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FIRST

CONCURRENT RESOLUTION ON THE BUDGET

FY 1985

REPORT

OF THE

COMMITTEE ON THE BUDGET
UNITED STATES SENATE

TO ACCOMPANY

S. Con. Res. 106

SETTING FORTH THE CONGRESSIONAL BUDGET FOR THE UNITED STATES GOVERNMENT FOR THE FISCAL YEARS 1985, 1986, AND 1987, AND REVISING THE CONGRESSIONAL BUDGET FOR THE UNITED STATES GOVERNMENT FOR THE FISCAL YEAR 1984

TOGETHER WITH

ADDITIONAL AND MINORITY VIEWS

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98TH CONGRESS
2D SESSION

S. CON. RES. 106

CONCURRENT RESOLUTION

Setting forth the congressional budget for the United States Government for the fiscal years 1985, 1986, and 1987 and revising the congressional budget for the United States Government for the fiscal year 1984.

Resolved by the Senate (the House of Representatives concurring), That the Congress hereby determines and declares that the concurrent resolution on the budget for fiscal year 1984 is revised, the first concurrent resolution on the budget for fiscal year 1985 is established, and the appropriate budgetary levels for fiscal years 1986 and 1987 are set forth.

(a) The following budgetary levels are appropriate for the fiscal years beginning on October 1, 1983, October 1, 1984, October 1, 1985, and October 1, 1986:

(1) The recommended levels of Federal revenues are as follows:

Fiscal year 1984: $665,400,000,000.

Fiscal year 1985: $743,700,000,000.

Fiscal year 1986: $811,000,000,000.

Fiscal year 1987: $882,600,000,000.

and the amounts by which the aggregate levels of Federal revenues should be increased are as follows:

Fiscal year 1984: $2,400,000,000.

Fiscal year 1985: $10,700,000,000.

Fiscal year 1986: $16,100,000,000.

Fiscal year 1987: $19,100,000,000.

and the amounts for Federal Insurance Contributions Act revenues for hospital insurance within the recommended levels of Federal revenues are as follows:

Fiscal year 1984: $39,900,000,000.

Fiscal year 1985: $45,600,000,000.

Fiscal year 1986: $52,600,000,000.

Fiscal year 1987: $57,900,000,000.

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and the amounts for Federal Insurance Contributions Act revenues for old-age, survivors, and disability insurance within the recommended levels of Federal revenues are as follows:

Fiscal year 1984: $166,800,000,000.

Fiscal year 1985: $189,500,000,000.

Fiscal year 1986: $206,900,000,000.

Fiscal year 1987: $223,700,000,000.

(2) The appropriate levels of total new budget authority are as follows:

Fiscal year 1984: $914,100,000,000.

Fiscal year 1985: $1,010,600,000,000.

Fiscal year 1986: $1,106,400,000,000.

Fiscal year 1987: $1,209,700,000,000.

(3) The appropriate levels of total budget outlays are as follows:

Fiscal year 1984: $855,300,000,000.

Fiscal year 1985: $924,400,000,000.

Fiscal year 1986: $996,600,000,000.

Fiscal year 1987: $1,086,100,000,000.

(4) The amounts of the deficits in the budget which are appropriate in the light of economic conditions and all other relevant factors are as follows:

Fiscal year 1984: $189,900,000,000.

Fiscal year 1985: $180,700,000,000.

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Fiscal year 1986: $185,600,000,000.

Fiscal year 1987: $203,500,000,000.

(5) The appropriate levels of the public debt are as follows:

Fiscal year 1984: $1,596,200,000,000.

Fiscal year 1985: $1,843,300,000,000.

Fiscal year 1986: $2,105,300,000,000.

Fiscal year 1987: $2,394,900,000,000.

and the amounts by which the statutory limits on such debt should be accordingly increased are as follows:

Fiscal year 1984: $106,200,000,000.

Fiscal year 1985: $247,100,000,000.

Fiscal year 1986: $262,000,000,000.

Fiscal year 1987: $289,600,000,000.

(6) The appropriate levels of total Federal credit activity for the fiscal years beginning on October 1, 1983, October 1, 1984, October 1, 1985, and October 1, 1986, are as follows:

Fiscal year 1984:

(A) New direct loan obligations, $37,600,000,000.

(B) New primary loan guarantee commitments, $105,200,000,000.

(C) New secondary loan guarantee commitments, $68,300,000,000.

Fiscal year 1985:

(A) New direct loan obligations, $36,700,000,000.

(B) New primary loan guarantee commitments, $110,800,000,000.

(C) New secondary loan guarantee commitments, $68,300,000,000.

Fiscal year 1986:

(A) New direct loan obligations, $40,800,000,000.

(B) New primary loan guarantee commitments, $116,700,000,000.

(C) New secondary loan guarantee commitments, $71,600,000,000.

Fiscal year 1987:

(A) New direct loan obligations, $41,800,000,000.

(B) New primary loan guarantee commitments, $123,300,000,000.

(C) New secondary loan guarantee commitments, $75,100,000,000.

(b) The Congress hereby determines and declares the appropriate levels of budget authority and budget outlays, and the appropriate levels of new direct loan obligations, new primary loan guarantee commitments, and new secondary loan guarantee commitments for fiscal years 1984 through 1987 for each major functional category are:

(1) National Defense (050):

Fiscal year 1984:

(A) New budget authority, $265,300,000,000.

(B) Outlays, $237,500,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1985:

(A) New budget authority, $299,000,000,000.

(B) Outlays, $266,000,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1986:

(A) New budget authority, $333,700,000,000.

(B) Outlays, $294,600,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1987:

(A) New budget authority, $372,000,000,000.

(B) Outlays, $330,400,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

(2) International Affairs (150):

Fiscal year 1984:

(A) New budget authority, $21,000,000,000.

(B) Outlays, $12,000,000,000.

(C) New direct loan obligations, $9,100,000,000.

(D) New primary loan guarantee commitments, $8,700,000,000.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1985:

(A) New budget authority, $15,200,000,000.

(B) Outlays, $13,000,000,000.

(C) New direct loan obligations, $10,300,000,000.

(D) New primary loan guarantee commitments, $9,300,000,000.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1986:

(A) New budget authority, $16,300,000,000.

(B) Outlays, $12,200,000,000.

(C) New direct loan obligations, $12,000,000,000.

(D) New primary loan guarantee commitments, $9,700,000,000.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1987:

(A) New budget authority, $17,100,000,000.

(B) Outlays, $12,500,000,000.

(C) New direct loan obligations, $12,700,000,000.

(D) New primary loan guarantee commitments, $10,200,000,000.

(E) New secondary loan guarantee commitments, $0.

(3) General Science, Space, and Technology (250):

Fiscal year 1984:

(A) New budget authority, $8,500,000,000.

(B) Outlays, $8,300,000,000.

(C) New direct loan obligations, $100,000,000.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1985:

(A) New budget authority, $8,500,000,000.

(B) Outlays, $8,400,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1986:

(A) New budget authority, $8,600,000,000.

(B) Outlays, $8,500,000,000.

(C) New direct loan obligations, $0.

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(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1987:

(A) New budget authority, $8,900,000,000.

(B) Outlays, $8,700,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

(4) Energy (270):

Fiscal year 1984:

(A) New budget authority, $3,000,000,000.

(B) Outlays, $3,000,000,000.

(C) New direct loan obligations, $4,700,000,000.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1985:

(A) New budget authority, $4,100,000,000.

(B) Outlays, $3,800,000,000.

(C) New direct loan obligations, $4,700,000,000.

(D) New primary loan guarantee commitments, $100,000,000.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1986:

(A) New budget authority, $4,000,000,000.

(B) Outlays, $3,900,000,000.

(C) New direct loan obligations, $4,800,000,000.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1987:

(A) New budget authority, $4,000,000,000.

(B) Outlays, $3,800,000,000.

(C) New direct loan obligations, $5,000,000,000.

(D) New primary loan guarantee commitments, $100,000,000.

(E) New secondary loan guarantee commitments, $0.

(5) Natural Resources and Environment (300):

Fiscal year 1984:

(A) New budget authority, $11,600,000,000.

(B) Outlays, $12,300,000,000.

(C) New direct loan obligations, $100,000,000.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1985:

(A) New budget authority, $11,600,000,000.

(B) Outlays, $11,700,000,000.

(C) New direct loan obligations, $100,000,000.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1986:

(A) New budget authority, $12,000,000,000.

(B) Outlays, $11,800,000,000.

(C) New direct loan obligations, $100,000,000.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1987:

(A) New budget authority, $12,300,000,000.

(B) Outlays, $11,800,000,000.

(C) New direct loan obligations, $100,000,000.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

(6) Agriculture (350):

Fiscal year 1984:

(A) New budget authority, $4,500,000,000.

(B) Outlays, $10,400,000,000.

(C) New direct loan obligations, $11,200,000,000.

(D) New primary loan guarantee commitments, $4,700,000,000.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1985:

(A) New budget authority, $15,600,000,000.

(B) Outlays, $15,800,000,000.

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(C) New direct loan obligations, $11,400,000,000.

(D) New primary loan guarantee commitments, $3,200,000,000.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1986:

(A) New budget authority, $14,500,000,000.

(B) Outlays, $14,400,000,000.

(C) New direct loan obligations, $13,700,000,000.

(D) New primary loan guarantee commitments, $3,200,000,000.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1987:

(A) New budget authority, $13,400,000,000.

(B) Outlays, $13,200,000,000.

(C) New direct loan obligations, $13,500,000,000.

(D) New primary loan guarantee commitments, $3,200,000,000.

(E) New secondary loan guarantee commitments, $0.

(7) Commerce and Housing Credit (370):

Fiscal year 1984:

(A) New budget authority, $5,600,000,000.

(B) Outlays, $4,000,000,000.

(C) New direct loan obligations, $6,200,000,000.

(D) New primary loan guarantee commitments, $50,000,000,000.

(E) New secondary loan guarantee commitments, $68,300,000,000.

Fiscal year 1985:

(A) New budget authority, $6,400,000,000.

(B) Outlays, $1,600,000,000.

(C) New direct loan obligations, $6,200,000,000.

(D) New primary loan guarantee commitments, $52,000,000,000.

(E) New secondary loan guarantee commitments, $68,300,000,000.

Fiscal year 1986:

(A) New budget authority, $6,300,000,000.

(B) Outlays, $2,200,000,000.

(C) New direct loan obligations, $6,400,000,000.

(D) New primary loan guarantee commitments, $54,600,000,000.

(E) New secondary loan guarantee commitments, $71,600,000,000.

Fiscal year 1987:

(A) New budget authority, $7,700,000,000.

(B) Outlays, $3,400,000,000.

(C) New direct loan obligations, $6,500,000,000.

(D) New primary loan guarantee commitments, $57,200,000,000.

(E) New secondary loan guarantee commitments, $75,100,000,000.

(8) Transportation (400):

Fiscal year 1984:

(A) New budget authority, $29,300,000,000.

(B) Outlays, $25,700,000,000.

(C) New direct loan obligations, $1,100,000,000.

(D) New primary loan guarantee commitments, $500,000,000.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1985:

(A) New budget authority, $28,800,000,000.

(B) Outlays, $26,900,000,000.

(C) New direct loan obligations, $100,000,000.

(D) New primary loan guarantee commitments, $500,000,000.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1986:

(A) New budget authority, $30,000,000,000.

(B) Outlays, $28,400,000,000.

(C) New direct loan obligations, $100,000,000.

(D) New primary loan guarantee commitments, $500,000,000.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1987:

(A) New budget authority, $31,100,000,000.

(B) Outlays, $29,500,000,000.

(C) New direct loan obligations, $100,000,000.

(D) New primary loan guarantee commitments, $500,000,000.

(E) New secondary loan guarantee commitments, $0.

(9) Community and Regional Development (450):

Fiscal year 1984:

(A) New budget authority, $7,200,000,000.

(B) Outlays, $7,700,000,000.

(C) New direct loan obligations, $1,600,000,000.

(D) New primary loan guarantee commitments, $300,000,000.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1985:

(A) New budget authority, $6,900,000,000.

(B) Outlays, $8,200,000,000.

(C) New direct loan obligations, $1,700,000,000.

(D) New primary loan guarantee commitments, $300,000,000.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1986:

(A) New budget authority, $7,500,000,000.

(B) Outlays, $8,000,000,000.

(C) New direct loan obligations, $1,700,000,000.

(D) New primary loan guarantee commitments, $400,000,000.

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(E) New secondary loan guarantee commitments, $0.

Fiscal year 1987:

(A) New budget authority, $7,800,000,000.

(B) Outlays, $8,100,000,000.

(C) New direct loan obligations, $1,700,000,000.

(D) New primary loan guarantee commitments, $400,000,000.

(E) New secondary loan guarantee commitments, $0.

(10) Education, Training, Employment, and Social Services (500):

Fiscal year 1984:

(A) New budget authority, $31,300,000,000.

(B) Outlays, $28,100,000,000.

(C) New direct loan obligations, $800,000,000.

(D) New primary loan guarantee commitments, $7,400,000,000.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1985:

(A) New budget authority, $28,900,000,000.

(B) Outlays, $29,000,000,000.

(C) New direct loan obligations, $800,000,000.

(D) New primary loan guarantee commitments, $7,800,000,000.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1986:

(A) New budget authority, $30,200,000,000.

(B) Outlays, $29,300,000,000.

(C) New direct loan obligations, $900,000,000.

(D) New primary loan guarantee commitments, $8,000,000,000.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1987:

(A) New budget authority, $31,500,000,000.

(B) Outlays, $30,400,000,000.

(C) New direct loan obligations, $900,000,000.

(D) New primary loan guarantee commitments, $8,200,000,000.

(E) New secondary loan guarantee commitments, $0.

(11) Health (550):

Fiscal year 1984:

(A) New budget authority, $31,700,000,000.

(B) Outlays, $30,800,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $200,000,000.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1985:

(A) New budget authority, $32,400,000,000.

(B) Outlays, $33,500,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $200,000,000.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1986:

(A) New budget authority, $36,200,000,000.

(B) Outlays, $35,800,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $200,000,000.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1987:

(A) New budget authority, $39,000,000,000.

(B) Outlays, $38,500,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $200,000,000.

(E) New secondary loan guarantee commitments, $0.

(12) Medical Insurance (570):

Fiscal year 1984:

(A) New budget authority, $62,500,000,000.

(B) Outlays, $59,900,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1985:

(A) New budget authority, $71,500,000,000.

(B) Outlays, $67,100,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1986:

(A) New budget authority, $84,200,000,000.

(B) Outlays, $74,100,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1987:

(A) New budget authority, $99,900,000,000.

(B) Outlays, $83,100,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

(13) Income Security (600):

Fiscal year 1984:

(A) New budget authority, $118,400,000,000.

(B) Outlays, $97,100,000,000.

(C) New direct loan obligations, $1,000,000,000.

(D) New primary loan guarantee commitments, $14,700,000,000.

(E) New secondary loan guarantee commitments, $0

Fiscal year 1985:

(A) New budget authority, $145,100,000,000.

(B) Outlays, $113,200,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $14,700,000,000.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1986:

(A) New budget authority, $154,900,000,000.

(B) Outlays, $119,000,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $14,700,000,000.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1987:

(A) New budget authority, $164,400,000,000.

(B) Outlays, $124,300,000,000.

(C) New direct loan obligations, $0.

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(D) New primary loan guarantee commitments, $14,700,000,000.

(E) New secondary loan guarantee commitments, $0.

(14) Social Security (650):

Fiscal year 1984:

(A) New budget authority, $175,000,000,000.

(B) Outlays, $179,400,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1985:

(A) New budget authority, $199,800,000,000.

(B) Outlays, $190,300,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1986:

(A) New budget authority, $215,900,000,000.

(B) Outlays, $202,700,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1987:

(A) New budget authority, $229,100,000,000.

(B) Outlays, $217,100,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

(15) Veterans Benefits and Services (700):

Fiscal year 1984:

(A) New budget authority, $26,100,000,000.

(B) Outlays, $25,800,000,000.

(C) New direct loan obligations, $1,300,000,000.

(D) New primary loan guarantee commitments, $18,700,000,000.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1985:

(A) New budget authority, $26,800,000,000.

(B) Outlays, $26,200,000,000.

(C) New direct loan obligations, $1,200,000,000.

(D) New primary loan guarantee commitments, $22,900,000,000.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1986:

(A) New budget authority, $27,000,000,000.

(B) Outlays, $26,700,000,000.

(C) New direct loan obligations, $1,000,000,000.

(D) New primary loan guarantee commitments, $25,500,000,000.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1987:

(A) New budget authority, $27,600,000,000.

(B) Outlays, $27,300,000,000.

(C) New direct loan obligations, $900,000,000.

(D) New primary loan guarantee commitments, $28,800,000,000.

(E) New secondary loan guarantee commitments, $0.

(16) Administration of Justice (750):

Fiscal year 1984:

(A) New budget authority, $5,900,000,000.

(B) Outlays, $5,900,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1985:

(A) New budget authority, $6,100,000,000.

(B) Outlays, $6,000,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1986:

(A) New budget authority, $6,200,000,000.

(B) Outlays, $6,200,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1987:

(A) New budget authority, $6,300,000,000.

(B) Outlays, $6,300,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

(17) General Government (800):

Fiscal year 1984:

(A) New budget authority, $5,300,000,000.

(B) Outlays, $5,500.000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1985:

(A) New budget authority, $5,600,000,000.

(B) Outlays, $5,400,000,000.

(C) New direct loan obligations, $0.

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(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1986:

(A) New budget authority, $5,800,000,000.

(B) Outlays, $5,600,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1987:

(A) New budget authority, $5,900,000,000.

(B) Outlays, $5,800,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

(18) General Purpose Fiscal Assistance (850):

Fiscal year 1984:

(A) New budget authority, $6,800,000,000.

(B) Outlays, $6,800,000,000.

(C) New direct loan obligations, $300,000,000.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1985:

(A) New budget authority, $6,400,000,000.

(B) Outlays, $6,400,000,000.

(C) New direct loan obligations, $300,000,000.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1986:

(A) New budget authority, $6,400,000,000.

(B) Outlays, $6,400,000,000.

(C) New direct loan obligations, $300,000,000.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1987:

(A) New budget authority, $6,700,000,000.

(B) Outlays, $6,700,000,000.

(C) New direct loan obligations, $300,000,000.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

(19) Net Interest (900):

Fiscal year 1984:

(A) New budget authority, $109,600,000,000.

(B) Outlays, $109,600,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1985:

(A) New budget authority, $124,900,000,000.

(B) Outlays, $124,900,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1986:

(A) New budget authority, $141,400,000,000.

(B) Outlays, $141,400,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1987:

(A) New budget authority, $160,400,000,000.

(B) Outlays, $160,400,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

(20) Allowances (920):

Fiscal year 1984:

(A) New budget authority, $700,000,000.

(B) Outlays, $700,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1985:

(A) New budget authority, $800,000,000.

(B) Outlays, $800,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1986:

(A) New budget authority, $2,000,000,000.

(B) Outlays, $2,100,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1987:

(A) New budget authority, $3,100,000,000.

(B) Outlays, $3,300,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

(21) Undistributed Offsetting Receipts (950):

Fiscal year 1984:

(A) New budget authority, −$15,200,000,000.

(B) Outlays, −$15,200,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1985:

(A) New budget authority, −$33,800,000,000.

(B) Outlays, −$33,800,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1986:

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(A) New budget authority, −$36,700,000,000.

(B) Outlays, −$36,700,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1987:

(A) New budget authority, −$38,500,000,000.

(B) Outlays, −$38,500,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

MISCELLANEOUS PROVISIONS

SEC. 2. If the Congress has not completed action by October 1, 1984 on the concurrent resolution on the budget required to be reported under section 310(a) of the Congressional Budget Act of 1974 for fiscal year 1985, then, for purposes of section 311 of such Act, this concurrent resolution shall be deemed to be the concurrent resolution required to be reported under section 310(a) of such Act.

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SEC. 3. No bill or resolution providing new discretionary budget authority or new spending authority described in section 401(c)(2)(C) of the Congressional Budget Act of 1974, for fiscal year 1985, which exceeds the appropriate allocation of new discretionary budget authority or new spending authority described in section 401(c)(2)(C) of the Congressional Budget Act of 1974 shall be enrolled in the House of Representatives, and no bill or resolution providing new budget authority or new spending authority described in section 401(c)(2)(C) of the Congressional Budget Act of 1974, for fiscal year 1985, which exceeds the appropriate allocation of new budget authority or new spending authority described in section 401(c)(2)(C) of the Congressional Budget Act shall be enrolled in the Senate, until after the Congress has completed action on the second concurrent resolution on the budget required to be reported under section 310 of such Act or until October 1, 1984, whichever comes first.

SEC. 4. For the purposes of this resolution, budget authority shall be determined on the basis applicable for fiscal year 1984.

Calendar No. 799

98TH CONGRESS 2d Session | SENATE | REPORT 98-399

FIRST CONCURRENT RESOLUTION ON THE BUDGET—FISCAL YEAR 1985

APRIL 18, 1984.—Ordered to be printed

Filed under authority of the order of the Senate of April 13 (legislative day, March 26), 1984

Mr. DOMENICI, from the Committee on the Budget,

submitted the following

REPORT

together with

ADDITIONAL AND MINORITY VIEWS

[To accompany S. Con. Res. 106]

The Committee on the Budget submits the following report, accompanying the First Concurrent Resolution on the Budget setting forth the Congressional Budget for the United States Government for the fiscal years 1985, 1986, and 1987, and revising the Congressional Budget for the United States Government for the fiscal year 1984, pursuant to the Congressional Budget and Impoundment Control Act of 1974 (Public Law 93-344).

Chapter I. INTRODUCTION

The First Concurrent Resolution on the Budget for FY 1985, as recommended by the Committee on the Budget, continues the policies of fiscal restraint, re-ordered priorities, and deficit-reduction that characterize the Committee's recommendations for the past 3 years. In its recommendations since the FY 1982 budget, the Committee has stressed a slowing in the growth of domestic program costs, reform of programs in order to get more services for tax dollars, and re-building what was a seriously neglected national defense structure during the decade of the 1970's. The recommendations approved by the Committee this year reaffirm these policies.

The Committee's recommendations this year would cut projected deficits by $144 billion during the FY 1984–87 period. This follows recommendations in earlier budgets that envisioned deficit reductions of almost $300 billion between FY 1982 and 1986. Despite the Committee's prior-year recommendations, most of which have been approved by Congress and implemented, projected deficits in the 3 years ahead amount to more than $710 billion. A serious recession that caused a rapid increase in entitlement spending and reduced revenues dramatically has given the Nation deficits of historic magnitude. Despite the pressures of an election year, the Committee believes that its budget, admittedly only a downpayment on our deficit problems, is a crucial step and should be adopted by the full Senate.

The Committee's deliberations were complicated by a rapidly changing economy. In the middle of Committee consideration, the administration released its April up-date of the economy. This update revealed that the economy is growing more rapidly than most forecasters predicted: unemployment is lower than anticipated, inflation has remained low, growth is stronger than most thought, and Americans are more confident than at any time in the past decade. The Committee, however, did *not* up-date its economic and technical assumptions for the new reality of a growing economy. Thus, cutting $144 billion from projected deficits using the Congressional Budget Office (CBO) economic forecast yields remaining deficits of $180.7 billion in FY 1985, $185.6 billion in FY 1986, and $203.5 billion in FY 1987.

THE PROPOSED BUDGET

The Committee budget resolution is a beginning step toward addressing the projected burgeoning Federal deficits. Federal deficits will be reduced by $143.7 billion over the period FY 1984–87. Federal deficits will be reduced as a percentage of the GNP from 5.3 percent in FY 1984 to 4.4 percent in FY 1987—a reduction of almost one-fifth. The Committee budget resolution is based on two concepts—realism and shared responsibility.

First, the budget resolution is realistic. The assumptions embodied within the resolution encapsulate current legislative activities underway to reduce projected deficits. The reported resolution also reflects legislative activities that can realistically be accomplished before the end of this session of Congress. Future action will obviously be required to address the deficit issue, but the Committee budget resolution makes an honest and fair assessment of what can be accomplished with its resulting impact in FY 1985 and beyond.

Second, the budget resolution is based on the general concept of shared responsibility. Reducing the current and projected Federal deficits will require sacrifices from all spending sectors of the Government including national defense programs, nondefense discretionary programs, and entitlement programs. Federal taxpayers, corporate and individual, will also share in that responsibility through increased tax payments.

The reported resolution makes balanced recommendations in three major areas of budget policy:

(1) *Defense Spending Restraint.*—The Committee resolution encompasses defense spending reductions totalling $56.8 billion in budget authority and $40.2 billion in outlays below the President's request (or $7.2 billion in outlays above the CBO baseline for 4 years). It assumes real growth in national defense budget authority averaging 5.4 percent annually over the period FY 1985–87 using CBO assumptions, and it returns defense spending to less than 7.2 percent of GNP and 30.4 percent of estimated total Federal outlays in FY 1987.

(2) *Nondefense Spending Restraint.*—The Committee resolution includes nondefense spending reductions totalling $37.4 billion. Included within these savings are provisions as follows:

—Entitlement and discretionary spending savings included in the Deficit Reduction Act of 1984 that was being debated on the Senate floor during the resolution markup.

—Savings in the Omnibus Budget Reconciliation Act of 1983 (H.R. 4169) adopted by the Senate on April 5 and signed by the President on April 18.

—Savings provisions in S. 2062, the Omnibus Reconciliation Act of 1983 that were not included in the recently passed House bill (H.R. 4169). This includes veterans provisions, civilian pay raises, military retirement accounting changes, and small business provisions.

—Savings in the Agricultural Programs Adjustment Act of 1984 (H.R. 4072) recently passed by both Houses of Congress and signed by the President on April 10, during the Committee markup of this resolution.

