

Statement of  
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before the  
Subcommittee on Social Security  
and Family Policy  
Committee on Finance  
United States Senate

May 13, 1988

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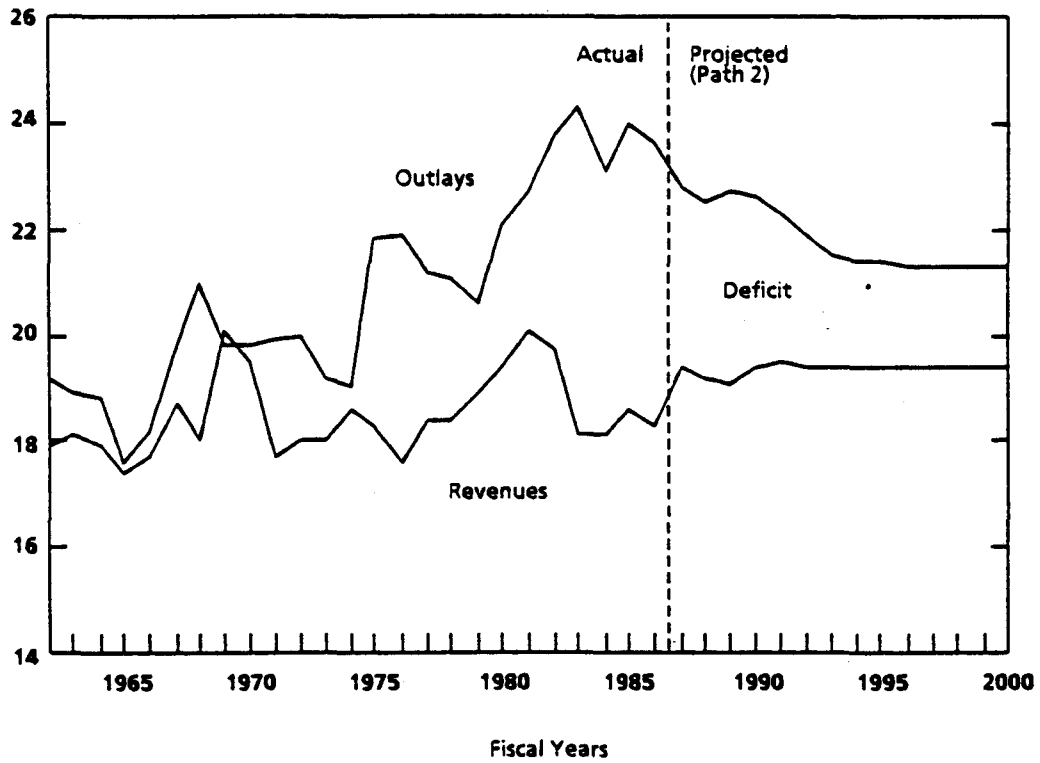
Mr. Chairman, I am pleased to be here to discuss government budget trends and their relation to projected demographic and labor force changes. After a brief overview of federal budget developments during the past 25 years, my testimony provides three illustrative budget paths through the year 2000. It also examines the fiscal outlook for the entire government sector, including state and local governments, and considers some of the issues raised for long-run federal fiscal policy.

#### FEDERAL BUDGETARY TRENDS, 1962-1988

The role of the federal government in the economy has grown over the past 25 years, as depicted in Figure 1. After a period of 13 years from 1962 to 1974, during which federal spending rarely reached 20 percent of gross national product (GNP), outlays averaged 21.3 percent of GNP during the 1975-1979 period and 23.3 percent of GNP during the 1980s. Total federal revenues showed less distinct trends, fluctuating between 17.4 percent and 20.1 percent of GNP over the entire period. In the 20 years from 1962 to 1981, the federal budget deficit averaged 1.7 percent of GNP. Since then, however, the deficit has averaged almost 5 percent of GNP.

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**Figure 1.**  
**Revenues and Outlays as Percents of GNP, 1962-2000**



SOURCE: Congressional Budget Office.

