

CBO TESTIMONY

**Statement of
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Director**

The Budget and Economic Outlook: Fiscal Years 2001-2010

**before the
Committee on the Budget
United States Senate**

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NOTICE

This statement is not available for public release until it is delivered at 10:00 a.m. (EST), Wednesday, January 26, 2000.

The report on which this testimony is based will be available at that time on the CBO Web site (www.cbo.gov).



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Total federal revenues exceeded spending by \$124 billion in fiscal year 1999, producing a surplus in the total budget for the second consecutive year. The Congressional Budget Office (CBO) estimates that without legislative changes, that surplus will rise to \$176 billion in 2000 (see Summary Table 1). If current policies remain in place, the surplus will continue to increase after 2000, CBO projects; however, the size of that increase depends on the amount of discretionary spending that is assumed.

CBO's baseline projections are intended to provide the Congress with estimates of the spending and revenues that will occur if current laws affecting the budget remain unchanged. In the case of mandatory spending and revenues, which are generally governed by permanent laws, the projections incorporate the effects of anticipated changes in the economy, demographics, and other relevant factors.

In the case of discretionary spending, however, which is controlled by annual appropriation acts, no consensus exists about how to define current policy as it applies to future years. Is it best represented by the statutory caps on discretionary budget authority and outlays, which were most recently specified in the Balanced Budget Act of 1997? Or does section 257(c)(1) of the Balanced Budget and Emergency Deficit Control Act of 1985 better depict current policy by specifying that baselines should be adjusted for inflation? Or is current policy for discretionary spending simply the amount that was provided in appropriations for the current year?

Without any definitive answer to those questions, CBO presents three variants of its baseline in this report. Each one reflects a different assumption about discretionary spending.

- The “inflated” variation assumes that budget authority for discretionary programs grows at the rate of inflation each year after 2000.
- The “freeze” variation pegs discretionary budget authority to the level enacted for the current year, plus amounts already enacted for 2001.
- The “capped” variation assumes that discretionary spending equals CBO's estimates of the statutory caps through 2002 and grows at the rate of inflation thereafter.

The Congress has used each of those spending paths as a benchmark in some past budget deliberations. Each alternative has limitations, however. As they currently

stand, the caps may not be a realistic reference point given recent action on discretionary spending. The inflated baseline, for its part, implicitly earmarks future resources to maintain the real (inflation-adjusted) level of discretionary spending even though there is no explicit statutory basis for such earmarking. And the freeze baseline ignores the effects of pay raises and inflation—costs that could erode the amount of services or programs that the government can deliver. In addition, both the inflated and freeze baselines mechanically repeat funding for programs (such as the decennial census) whose needs are known to be significantly greater or less in future years.

Most of the components of CBO's baseline budget projections—revenues, mandatory spending, and offsetting receipts—are the same no matter which assumption about discretionary spending is used. Net interest costs, however, depend on the amount of projected debt outstanding, which in turn reflects the choice of paths for discretionary outlays. Likewise, projections of the surplus will vary depending on assumptions about the discretionary portion of the budget and the resulting effects on interest costs.

Regardless of the variant, the budgetary picture is a bright one. Between 2001 and 2010, accumulated surpluses are projected to total \$3.2 trillion under the inflated baseline and \$4.2 trillion under the freeze or capped baseline. On-budget surpluses (which exclude the spending and revenues of Social Security and the Postal Service) total more than \$800 billion under the inflated baseline and \$1.9 trillion under the other two baselines.

Those surpluses are much larger than the ones that CBO projected last July in *The Economic and Budget Outlook: An Update*. Comparing capped baselines (which CBO used in that report), the cumulative surplus for the 2000-2009 period is now \$879 billion higher, despite legislation enacted since July that reduces that surplus by a total of \$127 billion between 2000 and 2009. The effects of new legislation are more than offset by changes in economic and other factors that increase revenues by \$651 billion over that period and reduce spending by \$355 billion.

Most of the improvement in the budgetary picture results from CBO's updated economic outlook. Real economic growth is forecast to average about 3 percent a year over the next two years, with only a slight rise in the underlying rate of inflation. For the longer term, CBO projects that real growth will average 2.7

percent a year from 2002 through 2010, taking into account the possibility of booms and recessions during that period.

THE BUDGET OUTLOOK

The total budget surplus of \$176 billion that CBO is projecting for this year results from a \$153 billion surplus in off-budget accounts—mainly the Social Security trust funds, whose inflows and outflows are accounted for separately from those of the rest of the government—and a \$23 billion surplus in on-budget accounts. That on-budget surplus would be the largest ever in nominal dollars. Measured as a percentage of gross domestic product (GDP), it would be the largest since 1951.

Assuming that current policies do not change, CBO projects growing surpluses over the next decade. The total budget surplus would reach between 3 percent and 5 percent of GDP by 2010 depending on the path of discretionary spending (see Summary Tables 2, 3, and 4). The on-budget surplus would range between 1 percent and 3 percent of GDP.

Changes Since July

CBO's current budget outlook is considerably more positive than the one described in its July 1999 report. Since then, CBO estimates, the Congress and the President have enacted legislation that increases projected spending over the 2000-2009 period by about \$109 billion and reduces projected revenues by \$18 billion, compared with the levels in CBO's July baseline (see Summary Table 5, on page 15). The majority of that legislative action occurred at the end of the session, when the Congress and the President enacted the District of Columbia appropriation act and nine other acts enacted by reference—four regular appropriation acts (for the Departments of Commerce, Justice, and State; for foreign operations; for the Department of the Interior; and for the Departments of Labor, Health and Human Services, and Education), a miscellaneous appropriation act, and four additional acts. The effects of that legislation, however, have been more than offset by changes in CBO's estimates of future revenues and outlays that have added to projected surpluses.

Most of the improvement in the budget outlook since July results from the continuing strength of the economy, which CBO estimates will produce higher revenues. The current revenue projections are more than \$500 billion higher over the 10-year period because of changes in CBO's economic forecast. Most of that increase stems from higher projected levels of wage and salary income, which boost receipts from individual income and social insurance taxes.

CBO projects that interest rates will be approximately 1 percentage point higher in 2001 and 2002 than previously forecast and at least 0.3 percentage points higher after that. Such changes boost anticipated interest costs (in the capped baseline) by \$56 billion through 2009. At the same time, higher revenue projections and other factors lower the projected costs of servicing the federal debt by as much as \$31 billion a year by 2009 and by a total of \$138 billion over the 10-year period.

Changes in factors other than legislation and the economic outlook (so-called technical changes) increase the surplus under the capped baseline by \$366 billion over 10 years. Technical changes to revenue projections account for \$141 billion of that difference—mostly the result of an increase in projected realizations of capital gains in the near term and other effects on social insurance taxes and individual income taxes in later years. Technical changes to outlay projections (other than for debt service) represent a similar amount—nearly all of it resulting from changes to CBO's estimates of Medicare spending. Continued emphasis on improving compliance with program rules and a larger-than-anticipated drop in the use of home health care services have slowed the growth of Medicare spending, prompting CBO to adjust its estimates downward.

Revenue Projections for 2000 Through 2010

CBO estimates that total federal revenues will exceed \$1.9 trillion in fiscal year 2000 if current policies remain unchanged—marking the eighth consecutive year in which the growth of revenues has outstripped the growth of gross domestic product. Revenues are expected to grow more slowly than GDP through 2004 and then at about the same rate as GDP through 2010. In that year, revenues are projected to be \$2.9 trillion, or about 19.8 percent of GDP.

Although revenues will continue to grow, CBO expects the rate of growth to slow from the rapid pace of the past few years. From 1994 to 1998, revenues rose at an

average rate of 8.3 percent a year, much faster than GDP. Consequently, revenues as a percentage of GDP increased from 18.1 percent in 1994 to 19.9 percent in 1998. Although revenue growth slowed to 6.1 percent in 1999, it still exceeded GDP growth and boosted the ratio of receipts to GDP to a postwar high of 20 percent.

In CBO's forecast, receipts will increase slightly faster this year (6.4 percent) than in 1999. They will also grow faster than GDP, pushing the ratio of revenues to GDP to 20.3 percent, which is expected to become the postwar peak. Beginning next year, however, CBO expects receipts to grow by roughly 4 percent a year through 2004. That rate is projected to rise to about 4.5 percent a year between 2005 and 2010. Although GDP will grow faster than receipts during that period, on average, the ratio of receipts to GDP will stay close to its peak, remaining at 19.8 percent.