—Savings in S. 2522, a bill recently reported by the Senate Banking Committee that would decrease outlays in FY 1985 by increasing the capitalization of the National Credit Union Share Insurance Fund.

—A 1-year freeze on all nondefense discretionary programs. For FY 1985, aggregate budget authority or program levels for these programs would be set at their present FY 1984 levels. After FY 1985, this aggregate level would be adjusted for inflation as contained in the CBO economic forecast.

(3) *Increased Revenues.*—The Committee resolution includes $48.3 billion in revenue increases in FY 1984–87 from the enactment of the Deficit Reduction Act of 1984. That bill includes provisions related to deferral of certain tax reduction measures, tax-exempt leasing, certain corporate tax provisions, partnership provisions, depreciation and other accounting changes, excise taxes, capital gains, changes to the earned income tax credit, and other miscellaneous revenue provisions.

Budget Summary

Table 1 summarizes the changes from projected baselines for revenues, outlays, and deficits as a result of the policy changes assumed in the resolution. As a percent of GNP, the baseline deficits would increase from 5.4 percent in FY 1984 to 5.8 percent in FY 1987. Under the resolution, deficits as a percent of GNP will decrease to 5.3 percent in FY 1984 and further decline to 4.4 percent by FY 1987.

Table 1

SUMMARY OF CHANGES FROM BASELINE IN FIRST BUDGET RESOLUTION AS REPORTED BY THE SENATE BUDGET COMMITTEE

[In billions of dollars]

	FY 1984	FY 1985	FY 1986	FY 1987	Total FY 1984–87
Revenues:					
Baseline	663.0	733.0	794.9	863.5	
Proposed Increases	+2.4	+10.7	+16.1	+19.1	+48.3
Reported resolution	665.4	743.7	811.0	882.6	
Outlays:					
Baseline [1]	855.7	939.7	1,029.9	1,132.5	
National defense		−6.0	−16.0	−18.2	−40.2
Entitlements and other mandatory programs	−0.1	−4.6	−5.6	−9.2	−19.4
Nondefense discretionary programs	−0.1	−3.1	−5.6	−7.1	−15.9
Net interest	−0.1	−1.6	−5.3	−10.8	−17.8

SUMMARY OF CHANGES FROM BASELINE IN FIRST BUDGET RESOLUTION AS REPORTED BY THE SENATE BUDGET COMMITTEE—Continued

[In billions of dollars]

	FY 1984	FY 1985	FY 1986	FY 1987	Total FY 1984–87
Offsetting receipts		+(*)	−1.0	−1.1	−2.1
Total outlay savings	−0.3	−15.3	−33.5	−46.4	−95.4
Reported resolution	855.3	924.4	996.6	1,086.1	
Deficit:					
Baseline [1]	192.7	206.7	235.0	269.0	
Proposed changes	−2.7	−25.9	−49.6	−65.5	−143.7
(Proposed changes assuming CBO baseline for defense)	(+0.6)	(−16.5)	(−31.5)	(−41.7)	(−89.1)
Reported resolution	189.9	180.7	185.6	203.5	

[1] Assumes CBO baseline for nondefense and President's budget request (not re-estimated by CBO) for defense, plus interest adjustment to take account of the defense change. This baseline is consistent with the baseline used by the House Budget Committee in its markup of the First Budget Resolution which was subsequently adopted by the full House of Representatives.
* Less than $50 million.

Note.—Details may not add to totals due to rounding.

Table 2 shows the proposed allocation of the budget resolution among the Federal budget functions. The table includes both budget authority (BA) and outlay (O) assumptions for each function. Federal public debt, also included in table 2, increases from $1.6 trillion in FY 1984 to $2.4 trillion by FY 1987.

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Table 2

FIRST BUDGET RESOLUTION FOR FY 1985 AS REPORTED BY THE SENATE BUDGET COMMITTEE

[In billions of dollars]

Function		FY 1984	FY 1985	FY 1986	FY 1987
050: National Defense	BA	265.3	299.0	333.7	372.0
	0	237.5	266.0	294.6	330.4
150: International Affairs	BA	21.0	15.2	16.3	17.1
	0	12.0	13.0	12.2	12.5
250: General Science, Space, and Technology	BA	8.5	8.5	8.6	8.9
	0	8.3	8.4	8.5	8.7
270: Energy	BA	3.0	4.1	4.0	4.0
	0	3.0	3.8	3.9	3.8
300: Natural Resources and Environment	BA	11.6	11.6	12.0	12.3
	0	12.3	11.7	11.8	11.8
350: Agriculture	BA	4.5	15.6	14.5	13.4
	0	10.4	15.8	14.4	13.2
370: Commerce and Housing Credit	BA	5.6	6.4	6.3	7.7
	0	4.0	1.6	2.2	3.4
400: Transportation	BA	29.3	28.8	30.0	31.1
	0	25.7	26.9	28.4	29.5

FIRST BUDGET RESOLUTION FOR FY 1985 AS REPORTED BY THE SENATE BUDGET COMMITTEE—Continued

[In billions of dollars]

Function		FY 1984	FY 1985	FY 1986	FY 1987
450: Community and Regional Development	BA	7.2	6.9	7.5	7.8
	0	7.7	8.2	8.0	8.1
500: Education, Training, Employment, and Social Services	BA	31.3	28.9	30.2	31.5
	0	28.1	29.0	29.3	30.4
550: Health	BA	31.7	32.4	36.2	39.0
	0	30.8	33.5	35.8	38.5
570: Medical Insurance	BA	62.5	71.5	84.2	99.9
	0	59.9	67.1	74.1	83.1
600: Income Security	BA	118.4	145.1	154.9	164.4
	0	97.1	113.2	119.0	124.3
650: Social Security	BA	175.0	199.8	215.9	229.1
	0	179.4	190.3	202.7	217.1
700: Veterans Benefits and Services	BA	26.1	26.8	27.0	27.6
	0	25.8	26.2	26.7	27.3
750: Administration of Justice	BA	5.9	6.1	6.2	6.3
	0	5.9	6.0	6.2	6.3
800: General Government	BA	5.3	5.6	5.8	5.9
	0	5.5	5.4	5.6	5.8

850: General Purpose Fiscal Assistance	BA	6.8	6.4	6.4	6.7
	0	6.8	6.4	6.4	6.7
900: Net Interest	BA	109.6	124.9	141.4	160.4
	0	109.6	124.9	141.4	160.4
920: Allowances	BA	0.7	0.8	2.0	3.1
	0	0.7	0.8	2.1	3.3
950: Undistributed Offsetting Receipts	BA	−15.2	−33.8	−36.7	−38.5
	0	−15.2	−33.8	−36.7	−38.5
Total	BA	914.1	1,010.6	1,106.4	1,209.7
	0	855.3	924.4	996.6	1,086.1
Revenues		665.4	743.7	811.0	882.6
Deficit		189.9	180.7	185.6	203.5
Public debt		1,596.2	1,843.3	2,105.3	2,394.9

Resolution and Nondefense Appropriations

The reported budget resolution assumes a freeze on aggregate discretionary nondefense budget authority (or program level, where relevant) for FY 1985. The resolution's functional totals reflect this aggregate freeze.

It is not the intent of the Committee to impede the critical responsibility of the Appropriations Committee (pursuant to the normal procedures of section 302(b) of the Budget Act) and the Senate to allocate nearly $138 billion in nondefense discretionary budget authority among hundreds of accounts and programs on the basis of comparative needs and priorities.

Public Debt

The Committee resolution provides for public debt subject to limit of $1,596 billion in FY 1984, $1,843 billion in FY 1985, $2,105 billion in FY 1986, and $2,395 billion in FY 1987. The increases in the Federal debt held by the public (which is approximately equal to the change in public debt levels less the effects of changes in trust fund balances) are $247.1 billion in FY 1985, $262.0 billion in FY 1986, and $289.6 billion in FY 1987. The increase in Federal debt held by the public is an appropriate measure of the effect of changes in the public debt on credit markets.

Credit Budget

The Committee resolution includes nonbinding credit levels for new direct loan obligations, new loan guarantee commitments, and new commitments to guarantee secondary market instruments. The credit levels specified in the resolution reflect the policies embodied in the overall spending plan. Discretionary credit programs for FY 1985 remain unchanged from their FY 1984 levels, and entitlement credit programs reflect the resolution's underlying entitlement spending program assumptions.

In FY 1985, new direct loan obligations are $36.7 billion, new loan guarantees are $110.8 billion, and secondary loan guarantees are $68.3 billion in the resolution.

Revision of Second Budget Resolution for FY 1984

The resolution revises the aggregate and functional totals provided in the Second Budget Resolution for FY 1984. The Second Budget Resolution for FY 1984 took effect automatically on October 1, 1983, as a result of a provision in the First Budget Resolution for FY 1984. Section 5(a) of that resolution (H. Con. Res. 91) provided that if Congress had not by October 1, 1983 explicitly adopted a Second Budget Resolution for FY 1984, the First Budget Resolution would be converted automatically to a Second Budget Resolution. Implementation of section 5(a) was in fact the course followed by Congress in the fall of 1983.

Many changes have occurred in the budget outlook since the adoption of the First Budget Resolution for FY 1984. This resolution updates the revenue and spending estimates and provides for the spending levels which the Committee believes appropriate in FY 1984. Adoption of the conference report on the First Budget Resolution for FY 1985 will supersede and replace H. Con. Res. 91.

Miscellaneous Provisions

Automatic Second Budget Resolution.—Section 2 of the resolution provides that if Congress has not enacted a Second Budget Resolution for FY 1985 by October 1, 1984, the First Budget Resolution for FY 1985 will automatically become the Second Budget Resolution for that fiscal year.

Deferred Enrollment.—Section 3 of the resolution provides that no bill or resolution which would cause allocations for FY 1985 of new budget authority or new entitlement authority to be exceeded will be enrolled until Congress completes action on a Second Budget Resolution for FY 1985, or until October 1, 1984, whichever occurs first. This enforcement mechanism is expressly provided for in section 301(b)(1) of the Congressional Budget Act.

Determination of Budget Authority.—Section 4 of the resolution states that for the purposes of evaluating legislation relating to FY 1985, the budget authority represented by such legislation shall be determined using the same techniques as were used with respect to FY 1984. This section thus ensures continuity in scorekeeping.

Economic Assumptions

The following economic assumptions were used by the Committee in formulating this resolution. These assumptions are the same as the Congressional Budget Office January economic forecast released on February 7, 1984.

BASELINE ECONOMIC ASSUMPTIONS

	1984	1985	1986	1987
CALENDAR YEARS				
Percent growth over prior year:				
Real GNP	5.4	4.1	3.5	3.5
GNP deflator	4.7	5.1	4.9	4.7
CPI–W	4.5	5.0	4.9	4.7
Average rate:				
Unemployment[1]	7.8	7.3	7.0	6.8
91-day Treasury bills	8.9	8.6	8.4	8.2
FISCAL YEARS				
Percent growth over prior year:				
Real GNP	5.7	4.3	3.6	3.5
GNP deflator	4.4	5.2	5.0	4.8
CPI–W	4.0	5.0	4.9	4.8
Average rate:				
Unemployment[1]	8.1	7.4	7.0	6.8
91-day Treasury bills	8.9	8.7	8.4	8.3

[1] All civilian workers.

BASELINE ECONOMIC ASSUMPTIONS—Continued

The Congressional Budget Act of 1974 requires the President to transmit to the Congress by April 10 of each year a report updating the budget. That report was received during the Committee's deliberation on the resolution. The economic assumptions in that report revised those included in the administration's February budget estimates. The revised economic assumptions reflect somewhat higher GNP, reflecting the faster than anticipated real growth in the first quarter of 1984; a slightly lower unemployment rate; and somewhat higher interest rates (see the following table).

ADMINISTRATION APRIL UPDATE

	1984	1985	1986	1987
CALENDAR YEARS				
Percent growth over prior year:				
Real GNP	5.9	4.1	4.0	4.0
GNP deflator	4.4	4.8	4.5	4.2
CPI–W	4.1	4.6	4.5	4.2
Average rate:				
Unemployment [1]	7.6	7.4	7.0	6.6
91-day Treasury bills	8.9	8.0	7.1	6.2
FISCAL YEARS				
Percent growth over prior year:				
Real GNP	6.2	4.4	4.0	4.0
GNP deflator	4.2	4.8	4.6	4.3
CPI–W	3.7	4.5	4.6	4.3
Average rate:				
Unemployment [1]	7.8	7.4	7.1	6.7
91-day Treasury bills	8.9	8.3	7.3	6.4

[1] All civilian workers.

Chapter II. ECONOMICS

Committee Recommendation

The budget resolution adopted by the Committee contains significant reductions in Federal budget deficits in FY 1985 and beyond. The FY 1985 budget resolution would reduce budget deficits by $25.9 billion in FY 1985, $49.6 billion in FY 1986, and $65.5 billion in FY 1987.

These reductions in future budget deficits represent an important step in a series of larger, longer term actions that will be required next year and, probably, for several years to come. It is the Committee's hope that expeditious action to implement budget savings through legislation will represent an important signal to financial markets that the proposed deficit reductions are real, not symbolic, and will have a material effect in reducing Federal borrowing needs next year.

During the past 3 months, interest rates rose sharply because financial markets were concerned about Federal Reserve "tightening" of monetary policy and the effect of current policy budget deficits on interest rates. Recently interest rates appear to have stabilized and even declined somewhat. The Committee believes that the budget actions recommended in this budget resolution will help reduce interest rates further. Table 1 summarizes the Committee's recommendations.

Table 1

BUDGET PROJECTIONS

[In billions of dollars]

	Actual	Recommendation				Projection	
	FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	FY 1988	FY 1989
Outlays	796.0	855.3	924.4	996.6	1,086.1	1,185.8	1,278.1
Revenues	600.6	665.4	743.7	811.0	882.6	965.1	1,036.9
Surplus (+) or deficit (−)	195.4	189.9	180.7	185.6	203.5	220.7	241.2
Public debt subject to limit	1,378.0	1,596.2	1,843.3	2,105.3	2,394.9	2,721.7	3,082.0
Tax change from current law		+2.4	+10.7	+16.1	+19.1	+20.0	+21.1
Outlays as a percent of GNP	24.7	24.0	23.6	23.4	23.6	23.8	23.8
Revenues as a percent of GNP	18.6	18.7	19.0	19.1	19.1	19.4	19.3
Growth in outlays (percent)	9.3	7.4	8.1	7.8	9.0	9.2	7.8
Adjusted for inflation	4.7	3.4	2.2	2.4	3.7	4.0	2.8
Growth in revenues (percent)	−2.8	10.8	11.8	9.0	8.8	9.3	7.4
Adjusted for inflation	−6.8	6.1	6.3	3.9	3.8	4.6	2.9
Growth in public debt (percent)	20.5	15.5	15.5	14.2	13.8	13.6	13.2
GNP	3,228.8	3,563.0	3,909.0	4,251.4	4,611.6	4,986.7	5,379.3

ECONOMIC ASSUMPTIONS IN THE BUDGET RESOLUTION

Table 2 shows the economic assumptions used to develop the spending and revenue estimates in the recommended budget resolution. These economic assumptions were developed by the Congressional Budget Office (CBO) last January and are the same as the baseline assumptions presented in the CBO annual report. These are also the same economic assumptions that were used in the House-passed budget resolution except that the House included fourth quarter GNP revisions.

Table 2

ECONOMIC ASSUMPTIONS USED IN DEVELOPING THE COMMITTEE RECOMMENDATION

[Calendar years]

	Actual[1] 1983	1984	1985	1986	1987	1988	1989
GNP: ($ billions)	3,309.7	3,651.2	3,994.8	4,339.0	4,703.7	5,083.5	5,480.5
Percent change, annual	7.7	10.3	9.4	8.6	8.4	8.1	7.8
Real GNP:							
Percent change, annual	3.3	5.4	4.1	3.5	3.5	3.4	3.3
GNP deflator:							
Percent change, annual	4.2	4.7	5.1	4.9	4.7	4.5	4.3
CPI–W:							
Percent change, annual	3.1	4.5	5.0	4.9	4.7	4.5	4.3
Unemployment rate,[2] annual average	9.6	7.8	7.3	7.0	6.8	6.6	6.5
3-month T-bill rate, annual average	8.6	8.9	8.6	8.4	8.2	8.0	7.8

[1] These baseline economic assumptions do not reflect fourth quarter GNP revisions.
[2] All civilian workers.

The economic assumptions in the budget resolution reflect a stable expansion with 3.8 percent average real growth over the 7-year period 1983 to 1989. This is consistent with postwar experience in which the average growth rate for the 7 years following a recession averaged 4.0 percent. The inflation rates and interest rates in the baseline are projected to remain relatively steady through 1985 and then decline slightly. Real interest rates, however, remain very high relative to postwar experience (6.0 percent for long-term real bond rates) as a result, in part, of large and growing current policy budget deficits.

Recent Economic Developments

Since January, it has become apparent that the economy is stronger than most economists expected. Real growth for the fourth quarter, initially reported at 4.5 percent, was revised up to 5.0 percent in the latest revision released last month. All of the upward revision in the fourth quarter was in final sales—a very good sign. The momentum of the recovery actually appeared to accelerate in January and February—with a very strong showing in housing, autos, retail sales, new orders (particularly for capital goods), and industrial production.

The Commerce Department's "flash" estimate indicates that real growth may have topped 7 percent in the first quarter. The higher than expected growth rate was due to continued growth in final sales in the first quarter and an acceleration in farm inventories. Taking the fourth quarter revisions and the first quarter "flash" together, the economy is doing better than expected in almost every sector except trade. The Nation's trade deficit grew at record rates in January and February—but the strength in the domestic economy continued to compensate for it.

In the past couple of weeks, however, it is apparent that the "boom" conditions of the first few months of the year have tapered off. We have only some of the data from March, but auto sales have moved back in line and total retail sales actually declined, primarily as a result of the reduction in auto sales. Housing starts have also tapered off, falling to an annual rate of 1.64 million units in March. Some of the slowdown is thought to be weather related and due to seasonal factors. The unemployment rate also leveled off in March after big job gains in January and February. Hours worked were also down a little which suggests somewhat slower job gains in April.

Although growth is better than expected, interest rates are higher than the CBO baseline. After remaining under 9 percent through February, Treasury bill rates are about three-quarters of a point higher today than they were a month ago. The prime rate has gone up a full percentage point in the last 2 weeks and long-bond rates are also higher. The rise in rates is the result of a concern over a possible tightening by the Federal Reserve and the pessimistic outlook for Federal deficits under current budget policy. In fact, the fed funds rate, which is an important indicator of Federal Reserve policy, has increased about half a percentage point in the past month. On April 6, 1984, the Federal Reserve raised the discount rate one-half of 1 percentage point. Interest rates are now declining from recent peaks but they are still higher than the CBO baseline assumptions.

Comparison of Economic Forecasts

Recent trends toward higher growth and higher interest rates are reflected in the administration's April budget update. The administration raised its projections of nominal and real growth upward, and lowered its projections for the unemployment rate. The administration has also revised its interest rate forecast upward for 1984 and for the first half of 1985. Interest rates in the out-years remain unchanged.

The higher growth rates in the new administration forecast reflect the effects of including fourth quarter GNP revisions and the Commerce Department's "flash" estimate of GNP growth for the first quarter in the administration's original forecast. In fact, most other economists have revised their projections for real growth in 1984 upward to account for the higher than expected growth in the first quarter. Other forecasts have also reduced projections for the unemployment rate in line with the administration's estimate and have raised the projected level of interest rates. The administration's interest rates are still lower than other forecasts except for CBO's. Table 3 compares recent economic forecasts to the administration's April revisions and to the CBO baseline. Table 3 shows that there are significant differences between the economic assumptions in the budget resolution and other forecasts. The CBO baseline economic assumptions developed in January 1984 show lower growth rates for 1984 and higher unemployment rates than other private forecasts now project. Interest rates in the budget resolution baseline are also lower than other forecasts.

Table 3

COMPARISON OF FORECASTS

[Calendar year average]

	1984	1985	1986
Nominal GNP (percent change):			
Blue Chip (4/10/84)	NA	NA	NA
Chase Econometrics (3/26/84)	10.0	8.3	9.2
Data Resources (3/28/84)	10.2	7.8	8.3
Merrill Lynch Economics (3/12/84)	10.6	9.3	NA
Wharton (3/23/84)	10.9	8.7	6.6
Average	10.4	8.5	8.0
Administration April update (3/21/84)	10.6	9.1	8.7
CBO (1/17/84)	10.3	9.4	8.6
Real GNP (percent change):			
Blue Chip	5.7	3.2	NA
Chase Econometrics	5.9	2.5	2.8
Data Resources	5.7	2.7	2.7
Merrill Lynch Economics	5.6	3.1	NA
Wharton	6.1	2.9	0.6
Average	5.8	2.9	2.0
Administration April update	5.9	4.1	4.0
CBO	5.4	4.1	3.5
GNP deflator (percent change):			
Blue Chip	4.5	5.8	NA

COMPARISON OF FORECASTS—Continued

[Calendar year average]

	1984	1985	1986
Chase Econometrics	3.9	5.7	6.2
Data Resources	4.2	4.9	5.5
Merrill Lynch Economics	4.7	6.1	NA
Wharton	4.5	5.7	5.9
Average	4.4	5.6	5.9
Administration April update	4.4	4.8	4.5
CBO	4.7	5.1	4.9
Consumer Price Index (percent change):			
Blue Chip	4.9	5.9	NA
Chase Econometrics	4.8	5.5	6.3
Data Resources	4.8	5.2	5.4
Merrill Lynch Economics	5.2	6.1	NA
Wharton	4.7	5.6	5.8
Average	4.9	5.7	5.8
Administration April update [1]	4.1	4.6	4.5
CBO [1]	4.5	5.0	4.9
Unemployment rate (percent):			
Blue Chip	7.5	7.2	NA
Chase Econometrics	7.3	7.5	7.7
Data Resources	7.5	7.2	7.4
Merrill Lynch Economics	7.7	7.6	NA
Wharton	7.5	7.2	7.4
Average	7.6	7.3	7.5
Administration April update	7.6	7.4	7.0
CBO	7.8	7.3	7.0
3-month Treasury bill rate (percent):			
Blue Chip	NA	NA	NA
Chase Econometrics	9.5	11.4	9.4
Data Resources	8.8	9.3	8.7
Merrill Lynch Economics	8.8	11.3	NA
Wharton	9.9	11.8	11.8
Average	9.3	11.0	10.0
Administration April update	8.9	8.0	7.1
CBO	8.9	8.6	8.4

[1] CPI–W.

Economic Assumptions and Budget Outcomes

The economy invariably turns out to be different than current forecasts anticipate. Table 4 compares the CBO January baseline economic assumptions for 1983 and the economic assumptions in the Budget Resolution for FY 1984 to the actual 1983 performance. Both the CBO January baseline and the Budget Resolution for FY 1984 adopted in June 1983 underestimated the strength of the recovery and the rapid decline in the unemployment rate. Actual inflation was lower than expected and interest rates were higher.

Table 4

COMPARISON OF CBO JANUARY 1983 BASELINE AND FY 1984 BUDGET RESOLUTION ASSUMPTIONS TO ACTUAL FOR CALENDAR 1983

	CBO January 1983 base	FY 1984 Budget Res.	Actual
GNP ($ billions)	3,265.6	3,292.5	3,310.8
Real GNP (percent change, annual rate)	2.1	2.8	3.3
GNP deflator (percent change, annual rate)	4.6	4.7	4.2
CPI (percent change, annual rate)	4.5	3.5	3.2
Unemployment rate (percent)	10.6	10.1	9.6
Treasury bill rate (percent)	6.8	7.8	8.6

Small changes in the economic forecast can have large budget effects. To illustrate this point the CBO provided two alternative sets of projections in its annual report. One set of projections describes a high growth, low inflation, relatively low interest rate economy. This is labeled the "high growth" alternative. A second set of projections describes a "low growth" alternative and includes a recession of about average severity in 1986. This alternative also contains substantial additional declines in inflation and interest rates in the out-years, but has relatively high interest rates this year and next before the economy begins to slip into recession. Table 5 compares these alternative economic assumptions to the baseline assumptions. Table 6 shows the budget effects of these alternatives using the CBO technical estimates including the CBO defense baseline rather than the President's defense request.

Table 5

CBO ALTERNATIVE ECONOMIC PROJECTIONS

[Calendar years]

Economic variable	1984	1985	1986	1987	1988	1989
GNP (billions of dollars):						
High-growth alternative	3,687	4,077	4,484	4,944	5,467	6,064
Baseline	3,651	3,995	4,339	4,704	5,084	5,481
Low-growth alternative	3,634	3,954	4,095	4,313	4,585	4,826
Real GNP (percent change, year over year):						
High-growth alternative	6.4	5.1	4.5	4.5	4.4	4.3
Baseline	5.4	4.1	3.5	3.5	3.4	3.3
Low-growth alternative	4.9	3.6	−0.9	2.1	3.8	3.1
GNP implicit price deflator (percent change, year over year):						
High-growth alternative	4.7	5.2	5.2	5.5	5.9	6.3
Baseline	4.7	5.1	4.9	4.7	4.5	4.3
Low-growth alternative	4.7	5.0	4.5	3.2	2.4	2.0
CPI-U (percent change, year over year):						
High-growth alternative	4.8	5.2	5.2	5.5	5.9	6.3
Baseline	4.8	5.1	4.9	4.7	4.5	4.3
Low-growth alternative	4.8	5.0	4.5	3.2	2.4	2.0
Civilian unemployment rate (annual average, percent):						
High-growth alternative	7.7	6.8	6.3	5.9	5.6	5.2
Baseline	7.8	7.3	7.0	6.8	6.6	6.5
Low-growth alternative	8.0	7.6	8.5	9.6	9.0	8.9
3-month Treasury bill rate (annual average, percent):						
High-growth alternative	8.0	7.6	7.1	7.3	7.3	7.4
Baseline	8.9	8.6	8.4	8.2	8.0	7.8
Low-growth alternative	10.4	9.5	8.0	7.0	6.0	5.6

Source: Congressional Budget Office, "Baseline Budget Projections for Fiscal Years 1985–1989," February 1984.

