Year 1994 (In billions of dollars)

	Policy						
	OBRA-93	Emergencies	Other	Subtotal	Economic	Technical	Total
	Actual Minus CBO March 1993 Baseline						
Outlays							
Discretionary spending	0	7	0	7	0	a	6
Entitlements and other mandatory spending	-4	3	1	1	-3	-24	-27
Deposit insurance	a	0	0	a	0	-12	-12
Net interest	-1	0	a	-1	-6	-1	-8
Offsetting receipts	-2	0	a	-2	a	2	-1
Total	-6	10	1	5	-9	-36	-41
Revenues	26	0	a	26	12	4	43
Deficit	-33	10	1	-22	-21	-41	-83
	Actual Minus Budget Resolution						
Outlays							
Discretionary spending	0	7	a	7	0	a	6
Entitlements and other mandatory spending	-1	3	1	3	-3	-24	-24
Deposit insurance	a	0	0	a	0	-12	-12
Net interest	a	0	a	a	-6	a	-6
Offsetting receipts	a	0	a	a	a	1	a
Total	-1	10	1	10	-9	-36	-35
Revenues	-1	0	a	-1	12	4	15
Deficit	a	10	1	11	-21	-40	-50

SOURCE: Congressional Budget Office.

NOTE: OBRA-93 = Omnibus Budget Reconciliation Act of 1993.

a. Less than $500 million.

save more than $400 billion over five years (see Table B-2).[4] Of course, because OBRA-93 produced the deficit reduction called for in the resolution, it saved nothing further when compared with that document.

Other legislation addressed mostly emergency needs. Under the terms of the Balanced Budget and Emergency Deficit Control Act of 1985, emergencies are a valid reason for extra spending and do not require revenue increases or offsetting cuts in other programs. Emergencies are accommodated by upward adjustments to the caps on discretionary spending or--in the case of mandatory spending--by keeping such outlays off the official pay-as-you-go scorecard. Ultimately, emergency legislation caused spending to top the budget resolution by $10 billion. Specifically, an extra $7 billion in discretionary spending went mainly to aid victims of the Midwest floods and the California earthquake, and $3 billion in mandatory spending was dominated by an emergency extension of unemployment benefits (estimated to cost $2 billion) to recipients who would otherwise have exhausted their eligibility and emergency aid to farmers (nearly $1 billion). Nonemergency legislation--chiefly a separate, and final, extension of unemployment benefits--added less than $1 billion.

Economic Factors

In most respects, the economy performed better than had been assumed in the 1994 budget resolution. Based on data available in late 1994, CBO judges that economic developments caused the deficit to be $21 billion smaller than envisioned in the budget resolution (see Table B-2). Slightly more than half ($12 billion) of that amount came from higher revenues as buoyant growth pushed up taxable incomes. The rest ($9 billion) came from lower spending for interest and benefits. Interest rates on medium- and long-term Treasury securities were lower than expected, trimming the government's debt-service costs. And outlays for a variety of benefit programs--notably unemployment compensation, food stamps, and Social Security and other indexed programs--were dampened by lower-than-expected unemployment and inflation.

Technical Factors

Technical factors--the label given to any misestimates that cannot be traced to legislative actions or inaccurate economic assumptions--account for $41 billion of the overestimate of the deficit in the 1994 budget resolution. Most ($37 billion) of that misestimate fell on the outlay side.

The bulk of the overestimate lay in two large categories of outlays: mandatory spending and deposit insurance. The first was overestimated by $24 billion. The government's two big health care programs--Medicare and Medicaid--spent $5 billion and $10 billion less in 1994, respectively, than CBO anticipated in early 1993. Both remained among the fastest-growing federal programs, but their pace of growth slackened from the high levels that had been recorded in 1992.

Another $5 billion of the misestimate of mandatory spending is traceable to a one-time event: the Student Loan Marketing Administration, nicknamed Sallie Mae, unexpectedly repaid its entire debt to the Treasury in 1994, a repayment that was recorded as a negative outlay. Since repayment was expected in any event in a few years, that action helped to hold down the 1994 deficit but clearly has no effect on the fundamental deficit outlook. Much smaller misestimates appeared in a variety of other mandatory spending programs.

The $12 billion overestimate of deposit insurance spending breaks down into a $9 billion overestimate of outlays for the Bank Insurance Fund and a $3 billion overestimate of savings and loan-related outlays by a trio of agencies (the Resolution Trust Corporation, the FSLIC Resolution Fund, and the Savings Association Insurance Fund). The recovery of the commercial banking sector continued, confounding the dire predictions that were widespread in the early 1990s (although CBO was never a member of the most pessimistic camp). The late stages of the savings and loan cleanup, too, appear to be costing the

4. See Congressional Budget Office, *The Economic and Budget Outlook: An Update* (September 1993).

Table B-3.
Sources of Differences Between Actual Budget Totals and First Budget Resolution Estimates for Fiscal Years 1980 Through 1994 (In billions of dollars)

