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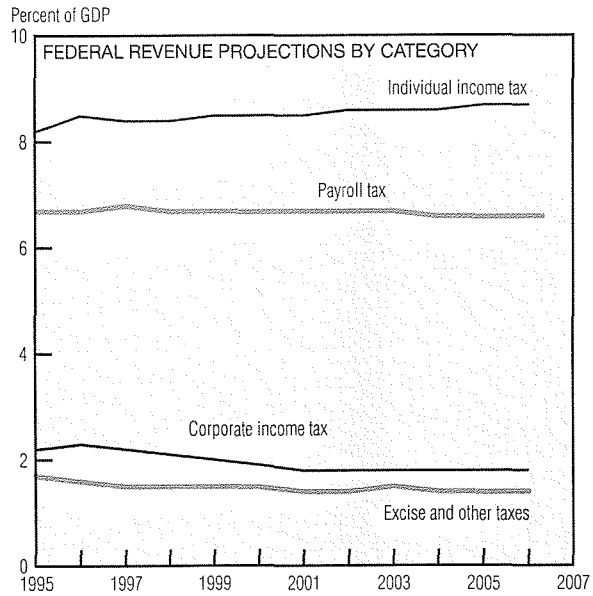
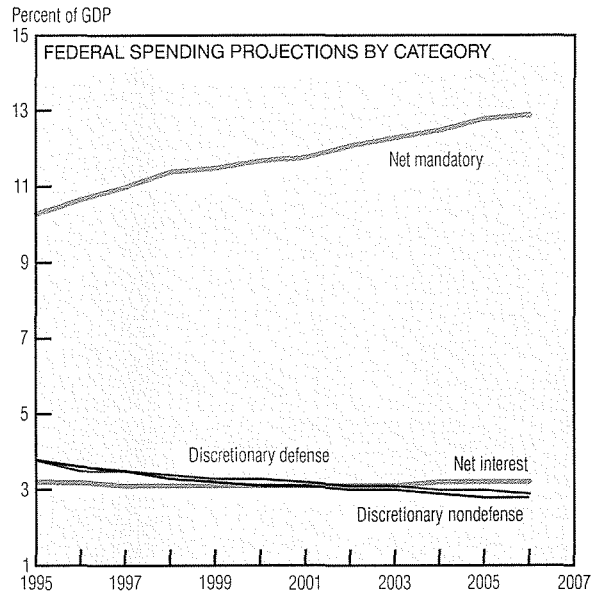
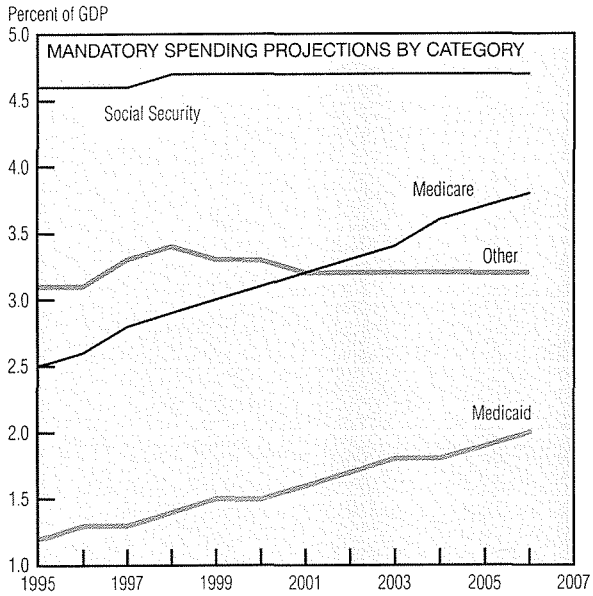
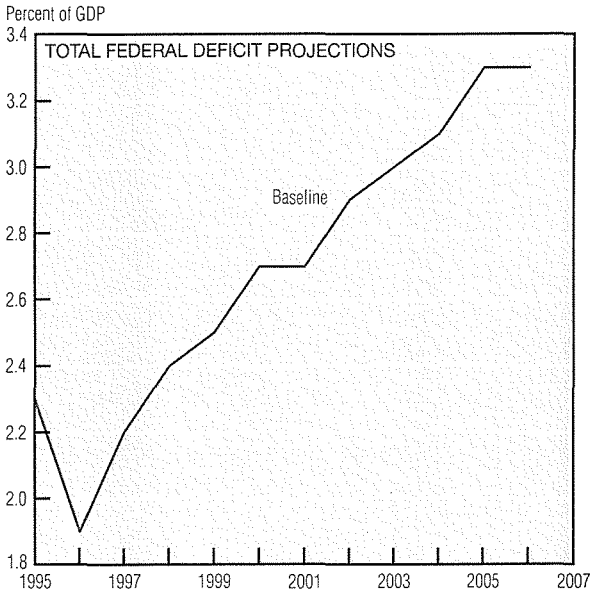
# Federal Budget Projections