Table 6

CBO BASELINE BUDGET PROJECTIONS UNDER ALTERNATIVE ECONOMIC ASSUMPTIONS

[In billions of dollars]

	FY 1984	FY 1985	FY 1986	FY 1987	FY 1988	FY 1989
Revenues:						
High-growth alternative	668	750	825	913	1,024	1,137
CBO baseline projection	663	733	795	863	945	1,016
Low-growth alternative	660	727	754	782	843	890
Outlays:						
High-growth alternative	849	919	995	1,086	1,192	1,305

CBO BASELINE BUDGET PROJECTIONS UNDER ALTERNATIVE ECONOMIC ASSUMPTIONS—Continued

[In billions of dollars]

	FY 1984	FY 1985	FY 1986	FY 1987	FY 1988	FY 1989
CBO baseline projection	852	930	1,012	1,109	1,217	1,324
Low-growth alternative	855	938	1,020	1,109	1,190	1,262
Unified budget deficit:						
High-growth alternative	180	169	170	173	168	168
CBO baseline projection	189	197	217	246	272	308
Low-growth alternative	195	211	266	327	347	372
	As a percent of GNP					
Revenues:						
High-growth alternative	18.6	18.8	18.8	18.9	19.2	19.2
CBO baseline projection	18.6	18.7	18.7	18.7	19.0	18.9
Low-growth alternative	18.6	18.8	18.5	18.5	18.6	18.7
Outlays:						
High-growth alternative	23.7	23.1	22.7	22.5	22.4	22.1
CBO baseline projection	23.9	23.8	23.8	24.0	24.4	24.6
Low-growth alternative	24.1	24.2	25.0	26.2	26.3	26.5
Unified budget deficit:						
High-growth alternative	5.0	4.2	3.9	3.6	3.2	2.8
CBO baseline projection	5.3	5.0	5.1	5.3	5.5	5.7
Low-growth alternative	5.5	5.4	6.5	7.7	7.7	7.8

Source: Congressional Budget Office, "Baseline Budget Projections for Fiscal Years 1985–1989", February 1984.

Clearly, the difference in the economic conditions described in these alternatives results in large differences in budget deficits. In the high growth alternative, the current services deficits reach a low of about $169 billion in FY 1985 and then rise to about $173 billion by 1987. In the low growth alternative, the recession has devastating effects on the budget deficits. Under this path the budget deficits which are relatively close to the CBO baseline deficits in FY 1984 and FY 1985 rise dramatically after FY 1985 to $372 billion by FY 1989. Of course, to the extent that a recession is brought on by higher interest rates and somewhat higher inflation rates, the budget deficits would rise still higher.

These tables illustrate several important points. First, budget deficits are significantly lower when economic conditions are good. This means that economic policies are to some extent self-perpetuating. Economic policies that promote growth and help keep both inflation and interest rates low will in turn lead to lower budget deficits. In this case, government activities are financed by rapid growth in real resources and at low real interest rates. Second, however, it is significant that even with very good business conditions, deficits are still very large. Even if this type of environment were possible given current monetary and fiscal policies, the aggregate deficits would still remain very high, rising from $169 billion in FY 1985 to $173 billion in FY 1987.

The low growth alternative, of course, illustrates just the opposite. Budget deficits rise in a low-growth environment. Indeed, a recession would change the path of budget deficits dramatically, raising them to $372 billion in FY 1989 or 7.8 percent of GNP. If interest rates averaged 2 percentage points higher and inflation 1 percentage point higher than the low growth alternative shows, the budget deficits in the low growth scenario would rise to $420 billion by FY 1989. Clearly, a recession would tend to make the overall deficit problem still more intractable.

Outlook for Expansion

The output-income side of the economy is growing more rapidly than many economists expected. The Commerce Department's preliminary "flash" report indicates that the economy grew at a 7.2 percent annual rate in the first quarter as a result of a surge in inventories and final sales. The 7.2 percent growth rate in the first quarter makes this recovery one of the most rapid in postwar history.

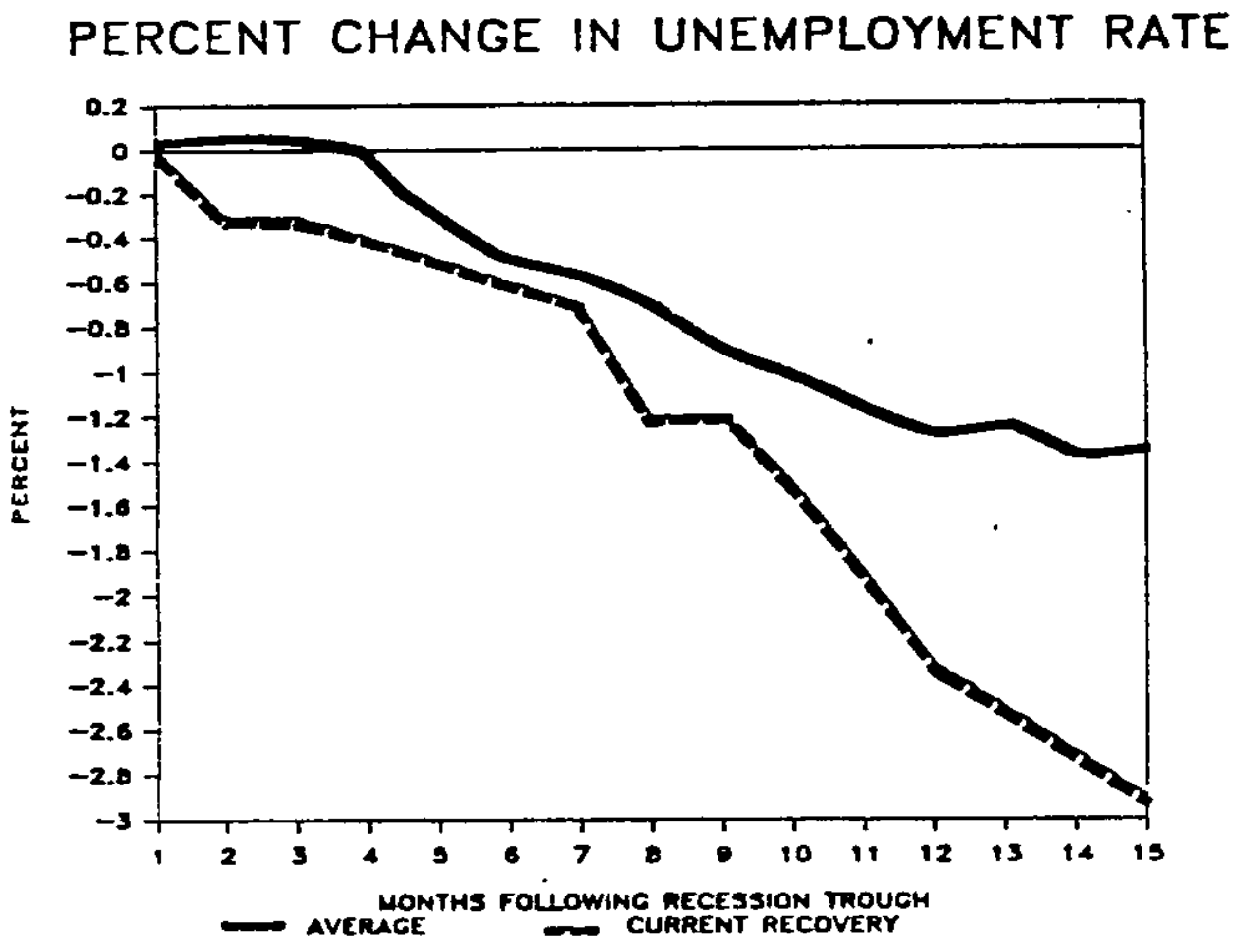
Conditions in all sectors, except food, energy, and metals, have improved dramatically since the beginning of the recovery in November 1982. However, some industries like mining and primary metals are still operating at below average production levels. Industrial production is about 4 percent above its 1981 peak, and over 80 percent of the Nation's plant capacity is now in use. Personal and corporate income are also up, and inflation continues to be well-behaved.

Demand in the key cyclical sectors is rising very rapidly. Recent government reports show that February housing starts accelerated to 2.2 million units at an annual rate after an upwardly revised surge to 2.0 million units in January. Domestic auto sales continue to be strong, down to a 7.9 million unit annual rate during March after an unexpected surge to 8.3 and 8.5 million units in January and February. New orders for durable goods rose 1.2 percent in February following a large 2.7 percent gain in January. Most of the gains in January and February were due to a sharp rise in new orders for primary metals. This is particularly good news for a sector of the economy that until now has been slow to recover.

Capital spending continued to show unexpected strength during the first 2 months of the year. The February Commerce Department survey of plant and equipment spending indicates that business investment for all industries will increase by more than 10 percent in real terms this year. The Conference Board Survey anticipates an 18-percent rise in capital spending for manufacturing industries, excluding petroleum. Petroleum industries plan to increase capital spending by 38 percent in 1984. New orders for and production of business equipment and construction materials are currently growing very strongly. Business investment in structures stabilized in the fourth quarter of 1983 and is expected to grow slightly in the current quarter.

One of the most encouraging trends in the economy is the rapid growth in employment and the correspondingly dramatic decline in the unemployment rate. The unemployment rate for all workers was 7.7 percent in March compared to the peak unemployment rate of 10.6 percent in November and December of 1982. The rate for civilian workers was 7.8 percent in March compared to a peak of 10.8 percent. The dramatic improvement in the unemployment rate is shared by almost all demographic groups, although unemployment rates for some groups such as teenagers and blacks remain very high. Indeed, the overall unemployment rate has declined more rapidly during the first 15 months of this recovery than during any previous postwar recovery. The following chart illustrates this:

Chart 1



At 104 million total workers, civilian employment has risen by 1.2 million over the past 3 months and is 5 million above the November 1982 level according to the household survey which is the traditional measure of the unemployment rate. However, the payroll survey, which is based on a survey of establishments instead of individual households, shows a total employment gain of 3.7 million and has raised concern that the gains apparent in the household survey may not be sustainable. Once the two surveys (both published by the Bureau of Labor Statistics) are adjusted for differences in coverage, the gap shrinks to about 500,000 workers, many of whom are thought to be employed in newly established firms not adequately represented in the payroll survey sample.

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Economic Growth and Employment

Looking at the GNP data, the benefits of expansion are remarkably dispersed. All sectors of consumption—business equipment investment, housing, and inventories—have shown substantial gains. Business investment in structures lags the recovery a bit, but preliminary first quarter GNP data show some progress in this sector too. Government purchases are weak despite increases in defense procurement levels. Only the trade sector continues to show significant, indeed dramatic, deterioration.

As table 7 shows, this recovery is strikingly similar to previous postwar recoveries. Last year, real growth was 6.2 percent compared to an average rate of 7.4 percent for the first year of past recoveries. The distribution of growth among sectors is balanced, again with the exception of the trade sector. Consumption growth was 5.4 percent in this recovery, the same as the average for past recoveries. Business and residential investment, two key interest sensitive sectors, actually grew more rapidly than in the past. Structure investment is weak because the previous boom continued well into the recession. Government purchases were weaker than normal because recent Federal restraint in nondefense spending took effect almost immediately and the corresponding increases in defense purchases have yet to show up in the GNP data.

Table 7

GROWTH OF REAL GNP

Current Recovery Compared To Past Recoveries

[Percent change—one year following trough quarter]

	49:IV–50:IV	54:II–55:II	58:II–59:II	61:I–62:I	70:IV–71:IV	75:I–76:I	80:III–81:III	Average of past recoveries	82:IV–83:IV
Real GNP	13.3	7.4	8.4	7.0	4.7	6.7	4.2	7.4	6.2
Personal consumption expenditures	5.4	7.1	6.0	4.5	5.1	6.1	3.6	5.4	5.4
Nonresidential fixed investment	22.5	6.0	7.3	7.4	3.0	1.0	8.2	7.9	12.6
Residential fixed investment	23.8	23.1	36.2	10.6	30.8	25.4	−2.0	21.1	37.4
Net exports	−24.3	−6.0	−78.6	−36.5	−105.6	−16.8	−25.5	−41.9	−87.8
Government purchases	4.0	−3.0	1.5	6.6	0.2	1.5	1.0	1.7	−2.5

The breadth of the recovery is also reflected in the industrial production data. Industrial production rose 15.8 percent in the past year and 18.5 percent since the beginning of the recovery. Although all industries except oil and gas have shown gains from their recession lows, some industries have recouped their recession losses more rapidly than others. Production levels in construction and business supplies and most durable goods industries are 10 percent above 1981 highs, while food, apparel, energy, and metals are still below their previous peaks.

Evidence of both the strength of the recovery and the differences among industries is particularly evident in the employment data. As indicated previously, total employment according to the payroll survey is up 3.7 million since the beginning of the recovery, a postwar record. This growth is about evenly split between factory jobs and service jobs. Factory jobs have increased 1.3 million since November 1982 and service jobs have increased 2 million. Construction employment is up only 335,000 despite the rapid gain in construction activity. Federal, State, and local government employment are roughly flat.

Although manufacturing employment has increased substantially since the beginning of the recovery, it still remains about 4.2 percent below its previous peak of 20.4 million. Service employment, in contrast, declined very little during the recession and has grown rapidly during the recovery. This continues the shift from manufacturing to service employment that began in the early 1970's and accelerated toward the end of the decade. During the 1980's and particularly during the past recovery, this structural shift in employment growth has been dramatic.

Trouble in Trade

The most troublesome sector of the economy continues to be foreign trade. During the 1981–82 recession, merchandise exports declined 17 percent, paralleling the sharp downturn in total world trade. Exports fell another 6 percent in 1983, as world trade declined for the third straight year.

Imports in the United States typically fall faster than exports during a recession. In the 1981–82 recession, however, imports fell only 8 percent compared to the 17 percent export decline. The stability of disposable income in the United States in 1981 and 1982 may explain the relative strength of imports in the recession. In the 1974–75 recession, real per capita disposable income declined 4.3 percent, but in the 1981–82 recession it was almost unchanged.

In 1983, imports grew 6 percent as the U.S. recovery got underway. The combined effect of falling exports and rising imports caused the trade deficit to increase to $60.6 billion last year, $24 billion more than the 1982 trade deficit. Most forecasters expect the trade deficit to reach $100–110 billion this year.

Even more troublesome, the current account deficit, which includes both goods and services, increased substantially in 1983. In the past, merchandise trade deficits were often offset by surpluses in other trade categories, particularly investment income. In 1982 and again in 1983, net investment income declined while the merchandise trade deficit grew. As a result, the current account balance shifted from a surplus in 1981 to an $11.2 billion deficit in 1982 and a $41 billion deficit in 1983. Some projections suggest that the current account deficit could reach $80 billion this year.

An important reason for the weakness of the trade sector is the rapid appreciation of the dollar on foreign exchange markets. Appreciation of the dollar causes U.S. goods to be more expensive in foreign markets and foreign goods to be more price competitive in the United States. In 1980, the exchange value of the dollar was 13 percent below its 1973 level. By the end of 1983, the dollar stood 33 percent above the 1973 level. In real terms, the dollar has moved up 17 percent from its average 1980–82 level.

A second important weakness in the trade sector is the stronger growth in real income in the United States compared to its trading partners. This difference in real growth rates generates more demand for imports in the United States than for exports abroad. In real terms, the United States had a 2-percentage point higher growth rate than its major trading partners, explaining at least some of the current account deficit.

Fiscal stimulus in the U.S. economy helped to sustain U.S. demand for foreign goods at a time of serious worldwide recession abroad. The shift in net exports in the United States since 1981 added 0.5 percent to aggregate demand in the rest of the world and slowed the decline in world trade. Stimulus from the U.S. economy was particularly helpful for European and Latin American countries which were either reluctant to use fiscal stimulus or were constrained by external financing requirements. U.S. imports from Germany, Japan, the United Kingdom, and Latin America actually increased in 1982, although aggregate world trade declined nearly 8 percent.

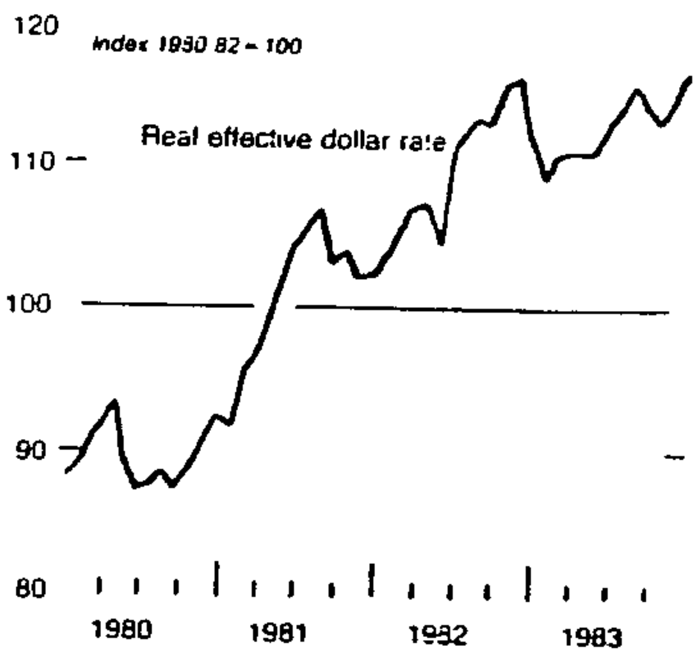
A third reason for the deterioration in U.S. trade accounts is economic weakness in the developing countries. Exports to developing countries declined from $83 billion in 1982 to $72 billion in 1983 while exports to developed countries actually increased slightly. The third world typically buys 35–40 percent of U.S. exports, so economic weakness among these countries has a particularly large impact on the U.S. economy. Four countries with serious debt problems, Mexico, Brazil, Argentina, and Venezuela, alone accounted for 8 percent of U.S. exports in 1983, down from 10 percent in 1982. Moreover, the insatiable appetite for foreign exchange brought on by the LDC (lesser developed countries) debt crisis has led to an aggressive export strategy on the part of many LDCs themselves—often exporting products at or below cost in order to improve their own external accounts.

A fourth reason for the deterioration in U.S. trade is the difficulty of competing in international markets while hampered by economic and trade policy constraints. Over the last decade, U.S. exporters have lost markets because of limits on technology and agricultural exports and, recently, because of the high value of the dollar. This has allowed foreign competitors to establish permanent marketing relationships which will take a number of years to penetrate. For example, after 1979, the United States lost about half of its grain sales to the U.S.S.R. and is only now recovering its market share.

The relative importance of different growth rates, the high dollar, and the LDC debt situation in contributing to the trade deficit is unclear. The Council of Economic Advisers estimates that about half of the 1984 projected trade deficit will be due to the strong dollar. Other economists place more emphasis on the difference in growth rates, especially between the United States and Europe. The following charts show recent trends in the U.S. growth rate relative to other countries, the value of the dollar, and the U.S. trade deficit.

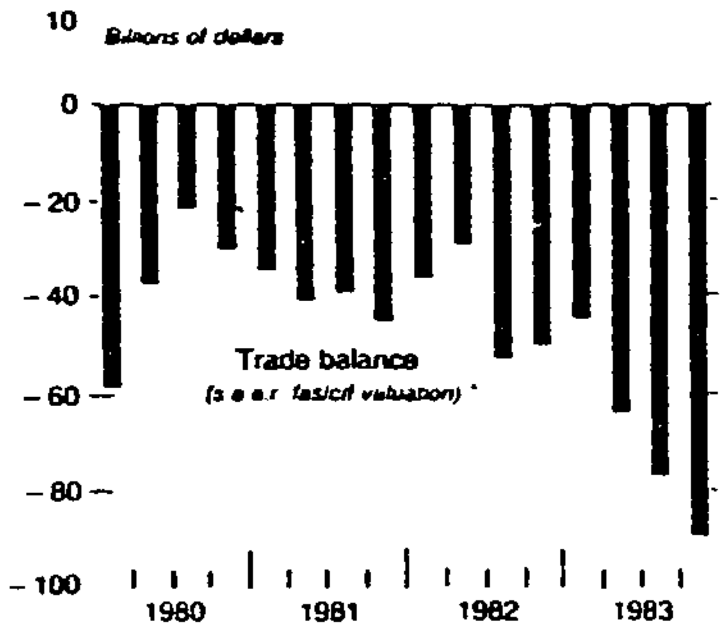
Chart 2

The dollar and trade



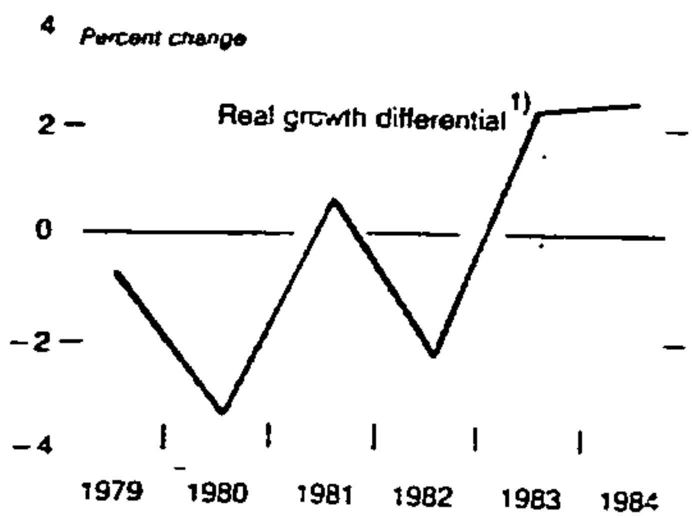
Source: Morgan Guaranty Trust Co., World Financial Markets, February 1984.

Chart 3



Source: Morgan Guaranty Trust Co., World Financial Markets, February 1984.

Chart 4



1) Percent change in ratio of U.S. real GNP to the export-weighted average of trading partners' real GNP

Source: Morgan Guaranty Trust Co., World Financial Markets, February 1984.

Whatever the specific causes, most economists expect that the trade deficit will worsen in 1984, that the difference in growth rates between the United States and its trading partners will continue to favor imports over exports, and that the dollar's value on foreign exchange markets will decline only to the extent that interest rates decline in the United States.

Foreign Capital Flows

In 1983, the current account deficit was financed largely by a reduction in foreign lending by U.S. banks. Capital outflows dropped dramatically between 1982 and 1983—falling from $118 billion to $49 billion. Indeed, gross capital inflows into the United States actually declined from $88 billion in 1982 to $83 billion in 1983. The total net inflow in 1983 was thus $34 billion. If the current account deficit tops $80 billion in 1984 and again in 1985, then net capital inflows to the United States will have to exceed $160 billion over the next 2 years. Inflows of this magnitude will require not only further reductions in new U.S. investment and direct lending abroad, but also actual capital inflows far above those in 1983. Under these projections the net investment surplus of the United States will be wiped out by 1985.

This is worrisome because earnings on investment are needed to offset some of the merchandise trade deficit. With less investment income, the trade deficit becomes a more serious problem and increases the downward pressure on the dollar. This can be offset only by higher interest rates. Moreover, large increases in foreign short-term asset holdings in the United States will increase the interest sensitivity of foreign capital flows. As long as U.S. trade deficits remain large, real interest rates will have to remain high in the United States relative to other countries to attract the foreign capital necessary to finance these deficits.

Indeed, foreign-owned bank deposits are the most rapidly growing type of foreign-held investment in the United States. This reflects a desire on the part of foreigners to keep their assets short-term. Direct foreign holdings of U.S. Treasury securities were actually relatively small—$33 billion in 1982. Though the report on the 1983 net investment position will not be available for several months, the data does not suggest that foreigners were major holders of U.S. treasuries in 1983. As table 8 shows, foreign-held treasuries declined from 27 percent of the total in 1978 to 17 percent in 1982 and are likely to fall to 16 percent in 1983.

Whether invested in short-term securities, bank deposits, or directly in stocks, bonds, or real assets, foreign capital adds directly to the pool of U.S. capital and supports capital formation and job growth in the United States. However, increasing dependence on foreign capital does increase potential external pressures on U.S. interest rates and the dollar. An uncontrolled decline in the dollar and a correspondingly sharp rise in real interest rates in the United States is a major risk to the sustainability of the U.S. economic expansion itself.