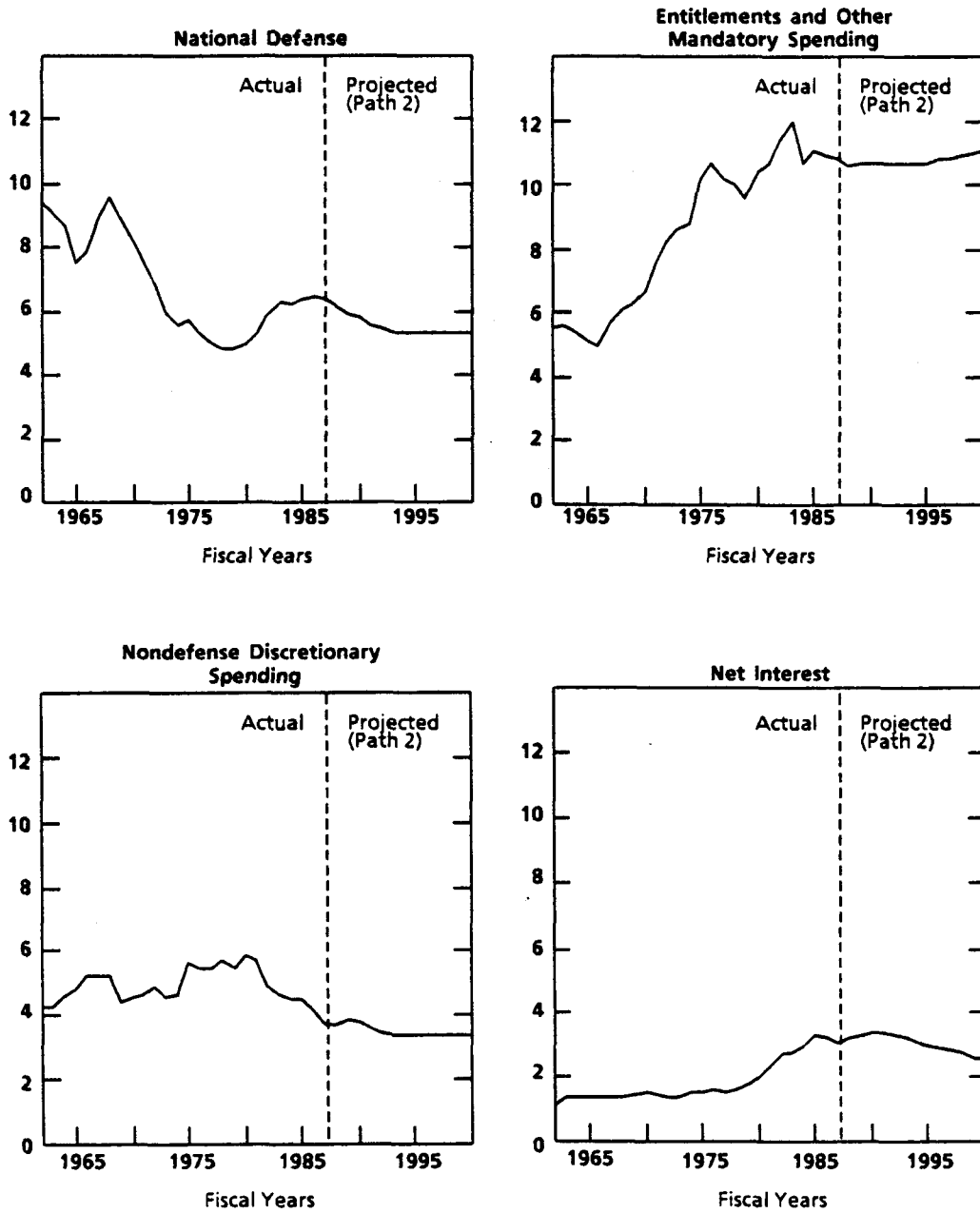
NOTE: The totals include Social Security, which is off-budget. The projected outlays show the second of the three paths described later in the text.