Individual income tax receipts—bolstered primarily by higher realizations of capital gains, growth in real incomes, and especially rapid growth in income among high-income taxpayers—fueled the rapid rise in revenues of the past few years. Those receipts are also an important contributor to the slower growth of revenues projected for the next few years. Higher realizations of capital gains stemmed largely from the sharp rise in stock prices. Effective tax rates rose because an increasing number of taxpayers fell into the high-income category and were therefore taxed at higher marginal rates. Furthermore, those taxpayers experienced higher-than-average growth in income. None of those sources of rapid growth in revenues are expected to persist indefinitely. As they play smaller roles in boosting receipts, revenue growth is projected to slow.

Outlay Projections for 2000 Through 2010

CBO expects federal spending to total \$1.8 trillion in fiscal year 2000. Under current policies, that figure is projected to rise to between \$2.2 trillion and \$2.5 trillion by 2010, depending on the path assumed for discretionary spending.

Federal spending as a percentage of the economy declines from its current level under all three of CBO's alternatives for discretionary spending. Last year, federal outlays totaled just under 19 percent of GDP. In 2000, they will drop further, to about 18.5 percent. Over the next decade, CBO estimates, outlays will continue to

fall slowly, reaching between 15.1 percent and 16.5 percent of GDP in 2010, depending on which assumptions are used.

Within the overall picture, the mix of federal spending has changed significantly over time. Today, the government spends more on entitlement programs and less on discretionary programs as a share of GDP than it did in the past. Spending for entitlements and other mandatory programs (including offsetting receipts) rose from 4.9 percent of GDP in 1962 to 9.9 percent in 1999, while discretionary spending declined from 12.7 percent of GDP to 6.3 percent.

That trend continues in CBO's baseline projections. By 2010, mandatory spending (including offsetting receipts) is expected to reach 10.9 percent of GDP, as discretionary spending falls to between 4.2 percent and 5.3 percent. The growth of mandatory spending—at a projected rate of 5.6 percent a year—will be fueled by the two major health care programs, Medicare and Medicaid, which are projected to grow at average annual rates of 6.9 percent and 8.6 percent, respectively. Those growth rates are faster than the ones experienced in the past three years but slower than those of the early 1990s.

Discretionary spending is projected to increase at various rates from 2000 to 2010: the inflated baseline shows growth averaging 2.7 percent a year; the freeze baseline, 0.3 percent; and the capped baseline, 1.4 percent. Although total discretionary spending was virtually unchanged between 1991 and 1996, nondefense discretionary spending grew by 4.7 percent annually, while defense spending dropped by 3.6 percent annually. Over the following three years, nondefense spending increased by 3.8 percent, on average, and defense spending by 1.2 percent, leading to an average increase of 2.5 percent a year for total discretionary spending.

As a whole, federal outlays (other than net interest outlays) are projected to rise by between 3.5 percent and 4.5 percent a year during the next decade (depending on which variation of the baseline is used). By comparison, total noninterest outlays grew at an annual rate of 3.4 percent over the 1991-1999 period.

Under each of the alternatives for discretionary spending, the Treasury would have enough cash on hand sometime between 2007 and 2009 to retire all of the federal debt held by the public. However, because some outstanding debt will not be available for repurchase, the Treasury would not be able to devote all such funds to that purpose. CBO's baseline simply assumes that the Treasury would invest all of

its excess cash at an interest rate equal to the average rate projected for Treasury bills and notes and would receive dividend or interest earnings from those investments.

THE ECONOMIC OUTLOOK

In 1999, the U.S. economy continued to expand far beyond expectations—yet without any meaningful acceleration in the underlying rate of inflation. Most analysts expect the economy’s growth to remain strong but to slow at least moderately from the 4.3 percent annual rate of the past three years.

Changes Since July

CBO’s current economic outlook is more optimistic about the prospects for real growth than the one reported last July. Compared with the July projections, growth of real GDP and labor productivity is significantly higher, inflation as measured by the consumer price index (CPI) is unchanged, and interest rates are slightly higher (see Summary Table 6). Private-sector assessments of the economy’s recent behavior reach the same conclusion—that the sustainable trends in the growth of labor productivity and real GDP are higher than previously thought possible.

In CBO’s current projections, real GDP grows for the next 10 years at an average annual rate that is 0.4 percentage points higher than was projected in July. Several factors account for that increase: 0.2 percentage points stem from a reassessment of how much of the recent surge in productivity will persist; slightly less than 0.1 percentage point results from a change in the projected growth of the labor force; and the rest reflects revisions in the measurement of real GDP.

Compared with real GDP growth, the growth of nominal GDP and the categories of income that are important for predicting revenues (corporate profits and wages and salaries) did not change as much from the July projections. The reason is largely that CBO’s current projection of the growth of the GDP price index is lower. Furthermore, revisions to the historical data—along with revised outlooks for depreciation, net investment income from abroad, and corporate debt-service costs—have also reduced the projected growth of those income categories relative to the growth of GDP.

Recent Economic Performance

The economy has performed exceptionally well for several years, combining rapid growth and very low unemployment with declining inflation. Since 1996, the growth of real GDP has averaged better than 4 percent, compared with an average of about 3 percent since 1973. Because of those four years of rapid growth, the unemployment rate has fallen to 4.1 percent, its lowest level since January 1970. CPI inflation, excluding food and energy prices, had been running at about 3 percent per year earlier in the decade but was roughly 2 percent over the past year.

Much of the recent good news can be attributed to a surge in productivity growth, which has allowed the economy to grow faster without raising the rate of inflation. Low import and (until recently) oil prices, plus a number of other favorable but probably transitory developments, have also helped suppress inflation. However, domestic demand grew even faster than productivity—boosting employment, tightening labor markets, and raising concerns that recent growth rates may not be sustainable without sparking a rise in inflation.

The Forecast for 2000 and 2001

The economy retains considerable forward momentum, but at some point, a slowdown from the recent blistering pace seems inevitable. If tight labor markets push up labor costs, the best news about price inflation may be in the past. Unless a faster rise in labor costs was offset by continued increases in productivity growth, consumer prices could move upward. Recovery in foreign economies could add to those inflationary pressures by boosting commodity prices and by strengthening foreign currencies relative to the dollar, which would raise import prices.

The Federal Reserve has already responded to the threat of accelerating inflation by increasing the federal funds rate by 0.75 percentage points since June. Although those rate hikes may diminish the risk of inflation in the near term, financial markets seem convinced that further increases will occur this year.

For the next two years, CBO forecasts real GDP growth of about 3 percent, on average, and a slight rise in the underlying rate of inflation. That outlook would not cause the unemployment rate to change much in 2000 or 2001 from its current low

level. The core CPI inflation rate (excluding food and energy prices) is expected to edge up slightly over the next two years from its recent pace of 2.1 percent.

In CBO's forecast, short-term interest rates average 5.4 percent in 2000 and 5.6 percent in 2001. The forecast assumes that the Federal Reserve will boost the federal funds rate by 0.5 percentage points during the first half of 2000 (in early January, financial markets expected at least that large an increase). Thus, the interest rate on three-month Treasury bills is forecast to reach 5.6 percent by midyear and remain there through 2001. The rate on 10-year Treasury notes is forecast to average 6.3 percent in 2000 and 6.4 percent in 2001.

Projections for 2002 Through 2010

CBO projects that real GDP will grow at an average annual rate of 2.8 percent during the 2000-2010 period. That growth compares with the slightly higher growth of 3.1 percent for potential output. Since the current estimated level of real GDP exceeds its potential level, actual GDP must grow at a slower pace than potential GDP to close the gap.

CPI inflation averages 2.5 percent a year after 2001 in CBO's projections, and the unemployment rate averages 5.0 percent. Short- and long-term interest rates are projected to average 4.8 percent and 5.7 percent, respectively, during that period.

UNCERTAINTY OF THE PROJECTIONS

CBO's baseline projections represent the midrange of possible outcomes for the economy and the budget, assuming that current policies are not changed. Actual budgetary outcomes, however, could be considerably different from those projections. Economic performance and other assumptions that deviate from CBO's baseline will surely lead to results that diverge from the numbers presented in this report. Policy changes will also occur that will alter outlays and revenues; CBO's projections do not attempt to take such changes into account.

Experience shows that although CBO's projection of the surplus for the coming fiscal year is likely to be within 1 percent of GDP in most cases, discrepancies can become more substantial over a five-year horizon. CBO's 10-year projections have

only been made since 1992, so it is too soon to assess their accuracy. But 10-year projections are likely to be less accurate than five-year projections.