Table 8

SHARE OF U.S. TREASURIES HELD ABROAD

[In billions of dollars]

	1978	1979	1980	1981	1982	1983	Annual growth in percent	
							Since 1982	Since 1978
Total foreign-held treasuries	132.9	115.9	127.4	135.6	150.7	[1] 166.0	10.2	3.8
U.S. treasuries outstanding [2]	487.5	530.7	623.2	720.3	881.5	1,050.9	19.2	13.7
Foreign treasuries as a percent	27.3	21.8	20.4	18.8	17.1	15.8		

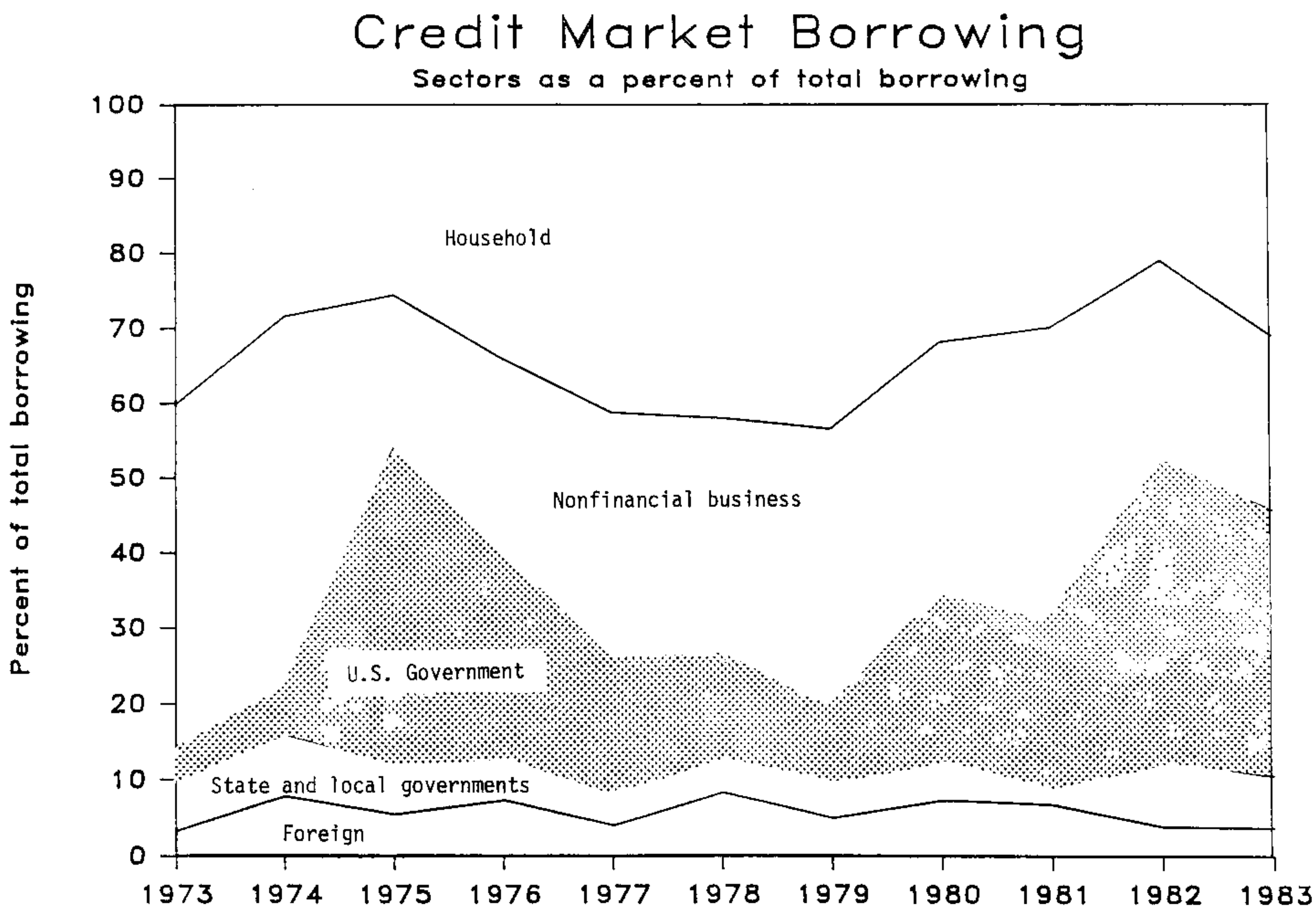
[1] The 1983 foreign holdings do not include unrealized gains and losses. In 1982, unrealized gains added $2 billion to foreign holdings.

[2] U.S. treasuries shown on this table include only marketable securities. In 1983, there was $350 billion in nonmarketable debt held largely by U.S. Government agencies and affiliates.

THE FEDERAL GOVERNMENT AND CREDIT MARKETS

Typically, during an economic expansion, Federal Government borrowing declines as the cyclically generated budget deficit declines. This allows private credit demand to finance the consumer and business investment so important to the durability of the expansion. Chart 5 shows how Federal Government borrowing has typically moved with the business cycle. U.S. Government borrowing peaked as a percent of total borrowing in early 1975, early 1980, and late 1982—all recession low points. In subsequent years, Federal borrowing requirements diminished as the expansion took hold and business and household demand for credit rose.

Chart 5


Credit Market Borrowing
Sectors as a percent of total borrowing
Percent of total borrowing
Household
Nonfinancial business
U.S. Government
State and local governments
Foreign
100
90
80
70
60
50
40
30
20
10
0
1973
1974
1975
1976
1977
1978
1979
1980
1981
1982
1983

However, fiscal policy as it now stands produces a deficit that is very much independent of cyclical influences. Under current budget policies, this "structural" deficit, a result of the basic imbalance between revenues and outlays, is expected to grow steadily as are Federal borrowing needs. Either private credit demand will be "squeezed out" by a preemptive Federal sector, interest rates will rise, or both will occur. It is for this reason that the Committee recommends significant changes in legislation to reduce Federal borrowing needs in 1985 and beyond.

The past year clearly illustrates the problem. In contrast to the first year of previous recoveries, Federal Government borrowing absorbed about 35 percent of total credit available in 1983, compared to an average share of about 17 percent during the first recovery year over the six prior cycles. In 1984, the Treasury's demand for funds is expected to continue on a high track. With no change in budget policies, the Treasury's share of total borrowing is expected to be over 25 percent, compared to an average of 5.4 percent for the second year of prior recoveries.

Despite the U.S. Government's demand for credit, the widely feared effects of "crowding out" are not expected until early 1985. This can be explained, in part, by relatively cash rich conditions in the major private borrowing sectors. Consumers' financial net worth grew rapidly in the final stages of the recession and the first stages of the recovery. The growth in consumers' net worth slowed in the third quarter of 1983 but the ratio of debt to personal disposable income is still low by recent historical standards.

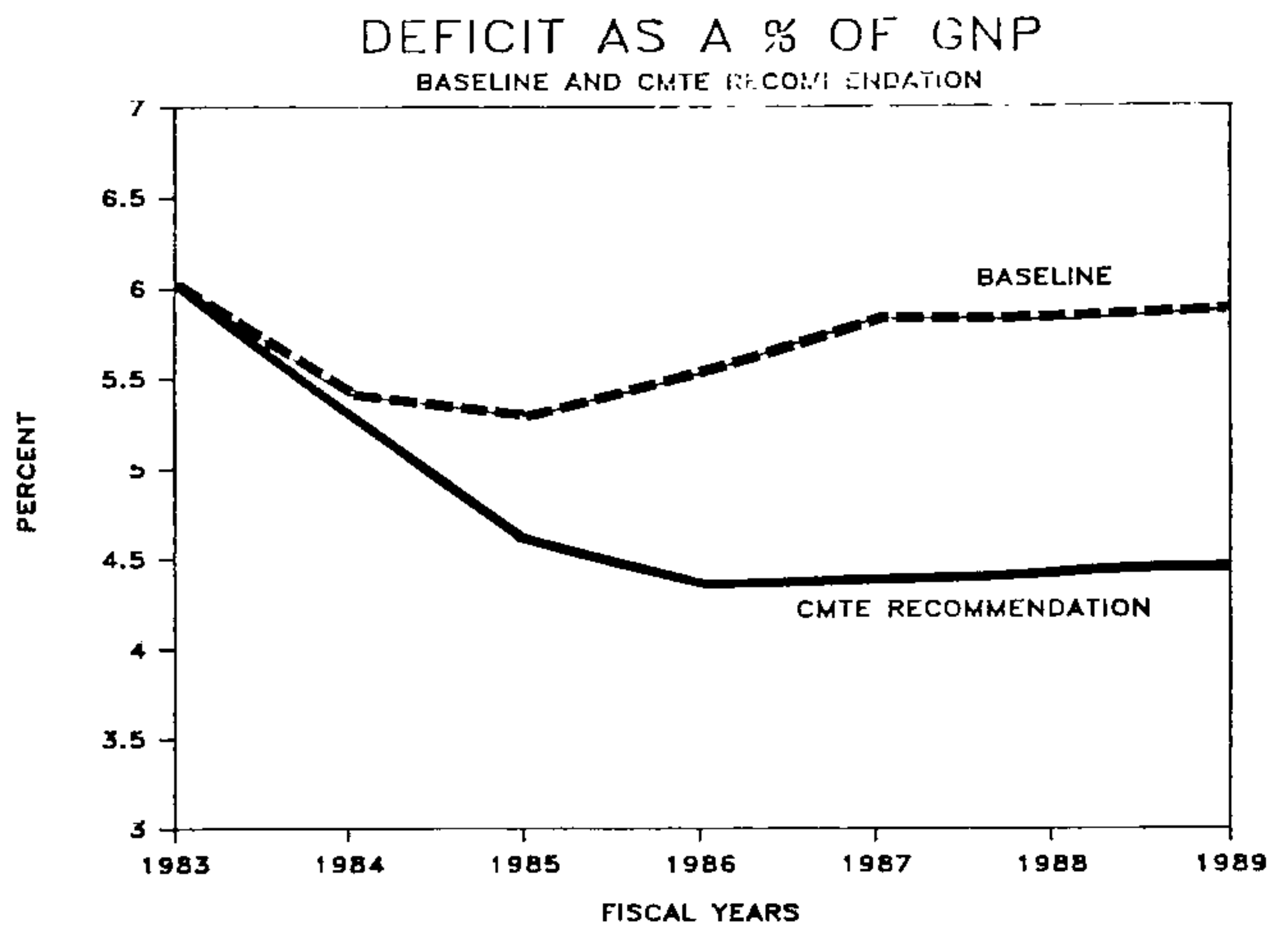
Business cash reserves are also reasonably high. Pretax profits are expected to surge in 1984 because of sales growth and greater efficiency. Also, the accelerated depreciation allowances increase internal cash flow substantially. In 1983, internal funds generation actually exceeded business outlays by $10 billion, a 25-year high. By contrast, internal funds generation fell short of outlays by an average of $34.6 billion annually, or by about 15 percent in the 1976 to 1981 period.

It is disturbing, however, that the volume of short-term credit demand has recovered so sharply in 1984. As mentioned above, there still exists a favorable balance between internal funds and outlays and this is somewhat inconsistent with the recent acceleration in total business borrowing. Therefore, it is not clear whether the recent strength in business borrowing indicates growing demand for credit. It may be due to a fall-off in bond and equity financing, the desire to build up liquid assets, or the stepped up pace of corporate takeover activity. To the extent that corporate takeover activity is playing a role, the borrowed funds will be recycled back into the financial markets as shareholders reinvest the proceeds of the transactions. However, the risk that short-term credit demand will rise sharply and remain high points up the need to enact actual budget reductions as expeditiously as possible.

IMPLICATIONS FOR POLICY

Federal budget deficits are expected to rise from $206.7 billion in FY 1985 to $316.4 billion by FY 1989 if current policies are left unchanged. This means that Federal budget deficits would rise from 5.3 percent of GNP in FY 1985 to 5.9 percent of GNP by FY 1989. The Committee recommendation reduces the baseline budget deficits $25.9 billion in FY 1985 and $75.2 billion in FY 1989 and reduces projected budget deficits to 4.5 percent of GNP through FY 1989. Chart 6 shows the growth in Federal budget deficits relative to the size of the economy under the current policy baseline and under the Committee's recommendation.

Chart 6



In the past Federal budget deficits declined as the economy grew. Higher employment and growing incomes raised revenues and reduced Federal spending so that Federal borrowing needs diminished as private credit demand grew.

This is not the case under current taxing and spending policies. Federal budget deficits continue to grow even though the economy is projected to expand rapidly and approach full employment by 1989. The portion of the deficit due to slack in the economy is called the "cyclical" deficit and declines from $76 billion in FY 1984 to only $27 billion in FY 1989. The cyclical deficit will account for less than 10 percent of the total Federal budget deficit by FY 1989.

The remaining portion of the deficit—the budget deficit that is due to tax and spending policies—is called the "structural" deficit.

This is the portion of the budget deficit that is the result of a fundamental imbalance between the growth in revenues and the growth in spending quite apart from the budget effects of changes in the economy.

One measure of the structural budget deficit is the "high employment" or so-called "standardized employment" deficit. The "standardized employment" budget estimates what revenues and outlays would be if the economy were growing near its full potential and the unemployment rate were 6 percent. The difference between revenues and outlays standardized for a 6-percent unemployment rate is the "standardized employment" deficit. Under current policies the structural deficit will rise from $116.6 billion in FY 1984 to $289.4 billion in FY 1989—or more than 90 percent of the total budget deficit. The Committee's recommendation eliminates about one-quarter of the structural deficits over the 5-year period.

Added fiscal stimulus from rising structural deficits can create "boom" conditions that are not consistent with sustained low inflation or with the overall guidelines for monetary policy. Therefore, policies to reduce "structural" deficits as the economy expands will help to sustain the economy at moderate growth rates consistent with monetary policy objectives and will reduce the risk of rising interest rates. In testimony before the Joint Economic Committee, Federal Reserve Chairman Volcker indicated that a $50 billion reduction in the deficit would reduce interest rates about 1 percentage point. The Committee recommendation reduces current policy deficits by $65.5 billion in FY 1987.

Indeed, real interest rates may have to reach new peaks for the economy to slow if deficits are not reduced. A policy of large budget deficits and high or rising real interest rates clearly invites the risk of recession. It is for this reason that the Committee recommendation focuses on deliberate actions that can be enacted immediately rather than budget plans which cannot be fulfilled through actual legislation this year. Charts 7 and 8 illustrate the very high level of real interest rates.

Chart 7

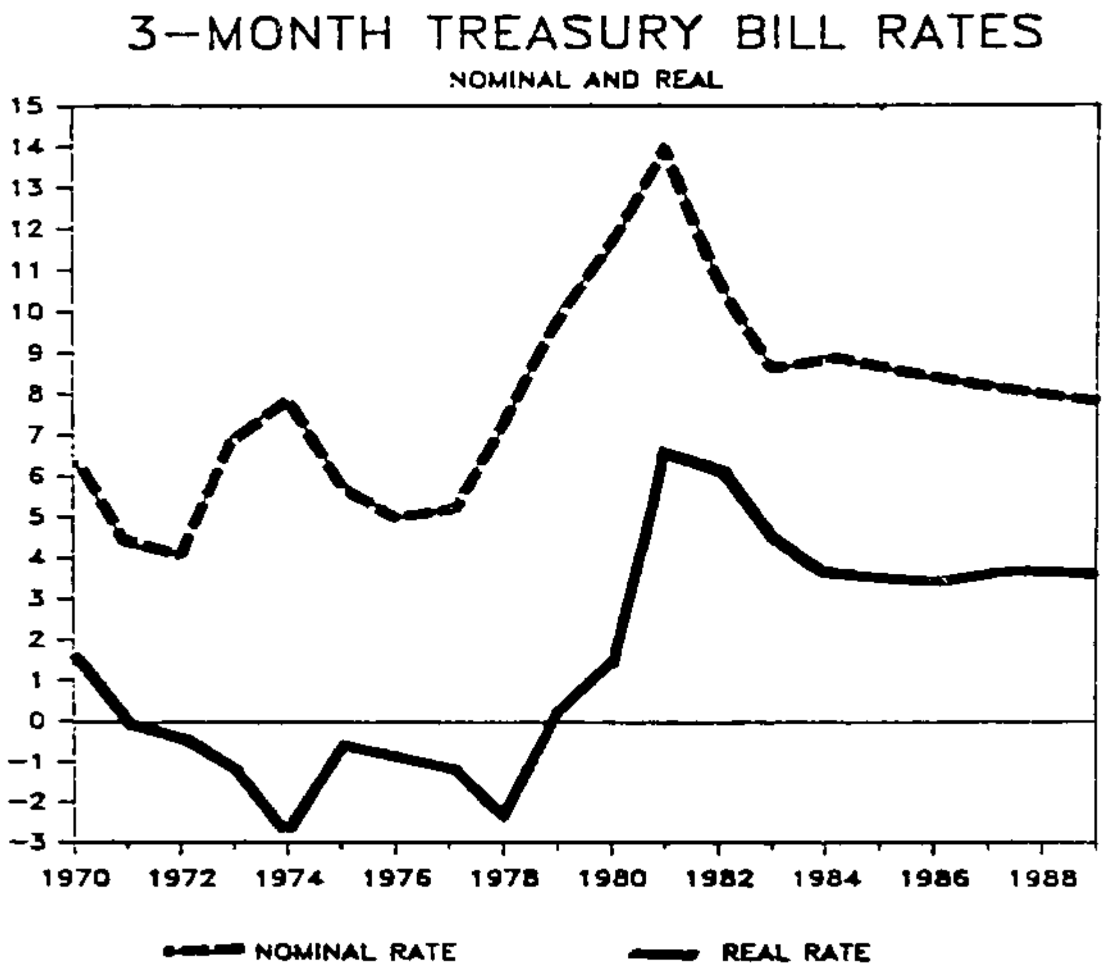
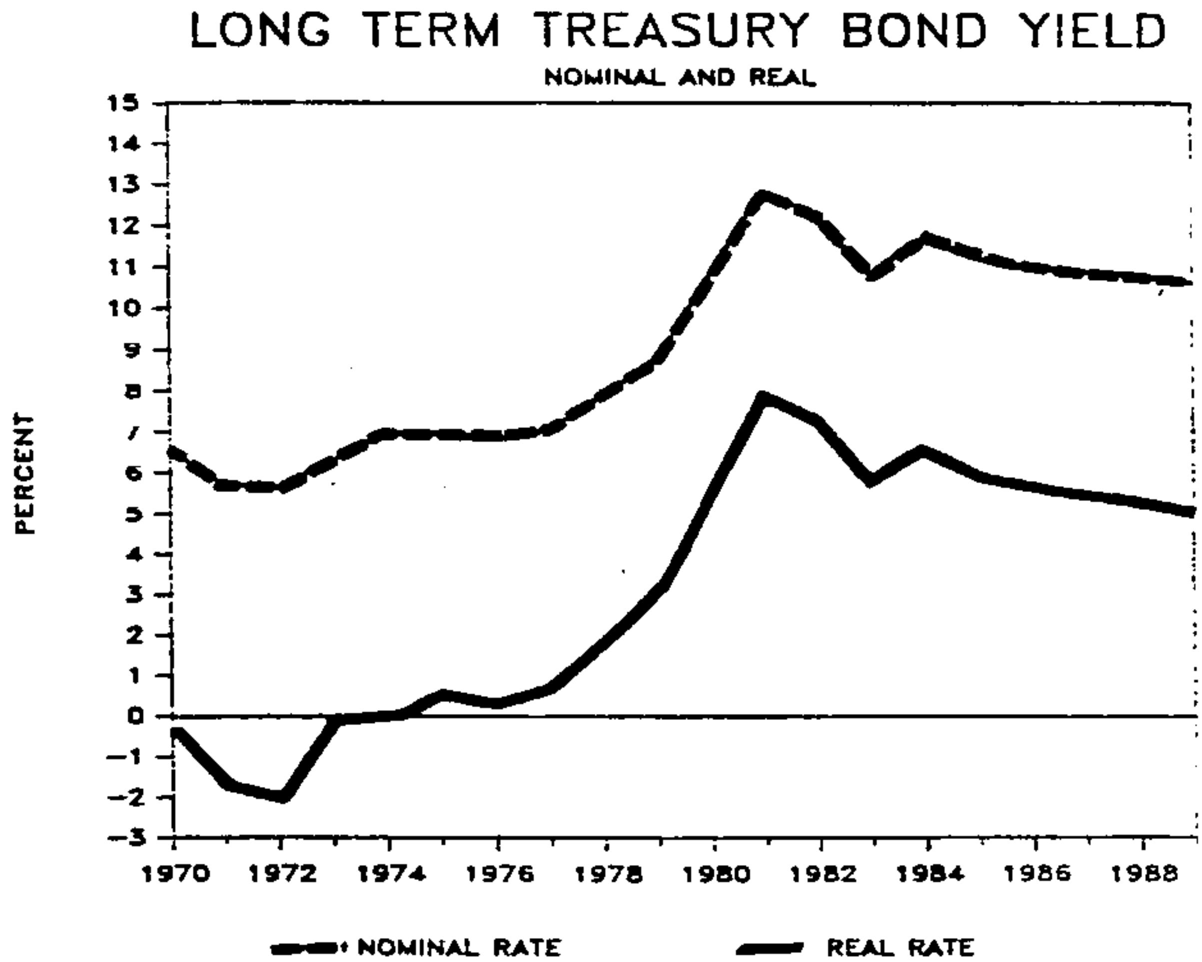
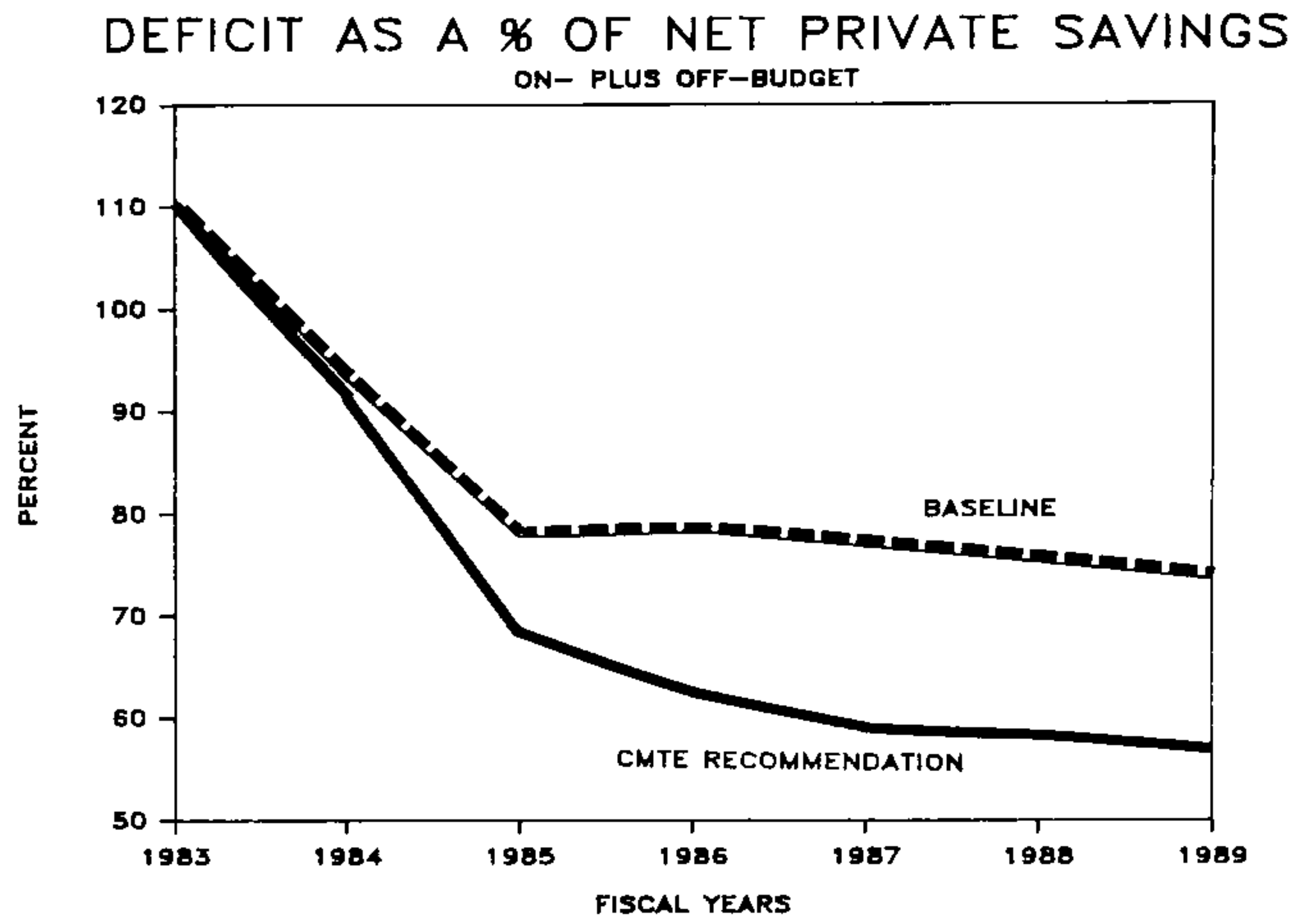

3-MONTH TREASURY BILL RATES
NOMINAL AND REAL
15
14
13
12
11
10
9
8
7
6
5
4
3
2
1
0
-1
-2
-3
1970
1972
1974
1976
1978
1980
1982
1984
1986
1988
NOMINAL RATE
REAL RATE

Chart 8



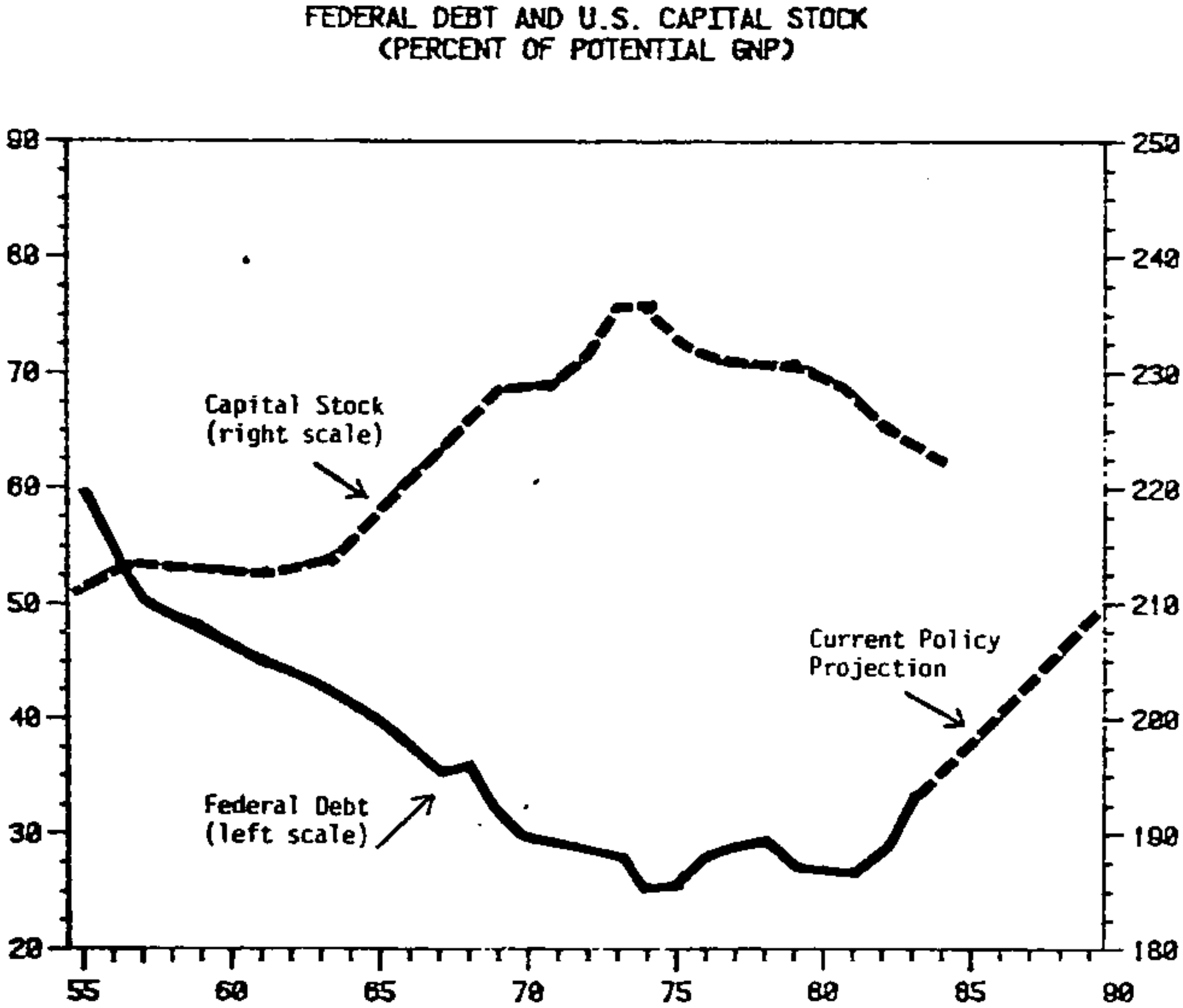
The CBO baseline budget deficits are likely to absorb over 70 percent of net private savings through the end of the decade. The budget actions recommended by the Committee this year will hold Federal borrowing to just one-half of net private savings as chart 9 shows. Clearly, substantial additional actions will be required next year to bring Federal borrowing requirements back into line with historical norms.