Figure 2 illustrates the substantial shifts that have occurred in the components of federal spending. Spending for discretionary appropriated accounts--defense and nondefense combined--declined by about one-fourth over the 1962-1988 period when measured as a share of GNP. The ratio of defense spending to GNP has been on a downward trend since the early 1950s, interrupted only by the Vietnam War and the defense buildup of the early 1980s. National defense outlays fell to 4.8 percent of GNP in the late 1970s and recently peaked at 6.5 percent of GNP in 1986.

Nondefense discretionary programs have borne the brunt of budgetary restraint in the 1980s, declining from almost 6 percent of GNP at the start of the decade to 3.8 percent at present. This category encompasses a wide variety of federal activities, including international affairs, transportation, health research, subsidized housing, veterans' medical care, and the administrative costs of Social Security and Medicare. Slightly over a fifth of nondefense discretionary outlays provide pay and benefits for employees of the civilian agencies of government, and about a third of them represent grants-in-aid to state and local governments.

Entitlements and other mandatory spending have nearly doubled their share of GNP over the past 25 years. The increase in entitlement spending (which includes Social

**Figure 2.**  
**Outlays by Category as Percents of GNP, 1962-2000**



SOURCE: Congressional Budget Office.

NOTE: The totals include Social Security, which is off-budget. The projected outlays show the second of the three paths described later in the text.

Security and Medicare benefits, federal employee retirement, unemployment compensation, farm price supports, and most means-tested benefits) has more than offset the fall in discretionary programs. In addition, the rapid rise in federal borrowing and relatively high interest rates during the 1980s have caused net interest on the public debt to be the fastest growing spending category in the federal budget.

Table 1 provides further details on federal fiscal activities in recent years. It shows separately the activities of the Old-Age and Survivors and Disability Insurance trust funds, which were removed from the budget totals by the Balanced Budget Act of 1985. Almost 95 percent of federal spending for the aged is accounted for by just a few entitlements--Social Security, Medicare and Medicaid, and programs providing benefits for retired and disabled federal employees, coal miners, railroad workers, and veterans. Between 1965 and 1985, these entitlement programs more than doubled, growing from 3.7 percent to 8.8 percent of GNP. Over this period, the number of Americans age 65 and over grew from 18.5 million to 28.5 million, an increase of a little more than half. But, more important than this demographic shift, decisions were made to pay for an increasing share of the needs of the aged through public programs. Medicare began operation in 1966, and Medicaid was greatly expanded. Social Security replacement ratios were

TABLE 1. FEDERAL OUTLAYS, REVENUES, AND DEFICITS, SELECTED YEARS  
1965-1988 (By fiscal year, as percents of GNP)

Category	1965	1970	1975	1980	1985	1988 <u>a/</u>
<b>On-Budget</b>						
National Defense	7.5	8.2	5.7	5.0	6.4	6.1
Nondefense Discretionary	4.8	4.5	5.5	5.8	4.4	3.7
Entitlements						
Social Security <u>b/</u>	*	*	*	*	0.1	0.1
Medicare and Medicaid	*	1.0	1.4	1.8	2.3	2.5
Other retirement and disability <u>c/</u>	1.1	1.2	1.9	1.8	1.7	1.7
Other	<u>1.4</u>	<u>1.6</u>	<u>2.8</u>	<u>2.4</u>	<u>2.3</u>	<u>1.9</u>
Subtotal	2.6	3.8	6.1	6.1	6.5	6.2
Net Interest	1.4	1.6	1.7	2.1	3.4	3.4
Offsetting Receipts	<u>-1.1</u>	<u>-1.1</u>	<u>-1.2</u>	<u>-1.1</u>	<u>-1.2</u>	<u>-1.1</u>
Outlays	15.1	17.0	17.9	17.8	19.5	18.3
Revenues	14.9	16.1	14.2	15.1	13.9	14.0
Deficit	-0.2	-0.9	-3.6	-2.7	-5.6	-4.3
<b>Off-Budget (OASI and DI Trust Funds)</b>						
Nondefense Discretionary	0.1	0.1	0.1	0.1	0.1	*
Entitlements	2.5	2.9	4.1	4.4	4.6	4.5
Net Interest	-0.1	-0.2	-0.2	-0.1	-0.1	-0.2
Offsetting Receipts	<u>*</u>	<u>-0.1</u>	<u>-0.1</u>	<u>*</u>	<u>-0.1</u>	<u>-0.1</u>
Outlays	2.5	2.8	4.0	4.3	4.5	4.3
Revenues	2.5	3.4	4.1	4.2	4.7	5.1
Surplus	*	0.6	0.1	*	0.2	0.8
<b>Total</b>						
Outlays	17.6	19.8	21.8	22.1	24.0	22.6
Revenues	17.4	19.5	18.3	19.4	18.6	19.2
Deficit	-0.2	-0.3	-3.5	-2.8	-5.4	-3.5

