National debt doubled from about 35% of gross domestic product in 1980 to more than 70% in 1995. Although the Congressional Budget Office (CBO) predicts the 1995 federal deficit will come in at only 2.3% of GDP—the lowest since 1979—CBO projections based on current policy show that it will rise to 4.0% of GDP by 2005. Rapid increases in projected retirement and health benefits for the baby-boom generations are expected to push these ratios still higher in the first two decades of the next century. Moreover, the Medicare program is projected to be bankrupt by 2002 under current rules. This scenario has proved alarming enough to warrant agreement between Congress and the administration on the need to achieve a balanced budget by that year.

Despite such goodwill, however, issues about the nature of expenditure cuts and possible tax reductions remain unresolved. Congress wishes to enact significant cuts in discretionary spending; reduce Medicare growth by increasing premiums and encouraging the use of HMOs; pare Medicaid spending and shift the primary responsibility for this program to the states; and shrink outlays on government research, food stamps, education, and other welfare programs. The administration, however, prefers to retain the two health-care programs in their current form and to expand expenditures on education, provide more for environmental protection, and boost outlays on government research.