Many observers believe that a major structural change has taken place in the economy, and that belief influences CBO's projections. However, any transition to a "new economy" would have occurred only in the past few years, which means that little data about it are available from which to make projections for the next decade. Moreover, those data are insufficient to say for sure whether a structural shift has occurred or whether the economy has merely deviated temporarily from its underlying trends, as it has many times in the past. Under those circumstances, projecting the economy and the budget is even more uncertain than usual.

To illustrate the possible effects of differences from the baseline assumptions, CBO has produced budget projections under two alternative scenarios that make different assumptions. One (the optimistic scenario) assumes that the robust performance of the past few years will continue indefinitely and that Medicare and Medicaid spending will grow at a rate 1 percentage point slower than in the baseline. The other (the pessimistic scenario) assumes that the economy has simply experienced a temporary divergence from stable, long-term trends and will soon return to those trends—including even faster growth in Medicare and Medicaid. The projections that result from those two scenarios suggest a very wide range of possible outcomes for the budget: for example, the total surplus or deficit in 2010 could deviate from the baseline projections by \$700 billion to \$800 billion.

Under the assumptions of the optimistic scenario, the budget outlook would improve dramatically. If discretionary spending grew at the rate of inflation but there was no other action to cut taxes or increase spending, the annual on-budget surplus under that scenario would exceed \$800 billion by the end of the decade, and the total budget surplus would exceed \$1.1 trillion. Projected surpluses that large would imply that the federal government was holding huge amounts of nonfederal assets (more than \$4 trillion). If discretionary spending was held to the lower levels implied by the statutory caps through 2002 or was frozen at the level enacted for 2000, surpluses would be even larger.

Under the pessimistic scenario, the on-budget surpluses that CBO is projecting in its baseline would never emerge. Instead, the on-budget deficit would rise to more than \$290 billion a year by the end of the decade. The total budget deficit would be smaller; if discretionary spending was constrained for the whole decade to the level enacted for 2000, that deficit would stay under \$100 billion.

Summary Table 1.
The Budget Outlook Under Current Policies (By fiscal year, in billions of dollars)

	Actual 1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Total, 2001- 2010
Discretionary Spending Grows at the Rate of Inflation After 2000													
On-Budget Surplus	1	23	11	26	31	37	43	86	115	131	162	195	838
Off-Budget Surplus	<u>124</u>	<u>153</u>	<u>166</u>	<u>182</u>	<u>195</u>	<u>209</u>	<u>225</u>	<u>239</u>	<u>254</u>	<u>268</u>	<u>281</u>	<u>295</u>	<u>2,314</u>
Total Surplus	124	176	177	209	227	246	268	325	368	399	444	489	3,152
Discretionary Spending Is Frozen at the Level Enacted for 2000													
On-Budget Surplus	1	23	22	50	76	102	129	194	245	288	346	407	1,858
Off-Budget Surplus	<u>124</u>	<u>153</u>	<u>166</u>	<u>182</u>	<u>196</u>	<u>209</u>	<u>226</u>	<u>240</u>	<u>255</u>	<u>269</u>	<u>282</u>	<u>296</u>	<u>2,320</u>
Total Surplus	124	176	188	232	271	312	355	434	500	556	628	703	4,179
Discretionary Spending Equals CBO's Estimates of the Caps Through 2002 and Grows at the Rate of Inflation Thereafter													
On-Budget Surplus	1	23	69	112	126	136	151	199	231	258	298	339	1,918
Off-Budget Surplus	<u>124</u>	<u>153</u>	<u>166</u>	<u>182</u>	<u>195</u>	<u>209</u>	<u>225</u>	<u>239</u>	<u>254</u>	<u>268</u>	<u>281</u>	<u>295</u>	<u>2,314</u>
Total Surplus	124	176	235	294	321	345	376	438	485	526	579	633	4,232

SOURCE: Congressional Budget Office.

Summary Table 2.

CBO Baseline Budget Projections, Assuming That Discretionary Spending Grows at the Rate of Inflation After 2000 (By fiscal year)

	Actual 1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
In Billions of Dollars												
Revenues												
Individual income	879	945	986	1,026	1,068	1,112	1,162	1,217	1,275	1,339	1,407	1,480
Corporate income	185	189	189	187	190	194	200	208	216	225	233	242
Social insurance	612	653	684	714	742	770	808	842	878	913	954	998
Other	<u>151</u>	<u>158</u>	<u>158</u>	<u>169</u>	<u>177</u>	<u>187</u>	<u>192</u>	<u>198</u>	<u>202</u>	<u>210</u>	<u>218</u>	<u>226</u>
Total	1,827	1,945	2,016	2,096	2,177	2,263	2,361	2,465	2,572	2,686	2,813	2,946
On-budget	1,383	1,465	1,515	1,571	1,630	1,693	1,764	1,843	1,923	2,010	2,106	2,208
Off-budget	444	480	502	525	547	570	597	623	649	676	707	738
Outlays												
Discretionary spending	575	603	635	650	669	684	702	716	730	750	768	786
Mandatory spending	977	1,020	1,071	1,119	1,182	1,249	1,329	1,385	1,460	1,550	1,643	1,744
Offsetting receipts	-78	-79	-85	-91	-94	-93	-98	-103	-108	-113	-119	-125
Net interest	230	224	218	209	194	177	160	142	122	101	80	68
Proceeds from investing excess cash	<u>n.a.</u>	<u>n.a.</u>	<u>n.a.</u>	<u>n.a.</u>	<u>n.a.</u>	<u>n.a.</u>	<u>n.a.</u>	<u>n.a.</u>	<u>n.a.</u>	<u>n.a.</u>	<u>-3</u>	<u>-16</u>
Total	1,703	1,769	1,839	1,888	1,950	2,017	2,093	2,140	2,204	2,287	2,369	2,457
On-budget	1,382	1,442	1,504	1,545	1,598	1,656	1,721	1,756	1,808	1,879	1,944	2,014
Off-budget	321	327	336	343	352	361	372	384	396	409	425	443
Surplus	124	176	177	209	227	246	268	325	368	399	444	489
On-budget	1	23	11	26	31	37	43	86	115	131	162	195
Off-budget	124	153	166	182	195	209	225	239	254	268	281	295
Debt Held by the Public	3,633	3,455	3,292	3,097	2,884	2,651	2,394	2,080	1,721	1,330	1,016	941
As a Percentage of GDP												
Revenues												
Individual income	9.6	9.9	9.8	9.8	9.7	9.7	9.7	9.8	9.8	9.9	9.9	10.0
Corporate income	2.0	2.0	1.9	1.8	1.7	1.7	1.7	1.7	1.7	1.7	1.6	1.6
Social insurance	6.7	6.8	6.8	6.8	6.8	6.7	6.8	6.8	6.8	6.7	6.7	6.7
Other	<u>1.7</u>	<u>1.6</u>	<u>1.5</u>	<u>1.5</u>	<u>1.5</u>							
Total	20.0	20.3	20.1	20.0	19.9	19.8	19.8	19.8	19.8	19.8	19.8	19.8
On-budget	15.2	15.3	15.1	15.0	14.9	14.8	14.8	14.8	14.8	14.8	14.8	14.9
Off-budget	4.9	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Outlays												
Discretionary spending	6.3	6.3	6.3	6.2	6.1	6.0	5.9	5.7	5.6	5.5	5.4	5.3
Mandatory spending	10.7	10.6	10.7	10.7	10.8	10.9	11.1	11.1	11.2	11.4	11.6	11.7
Offsetting receipts	-0.9	-0.8	-0.8	-0.9	-0.9	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8
Net interest	2.5	2.3	2.2	2.0	1.8	1.6	1.3	1.1	0.9	0.7	0.6	0.5
Proceeds from investing excess cash	<u>n.a.</u>	<u>n.a.</u>	<u>n.a.</u>	<u>n.a.</u>	<u>n.a.</u>	<u>n.a.</u>	<u>n.a.</u>	<u>n.a.</u>	<u>n.a.</u>	<u>n.a.</u>	<u>*</u>	<u>-0.1</u>
Total	18.7	18.5	18.3	18.0	17.8	17.7	17.6	17.2	16.9	16.8	16.7	16.5
On-budget	15.2	15.1	15.0	14.7	14.6	14.5	14.4	14.1	13.9	13.8	13.7	13.6
Off-budget	3.5	3.4	3.3	3.3	3.2	3.2	3.1	3.1	3.0	3.0	3.0	3.0
Surplus	1.4	1.8	1.8	2.0	2.1	2.2	2.2	2.6	2.8	2.9	3.1	3.3
On-budget	*	0.2	0.1	0.3	0.3	0.3	0.4	0.7	0.9	1.0	1.1	1.3
Off-budget	1.4	1.6	1.7	1.7	1.8	1.8	1.9	1.9	2.0	2.0	2.0	2.0
Debt Held by the Public	39.9	36.1	32.8	29.5	26.3	23.2	20.1	16.7	13.2	9.8	7.2	6.3

SOURCE: Congressional Budget Office.