Chart 9



Large Federal borrowing requirements also have important implications for the long-run growth of capital and living standards. To the extent that savings do not grow, large public borrowing requirements will "crowd out" private capital and reduce the capital formation in the economy. Economies with low capital formation have a lower long-term growth rate and, ultimately, lower growth in per capita consumption as well. Some estimates indicate that current budget policies, which will more than double the outstanding public debt in the next 5 years, will reduce output by 3 percent. Chart 10 shows the relationship between the rapid postwar decline in the Federal debt to GNP ratio and the growth in the real capital stock. As this chart shows, current budget policies run the risk of reversing this trend.

Chart 10



In the near term, the United States can attempt to ease stress on credit markets by drawing on the savings of other countries. Foreign capital is expected to become an important supplement to U.S. credit markets this year. Foreign savings will account for over 15 percent of net new investment. This is very different from most of the postwar experience during which the United States was a net capital exporter.

Increasing U.S. dependence on foreign capital has three effects. First, it tends to increase the sensitivity of U.S. economic policy to foreign considerations. To the extent that large trade deficits or foreign concern over economic policy and the outlook for inflation in the United States reduce demand for dollars, U.S. interest rates will have to rise to prevent a run on the dollar. Second, as the foreign capital investment in the United States grows and interest rates also rise, the United States must export an increasing share of its income abroad in the form of interest payments. In the extreme, this creates a reduction in the standard of living in the United States much as higher prices on imported oil represented a transfer of income from the United States to the OPEC countries.

Third, as other economies begin to grow, their own demand for credit will also grow and the cost of capital worldwide will rise. World financial markets are highly integrated. The U.S. Government not only competes with private U.S. investment for credit but also competes with other foreign borrowers for the credit necessary to finance economic expansion. The effect is likely to be higher interest rates worldwide as the expansion progresses.

Finally, U.S. budget policies also affect the economic policies and progress of other countries. Expansionary budget policies and high real interest rates in the United States can combine to hold the dollar at a high value. Through the current system of flexible exchange rates, other countries must hold their interest rates high or be willing to suffer the inflationary consequences of falling currency values. The result is more restrictive economic policies in other countries and slower rates of economic growth outside the United States. Slower world growth holds down the growth in U.S. exports and creates greater incentives for foreigners to compete in U.S. markets.

Interest rates both in the United States and abroad are not likely to decline unless the United States reduces Federal borrowing needs substantially. Intervention or regulatory measures to reduce interest rates and/or exchange rates are likely to have only short-term benefits and may be counterproductive. Indeed, a world plagued by economic stagnation and U.S.-dominated financial markets may well turn to protectionist trade practices in order to stem the rise in unemployment and a gradual but certain decline in living standards. The United States itself runs the risk of seriously eroding its own living standards by shrinking the private capital base through large and sustained growth in Federal debt.

Unfortunately, it is not at all clear how much the deficit should be reduced and over what period of time. The high employment or so-called standardized employment deficit is one measure of the size of the structural deficit problem. However, there are others—some much larger, some much smaller. A first step could be to eliminate the high employment deficit excluding interest costs—otherwise known as the primary standardized deficit. In fact, the Committee's recommendation does achieve this initial and important goal.

An important issue in understanding the structural deficit problem is the role of interest costs in increasing the structural deficit and the extent to which rising interest costs should be offset by other deficit reducing actions. High real interest rates have raised Federal interest costs dramatically. Net interest costs are the most rapidly growing component of the Federal budget and are the single most important reason for the rise in the high employment deficit. The growth in interest costs is a relatively new phenomenon and there is very little in economic theory to use as a guide for setting budget policy in a world of high real interest rates. Chart 11 illustrates the rapid growth in interest costs as a proportion of total spending. Unless budget deficits are reduced, and real interest

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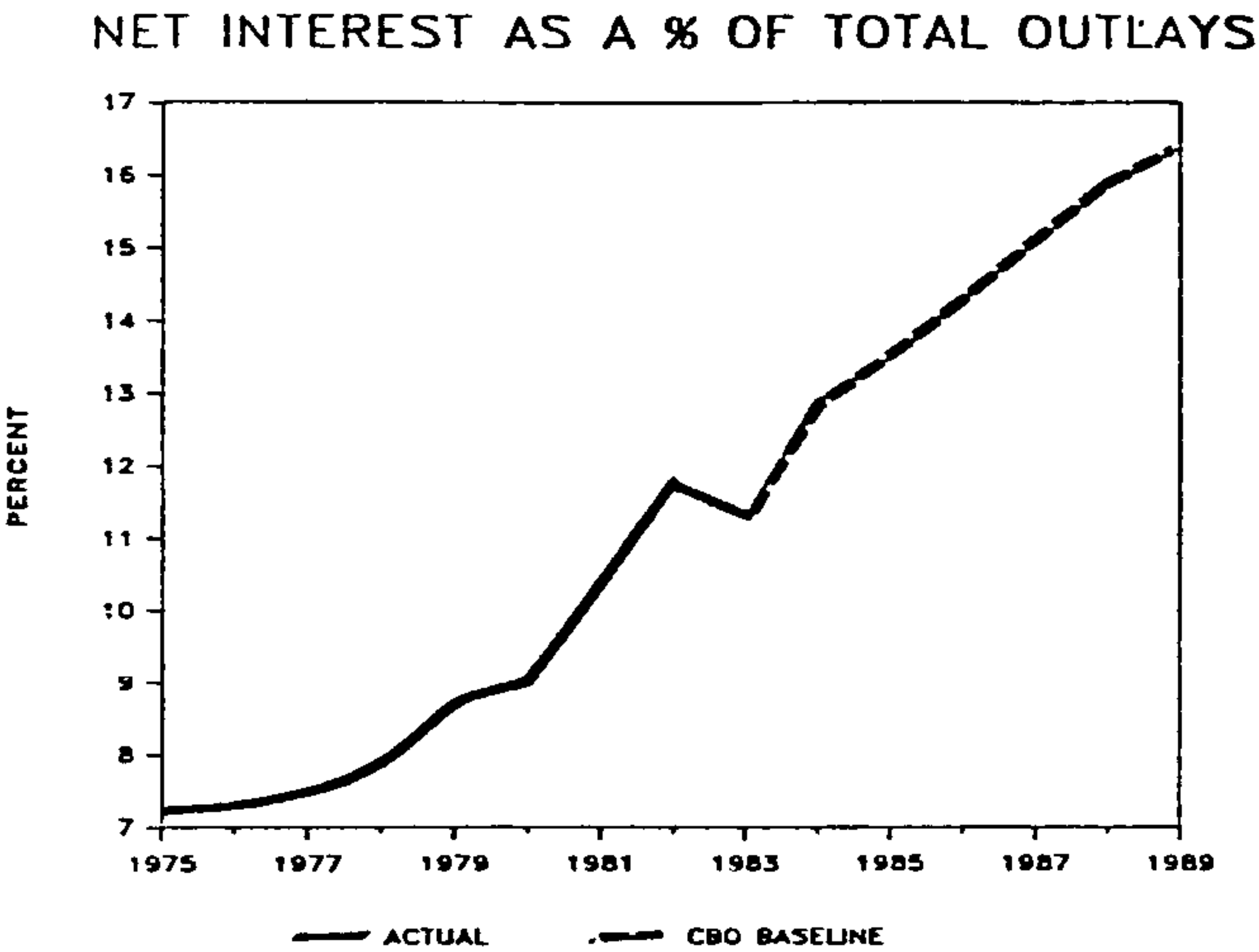
rates also decline, interest costs will become an increasingly important constraint on fiscal policy choices.

Chart 11



Chapter III. REVENUES

Summary

The Committee recommends a revenue level of $743.7 billion for FY 1985. This assumes a $10.7 billion revenue increase in FY 1985 from policy changes. The Committee also recommends a revenue level of $811.0 billion in FY 1986 and $882.6 billion in FY 1987. These revenue levels provide for revenue increases through policy changes of $16.1 billion and $19.1 billion in FY 1986 and FY 1987, respectively. These policy increases are generally in line with recent legislative actions of the House and the Senate.

Revenue Baseline

The revenue baseline used by the Committee during its deliberations on the budget resolution is shown in table 1, below. The revenue baseline was estimated by the Congressional Budget Office using its January 1984 baseline economic forecast.

Table 1

REVENUE BASELINE

[In billions of dollars]

Source	Actual	Projection					
	FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	FY 1988	FY 1989
Individual income taxes	288.9	293.6	328.7	361.6	396.0	437.7	477.9
Corporation income taxes	37.0	62.3	64.8	71.1	81.3	84.9	85.1
Social insurance taxes and contributions:							
Social security (OASDI)	147.3	166.9	189.5	206.9	223.7	254.6	277.4
Medicare (HI)	35.6	39.9	45.6	52.6	57.9	62.9	67.3
Other	26.1	30.5	33.6	36.2	38.0	37.0	37.6
Excise taxes	35.3	37.7	37.6	32.7	31.9	32.5	33.2
Estate and gift taxes	6.1	5.9	5.6	5.1	4.6	4.3	4.7
Customs duties	8.7	10.2	11.3	11.6	11.8	12.2	12.8
Miscellaneous receipts	15.6	16.0	16.3	17.1	18.0	19.0	20.0
Total revenues	600.6	663.0	733.0	794.9	863.5	945.1	1,015.8
Nominal growth (percent)	—3	10	11	8	9	9	7
Real growth (percent)	—7	6	5	3	4	5	3

Note.—Details may not add to totals due to rounding.

FINANCE COMMITTEE RECOMMENDATION

The Finance Committee has approved a Deficit Reduction Act of 1984 which, if enacted, would increase revenues by $2.5 billion in FY 1984, $10.6 billion in FY 1985, $16.1 billion in FY 1986, and $19.1 billion in FY 1987.

COMMITTEE RECOMMENDATION

The Committee recommendation assumes a revenue level of $743.7 billion for FY 1985, a $10.7 billion revenue increase from the baseline. The Committee's recommendation is consistent with the Deficit Reduction Act of 1984 as approved by the Finance Committee on March 21, 1984. The recommendation also is consistent with a small revenue adjustment reported by the Governmental Affairs Committee in S. 2062, the Omnibus Reconciliation Act of 1983.

Table 2

REVENUE PROJECTIONS

[In billions of dollars]

	Recommendation				Projection	
	FY 1984	FY 1985	FY 1986	FY 1987	FY 1988	FY 1989
Baseline	663.0	733.0	794.9	863.5	945.1	1,015.8
Revenue increase	+2.4	+10.7	+16.1	+19.1	+20.0	+21.1
Committee recommendation	665.4	743.7	811.0	882.6	965.1	1,036.9

TAX EXPENDITURES

Tax expenditures total $369.3 billion in FY 1985. Table 3 shows the revenue effect of these items for fiscal years 1983 through 1988. It should be noted that, because of interaction among the provisions, the revenue effect of altering more than one of these preference items would not necessarily equal the sum of each individual item.

Table 3

TAX EXPENDITURE ESTIMATES BY FUNCTION [1]

[Fiscal years, in millions of dollars]

Function	Corporations						Individuals					
	1983	1984	1985	1986	1987	1988	1983	1984	1985	1986	1987	1988
National defense:												
Exclusion of benefits and allowances to Armed Forces personnel	...	...	...	...	...	...	2,205	2,250	2,380	2,520	2,670	2,820
Exclusion of military disability pensions	...	...	...	...	...	...	165	160	165	175	185	195
International affairs:												
Exclusion of income earned abroad by United States citizens	...	...	...	...	...	...	1,285	1,300	1,365	1,435	1,505	1,580
Deferral of income of domestic international sales corporations (DISC)	1,390	1,185	1,075	1,050	1,075	1,110	...	...	...	...	...	...
Deferral of income of controlled foreign corporations	430	345	375	390	420	455	...	...	...	...	...	...
General science, space, and technology:												
Expensing of research and development expenditures	2,165	2,370	2,360	2,425	2,485	2,535	105	120	125	125	130	135
Credit for increasing research activities	615	650	660	305	65	25	30	35	40	30	5	(2)
Suspension of regulations relating to allocation under section 861 of research and experimental expenditures	120	60	(2)	...	...	...	...	...	...	...	...	...
Energy:												
Expensing of exploration and development costs:												
Oil and gas	660	440	590	740	835	895	875	800	815	855	900	950
Other fuels	30	30	35	35	40	40	...	...	...	...	...	...
Excess of percentage over cost depletion:												
Oil and gas	375	430	445	465	510	555	1,425	1,275	1,305	1,410	1,505	1,625
Other fuels	325	350	355	380	410	440	15	15	15	15	15	20
Capital gains treatment of royalties from coal	35	40	40	45	50	55	140	145	160	175	190	205

Alternative fuel production credit	5	20	25	40	105	285						
Alcohol fuel credit[3]	5	5	5	5	5	5						
Exclusion of interest on State and local government industrial development bonds for energy production facilities	15	20	30	40	55	70	5	10	15	20	20	25
Residential energy credits:												
Supply incentives							340	450	610	700	70	
Conservation incentives							330	305	305	260		
Alternative, conservation and new technology credits:												
Supply incentives	215	200	175	100	35	20	10	10	5			
Conservation incentives	135	35	15	5	(2)		(2)	(2)	(2)			
Energy credit for intercity buses	5	5	5	(2)								
Natural resources and environment:												
Expensing of exploration and development costs, nonfuel minerals	55	60	65	75	80	85	(2)	(2)	(2)	(2)	(2)	(2)
Excess of percentage over cost depletion, nonfuel materials	270	295	310	335	355	380	10	10	15	15	15	15
Capital gains treatment of certain timber income	275	390	430	500	575	595	95	125	150	175	205	230
Investment credit and seven-year amortization for reforestation expenditures	(2)	(2)	(2)	(2)	(2)	(2)	10	10	10	10	10	10
Capital gains treatment of iron ore	5	5	5	5	5	10	5	5	5	5	5	10
Exclusion of interest on State and local government pollution control bonds	900	1,025	1,140	1,255	1,375	1,510	440	505	565	620	680	745
Exclusion of payments in aid of construction of water, sewage, gas, and electric utilities	45	75	75	80.	75	70						
Tax incentives for preservation of historic structures	65	90	110	140	185	240	130	165	215	275	355	460

TAX EXPENDITURE ESTIMATES BY FUNCTION[1]—Continued

[Fiscal years, in millions of dollars]

Function	Corporations						Individuals					
	1983	1984	1985	1986	1987	1988	1983	1984	1985	1986	1987	1988
Agriculture:												
Expensing of certain capital outlays	85	90	95	100	100	105	475	495	510	530	545	565
Capital gains treatment of certain income	30	35	35	40	40	45	455	475	500	530	545	565
Deductibility of patronage dividends and certain other items of cooperatives	950	980	1,010	1,040	1,075	1,110	−390	−400	−410	−425	−435	−450
Exclusion of certain cost-sharing payments							50	45	40	30	25	25
Commerce and housing:												
Dividend exclusion							445	435	440	450	460	480
Reinvestment of dividends in stock of public utilities							365	415	450	230		
Net interest exclusion									1,110	3,095	3,480	3,945
Exclusion of interest on State and local government industrial development bonds	2,355	2,790	3,265	3,875	4,385	4,615	570	675	800	985	1,180	1,310
Exclusion of interest on certain savings certificates							2,355	550				
Exemption of credit union income	170	185	200	220	240	260						
Exclusion of interest on life insurance savings							4,805	5,170	5,805	6,640	7,590	8,675
Excess bad debt reserves of financial institutions	335	575	785	930	1,060	1,030						
Deductibility of nonmortgage interest in excess of investment income							7,735	8,160	8,815	9,590	10,550	11,645
Deductibility of mortgage interest on owner-occupied homes							25,065	27,945	30,130	32,785	35,305	37,950
Deductibility of property tax on owner-occupied homes							8,765	9,535	10,480	11,710	13,215	14,980

Exclusion of interest on State and local government housing bonds for owner-occupied housing	1,060	1,190	1,190	1,145	1,105	1,070	450	485	475	445	415	385
Exclusion of interest on State and local government housing bonds for rental housing	585	735	880	1,035	1,185	1,345	285	355	430	510	585	665
Deferral of capital gains on home sales	....	....	....	....	....	....	3,770	4,895	5,625	6,000	6,480	7,030
Exclusion of capital gains on homes sales for persons age 55 and over	....	....	....	....	....	....	1,255	1,630	1,875	2,000	2,160	2,345
Depreciation on rental housing in excess of straightline	120	155	165	170	180	185	575	665	720	760	795	820
Depreciation on buildings other than rental housing in excess of straightline	175	200	215	240	265	295	150	165	185	210	230	250
Accelerated depreciation on equipment other than leased property	9,510	15,865	18,860	17,445	14,110	13,890	1,015	2,460	2,845	2,825	2,255	1,915
Safe harbor leasing:												
Accelerated depreciation and deferral	1,745	1,885	1,635	1,285	1,040	525	....	....	....	....	....	....
Investment credit	1,625	915	705	710	515	280	....	....	....	....	....	....
Amortization of business startup costs	15	20	25	30	35	40	105	160	230	285	315	355
Capital gains other than agriculture, timber, iron ore and coal	1,770	2,075	2,130	2,305	2,475	2,695	14,955	14,320	15,365	16,440	17,590	18,820
Capital gains at death	....	....	....	....	....	....	3,975	3,565	3,665	3,920	4,195	4,490
Reduced rates on the first $100,000 of corporate income	5,690	6,525	7,025	8,060	8,765	9,090	....	....	....	....	....	....
Investment credit, other than ESOPs, rehabilitation of structures, reforestation and leasing	9,965	12,315	16,075	19,870	21,650	22,860	3,220	3,350	3,615	3,945	4,245	4,595
Transportation:												
Amortization of motor carrier operating rights	70	70	50	15	5	([2])	5	5	5	5	([2])	....
Deferral of tax on shipping companies	30	40	40	45	45	45	....	....	....	....	....	....
Exclusion of interest on State and local government mass transit bonds	45	65	75	75	65	75	15	25	20	15	10	20
Community and regional development:												
Five-year amortization for housing rehabilitation	20	25	25	25	25	25	30	35	35	35	35	35
Investment credit for rehabilitation of structures other than historic structures	175	200	185	195	215	235	160	165	160	165	180	200
Education, training, employment, and social services:												

TAX EXPENDITURE ESTIMATES BY FUNCTION[1]—Continued

[Fiscal years, in millions of dollars]

Function	Corporations						Individuals					
	1983	1984	1985	1986	1987	1988	1983	1984	1985	1986	1987	1988
Exclusion of scholarship and fellowship income							415	375	395	410	435	460
Exclusion of interest on State and local government student loan bonds	150	200	260	320	390	460	70	100	125	155	190	225
Parental personal exemption for students age 19 or over							995	950	885	895	905	920
Exclusion of employee meals and lodging (other than military)							680	725	795	870	945	1,030
Employer educational assistance							40	20				
Exclusion of contributions to prepaid legal services plans							25	25	10			
Exclusion for employer provided child care							10	25	55	85	120	155
Tax credit for ESOPs	1,250	1,375	1,875	2,235	2,330	950						
Deductibility of charitable contributions (education)	280	345	360	415	480	525	495	495	580	735	660	615
Deductibility of charitable contributions, other than education and health	350	425	445	515	590	645	6,795	6,765	7,930	10,030	9,030	8,370
Credit for child and dependent care expenses							1,520	1,765	2,190	2,465	2,765	3,160
Targeted jobs credit	215	395	355	155	30	5	75	70	30	([2])		
Deduction for two-earner married couples							3,555	5,835	6,350	6,935	7,600	8,460
Deduction for adoption expenses							10	10	10	10	15	15
Health:												
Exclusion of employer contributions for medical insurance premiums and medical care							18,645	21,300	24,280	27,680	31,555	35,975
Deductibility of medical expenses							3,105	2,630	3,070	3,370	3,740	4,165
Exclusion of interest on State and local government hospital bonds	795	960	1,115	1,265	1,420	1,580	385	470	545	625	700	780
Deductibility of charitable contributions (health)	175	215	225	255	295	325	995	990	1,160	1,470	1,320	1,225

Tax credit for orphan drug research	10	15	15	10								
Income security:												
Exclusion of social security benefits:												
Disability insurance benefits							1,690	1,660	1,695	1,755	1,840	1,930
OASI benefits for retired workers							15,685	16,680	18,070	19,640	21,275	23,045
Benefits for dependents and survivors							3,765	3,870	4,095	4,355	4,630	4,920
Exclusion of railroad retirement system benefits							780	765	765	745	755	775
Exclusion of workmen's compensation benefits							1,870	2,090	2,395	2,755	3,170	3,645
Exclusion of special benefits for disabled coal miners							170	165	165	160	160	165
Exclusion of untaxed unemployment insurance benefits							3,260	3,020	2,585	2,405	2,265	2,120
Exclusion of public assistance benefits							430	430	440	455	470	485
Exclusion of disability pay							145	135	130	130	130	130
Net exclusion of pension contributions and earnings:												
Employer plans							49,700	56,560	66,365	78,310	92,405	109,035
Plans for self-employed							1,065	1,050	1,070	1,115	1,165	1,220
Individual retirement plans							2,695	3,180	3,705	4,240	4,745	5,360
Exclusion of other employee benefits:												
Premiums on group term life insurance							2,100	2,250	2,465	2,715	2,985	3,285
Premiums on accident and disability insurance							115	120	125	130	135	140
Additional exemption for the blind							35	35	35	35	35	35
Additional exemption for the elderly							2,365	2,410	2,570	2,720	2,410	3,130
Tax credit for the elderly							135	135	135	135	135	135
Deductibility of casualty and theft losses							575	380	470	520	590	670
Earned income credit [4]							385	330	290	215	155	210
Veterans benefits and services:												
Exclusion of veterans disability compensation							1,820	1,830	1,950	1,995	2,070	2,145
Exclusion of veterans pensions							310	290	280	275	275	275
Exclusion of GI bill benefits							130	130	115	100	90	65
General government:												
Credits and deductions for political contributions							190	200	220	220	230	240
General purpose fiscal assistance:												

TAX EXPENDITURE ESTIMATES BY FUNCTION[1]—Continued

[Fiscal years, in millions of dollars]

Function	Corporations						Individuals					
	1983	1984	1985	1986	1987	1988	1983	1984	1985	1986	1987	1988
Exclusion of interest on general purpose State and local government debt	6,985	7,850	8,695	9,530	10,370	11,280	3,435	3,870	4,295	4,715	5,130	5,580
Deductibility of nonbusiness State and local government taxes other than on owner-occupied homes							20,060	21,770	26,605	29,970	34,125	39,010
Tax credit for corporations receiving income from doing business in U.S. possessions	1,350	1,075	1,135	1,240	1,375	1,525						
Net interest:												
Deferral of interest on savings bonds							50	160	225	290	355	410

[1] All estimates are based on the tax law enacted through the 97th Congress.

[2] Less than $2,500,000. All estimates have been rounded to the nearest $5 million.