SOURCE: Congressional Budget Office.

\* Less than 0.05 percent.

a. Estimate.

b. Includes general fund payments to Social Security for military service wage credits, special age-72 benefits, self-employment tax credits, and income taxes on benefits.

c. Includes federal civilian and military retirement and disability, Black Lung benefits, Railroad Retirement, Supplemental Security Income, and veterans' compensation and pensions.

increased substantially during the early 1970s. In more recent years, however, modest steps have been taken to stem the growth of both Social Security and Medicare.

#### PROJECTIONS THROUGH THE YEAR 2000

Projections inevitably lack the richness of history. Federal spending and revenues during the past 25 years have been pushed up or down by events such as the Great Society, the Vietnam War, OPEC oil shocks, periodic recessions, and biennial revisions of the tax law. But it is hard to look ahead and see other than smooth trends, even though we can be quite sure that the future will be as variable as the past.

#### Baseline Budget Projections, 1988-1993

Budget projections depend both on the assumed tax and spending policies and on assumptions about economic performance. CBO's five-year baseline budget projections assume that revenues, offsetting receipts, and entitlement spending are projected according to the laws now on the statute books. Defense and nondefense discretionary appropriations are assumed to be held constant in real terms. The baseline projections are not forecasts of future budgets, which will doubtless include numerous policy changes, but are a benchmark against which to judge the budgetary consequences



of proposed legislation. The baseline projections discussed here are based on a CBO economic forecast in which real growth averages 2.2 percent per year in 1988 and 1989. Interest rates are expected to rise later this year. Beyond 1989, CBO's economic assumptions are not a forecast of future conditions but are projections based on historical trends. These longer-term economic assumptions are characterized by annual real growth of about 2.7 percent, inflation stabilizing in the 4 percent to 5 percent range, and slowly declining unemployment and interest rates.

The baseline projection shows federal spending rising at a rate somewhat slower than nominal GNP over the next five years, resulting in federal outlays shrinking gradually as a share of GNP. This occurs principally because spending in defense and nondefense discretionary programs slows--a reflection of the assumption that appropriations grow only at the rate of inflation. While there are small fluctuations in the other spending categories, the 1988 and 1993 spending estimates for those categories as a percentage of GNP are virtually unchanged. On the other hand, revenues under current law are anticipated to increase modestly as a share of GNP and stabilize around 19.4 percent by 1993. As a result of the spending and tax assumptions, the baseline deficit rises slightly from 1987 to 1989, and declines slowly thereafter, reaching 2.1 percent of GNP by 1993.

Looking separately at the on-budget and off-budget components of federal fiscal activities, two clear patterns emerge. First, Social Security is projected to have large surpluses. In the CBO baseline, this surplus grows from \$46 billion (0.9 percent of GNP) in 1989 to \$97 billion (1.5 percent of GNP) in 1993. Second, during the same period the non-Social Security portion of the budget shows deficits of about \$230 billion per year, or roughly 4 percent of GNP.

#### Extensions of the CBO Projections, 1994-2000

By the mid-1990s, the elderly population will grow less rapidly, and its share of the total population will stabilize at 13 percent. Concurrently, the working-age population will become a larger portion of the total. Under these relatively favorable demographic conditions, a straightforward extension of the five-year projections might suggest a lessening of the fiscal pressures on the federal government. In fact, some analysts have argued that the deficit will disappear by the turn of the century as a result of the Social Security financing structure now in place. In this section, we discuss three illustrative budgetary paths for the 1990s and their implications for the federal deficit. Under only one of these paths, as shown in Table 2, does the deficit disappear.