NOTE: n.a. = not applicable; * = less than 0.05 percent of GDP.

Summary Table 3.**CBO Baseline Budget Projections, Assuming That Discretionary Spending Is Frozen at the Level Enacted for 2000 (By fiscal year)**

	Actual 1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
In Billions of Dollars												
Revenues												
Individual income	879	945	986	1,026	1,068	1,112	1,162	1,217	1,275	1,339	1,407	1,480
Corporate income	185	189	189	187	190	194	200	208	216	225	233	242
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Other	<u>151</u>	<u>158</u>	<u>158</u>	<u>169</u>	<u>177</u>	<u>187</u>	<u>192</u>	<u>198</u>	<u>202</u>	<u>210</u>	<u>218</u>	<u>226</u>
Total	1,827	1,945	2,016	2,096	2,177	2,263	2,361	2,465	2,572	2,686	2,813	2,946
On-budget	1,383	1,465	1,515	1,571	1,630	1,693	1,764	1,843	1,923	2,010	2,106	2,208
Off-budget	444	480	502	525	547	570	597	623	649	676	707	738
Outlays												
Discretionary spending	575	603	624	628	627	624	625	623	620	622	621	621
Mandatory spending	977	1,020	1,071	1,119	1,182	1,249	1,329	1,385	1,460	1,550	1,643	1,744
Offsetting receipts	-78	-79	-85	-91	-94	-93	-98	-103	-108	-113	-119	-125
Net interest	230	224	218	208	191	171	150	127	101	81	72	68
Proceeds from investing excess cash	<u>n.a.</u>	<u>n.a.</u>	<u>n.a.</u>	<u>n.a.</u>	<u>n.a.</u>	<u>n.a.</u>	<u>n.a.</u>	<u>n.a.</u>	<u>n.a.</u>	<u>-9</u>	<u>-33</u>	<u>-65</u>
Total	1,703	1,769	1,829	1,864	1,905	1,951	2,006	2,032	2,073	2,130	2,185	2,244
On-budget	1,382	1,442	1,493	1,521	1,554	1,590	1,635	1,649	1,678	1,722	1,761	1,801
Off-budget	321	327	336	342	352	361	372	383	395	408	424	442
Surplus	124	176	188	232	271	312	355	434	500	556	628	703
On-budget	1	23	22	50	76	102	129	194	245	288	346	407
Off-budget	124	153	166	182	196	209	226	240	255	269	282	296
Debt Held by the Public	3,633	3,455	3,281	3,062	2,805	2,506	2,162	1,739	1,249	1,078	1,016	941
As a Percentage of GDP												
Revenues												
Individual income	9.6	9.9	9.8	9.8	9.7	9.7	9.7	9.8	9.8	9.9	9.9	10.0
Corporate income	2.0	2.0	1.9	1.8	1.7	1.7	1.7	1.7	1.7	1.7	1.6	1.6
Social insurance	6.7	6.8	6.8	6.8	6.8	6.7	6.8	6.8	6.8	6.7	6.7	6.7
Other	<u>1.7</u>	<u>1.6</u>	<u>1.5</u>	<u>1.5</u>	<u>1.5</u>							
Total	20.0	20.3	20.1	20.0	19.9	19.8	19.8	19.8	19.8	19.8	19.8	19.8
On-budget	15.2	15.3	15.1	15.0	14.9	14.8	14.8	14.8	14.8	14.8	14.8	14.9
Off-budget	4.9	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Outlays												
Discretionary spending	6.3	6.3	6.2	6.0	5.7	5.5	5.2	5.0	4.8	4.6	4.4	4.2
Mandatory spending	10.7	10.6	10.7	10.7	10.8	10.9	11.1	11.1	11.2	11.4	11.6	11.7
Offsetting receipts	-0.9	-0.8	-0.8	-0.9	-0.9	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8
Net interest	2.5	2.3	2.2	2.0	1.7	1.5	1.3	1.0	0.8	0.6	0.5	0.5
Proceeds from investing excess cash	<u>n.a.</u>	<u>n.a.</u>	<u>n.a.</u>	<u>n.a.</u>	<u>n.a.</u>	<u>n.a.</u>	<u>n.a.</u>	<u>n.a.</u>	<u>n.a.</u>	<u>-0.1</u>	<u>-0.2</u>	<u>-0.4</u>
Total	18.7	18.5	18.2	17.8	17.4	17.1	16.8	16.3	15.9	15.7	15.4	15.1
On-budget	15.2	15.1	14.9	14.5	14.2	13.9	13.7	13.2	12.9	12.7	12.4	12.1
Off-budget	3.5	3.4	3.3	3.3	3.2	3.2	3.1	3.1	3.0	3.0	3.0	3.0
Surplus	1.4	1.8	1.9	2.2	2.5	2.7	3.0	3.5	3.8	4.1	4.4	4.7
On-budget	*	0.2	0.2	0.5	0.7	0.9	1.1	1.6	1.9	2.1	2.4	2.7
Off-budget	1.4	1.6	1.7	1.7	1.8	1.8	1.9	1.9	2.0	2.0	2.0	2.0
Debt Held by the Public	39.9	36.1	32.7	29.2	25.6	21.9	18.1	14.0	9.6	7.9	7.2	6.3

SOURCE: Congressional Budget Office.

NOTE: n.a. = not applicable; * = less than 0.05 percent of GDP.

Summary Table 4.**CBO Baseline Budget Projections, Assuming That Discretionary Spending Equals CBO's Estimates of the Statutory Caps Through 2002 and Grows at the Rate of Inflation Thereafter (By fiscal year)**