[3] In addition, the exemption from the excise tax for alcohol fuels results in a reduction in excise tax receipts, net of the income tax effect, of approximately $40 million for 1983, $60 million for 1984, $80 million for 1985, $95 million for 1986, and $110 million for 1987 and 1988.

[4] The figures in the table indicate the effect of the earned income credit on receipts. The increase in outlays is: $1,197 million in 1983, $1,119 million in 1984, $1,032 million in 1985, $1,004 million in 1986, $968 million in 1987, and $910 million in 1988.

SUM OF THE EXPENDITURE ITEMS BY TYPE OF TAXPAYER, FISCAL YEARS 1983-88

[In millions of dollars]

Fiscal year	Corporations and individuals	Corporations	Individuals
1983	295,280	56,225	239,055
1984	327,455	67,915	259,540
1985	369,330	77,475	291,855
1986	411,575	83,210	328,365
1987	446,725	84,600	362,125
1988	490,850	86,495	404,355

NOTE.—These totals represent the mathematical sum of the estimated fiscal year effect of each of the tax expenditure items included in the table. The limitations on the use of the totals are explained in the text.

Source: Staffs of the Joint Committee on Taxation and the Treasury Department. This table was compiled by the Joint Committee on Taxation in 1983 and was included in the Report of the Senate Budget Committee to accompany S. Con. Res. 27, the First Concurrent Resolution on the Budget for FY 1984. The Joint Committee on Taxation is presently compiling a similar table for fiscal years 1984-89, to be published later this year.

Chapter IV. SPENDING

INTRODUCTION

This chapter provides details on the Committee's spending recommendations for each of the 21 functional areas of the budget.

Each functional section contains the following material:

—A listing of the major national needs addressed by Federal activities in the function.

—A table showing for fiscal years 1984–87 the baseline used by the Committee in arriving at its spending recommendations and the Committee's spending recommendations.

—A narrative explanation of the Committee's spending recommendations.

—A table showing historical spending information for the function.

THE BASELINE

The "baseline" for spending as used in this report has been prepared using the economic forecast contained in the Congressional Budget Office (CBO) annual report to the Budget Committees and the latest technical information available to CBO.

The baseline for all spending functions except function 050, National Defense, and function 900, Net Interest, is the level as estimated by the CBO that would occur if existing programs and policies were continued unchanged through the projection period with all programs adjusted for inflation so that existing real levels of activity are maintained.

The baseline for the National Defense function is the President's budget request (not re-estimated by CBO) as contained in his FY 1985 budget transmitted to the Congress on February 1, 1984.

The baseline for the Net Interest function is the CBO estimate adjusted to take account of the National Defense baseline level.

This baseline is consistent with the baseline used by the House Budget Committee in its markup of the First Budget Resolution which was subsequently adopted by the full House of Representatives.

General Note

In the case of all tables in this chapter, details may not add to totals due to rounding.

Summary Table 1

SUMMARY OF COMMITTEE RECOMMENDATION

[In billions of dollars]

Function		Recommendation FY 1984	Recommendation FY 1985	Recommendation FY 1986	Recommendation FY 1987	Projection FY 1988	Projection FY 1989
050: National Defense	BA	265.3	299.0	333.7	372.0	414.4	456.4
	O	237.5	266.0	294.6	330.4	367.0	402.8
150: International Affairs	BA	21.0	15.2	16.3	17.1	22.0	17.7
	O	12.0	13.0	12.2	12.5	13.5	13.8
250: General Science, Space, and Technology	BA	8.5	8.5	8.6	8.9	9.3	9.7
	O	8.3	8.4	8.5	8.7	9.1	9.5
270: Energy	BA	3.0	4.1	4.0	4.0	4.2	4.4
	O	3.0	3.8	3.9	3.8	4.0	4.1
300: Natural Resources and Environment	BA	11.6	11.6	12.0	12.3	12.7	13.1
	O	12.3	11.7	11.8	11.8	12.1	12.3
350: Agriculture	BA	4.5	15.6	14.5	13.4	12.6	12.3
	O	10.4	15.8	14.4	13.2	12.4	12.1
370: Commerce and Housing Credit	BA	5.6	6.4	6.3	7.7	8.4	8.9
	O	4.0	1.6	2.2	3.4	3.3	2.9
400: Transportation	BA	29.3	28.8	30.0	31.1	32.2	33.4
	O	25.7	26.9	28.4	29.5	30.5	31.8

SUMMARY OF COMMITTEE RECOMMENDATION—Continued

[In billions of dollars]

Function		Recommendation				Projection	
		FY 1984	FY 1985	FY 1986	FY 1987	FY 1988	FY 1989
450: Community and Regional Development	BA	7.2	6.9	7.5	7.8	8.2	8.5
	O	7.7	8.2	8.0	8.1	8.0	8.2
500: Education, Training, Employment, and Social Services	BA	31.3	28.9	30.2	31.5	32.9	34.3
	O	28.1	29.0	29.3	30.4	31.8	33.1
550: Health	BA	31.7	32.4	36.2	39.0	43.1	46.4
	O	30.8	33.5	35.8	38.5	42.4	45.7
570: Medical Insurance	BA	62.5	71.5	84.2	99.9	104.1	111.3
	O	59.9	67.1	74.1	83.1	94.0	105.6
600: Income Security	BA	118.4	145.1	154.9	164.4	174.7	183.4
	O	97.1	113.2	119.0	124.3	131.2	137.0
650: Social Security	BA	175.0	199.8	215.9	229.1	268.7	297.7
	O	179.4	190.3	202.7	217.1	233.2	249.2
700: Veterans Benefits and Services	BA	26.1	26.8	27.0	27.6	28.3	28.9
	O	25.8	26.2	26.7	27.3	28.1	28.5
750: Administration of Justice	BA	5.9	6.1	6.2	6.3	6.4	6.6
	O	5.9	6.0	6.2	6.3	6.4	6.6
800: General Government	BA	5.3	5.6	5.8	5.9	6.1	6.3
	O	5.5	5.4	5.6	5.8	6.0	6.0

850: General Purpose Fiscal Assistance	BA	6.8	6.4	6.4	6.7	7.1	7.4
	O	6.8	6.4	6.4	6.7	7.0	7.3
900: Net Interest	BA	109.6	124.9	141.4	160.4	182.5	200.6
	O	109.6	124.9	141.4	160.4	182.5	200.6
920: Allowances	BA	0.7	0.8	2.0	3.1	4.4	5.6
	O	0.7	0.8	2.1	3.3	4.6	6.0
950: Undistributed Offsetting Receipts	BA	−15.2	−33.8	−36.7	−38.5	−41.3	−45.0
	O	−15.2	−33.8	−36.7	−38.5	−41.3	−45.0
Total	BA	914.1	1,010.6	1,106.4	1,209.7	1,341.0	1,447.9
	O	855.3	924.4	996.6	1,086.1	1,185.8	1,278.1
Revenues		665.4	743.7	811.0	882.6	965.1	1,036.9
Deficit		189.9	180.7	185.6	203.5	220.7	241.2

Summary Table 2

SUMMARY OF BASELINE [1]

[In billions of dollars]

Function		FY 1984	FY 1985	FY 1986	FY 1987	FY 1988	FY 1989
050: National Defense	BA	265.3	313.4	359.0	389.1	421.6	456.4
	O	237.5	272.0	310.6	348.6	379.7	409.1
150: International Affairs	BA	21.0	15.9	17.3	18.3	23.0	18.6
	O	12.0	13.3	12.9	13.3	14.2	14.6
250: General Science, Space, and Technology	BA	8.5	8.9	9.0	9.3	9.8	10.2
	O	8.3	8.6	8.9	9.2	9.6	10.0
270: Energy	BA	3.0	4.4	4.4	4.4	4.6	4.8
	O	3.0	4.0	4.3	4.2	4.3	4.4
300: Natural Resources and Environment	BA	11.6	11.9	12.4	12.7	13.1	13.5
	O	12.3	12.0	12.1	12.2	12.5	12.8
350: Agriculture	BA	4.2	14.6	15.8	17.1	17.9	19.3
	O	10.1	14.9	15.6	17.0	17.7	19.1
370: Commerce and Housing Credit	BA	5.6	6.6	6.6	8.2	8.8	9.3
	O	4.0	2.6	2.5	3.8	3.7	3.3
400: Transportation	BA	29.3	29.2	30.4	31.6	32.7	33.9
	O	25.7	27.1	28.7	30.0	31.0	32.3
450: Community and Regional Development	BA	7.2	7.0	7.8	8.2	8.5	8.9
	O	7.8	8.5	8.2	8.4	8.3	8.5

500: Education, Training, Employment, and Social Services	BA	31.3	30.1	31.5	32.9	34.4	35.9
	O	28.1	29.3	30.4	31.8	33.2	34.7
550: Health	BA	31.6	33.4	37.0	39.9	43.2	46.8
	O	30.8	34.3	36.6	39.4	42.5	46.0
570: Medical Insurance	BA	62.8	71.5	84.2	99.6	103.7	110.8
	O	60.1	68.8	77.0	86.9	98.3	110.9
600: Income Security	BA	118.5	146.0	156.1	165.6	176.0	184.8
	O	97.3	115.5	120.7	126.2	133.3	139.3
650: Social Security	BA	175.0	199.8	215.9	229.2	268.7	297.7
	O	179.4	190.3	202.8	217.2	233.3	249.3
700: Veterans Benefits and Services	BA	26.1	27.1	27.3	28.0	28.6	29.3
	O	25.8	26.4	26.9	27.6	28.4	28.9
750: Administration of Justice	BA	5.9	6.2	6.3	6.5	6.6	6.8
	O	5.9	6.1	6.3	6.4	6.6	6.7
800: General Government	BA	5.3	5.7	5.9	6.1	6.2	6.4
	O	5.4	5.5	5.8	5.9	6.2	6.2
850: General Purpose Fiscal Assistance	BA	6.8	6.7	6.7	7.1	7.4	7.7
	O	6.8	6.7	6.7	7.0	7.4	7.7
900: Net Interest	BA	109.8	126.4	146.7	171.2	199.6	224.5
	O	109.8	126.4	146.7	171.2	199.6	224.5

SUMMARY OF BASELINE [1]—Continued

[In billions of dollars]

Function		FY 1984	FY 1985	FY 1986	FY 1987	FY 1988	FY 1989
920: Allowances	BA	0.7	1.0	2.8	4.7	6.7	8.8
	O	0.7	1.0	2.9	5.0	7.1	9.4
950: Undistributed Offsetting Receipts	BA	−15.2	−33.8	−36.8	−38.7	−41.6	−45.4
	O	−15.2	−33.8	−36.8	−38.7	−41.6	−45.4
Total	BA	914.3	1,032.2	1,146.2	1,250.9	1,379.5	1,489.2
	O	855.7	939.7	1,029.9	1,132.5	1,235.2	1,332.2
Revenues		663.0	733.0	794.9	863.5	945.1	1,015.8
Deficit		192.7	206.7	235.0	269.0	290.1	316.4

[1] Assumes CBO baseline for non-defense and President's budget request (not re-estimated by CBO) for defense, plus interest adjustment to take account of the defense change. This baseline is consistent with the baseline used by the House Budget Committee in its markup of the First Budget Resolution which was subsequently adopted by the full House of Representatives.

Summary Table 3

SUMMARY OF PRESIDENT'S BUDGET REQUEST AS RE-ESTIMATED BY CBO

[In billions of dollars]

Function		FY 1984	FY 1985	FY 1986	FY 1987	FY 1988	FY 1989
050: National Defense	BA	264.5	313.8	359.0	389.1	421.6	456.4
	O	234.3	273.5	315.3	352.5	387.4	419.3
150: International Affairs	BA	22.1	21.2	22.4	22.4	22.5	21.5
	O	12.3	16.1	16.5	17.8	18.5	18.4
250: General Science, Space, and Technology	BA	8.5	9.1	9.5	10.0	10.5	11.0
	O	8.3	8.7	9.3	9.8	10.3	10.8
270: Energy	BA	3.0	3.3	3.1	2.8	2.7	2.8
	O	3.0	3.5	3.3	2.7	2.6	2.4
300: Natural Resources and Environment	BA	11.7	11.2	11.2	11.2	11.4	11.4
	O	12.3	11.5	11.3	11.1	11.2	11.3
350: Agriculture	BA	4.3	14.4	14.0	13.9	12.7	12.4
	O	10.1	14.7	13.9	13.8	12.6	12.2
370: Commerce and Housing Credit	BA	5.6	5.2	5.4	6.8	7.0	7.4
	O	4.0	1.8	1.6	2.7	2.2	1.6
400: Transportation	BA	29.4	29.4	30.1	30.0	29.7	29.4
	O	25.8	26.8	28.2	29.2	29.1	29.0
450: Community and Regional Development	BA	7.2	6.4	6.6	6.6	6.7	6.7
	O	7.8	8.1	7.4	7.3	6.8	6.7

SUMMARY OF PRESIDENT'S BUDGET REQUEST AS RE-ESTIMATED BY CBO—Continued

[In billions of dollars]

Function		FY 1984	FY 1985	FY 1986	FY 1987	FY 1988	FY 1989
500: Education, Training, Employment, and Social Services	BA	31.2	27.2	27.3	27.4	27.5	27.7
	O	28.0	27.8	27.1	27.1	27.3	27.5
550: Health	BA	31.6	32.1	35.0	37.5	40.2	43.1
	O	30.8	33.2	35.0	37.4	40.1	43.0
570: Medical Insurance	BA	62.9	70.8	83.3	98.2	97.5	105.0
	O	60.0	67.7	74.9	83.5	93.3	104.1
600: Income Security	BA	117.3	140.2	153.7	165.6	173.4	182.2
	O	96.8	113.4	117.2	122.2	128.5	133.5
650: Social Security	BA	175.0	200.7	216.8	229.9	273.4	301.0
	O	179.4	190.3	202.7	217.0	233.0	248.9
700: Veterans Benefits and Services	BA	26.0	27.2	28.2	28.9	29.8	30.5
	O	25.5	26.3	27.6	28.4	29.4	30.0
750: Administration of Justice	BA	5.9	6.1	6.2	6.3	6.4	6.5
	O	6.0	6.1	6.1	6.3	6.4	6.5
800: General Government	BA	5.4	5.8	5.9	6.0	6.2	6.3
	O	5.5	5.7	5.8	5.9	6.1	6.1
850: General Purpose Fiscal Assistance	BA	6.8	6.6	6.6	6.7	6.8	6.9
	O	6.8	6.6	6.6	6.7	6.8	6.9

900: Net Interest	BA	109.5	125.0	143.3	164.8	189.1	208.6
	O	109.5	125.0	143.3	164.8	189.1	208.6
920: Allowances	BA	0.5	0.9	4.0	6.0	8.1	10.2
	O	0.5	1.0	4.1	6.3	8.6	10.8
950: Undistributed Offsetting Receipts	BA	−15.2	−34.4	−38.2	−40.1	−43.2	−47.0
	O	−15.2	−34.4	−38.2	−40.1	−43.2	−47.0
Total	BA	913.2	1,022.3	1,133.6	1,230.0	1,340.1	1,440.1
	O	851.6	933.3	1,019.1	1,112.3	1,206.1	1,290.7
Revenues		665.0	741.3	807.2	878.3	963.5	1,039.4
Deficit		186.6	192.0	211.9	234.0	242.6	251.3

Summary Table 4

HISTORICAL OUTLAYS

[In billions of dollars]

Function	FY 1976	FY 1977	FY 1978	FY 1979	FY 1980	FY 1981	FY 1982	FY 1983
050: National Defense[1]	89.6	97.2	104.5	116.3	134.0	157.5	185.3	209.9
150: International Affairs	5.7	5.0	6.1	6.3	10.9	11.2	10.1	9.0
250: General Science, Space, and Technology	4.4	4.7	4.7	5.1	5.7	6.4	7.1	7.7
270: Energy	3.1	4.2	5.8	6.9	6.3	10.3	4.7	4.0
300: Natural Resources and Environment	8.2	10.0	11.0	12.1	13.9	13.6	13.0	12.7
350: Agriculture	2.5	5.5	7.7	6.2	4.9	5.5	14.9	22.2
370: Commerce and Housing Credit	3.8	0.1	3.3	2.6	7.8	4.0	3.9	4.4
400: Transportation	13.4	14.6	15.4	17.5	21.1	23.4	20.6	21.4
450: Community and Regional Development	4.8	6.3	11.1	9.5	10.1	9.4	7.2	6.9
500: Education, Training, Employment, and Social Services	18.7	21.0	26.5	29.7	30.8	31.4	26.3	26.6
550: Health	15.7	17.2	18.5	20.5	23.1	26.9	27.4	28.7
570: Medical Insurance	15.8	19.3	22.8	26.5	32.1	39.1	46.6	52.6
600: Income Security[1]	60.8	61.0	61.5	66.4	86.4	99.2	107.0	122.2

650: Social Security	73.9	85.1	93.9	104.1	118.6	139.6	156.0	170.7
700: Veterans Benefits and Services	18.4	18.0	19.0	19.9	21.2	23.0	24.0	24.8
750: Administration of Justice	3.3	3.6	3.8	4.2	4.6	4.8	4.7	5.1
800: General Government	2.7	2.9	3.4	3.9	4.1	4.4	4.4	4.8
850: General Purpose Fiscal Assistance	7.2	9.5	9.6	8.4	8.6	6.9	6.4	6.5
900: Net Interest	26.7	29.9	35.4	42.6	52.5	68.7	85.0	89.8
950: Undistributed Offsetting Receipts[1]	−14.4	−14.9	−15.7	−17.5	−19.9	−28.0	−26.1	−34.0
Total	364.5	400.5	448.4	491.0	576.7	657.2	728.4	796.0

[1] All years adjusted for comparability with the military retirement system changes that become effective in FY 1985.

Summary Table 5

SUMMARY OF FEDERAL AID TO STATE AND LOCAL GOVERNMENTS IN COMMITTEE RECOMMENDATION

[In billions of dollars]

Function		Recommendation				Projection	
		FY 1984	FY 1985	FY 1986	FY 1987	FY 1988	FY 1989
050: National Defense	BA	0.2	0.2	0.2	0.2	0.2	0.2
	O	0.1	0.2	0.2	0.2	0.2	0.2
270: Energy	BA	0.3	0.3	0.3	0.3	0.3	0.4
	O	0.5	0.5	0.5	0.5	0.5	0.5
300: Natural Resources Environment	BA	3.5	3.5	3.7	3.8	4.0	4.2
	O	3.7	3.7	3.7	3.6	3.7	3.7
350: Agriculture	BA	2.1	1.8	1.4	1.2	1.2	1.0
	O	2.1	1.8	1.4	1.2	1.2	1.0
370: Commerce and Housing Credit	BA	(*)	(*)	(*)	(*)	(*)	(*)
	O	(*)	(*)	(*)	(*)	(*)	(*)
400: Transportation	BA	19.3	19.9	20.8	21.7	22.6	23.5
	O	16.0	18.1	19.3	20.2	20.9	21.9
450: Community and Regional Development	BA	5.0	4.6	5.1	5.3	5.5	5.8
	O	5.3	5.6	5.5	5.5	5.3	5.3
500: Education, Training, Employment, and Social Services	BA	20.7	18.0	19.0	19.9	20.8	21.8
	O	17.2	18.0	18.3	19.1	20.0	20.8

550: Health	BA	21.9	23.3	26.1	28.4	31.7	34.3
	O	21.5	23.9	26.1	28.3	31.6	34.2
600: Income Security	BA	31.0	30.2	31.4	32.7	34.1	35.5
	O	25.7	26.0	27.1	28.3	29.7	31.0
700: Veterans Benefits and Services	BA	0.1	0.1	0.1	0.1	0.1	0.1
	O	0.1	0.1	0.1	0.1	0.1	0.1
750: Administration of Justice	BA	0.1	0.1	0.1	0.1	0.2	0.2
	O	0.1	0.1	0.1	0.1	0.2	0.2
800: General Government	BA	0.2	0.2	0.2	0.2	0.2	0.2
	O	0.2	0.2	0.2	0.2	0.2	0.2
850: General Purpose Fiscal Assistance	BA	6.7	6.3	6.3	6.6	6.9	7.2
	O	6.7	6.3	6.3	6.6	6.9	7.2
Total	BA	111.1	108.5	114.7	120.5	127.8	134.4
	O	99.2	104.5	108.8	113.9	120.5	126.3

*Less than $50 million.

Function 050: NATIONAL DEFENSE

MAJOR NATIONAL NEEDS ADDRESSED BY THE FUNCTION

—Protect America's people, its institutions, and its lands from foreign aggression.

—Improve the current overall military balance between the United States and its allies, and the Soviet Union and its allies.

—Deter a nuclear attack on the United States, or its forces, or on other nations whose security is important to us, and assure that should deterrence fail, the United States can respond to the threat at all levels of conflict including inflicting unacceptable damage to the Soviet Union in retaliation.

—Maintain, with our allies, sufficient military power to counter aggression anywhere in the world.

—Seek equitable and verifiable international agreements to limit and reduce all armaments, to prevent proliferation of nuclear weapons technology, to settle disputes by peaceful means, and to strengthen international stability.

FUNCTION 050 PROJECTIONS

[In billions of dollars]

		FY 1984	FY 1985	FY 1986	FY 1987
Baseline [1]	BA	265.3	313.4	359.0	389.1
	O	237.5	272.0	310.6	348.6
CBO baseline	BA	264.1	297.3	329.0	367.2
	O	234.4	263.4	294.6	329.0
Committee recommendation	BA	265.3	299.0	333.7	372.0
	O	237.5	266.0	294.6	330.4

[1] President's budget request (not reestimated by CBO). This baseline is consistent with the baseline used by the House Budget Committee in its markup of the First Budget Resolution which was subsequently adopted by the Full House of Representatives.

COMMITTEE RECOMMENDATION

The Committee recommendation assumes $299.0 billion in budget authority and $266.0 billion in outlays for this function in FY 1985.

In the past, the Committee has been in the forefront of the effort to obtain funding for rebuilding and sustaining an adequate defense for our Nation. The Committee recognizes that improvement of our military capability is a process that takes many years and that success is heavily dependent on the ability of the Congress to provide a stable funding environment. The Committee has approved funding targets for national defense which vary only slightly from the ones approved by the Congress in the FY 1984 budget resolution.

FUNCTION 050 HISTORICAL DATA

[Outlays—billions of dollars]

Major program	Actual							
	FY 1976	FY 1977	FY 1978	FY 1979	FY 1980	FY 1981	FY 1982	FY 1983
Military personnel[1]	32.5	33.7	35.6	37.3	40.9	47.9	55.2	60.9
Operation and maintenance	27.8	30.6	33.6	36.4	44.8	51.9	59.7	64.9
Procurement	16.0	18.2	20.0	25.4	29.0	35.2	43.3	53.6
Research and development	8.9	9.8	10.5	11.2	13.1	15.3	17.7	20.6
Atomic energy defense activities	1.6	1.9	2.1	2.5	2.9	3.4	4.3	5.2
All other	2.8	3.1	2.7	3.5	3.3	3.8	5.1	4.7
Total function[1]	89.6	97.2	104.5	116.3	134.0	157.5	185.3	209.9
Nominal growth (percent)	4	8	8	11	15	18	18	13
Real growth (percent)	−3	2	0	4	3	5	8	8

[1] All years adjusted for comparability with the milrtary retirement system changes that become effective in FY 1985.

Function 150: INTERNATIONAL AFFAIRS

MAJOR NATIONAL NEEDS ADDRESSED BY THE FUNCTION

—Support the security and economic and political stability of allies and friendly governments.

—Assist our domestic economy by strengthening international economic institutions and promoting trade.

—Promote a stable international environment that will reduce conflicts, encourage worldwide economic progress, and bring greater respect for human rights.

—Advance American foreign policy through diplomacy and improved communication between the United States and other nations.

—Support the long-term development of poor countries.

FUNCTION 150 PROJECTIONS

[In billions of dollars]

		FY 1984	FY 1985	FY 1986	FY 1987
Baseline	BA	21.0	15.9	17.3	18.3
	O	12.0	13.3	12.9	13.3
Committee recommendation	BA	21.0	15.2	16.3	17.1
	O	12.0	13.0	12.2	12.5

COMMITTEE RECOMMENDATION

The Committee recommendation assumes $15.2 billion in budget authority and $13.0 billion in outlays for this function in FY 1985.

In keeping with the Committee's assumption of a 1-year freeze on aggregate nondefense discretionary programs, the discretionary accounts in this function remain at their FY 1984 level (or program level where appropriate) in FY 1985, and increase at the CBO projected rate of inflation beginning in FY 1986. The Committee recognizes that such an assumed freeze in this function is only for illustrative purposes and in no way is intended to interfere with the Appropriations Committee's authority to allocate the aggregate totals as they so determine.

FUNCTION 150 HISTORICAL DATA

[Outlays—billions of dollars]

Major program	Actual							
	FY 1976	FY 1977	FY 1978	FY 1979	FY 1980	FY 1981	FY 1982	FY 1983
Foreign economic and financial assistance	2.7	2.9	2.7	3.0	3.7	4.2	3.9	4.0
International security assistance	1.9	1.7	2.5	2.4	2.8	3.2	3.1	3.8
Conduct of foreign affairs	0.7	1.0	1.1	1.3	1.4	1.3	1.6	1.8
Foreign information and exchange activities	0.4	0.4	0.4	0.5	0.5	0.5	0.6	0.6
International financial programs	+(*)	−0.9	−0.6	−0.9	2.4	2.0	0.9	−1.1
Total function	5.7	5.0	6.1	6.3	10.9	11.2	10.1	9.0
Nominal growth (percent)	−20	−12	22	3	73	3	−10	−11
Real growth (percent)	−26	−17	14	−5	59	−6	−16	−15

*Less than $50 million.