TABLE 2. ALTERNATIVE BUDGET PROJECTIONS TO THE YEAR 2000 (By fiscal year, as percents of GNP)

Category	Path 1			Path 2			Path 3		
	1989	1993	2000	1989	1993	2000	1989	1993	2000
<b>On-Budget</b>									
National Defense	5.9	5.3	4.4	5.9	5.3	5.3	5.9	5.5	5.5
Nondefense Discretionary	3.8	3.4	2.7	3.8	3.4	3.4	3.8	3.9	3.9
Entitlements									
Social Security a/ Medicare and Medicaid	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other retirement and disability b/	1.7	1.6	1.5	1.7	1.6	1.5	1.7	1.6	1.5
Other	1.8	1.3	1.0	1.8	1.3	1.0	1.8	1.3	1.0
Subtotal	6.2	6.1	6.7	6.2	6.1	6.7	6.2	6.1	6.7
Net Interest	3.5	3.7	3.2	3.5	3.7	3.6	3.5	3.8	4.0
Offsetting Receipts	-1.1	-1.0	-1.0	-1.1	-1.0	-1.0	-1.1	-1.0	-1.0
Outlays	18.4	17.6	16.0	18.4	17.6	18.1	18.4	18.3	19.1
Revenues	13.9	14.0	14.0	13.9	14.0	14.0	13.9	14.0	14.0
Deficit	-4.5	-3.6	-2.1	-4.5	-3.6	-4.1	-4.5	-4.3	-5.1
<b>Off-Budget (OASI and DI Trust Funds)</b>									
Nondefense Discretionary	*	*	*	*	*	*	*	*	*
Entitlements	4.5	4.5	4.3	4.5	4.5	4.3	4.5	4.5	4.3
Net Interest	-0.2	-0.5	-1.0	-0.2	-0.5	-1.0	-0.2	-0.5	-1.0
Offsetting Receipts	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Outlays	4.3	3.9	3.2	4.3	3.9	3.2	4.3	3.9	3.2
Revenues	5.2	5.4	5.4	5.2	5.4	5.4	5.2	5.4	5.4
Surplus	0.9	1.5	2.3	0.9	1.5	2.2	0.9	1.5	2.2
<b>Total</b>									
Outlays	22.7	21.5	19.2	22.7	21.5	21.3	22.7	22.3	22.3
Revenues	19.1	19.4	19.4	19.1	19.4	19.4	19.1	19.4	19.4
Deficit	-3.6	-2.1	0.2	-3.6	-2.1	-1.9	-3.5	-2.8	-2.9

SOURCE: Congressional Budget Office. See text for details.

\* Less than 0.05 percent.

- a. Includes general fund payments to Social Security for military service wage credits, special age-72 benefits, self-employment tax credits, and income taxes on benefits.
- b. Includes federal civilian and military retirement and disability, Black Lung benefits, Railroad Retirement, Supplemental Security Income, and veterans' compensation and pensions.

As in the baseline projections through 1993, entitlement outlays and tax revenues in 1994 through 2000 are assumed to follow current law. While we have prepared the extrapolations beyond 1993 in much less detail than the projections for earlier years, we believe that they are quite reasonable. The projections for Social Security and Hospital Insurance correspond closely to those in the recently released trustees' reports.

The extrapolations assume that federal revenues in 1994 through 2000 maintain the same share of GNP as in 1993. Personal income tax receipts tend to rise faster than GNP as increases in real income move taxpayers into higher tax brackets, but many excise taxes and fees are specified in nominal dollars and shrink relative to GNP over time. With no increases in total Social Security tax rates scheduled after 1990, social insurance contributions should grow at roughly the same rate as GNP. While these changes will not be perfectly offsetting, the ratio of total tax revenues to GNP should remain relatively constant.