	Actual 1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
In Billions of Dollars												
Revenues												
Individual income	879	945	986	1,026	1,068	1,112	1,162	1,217	1,275	1,339	1,407	1,480
Corporate income	185	189	189	187	190	194	200	208	216	225	233	242
Social insurance	612	653	684	714	742	770	808	842	878	913	954	998
Other	<u>151</u>	<u>158</u>	<u>158</u>	<u>169</u>	<u>177</u>	<u>187</u>	<u>192</u>	<u>198</u>	<u>202</u>	<u>210</u>	<u>218</u>	<u>226</u>
Total	1,827	1,945	2,016	2,096	2,177	2,263	2,361	2,465	2,572	2,686	2,813	2,946
On-budget	1,383	1,465	1,515	1,571	1,630	1,693	1,764	1,843	1,923	2,010	2,106	2,208
Off-budget	444	480	502	525	547	570	597	623	649	676	707	738
Outlays												
Discretionary spending	575	603	578	571	585	600	615	630	646	662	679	696
Mandatory spending	977	1,020	1,071	1,119	1,182	1,249	1,329	1,385	1,460	1,550	1,643	1,744
Offsetting receipts	-78	-79	-85	-91	-94	-93	-98	-103	-108	-113	-119	-125
Net interest	230	224	217	204	183	162	139	115	92	77	72	68
Proceeds from investing excess cash	<u>n.a.</u>	<u>n.a.</u>	<u>n.a.</u>	<u>n.a.</u>	<u>n.a.</u>	<u>n.a.</u>	<u>n.a.</u>	<u>n.a.</u>	<u>-2</u>	<u>-16</u>	<u>-41</u>	<u>-70</u>
Total	1,703	1,769	1,781	1,802	1,856	1,918	1,985	2,027	2,087	2,161	2,234	2,313
On-budget	1,382	1,442	1,446	1,460	1,504	1,557	1,613	1,644	1,692	1,752	1,809	1,870
Off-budget	321	327	336	343	352	361	372	384	396	409	425	443
Surplus	124	176	235	294	321	345	376	438	485	526	579	633
On-budget	1	23	69	112	126	136	151	199	231	258	298	339
Off-budget	124	153	166	182	195	209	225	239	254	268	281	295
Debt Held by the Public	3,633	3,455	3,234	2,954	2,647	2,314	1,949	1,522	1,142	1,078	1,016	941
As a Percentage of GDP												
Revenues												
Individual income	9.6	9.9	9.8	9.8	9.7	9.7	9.7	9.8	9.8	9.9	9.9	10.0
Corporate income	2.0	2.0	1.9	1.8	1.7	1.7	1.7	1.7	1.7	1.7	1.6	1.6
Social insurance	6.7	6.8	6.8	6.8	6.8	6.7	6.8	6.8	6.8	6.7	6.7	6.7
Other	<u>1.7</u>	<u>1.6</u>	<u>1.6</u>	<u>1.5</u>	<u>1.5</u>	<u>1.5</u>						
Total	20.0	20.3	20.1	20.0	19.9	19.8	19.8	19.8	19.8	19.8	19.8	19.8
On-budget	15.2	15.3	15.1	15.0	14.9	14.8	14.8	14.8	14.8	14.8	14.8	14.9
Off-budget	4.9	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Outlays												
Discretionary spending	6.3	6.3	5.8	5.4	5.3	5.3	5.2	5.1	5.0	4.9	4.8	4.7
Mandatory spending	10.7	10.6	10.7	10.7	10.8	10.9	11.1	11.1	11.2	11.4	11.6	11.7
Offsetting receipts	-0.9	-0.8	-0.8	-0.9	-0.9	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8
Net interest	2.5	2.3	2.2	1.9	1.7	1.4	1.2	0.9	0.7	0.6	0.5	0.5
Proceeds from investing excess cash	<u>n.a.</u>	<u>n.a.</u>	<u>n.a.</u>	<u>n.a.</u>	<u>n.a.</u>	<u>n.a.</u>	<u>n.a.</u>	<u>n.a.</u>	<u>*</u>	<u>-0.1</u>	<u>-0.3</u>	<u>-0.5</u>
Total	18.7	18.5	17.7	17.2	16.9	16.8	16.6	16.3	16.0	15.9	15.7	15.6
On-budget	15.2	15.1	14.4	13.9	13.7	13.6	13.5	13.2	13.0	12.9	12.7	12.6
Off-budget	3.5	3.4	3.3	3.3	3.2	3.2	3.1	3.1	3.0	3.0	3.0	3.0
Surplus	1.4	1.8	2.3	2.8	2.9	3.0	3.2	3.5	3.7	3.9	4.1	4.3
On-budget	*	0.2	0.7	1.1	1.1	1.2	1.3	1.6	1.8	1.9	2.1	2.3
Off-budget	1.4	1.6	1.7	1.7	1.8	1.8	1.9	1.9	2.0	2.0	2.0	2.0
Debt Held by the Public	39.9	36.1	32.2	28.1	24.2	20.3	16.3	12.2	8.8	7.9	7.2	6.3

SOURCE: Congressional Budget Office.

NOTE: n.a. = not applicable; * = less than 0.05 percent of GDP.

Summary Table 5.
Changes in CBO Projections of the Surplus Since July 1999, Under the Capped Baseline
(By fiscal year, in billions of dollars)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	Total, 2000- 2009
July Baseline Total Surplus ^a	161	193	246	247	266	286	334	364	385	413	n.a.
Changes											
Legislative											
Revenues	3	-6	-8	-2	-2	-1	-1	*	*	*	-18
Outlays ^b	<u>-33</u>	<u>-11</u>	<u>-9</u>	<u>-8</u>	<u>-7</u>	<u>-7</u>	<u>-8</u>	<u>-8</u>	<u>-9</u>	<u>-9</u>	<u>-109</u>
Subtotal	-30	-17	-18	-10	-9	-8	-8	-9	-9	-10	-127
Economic											
Revenues	23	41	52	54	53	53	54	56	60	65	510
Outlays ^b	<u>2</u>	<u>-1</u>	<u>-3</u>	<u>1</u>	<u>8</u>	<u>13</u>	<u>19</u>	<u>24</u>	<u>30</u>	<u>36</u>	<u>130</u>
Subtotal	25	40	49	55	61	66	74	80	89	101	640
Technical											
Revenues	14	12	8	9	13	14	15	16	18	22	141
Outlays ^b	<u>6</u>	<u>7</u>	<u>8</u>	<u>20</u>	<u>14</u>	<u>19</u>	<u>23</u>	<u>34</u>	<u>43</u>	<u>51</u>	<u>225</u>
Subtotal	20	19	16	28	27	33	38	50	61	74	366
Total Changes	15	42	47	73	79	90	104	121	141	166	879
January Baseline Total Surplus	176	235	294	321	345	376	438	485	526	579	n.a.
Memorandum:											
Total Change in Revenues	40	46	51	60	64	66	69	71	77	88	634
Total Change in Outlays ^b	-25	-4	-4	13	15	24	35	50	64	78	245

SOURCE: Congressional Budget Office.

NOTE: n.a. = not applicable; * = less than \$500 million.

a. Assumes that discretionary spending equals CBO's estimates of the statutory caps through 2002 and grows at the rate of inflation thereafter.

b. Increases in outlays are shown with a negative sign because they reduce surpluses.

Summary Table 6.
Comparison of CBO Economic Projections for Calendar Years 2000-2010

	Estimated	Forecast					Projected					
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Nominal GDP												
(Billions of dollars)												
January 2000	9,235	9,692	10,154	10,610	11,069	11,544	12,054	12,589	13,148	13,734	14,362	15,024
July 1999	8,964	9,351	9,751	10,159	10,583	11,027	11,508	12,017	12,554	13,113	13,695	n.a.
Nominal GDP												
(Percentage change)												
January 2000	5.4	5.0	4.8	4.5	4.3	4.3	4.4	4.4	4.4	4.5	4.6	4.6
July 1999	5.3	4.3	4.3	4.2	4.2	4.2	4.4	4.4	4.5	4.5	4.4	n.a.
Real GDP ^a												
(Percentage change)												
January 2000	3.9	3.3	3.1	2.8	2.6	2.6	2.7	2.7	2.7	2.7	2.9	2.9
July 1999	4.0	2.4	2.4	2.3	2.3	2.3	2.5	2.5	2.5	2.5	2.5	n.a.
GDP Price Index ^b												
(Percentage change)												
January 2000	1.4	1.6	1.6	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7
July 1999	1.3	1.8	1.8	1.8	1.8	1.8	1.9	1.9	1.9	1.9	1.9	n.a.
Consumer Price Index ^c												
(Percentage change)												
January 2000	2.2	2.5	2.4	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
July 1999	2.2	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	n.a.
Unemployment Rate												
(Percent)												
January 2000	4.2	4.1	4.2	4.4	4.7	4.8	5.0	5.0	5.1	5.2	5.2	5.2
July 1999	4.2	4.3	4.6	4.9	5.1	5.3	5.4	5.5	5.5	5.5	5.5	n.a.
Three-Month Treasury Bill Rate (Percent)												
January 2000	4.6	5.4	5.6	5.3	4.9	4.8	4.8	4.8	4.8	4.8	4.8	4.8
July 1999	4.6	5.0	4.6	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	n.a.
Ten-Year Treasury Note Rate (Percent)												
January 2000	5.6	6.3	6.4	6.1	5.8	5.7	5.7	5.7	5.7	5.7	5.7	5.7
July 1999	5.6	5.9	5.5	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4	n.a.
Tax Bases												
(Billions of dollars)												
Corporate profits ^d												
January 2000	840	829	833	829	839	860	885	919	954	991	1,028	1,060
July 1999	724	687	725	758	783	814	844	880	915	950	982	n.a.
Wages and salaries												
January 2000	4,475	4,732	4,959	5,183	5,408	5,641	5,890	6,150	6,422	6,706	7,009	7,328
July 1999	4,410	4,632	4,810	4,995	5,207	5,431	5,670	5,922	6,187	6,463	6,751	n.a.

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

NOTES: Percentage changes are year over year. The projections for nominal GDP and the tax bases are not comparable because of definitional changes in the national income and product accounts (see Box 2-1 on page 39).

n.a. = not applicable.

- a. Based on chained 1996 dollars.
- b. The GDP price index is virtually the same as the implicit GDP deflator.
- c. The consumer price index for all urban consumers.
- d. Corporate profits are book profits.