NOTE: Dates are CBO fiscal years. 1995 data are actual.
SOURCE: Congressional Budget Office.

Congressional Budget Office (CBO) projections show that, under current fiscal policies, total federal revenue as a share of GDP will decline from 18.9% in 1995 to about 18.5% in 2001, and will remain at that level through 2006. Over this period, the only revenue category expected to pick up as a share of national output is the individual income tax (8.2% to 8.7%). Payroll taxes should hold steady at around 6.6%, while corporate taxes and excise and other taxes are seen as edging down. These trends reflect a continuation of those observed in the past, except for payroll tax revenues, whose share of GDP has increased consistently over the last four decades.

The upward trend in projected federal spending continues to be dominated by increased mandatory outlays. Excluding offsetting receipts, mandatory spending is expected to grow from 10.3% of GDP in 1995 to 12.9% in 2006, mainly as a result of increased health care costs. Medicare's share of national output is seen as rising 1.3 percentage points over the next decade, while Medicaid is projected to expand 0.8 percentage point. In contrast, the CBO anticipates net interest outlays will remain unchanged, while defense and nondefense discretionary spending are each expected to fall about 1.0 percentage point relative to output.

As a result, the baseline federal deficit is on course to jump from 2.3% of GDP in 1995 to 3.3% in 2006. However, despite the attention the deficit receives in the media and on the campaign trail, what the government spends our money on and how it taxes us to pay for that spending are more important than the size of the overall deficit.