The three budget paths differ only with respect to the assumptions about defense and nondefense discretionary appropriations. As a result, debt service costs are also different. For Path 1, funding for discretionary programs reflects adjustments for inflation but provides for no real

growth; that is, it continues CBO's baseline projections methodology. Discretionary spending in Path 2 is increased so as to maintain defense and nondefense programs at their 1993 shares of GNP over the 1994-2000 period. Finally, Path 3 holds discretionary programs, not at their 1993 shares of GNP, but rather at their higher 1989 shares, using the budget authority figures specified in last year's budget summit agreement. After 1989, budget authority for both defense and nondefense discretionary programs is assumed to grow by about 2-1/2 percent per year in real terms. Defense outlays continue to decline as a share of GNP for several years, however, because appropriations for fiscal years 1986 through 1988 (and, by assumption, 1989) grew less than inflation.

Deficits under the three scenarios for the year 2000 range from a small surplus under Path 1 to 2.9 percent of GNP under Path 3. Path 2--extending the CBO baseline using the 1993 shares of GNP for discretionary programs--falls near the middle of the range at 1.9 percent of GNP. With discretionary spending held constant in relation to GNP after 1993, entitlement growth is more than offset by the declining share of GNP devoted to debt service. The Path 2 scenario shows that, even with rather stringent budget policy with regard to discretionary programs, federal deficits would remain at relatively high levels through the 1990s, absent legislated tax increases or further spending cuts.

## STATE AND LOCAL GOVERNMENT BUDGETS

The fiscal burdens of the aging population also affect state and local governments. Not only must they pay a share of the Medicaid costs of the elderly, but their work force is also maturing. For those state and local pension funds that are not well funded, past funding shortfalls will impose additional burdens on taxpayers in the future.

Moreover, children constitute the largest dependent group, and their costs are borne primarily by families and local governments. For example, education spending in 1985 totaled \$247 billion, with state and local governments bearing almost two-thirds of these costs, and private spending accounting for another one-quarter. With the new education reform movement and associated increases in teachers' salaries, many localities are facing demands for more spending. The distribution of these costs varies considerably, however; certain jurisdictions face substantial increases in the student population, while others will experience little or no growth, or even declines.

The activities of the federal government also cause reverberations in the budgets of states and localities. For example, the creation of the Supplemental Security Income program, while relieving states of some income maintenance

costs, increased the number of people eligible for Medicaid. Similarly, cutbacks in federal discretionary spending during the 1980s have fallen heavily on grant-in-aid programs, such as urban mass transit, employment and training, subsidized housing, and general revenue sharing. The federal government can also impose additional costs on state and local governments--for example, to meet water quality standards--without providing commensurate financial resources. For all these reasons, it is important to look at total government fiscal activities, not just those of the federal government.

Table 3 displays the trends in governmental finance since 1950 for all levels of government. In order to make the federal and the state and local data comparable, the figures are shown on a National Income and Product Accounts (NIPA) basis by calendar year. As a result, the federal budget figures differ somewhat from those shown earlier in Tables 1 and 2. Because federal grants-in-aid to state and local governments are reflected in federal expenditures and state and local receipts, total government receipts and expenditures have been adjusted to eliminate this duplication.

Spending by state and local governments grew rapidly as a share of GNP during the 1950s, 1960s, and early 1970s. But in the late 1970s and early 1980s, declining school-age

TABLE 3. GOVERNMENT SPENDING, REVENUES, AND DEFICITS IN THE NATIONAL INCOME AND PRODUCT ACCOUNTS, SELECTED YEARS 1950-2000 (By calendar year, as percents of GNP)

	Actual								Projected (Path 2)	
	1950	1955	1960	1965	1970	1975	1980	1985	1990	2000
<b>Federal</b>										
Outlays	14.3	16.9	18.2	17.8	20.5	22.8	22.5	24.6	23.5	22.1
Revenues	17.5	18.0	18.8	17.8	19.2	18.4	20.3	19.7	20.7	20.5
Surplus or Deficit (-)	3.2	1.1	0.6	0.1	-1.2	-4.3	-2.2	-4.9	-2.8	-1.6
<b>State and Local</b>										
Outlays	7.8	8.1	9.7	10.7	13.2	14.7	13.3	12.9	13.7	14.2
Revenues	7.4	7.8	9.7	10.7	13.4	15.0	14.3	14.5	14.9	15.5
Surplus or Deficit (-)	-0.4	-0.3	*	*	0.2	0.3	1.0	1.6	1.2	1.3
<b>Total</b>										
Outlays	21.3	24.3	26.6	26.9	31.3	34.1	32.6	34.9	34.9	34.1
Revenues	24.1	25.0	27.2	27.0	30.2	30.0	31.3	31.6	33.3	33.8
Surplus or Deficit (-)	2.8	0.8	0.6	0.1	-1.0	-4.1	-1.3	-3.3	-1.6	-0.3