Charts Presented at the Hearing

CBO BASELINE PROJECTIONS OF THE SURPLUS (In billions of dollars)

	2000	2001	2001- 2005	2001- 2010
CAPPED				
On-Budget	23	69	594	1,918
Off-Budget	<u>153</u>	<u>166</u>	<u>978</u>	<u>2,314</u>
Total	176	235	1,571	4,232
FREEZE				
On-Budget	23	22	379	1,858
Off-Budget	<u>153</u>	<u>166</u>	<u>979</u>	<u>2,320</u>
Total	176	188	1,358	4,179
INFLATED				
On-Budget	23	11	148	838
Off-Budget	<u>153</u>	<u>166</u>	<u>978</u>	<u>2,314</u>
Total	176	177	1,126	3,152

CHANGES IN CBO PROJECTIONS OF THE TOTAL SURPLUS SINCE JULY UNDER THE CAPPED BASELINE

	2000	2001	2009	2000- 2009
July Surplus	161	193	413	2,895
Changes				
Legislative	-30	-17	-10	-127
Economic	25	40	101	640
Technical	<u>20</u>	<u>19</u>	<u>74</u>	<u>366</u>
Total Changes	15	42	166	879
January Surplus	176	235	579	3,774

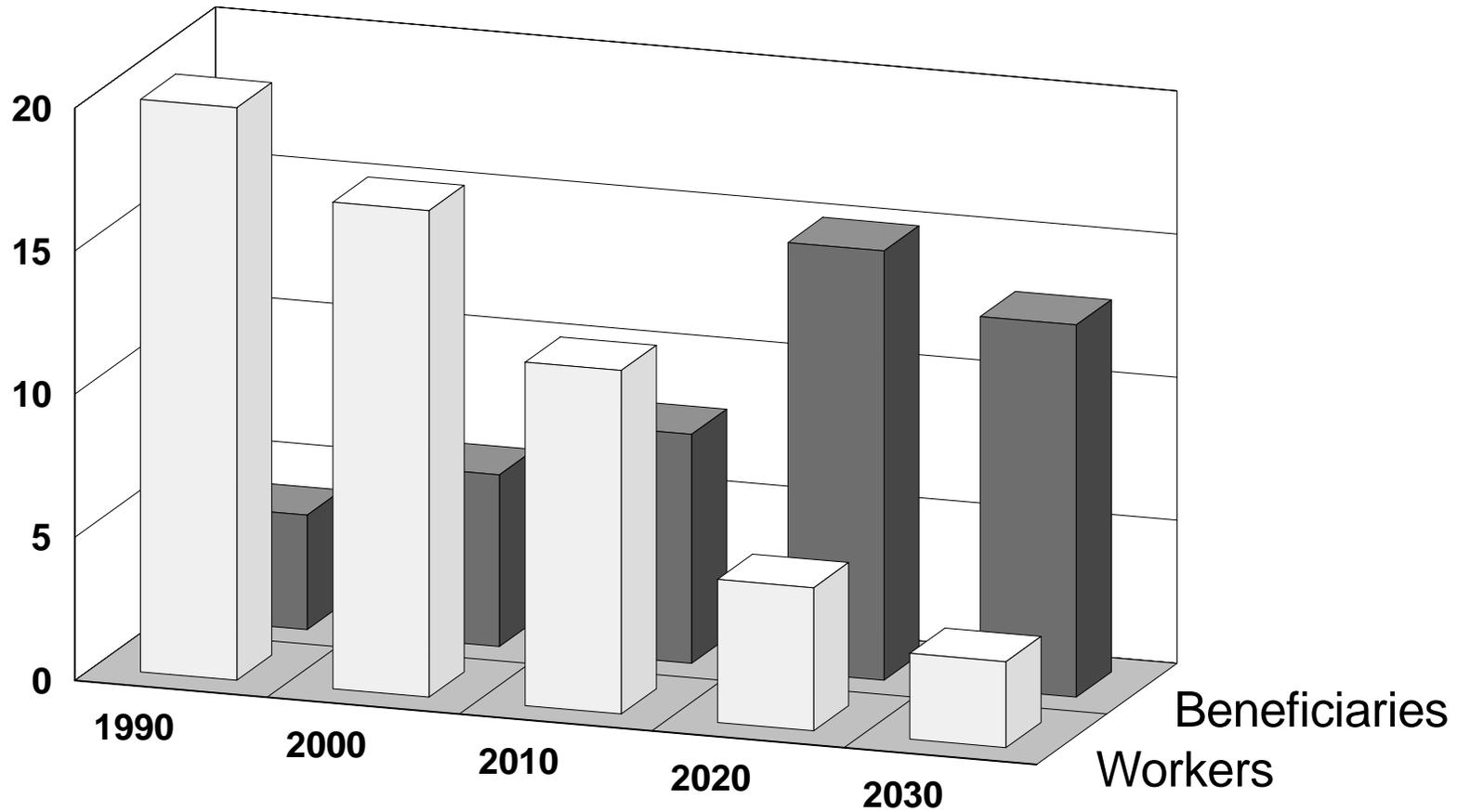
CHANGES TO THREE PREVIOUS CBO BASELINES

	Percentage of Total Differences Resulting from		
	Legislative Changes	Economic Changes	Technical Changes
January 1990 Baseline, 1990-1995 (Pre-BEA)	30	26	44
January 1993 Baseline, 1993-1998 (Pre-OBRA-93)	37	23	40
January 1997 Baseline, 1997-1999 (Pre-BBA)	8	37	55

ECONOMIC ASSUMPTIONS (Growth rates, year over year)

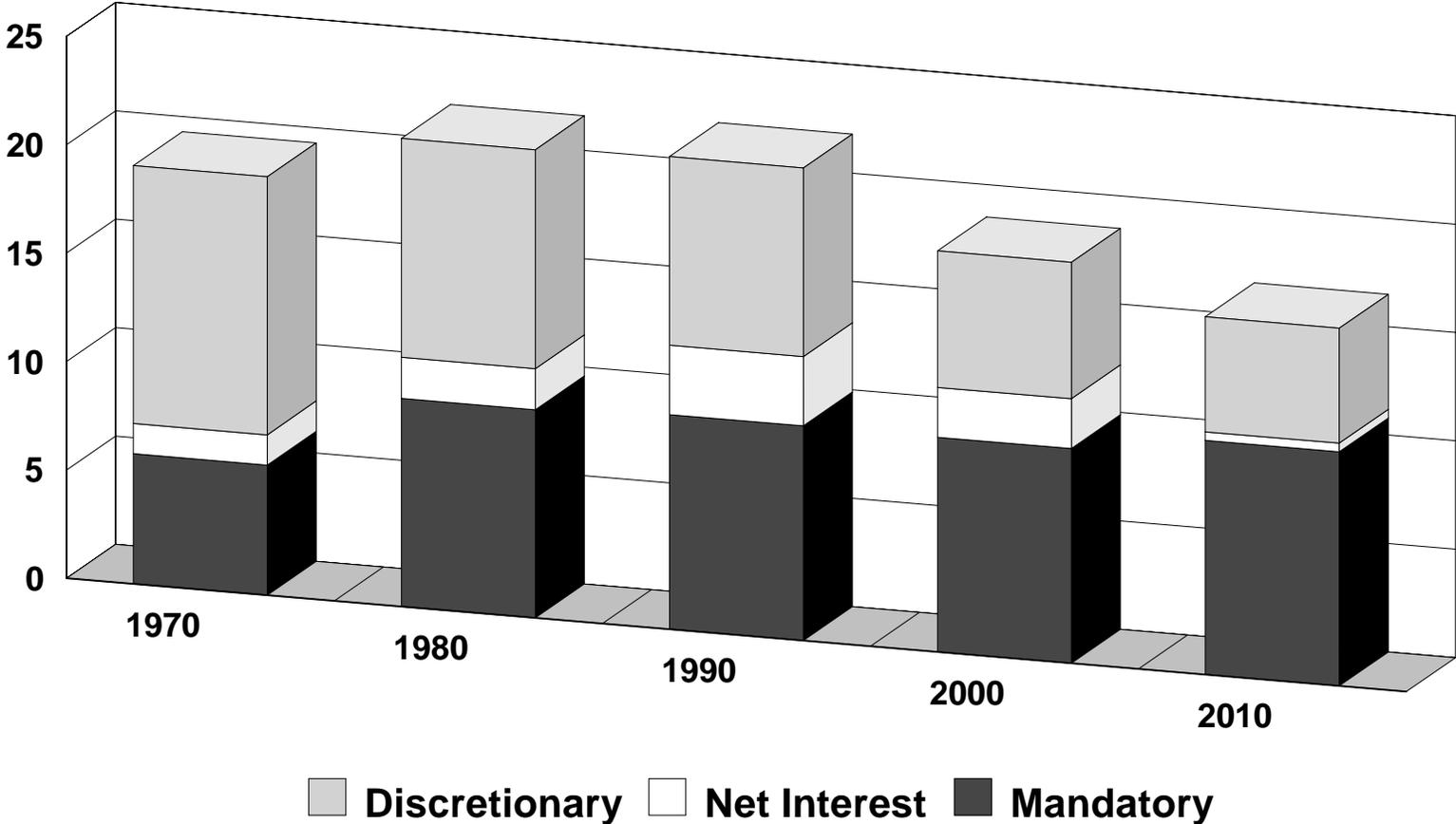
	2000	2001	2001-2005
Real GDP			
DRI	3.7	3.1	3.3
MA	3.6	2.7	2.8
WEFA	3.2	3.4	3.2
CBO	3.3	3.1	2.7
Nominal GDP			
DRI	4.9	4.6	5.1
MA	5.4	5.1	5.6
WEFA	4.7	5.2	4.8
CBO	5.0	4.8	4.4
CPI-U			
DRI	2.3	2.1	2.5
MA	2.5	2.8	3.6
WEFA	2.5	2.5	2.5
CBO	2.5	2.4	2.5

