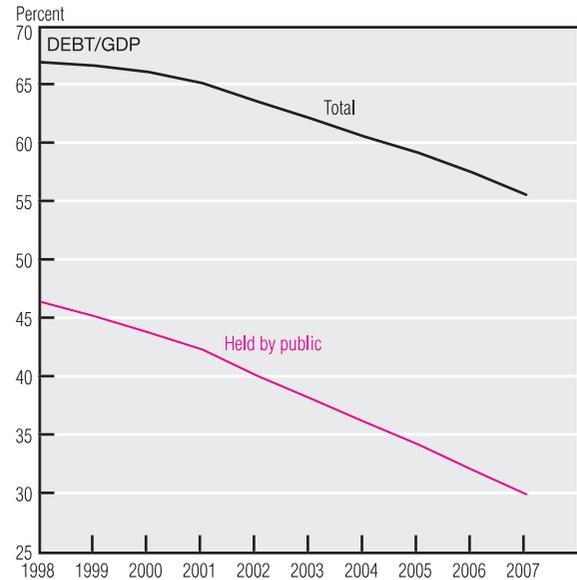
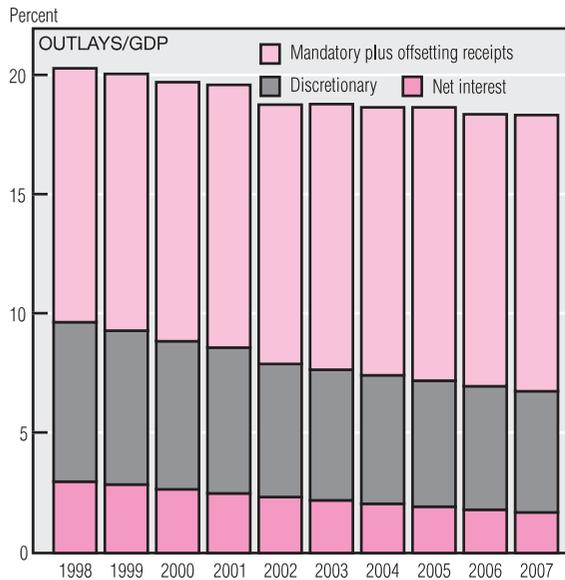
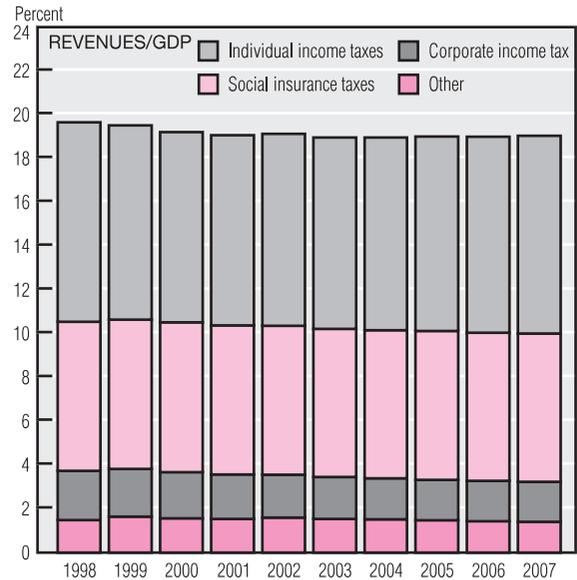
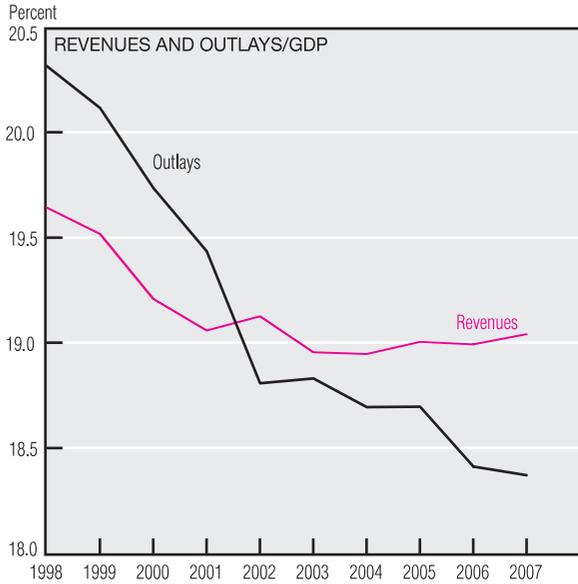


Federal Budget Projections



SOURCE: Congressional Budget Office.

The Congressional Budget Office projects that federal outlays as a share of GDP will decline from more than 20% to about 18.5% by the year 2007. Federal revenues will fall from almost 20% to 19%.

The recent increase in national output has boosted revenues and depressed spending on income-assistance programs. The federal deficit is expected to grow in 1998 because of discretionary spending increases and revenue reductions enacted for that fiscal year. Thereafter, it is expected to decline and become a surplus by 2002. The principal risks to these projections are a weaker-than-expected econ-

omy, which could lead to lower revenues, an unexpected surge in mandatory spending, or a failure to resist discretionary outlay increases from today's near-freeze level.

The government's two leading revenue sources—individual income taxes and social insurance taxes—are expected to remain roughly constant as fractions of GDP. Income taxes' share is expected to decline in the short term (reflecting a reversal of transient factors that caused revenue growth to exceed its long-term trend over the last four years) and then to rise again toward the end of the projection period. On the outlay side, although discretionary spend-

ing and net interest payments will decline as percentages of GDP, mandatory outlays are expected to increase continuously.

The lower deficits projected through 2002 and the surpluses projected thereafter would produce steady declines over the next 10 years in both total debt and publicly held debt as shares of GDP. However, total outstanding public debt reflects only part of federal liabilities. Implicit commitments to pay Social Security and health benefits in excess of projected payroll-tax revenues represent an additional burden that someone must bear.