SOURCE: Calculations for historical years are based on Tables B-1 and B-79 in The Economic Report of the President (February 1988). Projections of federal spending, revenues, and deficits are based on CBO's baseline economic and budget projections for 1990 and on Path 2 for 2000. (See Congressional Budget Office, The Economic and Budget Outlook: Fiscal Years 1989-1993, February 1988). State and local government finances are derived from Data Resources, Inc., U.S. Long-Term Review (Winter 1987-1988).

NOTE: Federal grants-in-aid to state and local governments are reflected in federal expenditures and in state and local revenues. Total government revenues and expenditures have been adjusted to eliminate this duplication.

\* Less than 0.05 percent.



populations and taxpayer revolts caused state and local spending to grow less rapidly than GNP. Revenue growth also fell off, but not by as much, so that the state and local sector has shown substantial surpluses during the 1980s. Most of these surpluses, however, are associated with public employee pension funds. State and local operating budgets--that is, excluding social insurance programs--have been in approximate balance for the last several years.

Government activities as a share of GNP increased by almost two-thirds over the 1950-1985 period. Before 1975 spending grew at all levels of government. In recent years, however, federal spending has grown somewhat as a share of GNP, while state and local spending has diminished. Federal government revenues have risen less rapidly than federal spending, while the opposite is true for state and local governments.

The projections of federal government spending for 1990 and 2000 shown in Table 3 are consistent with Path 2, described earlier. The state and local government projections derive from the January 1988 long-term trend projection prepared by Data Resources, Inc. (DRI), which is representative of other private forecasts. In the DRI projections, state and local expenditures and revenues both rise slightly in relation to GNP, and the state and local

surplus remains a bit over 1 percent of GNP. By the year 2000, in these projections, the federal deficit declines to the point where it is only slightly greater than the state and local surplus, so that the total government sector is roughly in balance. Excluding state and local pension funds, however, the deficit of the government sector as a whole would roughly equal that of the federal government.

Whether state and local governments will expand their social programs or institute new ones cannot be foreseen, and action is likely to differ substantially among the states. For example, Massachusetts has recently enacted a universal health insurance program for state residents. But this move is not necessarily a precursor of similar initiatives in other states. Although Hawaii has had an extensive health insurance program since 1974, it has taken 14 years for the second state to enter the arena. Moreover, state finances vary considerably. New England is currently experiencing an economic boom, while the oil-producing states of the South and Southwest face significant fiscal stress.

#### IMPLICATIONS FOR FEDERAL FISCAL POLICY

Projecting the course of the federal budget beyond the year 2000 is mostly a matter of speculation. Demographics play a major role, of course. The Social Security actuaries project

that, with the retirement of the baby boom, expenditures for cash benefit programs will rise from 4.4 percent of GNP in the year 2000 to 5.0 percent of GNP in 2015 and 6.5 percent in 2030. Including Hospital Insurance, costs would rise from 6.0 percent to 9.2 percent of GNP over the 30 years. As we have seen, however, an increase of two or three percentage points in government spending is neither unprecedented nor unmanageable. When the baby boom started attending school, for example, state and local government expenditures for education rose from 2.5 percent of GNP in 1950 to 5.6 percent of GNP in 1970.

But government budgets depend on far more than demography. They also reflect political judgments about the shape of the American economy, economic and military developments abroad, and domestic social needs. These other factors have had a much greater effect on budget developments over the past 25 years than have changes in the age structure of the population, and it is likely that they will continue to dominate the course of the budget into the next century.

