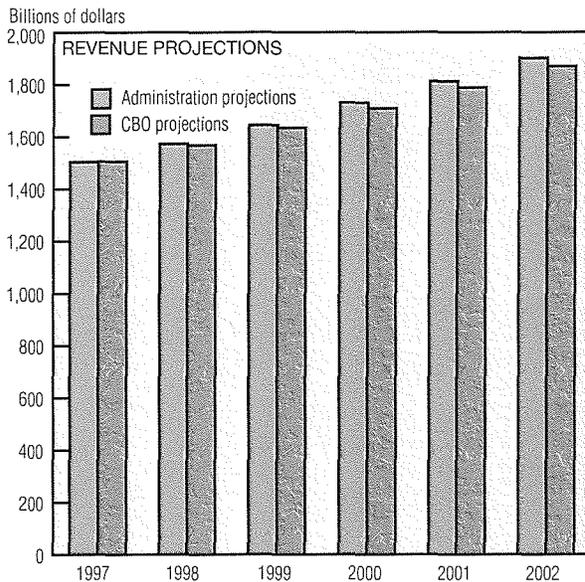
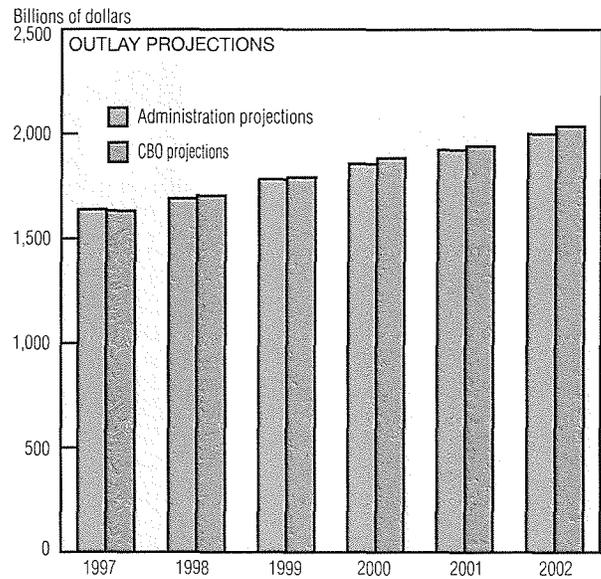
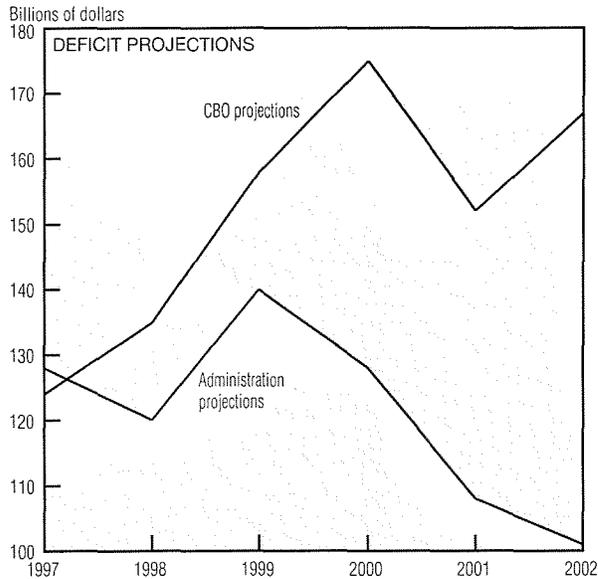


The Federal Budget



Comparison of CBO and Administration Economic Projections			
	1998	2000	2002
Real GDP growth^a			
CBO	2.1	2.2	2.1
Administration	2.0	2.3	2.3
CPI inflation^a			
CBO	2.9	3.0	3.0
Administration	2.7	2.7	2.7
Wage and salary share^b			
CBO	47.7	47.4	47.3
Administration	47.9	47.8	47.7
Corporate profit share^b			
CBO	8.1	7.8	7.8
Administration	8.6	8.7	8.4

a. Percent change, year over year.
 b. Percentage of GDP.
 NOTE: All projections assume no change in policy.
 SOURCE: Congressional Budget Office.

If economic models are economists' stock-in-trade, then the assumptions used to construct them are their critical raw materials. These assumptions have long provoked pointed barbs at the expense of the profession and its conclusions, but in the real world of policy, assumptions are no joke.

As the federal government's budget process begins in earnest, reconciling the underlying assumptions of competing proposals becomes an important condition for reaching an

agreement. In practical terms, this means reconciling the assumptions of the Clinton administration and the Congressional Budget Office (CBO).

In February, the CBO began analyzing the administration's preliminary budget proposals. The first step, of course, is to determine the starting point of the deliberations: Without any change in policy, what will be the path of the federal deficit? The answer depends critically on the assumed paths of economic growth, inflation, and income distribution.

Although they may appear slight, differences between the assumptions of the CBO and the administration have a significant impact on the projected path of outlays, revenues, and the deficit. Given its economic assumptions, the administration has projected that status quo policy would lead to a \$597 billion cumulative shortfall in revenues over the 1998–2002 period. Under the CBO's alternative assumptions, the corresponding projection is a deficit of about \$787 billion.