	Policy	Economic	Technical	Total
		Revenues		
1980	6	8	-4	11
1981	-4	5	-13	-11
1982	13	-52	-1	-40
1983	-5	-58	-3	-65
1984	-14	4	-4	-13
1985	a	-20	3	-17
1986	-1	-23	-2	-27
1987	22	-27	7	2
1988	-11	4	-17	-24
1989	1	34	-8	26
1990	-7	-36	9	-34
1991[b]	-1	-31	-24	-56
1992	3	-46	-34	-78
1993	4	-28	3	-20
1994	-1	12	4	15
Average	a	-17	-5	-22
Absolute Average	6	26	9	29
		Outlays		
1980	20	12	16	48
1981	25	6	16	47
1982	1	24	8	33
1983	18	a	8	26
1984	1	7	-18	-9
1985	23	-5	-13	5
1986	14	-12	20	22
1987	7	-12	13	8
1988	-2	12	12	22
1989	17	14	12	43
1990	13	13	59	85
1991[b]	-19	1	-22	-40
1992	15	-21	-60	-66
1993	16	-19	-90	-92
1994	10	-9	-36	-35
Average	11	1	-5	6
Absolute Average	13	11	27	39
		Deficit		
1980	13	4	19	37
1981	28	1	29	58
1982	-12	76	9	73
1983	22	59	11	91
1984	15	3	-14	4
1985	23	15	-16	22
1986	16	11	22	49
1987	-15	15	6	6
1988	9	8	29	46
1989	17	-20	20	17
1990	20	49	50	119
1991[b]	-19	32	2	15
1992	12	25	-26	11
1993	12	9	-93	-72
1994	11	-21	-40	-50
Average	10	18	a	28
Absolute Average	16	23	26	45

SOURCE: Congressional Budget Office.

NOTES: Differences are actual outcomes minus budget resolution assumptions. The allocation of revenue differences between economic and technical factors is done soon after the fiscal year in question and is not changed later to incorporate revisions in economic data.

a. Less than $500 million.

b. Based on the fiscal year 1991 budget summit agreement, as assessed by CBO in December 1990.

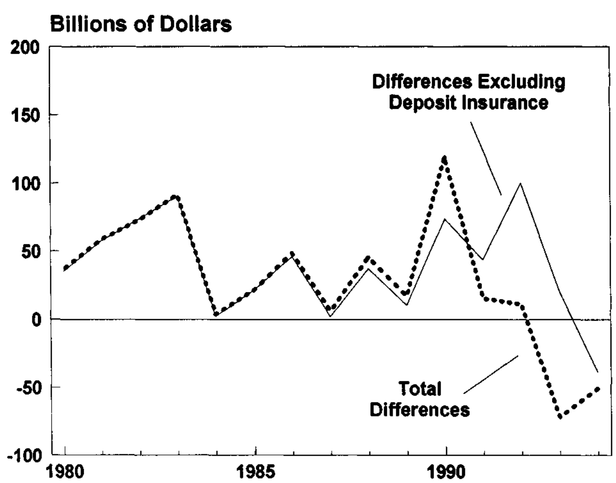
government somewhat less than CBO expected when the budget resolution was developed in early 1993. Nevertheless, the $3 billion error is quite small relative to the tens of billions of dollars in gross spending and receipts coursing through the agencies' coffers.

Budget Resolutions in 1980 Through 1994

In 1980 through 1992, the deficit consistently exceeded the figure in the budget resolution by amounts ranging from a negligible $4 billion to a staggering $119 billion (see Table B-3). The 1993 budget resolution broke that string. The good news was muted, however, because the misestimate was more than explained by smaller-than-expected deposit insurance spending (see Figure B-1). But in 1994, the deficit again came in below the resolution's assumption--and this time the improvement was more broadly based.

Policy action or inaction (the failure to achieve savings called for in budget resolutions) has generally added to deficits by an average of $10 billion a year. There were only three major episodes in which policymakers trimmed the deficit more, or added to it by less, than the resolution permitted: in fiscal year 1982 in the first Reagan-era budget, which occurred mainly because the first-year tax cut contained in the Economic Recovery Tax Act of 1981 was smaller than the resolution had assumed; in 1987, principally because the new Tax Reform Act temporarily swelled collections; and in 1991, chiefly because $43 billion in contributions from foreign nations to help finance Operation Desert Storm streamed in, dampening total outlays commensurately. Since 1991, the Congress has hewed quite faithfully to the strictures of the Budget Enforcement Act, and nearly all additions to the deficit have been for emergencies.

Figure B-1.
Differences Between Actual Deficit and Deficit in First Budget Resolution (By fiscal year)



SOURCE: Congressional Budget Office.

Because the budget process for a fiscal year begins about nine months before the year starts, economic performance is a regular source of uncertainty. Constant revisions to economic data, which continue long after the fiscal year in question, often make it hard to disentangle economic and technical errors. Nevertheless, with only two exceptions (in 1989 and 1994), budget resolutions over the 15-year span used short-term economic assumptions that proved overly optimistic. The worst errors, not surprisingly, were in years marked by recession or early stages of recovery--namely, in 1982 and 1983 and again in the 1990-1992 period. The economic differences occurred chiefly in revenues and, on the spending side of the budget, in net interest. On average, they caused Congressional drafters to err on the optimistic side to the tune of $18 billion.

Technical misestimates of the deficit have surprisingly averaged zero--although in absolute terms, disregarding whether they were positive or negative, they caused the estimate of the deficit to be off by $26 billion. The causes of large technical errors have varied over the years. On the revenue side, such errors were generally not very great through 1990, but they ballooned in 1991 and 1992, when tax collections were even weaker than economic data would seem to justify. On the outlay side, farm price supports, receipts from offshore oil leases, defense, and benefit programs dominated the errors through the mid-1980s. Such errors briefly faded at decade's end. Underestimates of benefit outlays, especially for health care, swelled once again in 1991 and 1992. As noted above, Medicare and Medicaid together were overestimated by $15 billion in the 1994 budget resolution; yet in the early 1990s, the CBO estimators