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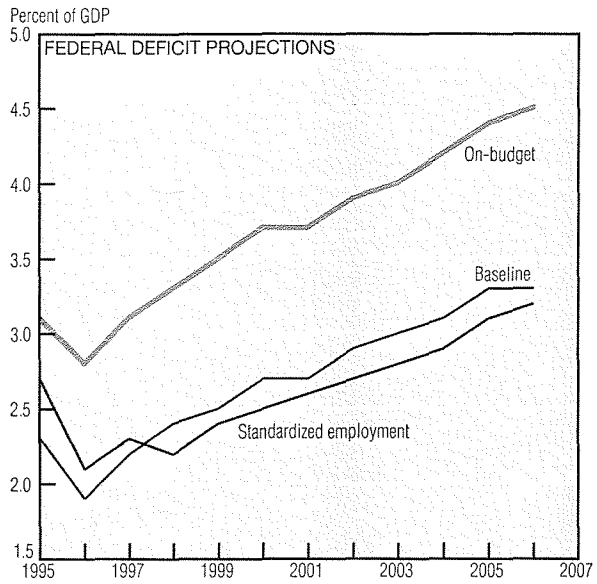
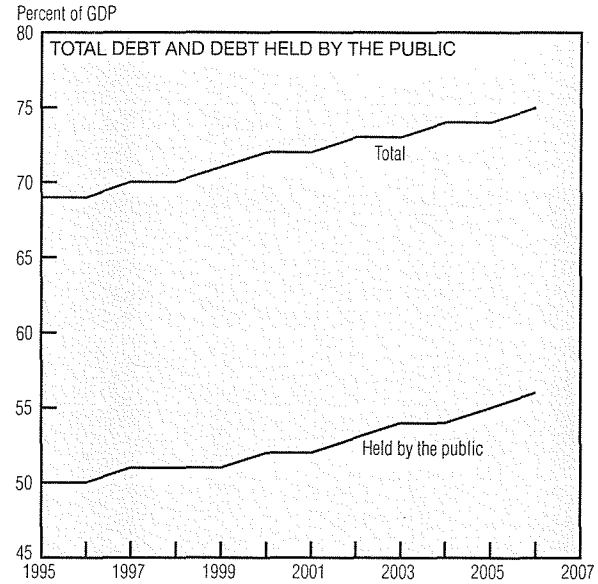
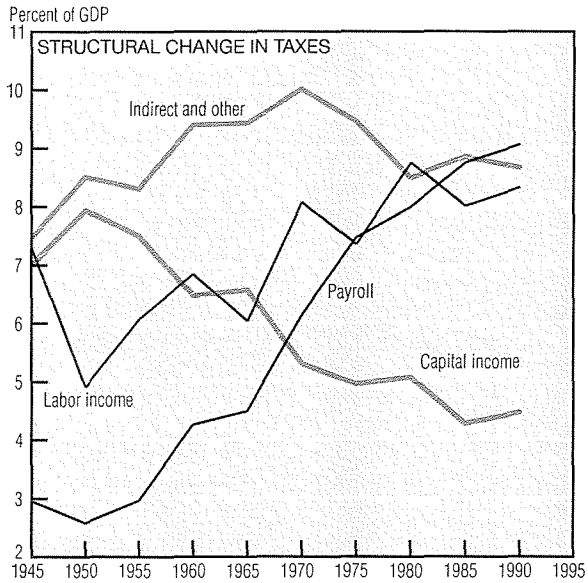
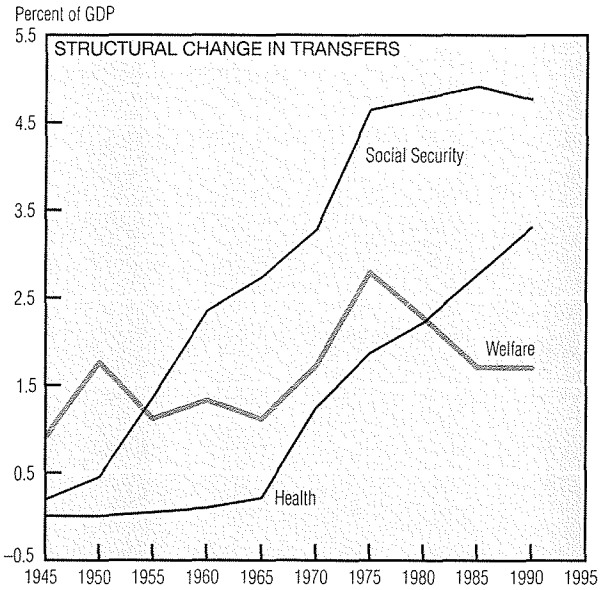
# Federal Budget Projections (cont.)




NOTE: Dates are calendar years. 1995 data are actual.
SOURCES: Congressional Budget Office; and U.S. Department of Commerce, Bureau of Economic Analysis.

Baseline deficit and debt numbers are widely used to measure the budget's impact on national saving and on the extent to which current government purchases will have to be paid for by future generations. Analysts use several measures to address these concerns. For example, the "standardized employment deficit" refers to the amount of public borrowing that would occur if the economy were operating at full potential. The "on-budget" deficit refers to general government operations, arbitrarily excluding Social Security and Postal Service accounts.

In general, however, deficits are inadequate measures of how fiscal policies shift the burden of taxes and expenditures from older to younger generations, and of how that shift affects interest rates and national saving. For example, structural changes in taxes and transfers may leave debt and deficit levels untouched, yet transfer burdens from older Americans to younger and future generations, thereby affecting U.S. saving.

Some dramatic structural changes in taxes and transfers have taken place during the postwar period: Labor income and payroll taxes—paid by younger, working generations—have increased as a share of GDP, whereas taxes on capital income—paid mostly by older individuals—have dropped substantially. Moreover, Social Security, Medicare, and Medicaid transfers, which go mainly to older Americans, have skyrocketed relative to national output, while welfare transfers, which mainly benefit younger individuals (especially single mothers), have remained nearly constant.