INCREASES IN WORKERS AND SOCIAL SECURITY BENEFICIARIES (In millions from prior decade)



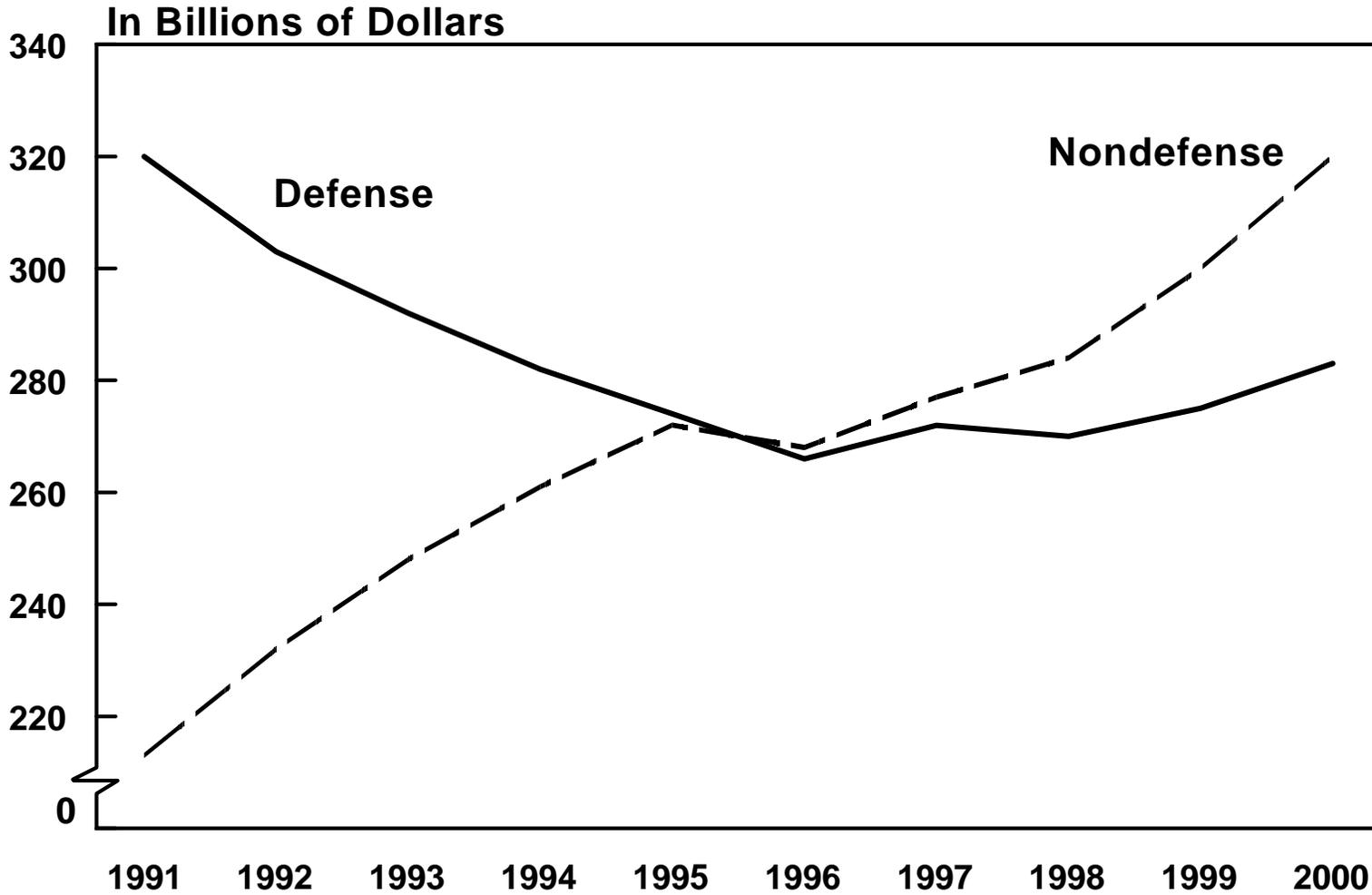
SOURCE: 1999 Social Security Trustees Report.

COMPOSITION OF FEDERAL SPENDING (Percentage of GDP)

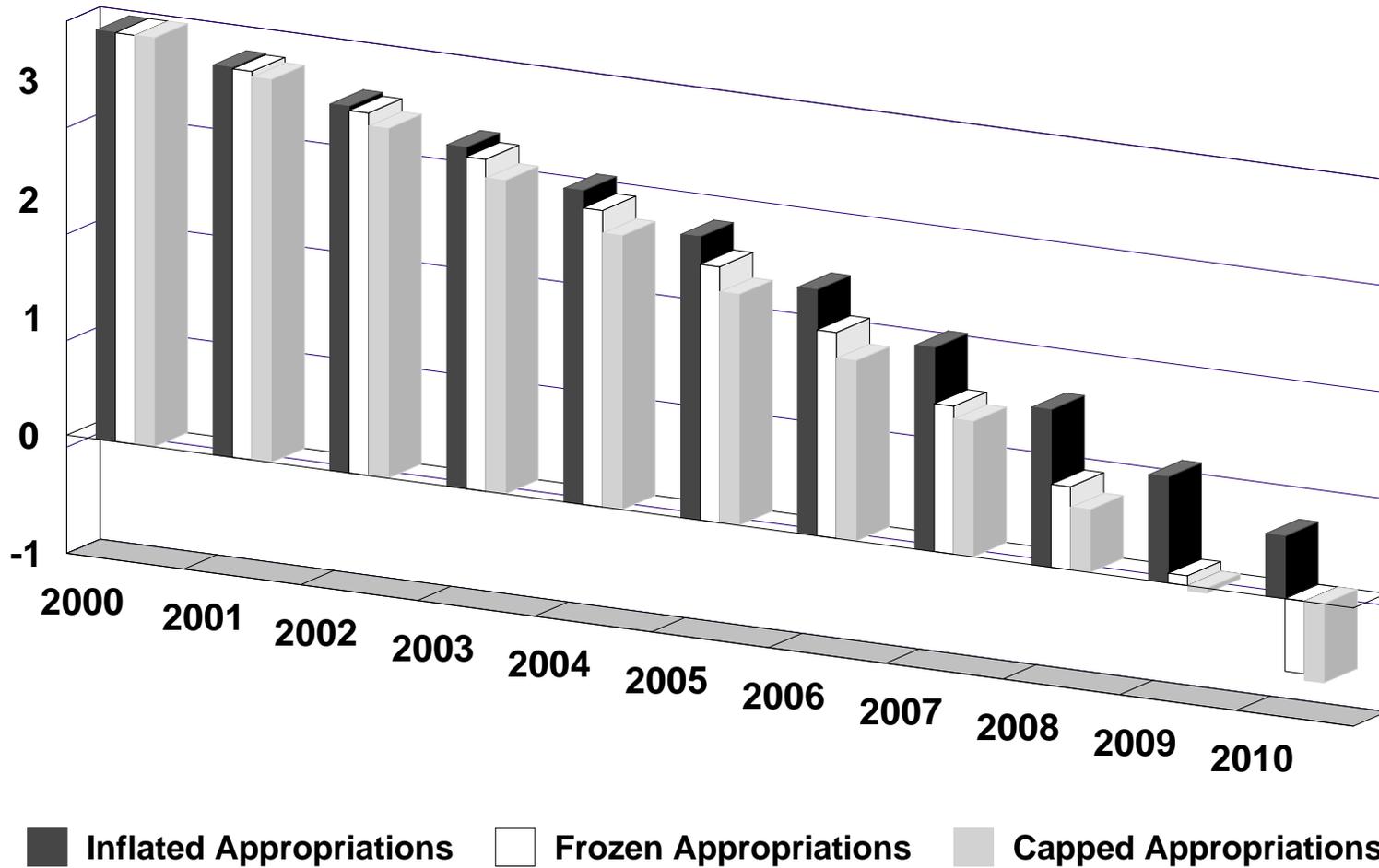


NOTE: 2010 reflects CBO baseline with inflated appropriations.