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Function 250: GENERAL SCIENCE, SPACE, AND TECHNOLOGY

Major National Needs Addressed by the Function

—Expand scientific knowledge through support of basic research in all fields of science.

—Explore space to develop a greater understanding of the Earth, solar system, and universe.

—Develop practical, economic, and productive applications of space technology.

FUNCTION 250 PROJECTIONS

[In billions of dollars]

		FY 1984	FY 1985	FY 1986	FY 1987
Baseline	BA	8.5	8.9	9.0	9.3
	O	8.3	8.6	8.9	9.2
Committee recommendation	BA	8.5	8.5	8.6	8.9
	O	8.3	8.4	8.5	8.7

Committee Recommendation

The Committee recommendation assumes $8.5 billion in budget authority and $8.4 billion in outlays for this function in FY 1985.

In keeping with the Committee's assumption of a 1-year freeze on aggregate nondefense discretionary programs, the discretionary accounts in this function remain at their FY 1984 level (or program level where appropriate) in FY 1985, and increase at the CBO projected rate of inflation beginning in FY 1986. The Committee recognizes that such an assumed freeze in this function is only for illustrative purposes and in no way is intended to interfere with the Appropriations Committee's authority to allocate the aggregate totals as they so determine.

FUNCTION 250 HISTORICAL DATA

[Outlays—billions of dollars]

Major program	Actual							
	FY 1976	FY 1977	FY 1978	FY 1979	FY 1980	FY 1981	FY 1982	FY 1983
Science	1.0	1.1	1.2	1.3	1.4	1.5	1.6	1.6
Space shuttle	1.6	1.8	1.8	1.8	2.1	2.7	3.1	3.5
Other space activities	1.8	1.8	1.7	2.0	2.2	2.2	2.4	2.6
Total function	4.4	4.7	4.7	5.1	5.7	6.4	7.1	7.7
Nominal growth (percent)	10	7	0	9	12	12	11	8
Real growth (percent)	2	1	−6	0	3	2	4	4

Function 270: ENERGY

MAJOR NATIONAL NEEDS ADDRESSED BY THE FUNCTION

—Mobilize the Nation's resources to protect the Nation's energy security and independence.

—Promote energy production and conservation through pricing policies that reflect the real cost of energy.

—Protect the Nation from being harmed by disruptions in energy supplies.

—Through long-term R & D, develop renewable sources of energy to sustain long-term economic growth.

FUNCTION 270 PROJECTIONS

[In billions of dollars]

		FY 1984	FY 1985	FY 1986	FY 1987
Baseline	BA	3.0	4.4	4.4	4.4
	O	3.0	4.0	4.3	4.2
Committee recommendation	BA	3.0	4.1	4.0	4.0
	O	3.0	3.8	3.9	3.8

COMMITTEE RECOMMENDATION

The Committee recommendation assumes $4.1 billion in budget authority and $3.8 billion in outlays for this function in FY 1985.

In keeping with the Committee's assumption of a 1-year freeze on aggregate nondefense discretionary programs, the discretionary accounts in this function remain at their FY 1984 level (or program level where appropriate) in FY 1985, and increase at the CBO projected rate of inflation beginning in FY 1986. The Committee recognizes that such an assumed freeze in this function is only for illustrative purposes and in no way is intended to interfere with the Appropriations Committee's authority to allocate the aggregate totals as they so determine.

FUNCTION 270 HISTORICAL DATA

[Outlays—billions of dollars]

Major program	Actual							
	FY 1976	FY 1977	FY 1978	FY 1979	FY 1980	FY 1981	FY 1982	FY 1983
Energy supply	1.8	2.5	2.3	3.4	3.4	5.4	3.4	3.3
TVA	0.9	1.0	1.3	1.8	1.7	1.8	1.3	0.7
Offsetting receipts	−0.2	−0.2	−0.6	−0.5	−1.5	−1.9	−1.8	−1.7
Energy conservation	0.1	0.1	0.2	0.3	0.6	0.7	0.5	0.5
Strategic petroleum reserve [1]			0.9	1.0	0.3	3.3	0.2	0.2
Energy information, policy, and regulation	0.6	0.7	0.8	0.7	0.9	1.0	1.0	1.0
All other		0.1	1.0	0.3	0.9	1.3	0.1	
Total function	3.1	4.2	5.8	6.9	6.3	10.3	4.7	4.0
Nominal growth (percent)	41	35	38	19	−9	63	−54	−15
Real growth (percent)	38	28	30	9	−16	49	−57	−18

[1] Beginning with FY 1982, outlays for oil acquisition for the strategic petroleum reserve are off-budget.

Function 300: NATURAL RESOURCES AND ENVIRONMENT

MAJOR NATIONAL NEEDS ADDRESSED BY THE FUNCTION

—Protect the public health and the environment with special emphasis on abating pollution of the land, air, and water through control of hazardous wastes, injurious pesticides, and toxic substances.

—Provide for balanced conservation and development of public land, water, timber, minerals, and other natural resources.

—Preserve natural areas, fish, and wildlife.

—Improve our knowledge and understanding of the Earth's structure, atmosphere, environment, and resources.

FUNCTION 300 PROJECTIONS

[In billions of dollars]

		FY 1984	FY 1985	FY 1986	FY 1987
Baseline	BA	11.6	11.9	12.4	12.7
	O	12.3	12.0	12.1	12.2
Committee recommendation	BA	11.6	11.6	12.0	12.3
	O	12.3	11.7	11.8	11.8

COMMITTEE RECOMMENDATION

The Committee recommendation assumes $11.6 billion in budget authority and $11.7 billion in outlays for this function in FY 1985.

In keeping with the Committee's assumption of a 1-year freeze on aggregate nondefense discretionary programs, the discretionary accounts in this function remain at their FY 1984 level (or program level where appropriate) in FY 1985, and increase at the CBO projected rate of inflation beginning in FY 1986. The Committee recognizes that such an assumed freeze in this function is only for illustrative purposes and in no way is intended to interfere with the Appropriations Committee's authority to allocate the aggregate totals as they so determine.

FUNCTION 300 HISTORICAL DATA

[Outlays—billions of dollars]

Major program	Actual							
	FY 1976	FY 1977	FY 1978	FY 1979	FY 1980	FY 1981	FY 1982	FY 1983
Water resources	2.8	3.2	3.5	3.9	4.3	4.2	4.0	3.9
Forest management	0.6	0.7	0.8	0.9	1.1	1.9	1.9	1.6
Recreational land acquisition	0.3	0.3	0.6	0.6	0.6	0.5	0.3	0.4
Operation of recreational resources	0.6	0.7	0.8	0.9	1.1	1.1	1.1	0.8
EPA construction grants	2.4	3.5	3.2	3.8	4.3	3.9	3.8	3.0
EPA research and regulatory programs	0.6	0.7	0.8	0.9	1.2	1.3	1.2	1.3
All other	0.8	0.7	1.2	1.0	1.2	0.6	0.6	1.7
Total function	8.2	10.0	11.0	12.1	13.9	13.6	13.0	12.7
Nominal growth (percent)	12	22	10	10	15	−2	−4	−2
Real growth (percent)	4	16	3	1	6	−11	−11	−6

Function 350: AGRICULTURE

MAJOR NATIONAL NEEDS ADDRESSED BY THE FUNCTION

—Assure sufficient agricultural production to meet domestic needs and export demands.

—Provide an adequate return to farmers.

—Ensure food price stability.

—Increase farm production and income through the conduct and application of research.

—Improve the efficiency and reliability of domestic and export agricultural marketing systems.

FUNCTION 350 PROJECTIONS

[In billions of dollars]

		FY 1984	FY 1985	FY 1986	FY 1987
Baseline	BA	4.2	14.6	15.8	17.1
	O	10.1	14.9	15.6	17.0
Committee recommendation	BA	4.5	15.6	14.5	13.4
	O	10.4	15.8	14.4	13.2

COMMITTEE RECOMMENDATION

The Committee recommendation assumes $15.6 billion in budget authority and $15.8 billion in outlays for this function in FY 1985.

In keeping with the Committee's assumption of a 1-year freeze on aggregate nondefense discretionary programs, the discretionary accounts in this function remain at their FY 1984 level (or program level where appropriate) in FY 1985, and increase at the CBO projected rate of inflation beginning in FY 1986. The Committee recognizes that such an assumed freeze in this function is only for illustrative purposes and in no way is intended to interfere with the Appropriations Committee's authority to allocate the aggregate totals as they so determine.

The Committee recommendation also assumes savings from the Agricultural Programs Adjustment Act of 1984 (P.L. 98-258). In FY 1986 and beyond, savings resulting from the Deficit Reduction Act of 1984, which authorizes the IRS to offset debts owed the Federal Government against Federal income tax refunds and accelerates the collection and deposit of nontax Federal receipts, are also assumed.

FUNCTION 350 HISTORICAL DATA

[Outlays—billions of dollars]

Major program	Actual							
	FY 1976	FY 1977	FY 1978	FY 1979	FY 1980	FY 1981	FY 1982	FY 1983
CCC farm price supports	0.7	3.5	5.5	3.8	2.7	4.0	11.7	18.6
Other farm income stabilization programs	0.9	1.0	1.0	1.1	0.7	−(*)	1.6	2.0
Agricultural research and services	0.9	1.0	1.1	1.4	1.3	1.5	1.6	1.6
Total function	2.5	5.5	7.7	6.2	4.9	5.5	14.9	22.2
Nominal growth (percent)	47	120	40	−19	−21	12	171	49
Real growth (percent)	36	109	31	−26	−27	2	153	43

*Less than $50 million.

Function 370: COMMERCE AND HOUSING CREDIT

MAJOR NATIONAL NEEDS ADDRESSED BY THE FUNCTION

—Ensure that an adequate supply of mortgage credit is available nationally.

—Target credit to urban and rural areas and to prospective borrowers not well served by private credit markets.

—Maintain effective mail service at reasonable rates financed primarily by user charges.

—Support job development and a productive economy through assistance to and oversight of business.

FUNCTION 370 PROJECTIONS

[In billions of dollars]

		FY 1984	FY 1985	FY 1986	FY 1987
Baseline	BA	5.6	6.6	6.6	8.2
	O	4.0	2.6	2.5	3.8
Committee recommendation	BA	5.6	6.4	6.3	7.7
	O	4.0	1.6	2.2	3.4

COMMITTEE RECOMMENDATION

The Committee recommendation assumes $6.4 billion in budget authority and $1.6 billion in outlays for this function in FY 1985.

In keeping with the Committee's assumption of a 1-year freeze on aggregate nondefense discretionary programs, the discretionary accounts in this function remain at their FY 1984 level (or program level where appropriate) in FY 1985, and increase at the CBO projected rate of inflation beginning in FY 1986. The Committee recognizes that such an assumed freeze in this function is only for illustrative purposes and in no way is intended to interfere with the Appropriations Committee's authority to allocate the aggregate totals as they so determine.

The Committee assumes that outlays will be reduced further in FY 1985 by the enactment of legislation to increase the capitalization of the National Credit Union Share Insurance Fund.

FUNCTION 370 HISTORICAL DATA

[Outlays—billions of dollars]

Major program	Actual							
	FY 1976	FY 1977	FY 1978	FY 1979	FY 1980	FY 1981	FY 1982	FY 1983
Mortgage credit and thrift insurance	1.2	−3.3	0.2	−0.7	3.7	0.7	1.2	2.1
Postal service	1.7	2.3	1.8	1.8	1.7	1.3	0.7	0.8
Other advancement of commerce	0.9	1.1	1.3	1.5	2.4	2.0	1.9	1.5
Total function	3.8	0.1	3.3	2.6	7.8	4.0	3.9	4.4
Total function without asset sales [1]	6.2	3.1	7.4	5.5	9.6	7.7	6.5	6.1
Nominal growth (percent)	−33	−50	139	−26	75	−20	−16	−6
Real growth (percent)	−38	−53	124	−32	61	−27	−21	−10

[1] The term "asset sales" used here means net sales of certificates of beneficial ownership (CBOs).

Function 400: TRANSPORTATION

Major National Needs Addressed by the Function

—Develop and maintain a transportation system that meets the needs of commerce and the public.

—Assist in ensuring that the transportation system operates safely, reliably, and efficiently.

—Ensure that Federal transportation policy and programs are consistent with the Nation's economic, energy, environmental, and social goals.

FUNCTION 400 PROJECTIONS

[In billions of dollars]

		FY 1984	FY 1985	FY 1986	FY 1987
Baseline	BA	29.3	29.2	30.4	31.6
	O	25.7	27.1	28.7	30.0
Committee recommendation	BA	29.3	28.8	30.0	31.1
	O	25.7	26.9	28.4	29.5

Committee Recommendation

The Committee recommendation assumes $28.8 billion in budget authority and $26.9 billion in outlays for this function in FY 1985.

In keeping with the Committee's assumption of a 1-year freeze on aggregate nondefense discretionary programs, the discretionary accounts in this function remain at their FY 1984 level (or program level where appropriate) in FY 1985, and increase at the CBO projected rate of inflation beginning in FY 1986. The Committee recognizes that such an assumed freeze in this function is only for illustrative purposes and in no way is intended to interfere with the Appropriations Committee's authority to allocate the aggregate totals as they so determine.

FUNCTION 400 HISTORICAL DATA

[Outlays—billions of dollars]

Major program	Actual FY 1976	FY 1977	FY 1978	FY 1979	FY 1980	FY 1981	FY 1982	FY 1983
Federal-aid highways	6.4	6.0	5.9	6.9	8.8	8.8	7.8	8.7
Grants to Amtrak	0.4	0.7	0.7	0.8	0.8	0.9	0.7	0.7
Financial assistance to Conrail	0.3	0.7	0.7	0.7	0.6	0.2	(*)	....
Northeast corridor rail project		0.1	0.2	0.2	0.2	0.2	0.3	0.3
Urban mass transit programs	1.3	1.7	2.0	2.5	3.2	3.9	3.9	3.8
FAA operations	1.6	1.7	1.9	2.0	2.2	2.3	2.1	2.5
Airport/airways (trust fund) programs	0.5	0.6	0.8	0.8	0.9	0.8	0.7	0.8
NASA aeronautical research programs	0.3	0.3	0.4	0.4	0.5	0.5	0.6	0.6
Maritime construction and operating subsidies	0.5	0.6	0.5	0.5	0.6	0.5	0.6	0.5
Coast Guard operations and acquisitions	0.8	1.0	1.0	1.2	1.3	1.5	1.7	2.0
All other	1.3	1.2	1.3	1.5	1.8	3.8	2.2	1.5
Total function	13.4	14.6	15.4	17.5	21.1	23.4	20.6	21.4
Nominal growth (percent)	29	9	5	14	21	11	−12	4
Real growth (percent)	19	3	−1	4	11	1	−18	0

*Less than $50 million.

Function 450: COMMUNITY AND REGIONAL DEVELOPMENT

MAJOR NATIONAL NEEDS ADDRESSED BY THE FUNCTION

—Promote the development, maintenance, or redevelopment of economically and socially viable neighborhoods in urban, suburban, and rural areas.

—Develop a partnership among Federal, State, and local governments and the private sector to assist in the stabilization and revitalization of economically depressed or declining areas.

—Provide relief to areas that suffer from natural disasters.

FUNCTION 450 PROJECTIONS

[in billion of dollars]

		FY 1984	FY 1985	FY 1986	FY 1987
Baseline	BA	7.2	7.0	7.8	8.2
	O	7.8	8.5	8.2	8.4
Committee recommendation	BA	7.2	6.9	7.5	7.8
	O	7.7	8.2	8.0	8.1

COMMITTEE RECOMMENDATION

The Committee recommendation assumes $6.9 billion in budget authority and $8.2 billion in outlays for this function in FY 1985.

The Committee recommendation assumes enactment of H.R. 4169, the Omnibus Budget Reconciliation Act of 1983, which passed the Senate on April 5, 1984. It also assumes management savings included in the Deficit Reduction Act of 1984.

In keeping with the Committee's assumption of a 1-year freeze on aggregate nondefense discretionary programs, the discretionary accounts in this function remain at their FY 1984 level (or program level where appropriate) in FY 1985, and increase at the CBO projected rate of inflation beginning in FY 1986. The Committee recognizes that such an assumed freeze in this function is only for illustrative purposes and in no way is intended to interfere with the Appropriations Committee's authority to allocate the aggregate totals as they so determine.

FUNCTION 450 HISTORICAL DATA

[Outlays—billions of dollars]

Major program	Actual FY 1976	FY 1977	FY 1978	FY 1979	FY 1980	FY 1981	FY 1982	FY 1983
Community development block grants	1.0	2.1	2.5	3.2	3.9	4.0	3.8	3.6
Urban development action grants				0.1	0.2	0.4	0.4	0.5
Other community development programs	1.8	1.3	0.8	0.8	0.8	0.6	0.4	0.3
Economic Development Administration	0.2	0.2	0.3	0.3	0.5	0.4	0.3	0.2
Local public works program		0.6	3.1	1.7	0.4	0.1	(*)	(*)
Other area and regional development programs	1.3	1.6	1.6	1.9	2.3	2.2	2.3	2.4
SBA disaster loans	0.1	0.2	2.1	1.0	0.9	1.1	−0.3	−0.4
Other disaster assistance programs	0.4	0.5	0.8	0.7	1.1	0.6	0.2	0.4
Total function	4.8	6.3	11.1	9.5	10.1	9.4	7.2	6.9
Nominal growth (percent)	30	31	76	−14	6	−7	−23	−4
Real growth (percent)	20	24	65	−21	−2	−15	−28	−8

* Less than $50 million.

Function 500: EDUCATION, TRAINING, EMPLOYMENT, AND SOCIAL SERVICES

Major National Needs Addressed by the Function

—Improve educational opportunities for disadvantaged and handicapped children.

—Provide financial assistance for postsecondary students.

—Support educational and cultural institutions and activities.

—Enhance training and employment opportunities for youth and adults.

—Support institutions and agencies regulating management-labor relationships and the gathering of labor statistics.

—Provide supportive services for groups such as the poor, the aged, and the handicapped to assist them in becoming self-sufficient.

FUNCTION 500 PROJECTIONS

[In billions of dollars]

		FY 1984	FY 1985	FY 1986	FY 1987
Baseline	BA	31.3	30.1	31.5	32.9
	O	28.1	29.3	30.4	31.8
Committee recommendation	BA	31.3	28.9	30.2	31.5
	O	28.1	29.0	29.3	30.4

Committee Recommendation

The Committee recommendation assumes $28.9 billion in budget authority and $29.0 billion in outlays for this function in FY 1985.

The Committee recommendation also assumes savings provisions included in the Deficit Reduction Act of 1984, and the funding of entitlement programs at the baseline.

In keeping with the Committee's assumption of a 1-year freeze on aggregate nondefense discretionary programs, the discretionary accounts in this function remain at their FY 1984 level (or program level where appropriate) in FY 1985, and increase at the CBO projected rate of inflation beginning in FY 1986. The Committee recognizes that such an assumed freeze in this function is only for illustrative purposes and in no way is intended to interfere with the Appropriations Committee's authority to allocate the aggregate totals as they so determine.

FUNCTION 500 HISTORICAL DATA

[Outlays—billions of dollars]

Major program	Actual							
	FY 1976	FY 1977	FY 1978	FY 1979	FY 1980	FY 1981	FY 1982	FY 1983
Compensatory education (includes chapter I of ECIA)	2.2	2.4	2.8	3.1	3.6	3.4	3.0	2.6
Education for the handicapped	0.2	0.2	0.3	0.6	0.8	1.0	1.1	1.3
Vocational education	0.7	0.7	0.7	0.8	0.9	0.7	0.8	0.7
Education impact aid	0.6	0.8	0.8	0.9	0.7	0.7	0.5	0.5
Other elementary, secondary education (includes chapter II of ECIA)	0.5	0.5	0.5	0.6	0.7	1.2	1.3	1.2
Guaranteed student loans	0.1	0.1	0.5	0.9	1.4	2.3	3.0	2.6
Other student assistance	2.3	2.6	2.5	2.9	3.7	4.5	3.5	4.6
CETA title VI and II–D, public service employment [1]	2.4	2.8	5.8	5.0	3.7	0.9		
Other CETA [1]	2.7	2.8	3.8	4.5	5.2	6.8	4.1	
Job Training Partnership Act								3.9
The employment service	0.4	0.6	0.6	0.6	0.8	0.8	0.7	0.7
WIN	0.3	0.4	0.4	0.4	0.4	0.4	0.2	0.3
Social services block grant (title XX)	2.3	2.6	2.8	3.1	2.8	2.6	2.6	2.5
Community services program	0.5	0.5	0.6	0.6	0.6	0.6	0.3	0.3
Other social services (includes vocational rehabilitation and headstart)	1.7	2.0	2.2	2.9	2.7	3.3	3.1	3.3
All other	1.8	2.0	2.2	2.8	2.8	2.2	2.1	2.1
Total function	18.7	21.0	26.5	29.7	30.8	31.4	26.3	26.6
Nominal growth (percent)	18	12	26	12	4	2	−16	1
Real growth (percent)	9	6	18	3	−5	−7	−22	−3

[1] Replaced by Job Training Partnership Act beginning in FY 1983.

Function 550: HEALTH

MAJOR NATIONAL NEEDS ADDRESSED BY THE FUNCTION

—Provide health care services to the elderly, poor, and disabled.

—Restrain inflation in Federal health care costs.

—Acquire knowledge regarding the causes, prevention, and treatment of diseases, and promote preventive measures by which good health can be maintained.

—Support the education of students in the health professions, especially in primary care fields.

FUNCTION 550 PROJECTIONS

[In billions of dollars]

		FY 1984	FY 1985	FY 1986	FY 1987
Baseline	BA	31.6	33.4	37.0	39.9
	O	30.8	34.3	36.6	39.4
Committee recommendation	BA	31.7	32.4	36.2	39.0
	O	30.8	33.5	35.8	38.5

COMMITTEE RECOMMENDATION

The Committee recommendation assumes $32.4 billion in budget authority and $33.5 billion in outlays for this function in FY 1985.

The Committee recommendation assumes major savings in medicaid, as contained in the Deficit Reduction Act of 1984. It also assumes enactment of H.R. 4169, the Omnibus Budget Reconciliation Act of 1983, which passed the Senate on April 5, 1984. This measure delayed the cost-of-living adjustment for retired Public Health Service officers.

In keeping with the Committee's assumption of a 1-year freeze on aggregate nondefense discretionary programs, the discretionary accounts in this function remain at their FY 1984 level (or program level where appropriate) in FY 1985, and increase at the CBO projected rate of inflation beginning in FY 1986. The Committee recognizes that such an assumed freeze in this function is only for illustrative purposes and in no way is intended to interfere with the Appropriations Committee's authority to allocate the aggregate totals as they so determine.

FUNCTION 550 HISTORICAL DATA

[Outlays—billions of dollars]

Major program	Actual							
	FY 1976	FY 1977	FY 1978	FY 1979	FY 1980	FY 1981	FY 1982	FY 1983
Medicaid	8.6	9.9	10.7	12.4	14.0	16.8	17.4	19.0
Other health care services	3.1	3.1	3.2	3.6	4.0	4.4	4.4	4.1
Health research	2.3	2.5	2.8	3.0	3.4	3.8	3.9	4.0
Education and training of health care work force	1.0	1.0	0.9	0.6	0.7	0.8	0.7	0.6
Consumer and occupational health	0.7	0.7	0.8	0.9	1.0	1.0	1.0	1.1
Total function	15.7	17.2	18.5	20.5	23.1	26.9	27.4	28.7
Nominal growth (percent)	22	10	8	11	13	16	2	5
Real growth (percent)	14	2	0	0	−1	5	−5	1

Function 570: MEDICAL INSURANCE

MAJOR NATIONAL NEEDS ADDRESSED BY THE FUNCTION

—Provide hospital and medical insurance benefits to the elderly and disabled through the medicare program.

FUNCTION 570 PROJECTIONS

[In billions of dollars]

		FY 1984	FY 1985	FY 1986	FY 1987
Baseline	BA	62.8	71.5	84.2	99.6
	O	60.1	68.8	77.0	86.9
Committee recommendation	BA	62.5	71.5	84.2	99.9
	O	59.9	67.1	74.1	83.1

COMMITTEE RECOMMENDATION

The Committee recommendation assumes $71.5 billion in budget authority and $67.1 billion in outlays for this function in FY 1985.

The Committee recommendation assumes major savings in medicare, as contained in the Deficit Reduction Act of 1984.

In keeping with the Committee's assumption of a 1-year freeze on aggregate nondefense discretionary programs, the discretionary accounts in this function remain at their FY 1984 level (or program level where appropriate) in FY 1985, and increase at the CBO projected rate of inflation beginning in FY 1986. The Committee recognizes that such an assumed freeze in this function is only for illustrative purposes and in no way is intended to interfere with the Appropriations Committee's authority to allocate the aggregate totals as they so determine.

FUNCTION 570 HISTORICAL DATA

[Outlays—billions of dollars]

Major program	Actual							
	FY 1976	FY 1977	FY 1978	FY 1979	FY 1980	FY 1981	FY 1982	FY 1983
Hospital insurance	12.6	15.2	17.9	20.3	24.3	29.2	34.9	38.6
Supplementary medical insurance	5.2	6.3	7.4	8.8	10.7	13.2	15.6	18.3
Payments to HI, SMI (non-add) [1]	(3.8)	(6.0)	(7.2)	(7.7)	(7.8)	(9.6)	(14.3)	(18.8)
Medicare premiums	−1.9	−2.2	−2.4	−2.7	−2.9	−3.3	−3.9	−4.3
Total function	15.8	19.3	22.8	26.5	32.1	39.1	46.6	52.6
Nominal growth (percent)	22	22	18	16	21	22	19	13
Real growth (percent)	14	14	10	5	7	10	11	9

[1] Virtually all of this amount must be appropriated each year from general funds to make up the difference between premiums paid by beneficiaries and the total cost of the supplementary medical insurance portion of medicare.