#### Uncertainties in the Projections

As indicated earlier, these budget projections are deceptively smooth on account of the inability to foresee the myriad of special factors--for example, natural and man-made

disasters--that will impinge upon the budget. But these are not the only uncertainties in the projections.

First, the budget projections depend critically upon the underlying economic assumptions. In our February 1988 annual report, CBO attempted to quantify the economic uncertainty. We find that there are about two chances in three that the level of real GNP in 1993 will turn out to be within 7 percent of its projected value, or that the average real growth rate will be between 1.6 percent and 3.6 percent. As a result, there is a two-in-three chance that the baseline deficit in 1993 will fall between 4.4 percent of GNP and zero. While this is already a substantial range, the economic uncertainty grows even larger as we look beyond 1993 into the twenty-first century.

Second, as the presence of three alternatives shows, the assumptions made about discretionary appropriations are crucial to any budget projections. While Path 2 is marked by higher discretionary spending than Path 1, it still represents a rather stringent policy. As Figure 2 shows, defense spending is assumed to stabilize at 5.3 percent of GNP--a level that was widely considered to be inadequate in the late 1970s and early 1980s. As mentioned earlier, nondefense discretionary spending as a share of GNP has fallen sharply during the 1980s. With numerous pent-up

spending demands, for example, in education and basic research, it may be difficult to hold this category to 3.4 percent of GNP, as Path 2 assumes.

While demographic changes affect the level of spending for discretionary programs, the connection is indirect and not automatic. For example, increases in the number of single-parent families and in the population 65 and over have put competing demands on funds available for social services, such as Head Start and meals for the elderly. Similarly, because of the growing labor force participation of women, the Congress is now debating a major new federal commitment to providing childcare services.

Third, the extent of budgetary easing that might result from the relatively favorable demographic trends of the 1990s depends on the growth in the costs and use of medical care services. In CBO's five-year baseline projections, increases in Medicare and Medicaid spending per enrollee more than offset the slowing of the growth in the elderly population. Medicare and Medicaid benefits are projected to rise from 2.5 percent of GNP in 1988 to 3.1 percent of GNP in 1993. In our extrapolations, these health programs account for nearly 18 percent of the budget and about 4.1 percent of GNP by the year 2000.

In addition to the overall aging of the population, the very old--those age 85 and older--are becoming more numerous. Over the 1985-2000 period, the very old population is projected to grow by more than two-thirds, while the elderly population as a whole will rise by less than a quarter. Under these projections, the 85-and-over group would grow from 9 percent of all persons age 65 and over to about 12 percent by the turn of the century. The very old are 80 percent more likely to use Medicare-covered hospital services than are their younger counterparts, and they are 18 times as likely to reside in a nursing or personal care home. Currently, the federal government pays for long-term care on a means-tested basis through the Medicaid program. Whether the federal role in long-term care should be expanded will be a major issue for the 1990s.

#### Long-Term Targets for the Deficit

Because they are an extrapolation of recent tendencies and not a forecast of budget outcomes, the budget projections we have presented do not assume any overall budgetary targets. In particular, they do not incorporate the deficit targets contained in the Balanced Budget Reaffirmation Act of 1987 (Public Law 100-119), which requires that the total federal budget, including both on- and off-budget items, be balanced by fiscal year 1993. In the short run, fiscal policy will

continue to be dominated by questions of economic stabilization. Thus, the Balanced Budget Act targets would have to be modified again, as they were in 1987, if economic developments put them out of reach.

In the longer run, the choice of a fiscal target turns on questions of national saving and investment, both domestic and foreign. Among possible targets are the following:

- o A continuation of the budget policies of the post-World War II period, with federal deficits of about 1-1/2 percent of GNP. This is roughly the outcome of the Path 2 projections presented above.
- o A balanced total budget, as incorporated in the current Balanced Budget Act targets. This implies that the non-Social Security portion of the budget could remain in deficit, but just enough to offset the Social Security surpluses.
- o A balance in the part of the federal budget that does not include Social Security. The implication of this target--the most stringent of the three--is that the federal government would save an amount equal to the Social Security surpluses.

The committee will be exploring the issues in choosing a long-term deficit target at next week's hearing.