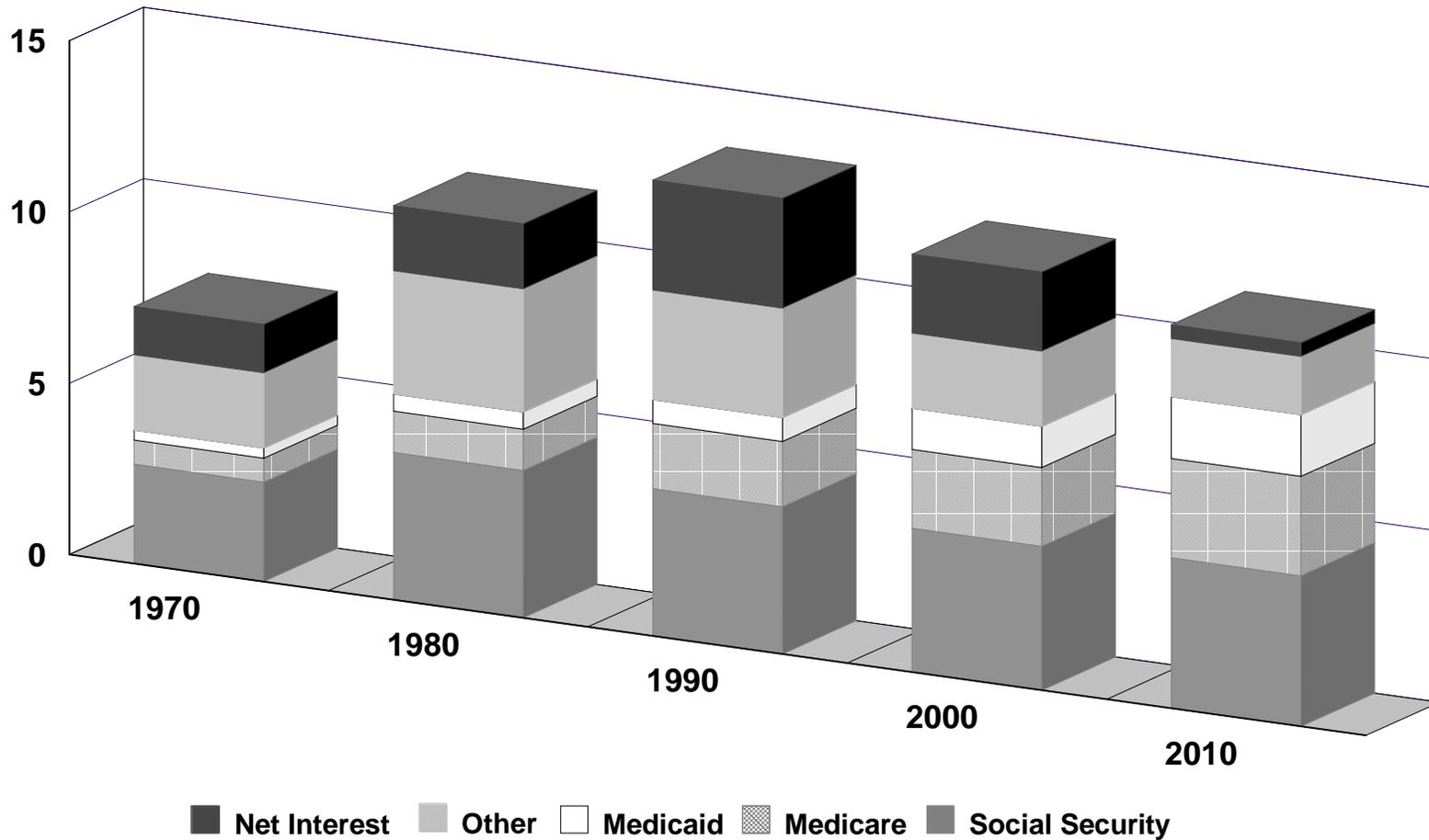
TRENDS IN DISCRETIONARY SPENDING, 1991-2000



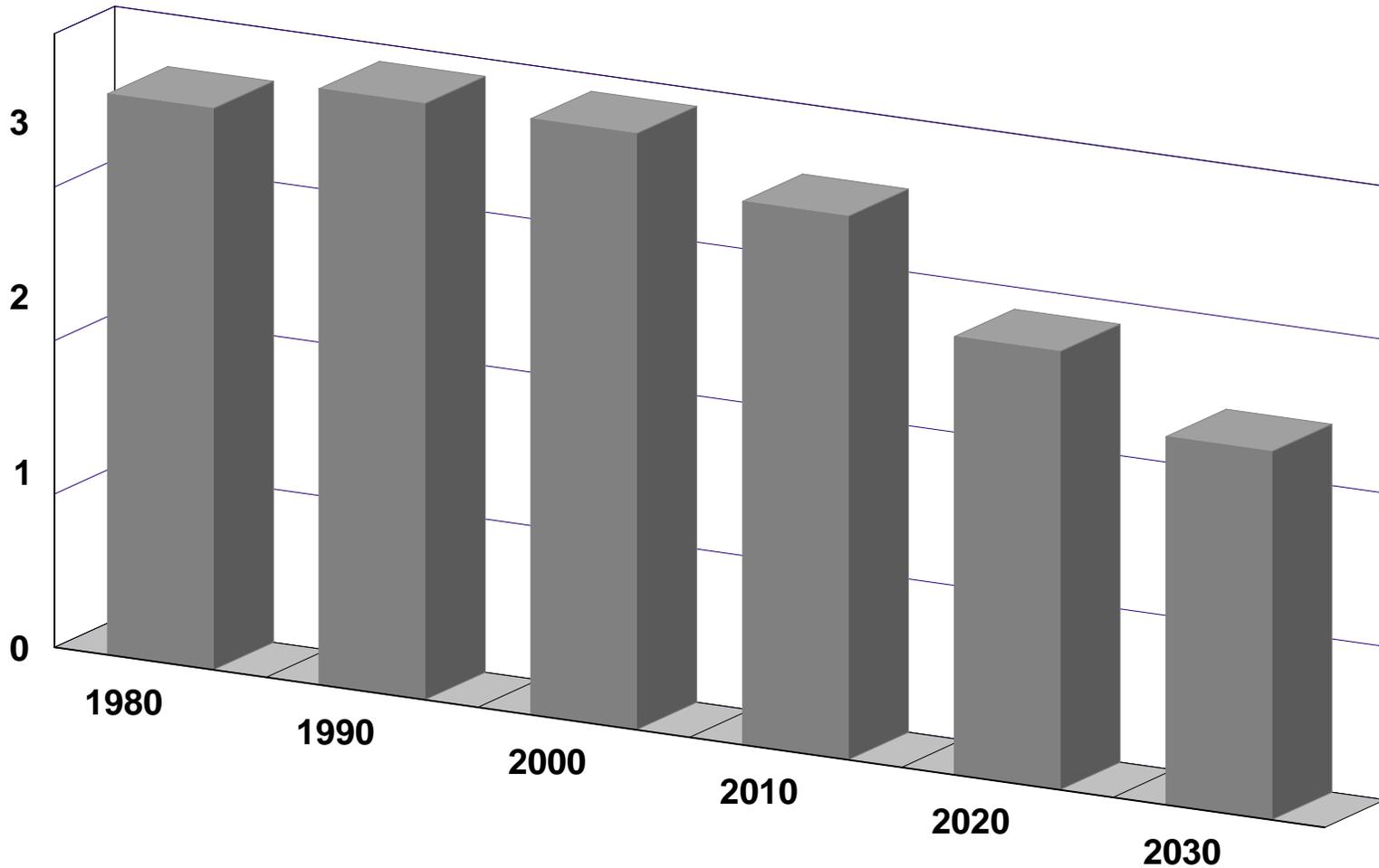
Indebtedness to the Public Under the CBO Baseline (In trillions of dollars)



Mandatory Spending Detail (Percentage of GDP)



Workers per Social Security Beneficiary



OBLIGATIONS TO ELDERLY

GDP