Function 600: INCOME SECURITY

Major National Needs Addressed by the Function

—Mitigate the loss of income people experience as a result of unemployment, retirement, disability, or death.

—Provide income support and help ensure an adequate diet for poor Americans, especially families with children, the elderly, and the disabled who cannot provide sufficiently for themselves.

—Help the poor meet problems arising from increasing energy costs.

—Promote decent and affordable housing for low-income individuals and families.

FUNCTION 600 PROJECTIONS

[In billions of dollars]

		FY 1984	FY 1985	FY 1986	FY 1987
Baseline	BA	118.5	146.0	156.1	165.6
	O	97.3	115.5	120.7	126.2
Committee recommendation	BA	118.4	145.1	154.9	164.4
	O	97.1	113.2	119.0	124.3

Committee Recommendation

The Committee recommendation assumes $145.1 billion in budget authority and $113.2 billion in outlays for this function in FY 1985.

The Committee recommendation assumes a delay in Federal civilian and military retirement cost-of-living adjustments until January of each year. This delay is contained in H.R. 4169, the Omnibus Budget Reconciliation Act of 1983, which passed the Senate on April 5, 1984.

The recommendation assumes several small savings provisions in the programs of aid to families with dependent children and supplemental security income. It also assumes that the earned income tax credit would be increased and made available for more of the working poor, and that more data would be available to verify eligibility in Federal means-tested programs. These provisions are contained in the Deficit Reduction Act of 1984.

In keeping with the Committee's assumption of a 1-year freeze on aggregate nondefense discretionary programs, the discretionary accounts in this function remain at their FY 1984 level (or program level where appropriate) in FY 1985, and increase at the CBO projected rate of inflation beginning in FY 1986. The Committee recognizes that such an assumed freeze in this function is only for illustrative purposes and in no way is intended to interfere with the Appropriations Committee's authority to allocate the aggregate totals as they so determine.

FUNCTION 600 HISTORICAL DATA

[Outlays—billions of dollars]

Major program	Actual							
	FY 1976	FY 1977	FY 1978	FY 1979	FY 1980	FY 1981	FY 1982	FY 1983
Railroad retirement	3.5	3.8	4.0	4.3	4.7	5.6	5.7	6.1
Black lung	1.0	1.0	1.1	1.6	1.8	1.8	2.0	1.9
Military retirement [1]	7.3	8.2	9.2	10.3	11.9	13.7	14.9	15.9
Federal civilian retirement	8.2	9.5	10.7	12.4	14.7	17.5	19.4	20.6
Unemployment compensation	19.5	15.3	11.8	10.7	18.0	19.7	23.7	31.5
Subsidized housing	2.5	3.0	3.7	4.4	5.5	6.9	8.0	9.6
Food stamps	5.6	5.4	5.5	6.8	9.1	11.3	11.0	12.7
Child nutrition	2.2	2.8	2.9	3.3	4.0	3.8	3.4	3.8
Supplemental food (WIC)	0.1	0.2	0.4	0.5	0.7	0.9	0.9	1.2
Supplemental security income (SSI)	5.1	5.3	5.9	5.5	6.4	7.2	7.7	8.7
Aid to families with dependent children (AFDC)	5.9	6.4	6.6	6.6	7.3	8.5	8.0	7.9
Low income energy assistance		0.1	0.2	0.2	1.6	1.8	1.7	2.0
Refugee assistance	0.1	0.2	0.1	0.1	0.4	0.7	1.0	0.5
All other	−0.2	−0.2	−0.6	−0.3	0.3	−0.2	−0.4	−0.2
Total function [1]	60.8	61.0	61.5	66.4	86.4	99.2	107.0	122.2
Nominal growth (percent)	21	0	1	8	30	15	8	14
Real growth (percent)	13	−7	−6	−2	15	3	0	10

[1] Military retirement included in all years to provide comparability with the military retirement system changes that become effective in FY 1985.

Function 650: SOCIAL SECURITY

MAJOR NATIONAL NEEDS ADDRESSED BY THE FUNCTION

—Provide social security benefits so as to mitigate the loss of income people experience as a result of retirement, disability, or death of a wage earner insured by the social security retirement, disability, and survivors insurance program.

FUNCTION 650 PROJECTIONS

[In billions of dollars]

		FY 1984	FY 1985	FY 1986	FY 1987
Baseline	BA	175.0	199.8	215.9	229.2
	O	179.4	190.3	202.8	217.2
Committee recommendation	BA	175.0	199.8	215.9	229.1
	O	179.4	190.3	202.7	217.1

COMMITTEE RECOMMENDATION

The Committee recommendation assumes $199.8 billion in budget authority and $190.3 billion in outlays for this function in FY 1985.

The Committee recommendation assumes that churches opposed for religious reasons to the payment of social security taxes would be allowed to elect not to pay the employer share of the social security tax. Employees of these churches would be treated as self-employed. This provision is contained in the Deficit Reduction Act of 1984.

In keeping with the Committee's assumption of a 1-year freeze on aggregate nondefense discretionary programs, the discretionary accounts in this function remain at their FY 1984 level (or program level where appropriate) in FY 1985, and increase at the CBO projected rate of inflation beginning in FY 1986. The Committee recognizes that such an assumed freeze in this function is only for illustrative purposes and in no way is intended to interfere with the Appropriations Committee's authority to allocate the aggregate totals as they so determine.

FUNCTION 650 HISTORICAL DATA

(Outlays—billions of dollars)

Major program	Actual							
	FY 1976	FY 1977	FY 1978	FY 1979	FY 1980	FY 1981	FY 1982	FY 1983
Old-age and survivors insurance (OASI)	64.3	73.5	81.2	90.1	103.2	122.3	137.9	152.4
Disability insurance (DI)	9.6	11.6	12.7	14.0	15.4	17.3	18.1	18.3
Total function	73.9	85.1	93.9	104.1	118.6	139.6	156.0	170.7
Nominal growth (percent)	14	15	10	11	14	18	12	9
Real growth (percent)	7	7	3	0	0	6	4	6

Function 700: VETERANS BENEFITS AND SERVICES

Major National Needs Addressed by the Function

—Meet the Nation's obligation to compensate veterans disabled while in military service for their loss of earning power.

—Provide medical care to veterans for disabilities incurred while in military service.

—Compensate the families of veterans who are killed in service or who die from service-related disabilities for the reduction in the family's earning power.

—Help veterans of wartime and draft service return to civilian life on a social and economic basis comparable to their peers who did not perform military duty.

—Provide psychological readjustment services and training opportunities to Vietnam-era veterans with special needs.

—Provide financial assistance to needy veterans and their survivors.

FUNCTION 700 PROJECTIONS

[In billions of dollars]

		FY 1984	FY 1985	FY 1986	FY 1987
Baseline	BA	26.1	27.1	27.3	28.0
	O	25.8	26.4	26.9	27.6
Committee recommendation	BA	26.1	26.8	27.0	27.6
	O	25.8	26.2	26.7	27.3

Committee Recommendation

The Committee recommendation assumes $26.8 billion in budget authority and $26.2 billion in outlays for this function in FY 1985.

The Committee recommendation assumes full cost-of-living increases for the veterans compensation and pension programs, to be paid in January each year. It also assumes management savings included in the Deficit Reduction Act of 1984.

In keeping with the Committee's assumption of a 1-year freeze on aggregate nondefense discretionary programs, the discretionary accounts in this function remain at their FY 1984 level (or program level where appropriate) in FY 1985, and increase at the CBO projected rate of inflation beginning in FY 1986. The Committee recognizes that such an assumed freeze in this function is only for illustrative purposes and in no way is intended to interfere with the Appropriations Committee's authority to allocate the aggregate totals as they so determine.

FUNCTION 700 HISTORICAL DATA

[Outlays—billions of dollars]

Major program	Actual							
	FY 1976	FY 1977	FY 1978	FY 1979	FY 1980	FY 1981	FY 1982	FY 1983
Veterans compensation	5.2	5.7	6.2	6.7	7.4	8.4	9.3	9.8
Veterans pensions	2.9	3.1	3.2	3.5	3.6	3.8	3.9	3.9
Veterans education, training, and rehabilitation	5.5	3.7	3.4	2.8	2.3	2.3	1.9	1.6
Hospital and medical care for veterans	4.0	4.7	5.3	5.6	6.5	7.0	7.5	8.3
All other	0.8	0.7	0.9	1.3	1.3	1.6	1.3	1.2
Total function	18.4	18.0	19.0	19.9	21.2	23.0	24.0	24.8
Nominal growth (percent)	11	−2	6	5	7	8	4	3
Real growth (percent)	4	−9	−1	−5	−6	−2	−3	0

Function 750: ADMINISTRATION OF JUSTICE

MAJOR NATIONAL NEEDS ADDRESSED BY THE FUNCTION

—Provide for the safety of persons and the protection of their property through law enforcement.

—Provide fair and prompt trials for those accused of Federal crimes and for those involved in civil disputes.

—Operate detention and correctional facilities for persons charged with or convicted of Federal crimes.

—Assist in the improvement of State and local criminal justice systems.

—Represent the interest of the public in civil litigation and in other legal matters.

FUNCTION 750 PROJECTIONS

[In billions of dollars]

		FY 1984	FY 1985	FY 1986	FY 1987
Baseline	BA	5.9	6.2	6.3	6.5
	O	5.9	6.1	6.3	6.4
Committee recommendation	BA	5.9	6.1	6.2	6.3
	O	5.9	6.0	6.2	6.3

COMMITTEE RECOMMENDATION

The Committee recommendation assumes $6.1 billion in budget authority and $6.0 billion in outlays for this function in FY 1985.

In keeping with the Committee's assumption of a 1-year freeze on aggregate nondefense discretionary programs, the discretionary accounts in this function remain at their FY 1984 level (or program level where appropriate) in FY 1985, and increase at the CBO projected rate of inflation beginning in FY 1986. The Committee recognizes that such an assumed freeze in this function is only for illustrative purposes and in no way is intended to interfere with the Appropriations Committee's authority to allocate the aggregate totals as they so determine.

FUNCTION 750 HISTORICAL DATA

[Outlays—billions of dollars]

Major program	Actual							
	FY 1976	FY 1977	FY 1978	FY 1979	FY 1980	FY 1981	FY 1982	FY 1983
Federal Bureau of Investigation	0.5	0.5	0.6	0.6	0.6	0.7	0.7	0.8
Immigration and Naturalization Service	0.2	0.2	0.3	0.3	0.3	0.4	0.4	0.5
Drug Enforcement Administration	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.3
Customs Service	0.3	0.3	0.4	0.4	0.5	0.5	0.5	0.6
The Judiciary	0.3	0.4	0.4	0.5	0.6	0.6	0.7	0.8
Law enforcement assistance; research and statistics	0.9	0.8	0.7	0.7	0.7	0.5	0.3	0.2
Legal Services Corporation	0.1	0.1	0.2	0.3	0.3	0.3	0.3	0.2
Federal prison system	0.2	0.2	0.3	0.3	0.3	0.4	0.4	0.4
All other	0.7	0.9	0.7	0.9	1.0	1.1	1.1	1.4
Total function	3.3	3.6	3.8	4.2	4.6	4.8	4.7	5.1
Nominal growth (percent)	10	9	6	11	10	4	−2	9
Real growth (percent)	2	3	−1	2	1	−5	−9	4

Function 800: GENERAL GOVERNMENT

MAJOR NATIONAL NEEDS ADDRESSED BY THE FUNCTION

—Provide a legislative system responsive to the Nation's people.

—Provide national executive leadership and development of Federal management policy.

—Ensure efficiency and accountability in the use of public resources.

—Formulate tax and fiscal policies and conduct the operations of the Federal Government efficiently and effectively.

—Provide central services for all Federal agencies, including property and personnel management.

—Provide for the administration of Pacific Islands Trust Territories.

FUNCTION 800 PROJECTIONS

[In billions of dollars]

		FY 1984	FY 1985	FY 1986	FY 1987
Baseline	BA	5.3	5.7	5.9	6.1
	O	5.4	5.5	5.8	5.9
Committee recommendation	BA	5.3	5.6	5.8	5.9
	O	5.5	5.4	5.6	5.8

COMMITTEE RECOMMENDATION

The Committee recommendation assumes $5.6 billion in budget authority and $5.4 billion in outlays for this function in FY 1985.

In keeping with the Committee's assumption of a 1-year freeze on aggregate nondefense discretionary programs, the discretionary accounts in this function remain at their FY 1984 level (or program level where appropriate) in FY 1985, and increase at the CBO projected rate of inflation beginning in FY 1986. The Committee recognizes that such an assumed freeze in this function is only for illustrative purposes and in no way is intended to interfere with the Appropriations Committee's authority to allocate the aggregate totals as they so determine.

The Committee's baseline and recommendation assume that programs in the trust territories will continue to be funded in this function, and that any moneys which may be forthcoming if the Compact of Free Association is approved will be funded in this function in the future.

FUNCTION 800 HISTORICAL DATA

[Outlays—billions of dollars]

Major program	Actual							
	FY 1976	FY 1977	FY 1978	FY 1979	FY 1980	FY 1981	FY 1982	FY 1983
Legislative branch	0.7	0.8	0.9	0.9	1.0	1.0	1.2	1.2
Internal Revenue Service	1.7	1.8	1.9	2.1	2.3	2.5	2.5	2.9
General Services Administration	0.1	0.1	0.2	0.2	0.4	0.2	0.3	0.2
All other	0.4	0.4	0.4	1.5	0.6	1.7	0.5	0.8
Total function	2.7	2.9	3.4	3.9	4.1	4.4	4.4	4.8
Nominal growth (percent)	−7	7	17	15	5	7	0	9
Real growth (percent)	−14	2	10	5	−3	−2	−7	5

Function 850: GENERAL PURPOSE FISCAL ASSISTANCE

MAJOR NATIONAL NEEDS ADDRESSED BY THE FUNCTION

—Strengthen the capacities of State and local governments to finance essential public services and cushion the fiscal impact of adverse economic conditions.

—Assist States and localities by sharing receipts generated by Federal land management activities.

FUNCTION 850 PROJECTIONS

[In billions of dollars]

		FY 1984	FY 1985	FY 1986	FY 1987
Baseline	BA	6.8	6.7	6.7	7.1
	O	6.8	6.7	6.7	7.0
Committee recommendation	BA	6.8	6.4	6.4	6.7
	O	6.8	6.4	6.4	6.7

COMMITTEE RECOMMENDATION

The Committee recommendation assumes $6.4 billion in budget authority and $6.4 billion in outlays for this function in FY 1985.

In keeping with the Committee's assumption of a 1-year freeze on aggregate nondefense discretionary programs, the discretionary accounts in this function remain at their FY 1984 level (or program level where appropriate) in FY 1985, and increase at the CBO projected rate of inflation beginning in FY 1986. The Committee recognizes that such an assumed freeze in this function is only for illustrative purposes and in no way is intended to interfere with the Appropriations Committee's authority to allocate the aggregate totals as they so determine.

Entitlements in this function would be funded at the baseline level in all years.

The Committee recommendation also assumes savings resulting from enactment of the Deficit Reduction Act of 1984.

FUNCTION 850 HISTORICAL DATA

[Outlay—billions of dollars]

Major program	Actual							
	FY 1976	FY 1977	FY 1978	FY 1979	FY 1980	FY 1981	FY 1982	FY 1983
General revenue sharing	6.2	6.8	6.8	6.8	6.8	5.1	4.6	4.6
Payments and loans to the District of Columbia	0.3	0.3	0.4	0.4	0.4	0.5	0.4	0.5
Antirecession fiscal assistance		1.7	1.3					
All other	0.7	0.7	1.1	1.2	1.3	1.2	1.4	1.3
Total function	7.2	9.5	9.6	8.4	8.6	6.9	6.4	6.5
Nominal growth (percent)	0	32	1	−12	2	−20	−7	2
Real growth (percent)	−8	25	−5	−20	−6	−27	−13	−3

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Function 900: NET INTEREST

MAJOR NATIONAL NEEDS ADDRESSED BY THE FUNCTION

Interest is the cost of borrowing or the income from lending money. The interest function includes both interest paid and interest received by the Federal Government.

Deductions for interest received by trust funds are included to eliminate double counting of budget authority and outlays in order to reflect properly interest transactions with the public.

FUNCTION 900 PROJECTIONS

[In billions of dollars]

		FY 1984	FY 1985	FY 1986	FY 1987
Baseline	BA	109.8	126.4	146.7	171.2
	O	109.8	126.4	146.7	171.2
Committee recommendation	BA	109.6	124.9	141.4	160.4
	O	109.6	124.9	141.4	160.4

COMMITTEE RECOMMENDATION

The Committee recommendation assumes $124.9 billion in budget authority and $124.9 billion in outlays for this function in FY 1985.

The Committee recommendation assumes reductions in interest costs consistent with the deficit reductions contained in the recommended budget resolution.

FUNCTION 900 HISTORICAL DATA

[Outlays—billions of dollars]

Major program	Actual							
	FY 1976	FY 1977	FY 1978	FY 1979	FY 1980	FY 1981	FY 1982	FY 1983
Interest on the public debt	37.1	41.9	48.7	59.8	74.8	95.5	117.2	128.6
Interest received by trust funds	−7.8	−8.1	−8.5	−10.0	−12.0	−13.8	−16.1	−17.1
Other interest, net	−2.6	−3.9	−4.7	−7.3	−10.2	−13.0	−16.1	−21.7
Total function	26.7	29.9	35.4	42.6	52.5	68.7	85.0	89.8
Nominal growth (percent)	15	12	18	20	23	31	24	6
Real growth (percent)	6	6	11	11	13	19	16	1

Function 920: ALLOWANCES

Allowances are included in the budget to provide for unspecified requirements or savings that may arise. Such allowances do not represent specific program decisions. Once specific program decisions are made, the allowances shown here are replaced by changes in the appropriate functions of the budget.

At the present time, the only item included in this function is an allowance for pay raises for employees of Federal agencies other than the Department of Defense.

FUNCTION 920 PROJECTIONS

[In billions of dollars]

		FY 1984	FY 1985	FY 1986	FY 1987
Baseline	BA	0.7	1.0	2.8	4.7
	O	0.7	1.0	2.9	5.0
Committee recommendation	BA	0.7	0.8	2.0	3.1
	O	0.7	0.8	2.1	3.3

Committee Recommendation

The Committee recommendation assumes $0.8 billion in budget authority and $0.8 billion in outlays for this function in FY 1985.

The Committee recommendation assumes a 3-month delay in pay raises for Federal civilian agency white collar employees, with a 3.5-percent pay increase in January 1985. The recommendation assumes that the 3-month delay would be permanent, shifting the effective date of future pay increases from October to January. Federal civilian blue collar employees are assumed to receive up to 3.5 percent pay increases, with effective dates as in current law.

The Committee recommendation also assumes for FY 1984 a 3.5-percent pay raise for all civilian employees, effective January 1, 1984 for white collar employees and a similar 3-month delay for blue collar employees. The recommendation assumes 17 percent absorption of the costs associated with the January 1984 pay raise for agencies other than the Department of Defense.

Function 950: UNDISTRIBUTED OFFSETTING RECEIPTS

MAJOR NATIONAL NEEDS ADDRESSED BY THE FUNCTION

Offsetting receipts are generally deducted from outlays and budget authority at the function, subfunction, or account level. In two instances, however, such payments are deducted from the budget totals as undistributed offsetting receipts. Payments for rents and royalties on the Outer Continental Shelf (OCS) are very large and their inclusion in a particular function would distort the presentation of Federal program costs and are therefore deducted here. Deductions for the payments that each agency makes as its share of employee retirement costs are included here to eliminate double counting of budget authority and outlays.

FUNCTION 950 PROJECTIONS

[In billions of dollars]

		FY 1984	FY 1985	FY 1986	FY 1987
Baseline	BA	−15.2	−33.8	−36.8	−38.7
	O	−15.2	−33.8	−36.8	−38.7
Committee recommendation	BA	−15.2	−33.8	−36.7	−38.5
	O	−15.2	−33.8	−36.7	−38.5

COMMITTEE RECOMMENDATION

The Committee recommendation assumes −$33.8 billion in budget authority and −$33.8 billion in outlays for this function in FY 1985.

The Committee recommendation assumes lower receipts than the baseline in FY 1986 and FY 1987 as a result of reduced employer contributions to employee retirement funds caused by the pay recommendations discussed in functions 050 and 920.

The Committee also assumes the baseline levels for OCS receipts.

FUNCTION 950 HISTORICAL DATA

[Outlays—billions of dollars]

Major program	Actual							
	FY 1976	FY 1977	FY 1978	FY 1979	FY 1980	FY 1981	FY 1982	FY 1983
Employer share, employee retirement:								
Military retirement [1]	−7.5	−8.0	−8.5	−8.9	−10.0	−11.5	−12.8	−15.4
Civilian retirement	−4.2	−4.5	−5.0	−5.3	−5.8	−6.4	−7.0	−8.1
Subtotal [1]	−11.7	−12.5	−13.5	−14.2	−15.8	−17.9	−19.8	−23.5
Rents and royalties on the Outer Continental Shelf	−2.7	−2.4	−2.3	−3.3	−4.1	−10.1	−6.2	−10.5
Total function [1]	−14.4	−14.9	−15.7	−17.5	−19.9	−28.0	−26.1	−34.0
Nominal growth (percent)	6	3	5	11	14	41	−7	30
Real growth (percent)	−2	−2	−1	2	5	28	−13	25

[1] All years adjusted for comparability with the military retirement system changes that become effective in FY 1985.

Chapter V. CREDIT

The resolution includes aggregates and functional allocations for three types of Federal credit transactions: new direct loan obligations, new primary loan guarantee commitments, and new secondary loan guarantee commitments.

A new *direct loan obligation* (DL) is a binding agreement by a Federal agency to make a direct loan once specified conditions are fulfilled by the borrower. A direct loan is made by an agency with an obligation on the part of the borrower to repay the loan with or without interest.

A new *primary loan guarantee commitment* (PLG) is a binding agreement by a Federal agency to guarantee a private loan once specified conditions are fulfilled by the borrower or lender. A loan guarantee is a pledge to repay the principal and interest on a loan, in whole or in part, in case of default by the borrower.

A new *secondary loan guarantee commitment* (SLG) is a binding agreement by a Federal agency to guarantee a security or financial asset that is backed by a pool of loans previously guaranteed by the Government. Secondary loan guarantees do not increase the contingent liability of the Federal Government.

Committee Recommendation

The Committee recommendation assumes $36.7 billion in new direct loan obligations, $110.8 billion in new primary loan guarantee commitments, and $68.3 billion in new secondary loan guarantee commitments in FY 1985. Table 1 summarizes the Committee's credit budget recommendations by function. The recommendations are nonbinding targets.

In keeping with the Committee's assumed 1-year freeze on nondefense, discretionary accounts, aggregate discretionary credit remains at the FY 1984 level in FY 1985 and increases at the Congressional Budget Office (CBO) projected rate of inflation beginning in FY 1986. The Committee assumes current law estimates for entitlement and mandatory credit programs.

Credit Baseline

To assist the Committee, the CBO developed a credit baseline for FY 1984 through FY 1987, including both on-budget and off-budget credit programs. Like CBO's other baseline projections, the credit budget baseline shows the level of Federal credit activity that would result if current policies remained in place. Table 2 summarizes the CBO credit budget baseline by function.

For programs subject to appropriation limits in FY 1984, the baseline assumes that limits will be allowed to increase in future years to offset the effect of inflation. There are two exceptions to this rule: programs for which projections would exceed authorizing statutes and programs in which appropriations limits are expected to exceed actual obligations or commitments. For programs not limited in an appropriation act in FY 1984, the baseline assumes CBO's estimate of activity in future years.

CBO makes a number of adjustments to gross direct loan obligations and gross loan guarantee commitments in developing the credit baseline. It nets out intragovernmental financing transactions to derive the credit budget totals. As a result, loans guaranteed by a Federal agency and financed off-budget show only as direct loans; in such cases, the loan guarantee does not appear in the baseline total.

PRESIDENT'S CREDIT BUDGET REQUEST

The President's credit projections reflect policy changes proposed for FY 1984 and FY 1985 in his February budget. Table 3 summarizes the President's credit budget request for FY 1984 through FY 1987, as reestimated by CBO.

Table 1

SUMMARY OF COMMITTEE CREDIT RECOMMENDATIONS BY FUNCTION

[In billions of dollars]

Function	Activity	FY 1984	FY 1985	FY 1986	FY 1987
150: International Affairs	DL	9.1	10.3	12.0	12.7
	PLG	8.7	9.3	9.7	10.2
250: General Science, Space, and Technology	DL	0.1			
	PLG				
270: Energy	DL	4.7	4.7	4.8	5.0
	PLG	(*)	0.1	(*)	0.1
300: Natural Resources and Environment	DL	0.1	0.1	0.1	0.1
	PLG				
350: Agriculture	DL	11.2	11.4	13.7	13.5
	PLG	4.7	3.2	3.2	3.2
370: Commerce and Housing Credit	DL	6.2	6.2	6.4	6.5
	PLG	50.0	52.0	54.6	57.2
	SLG	68.3	68.3	71.6	75.1
400: Transportation	DL	1.1	0.1	0.1	0.1
	PLG	0.5	0.5	0.5	0.5

SUMMARY OF COMMITTEE CREDIT RECOMMENDATIONS BY FUNCTION—Continued

[In billions of dollars]

Function	Activity	FY 1984	FY 1985	FY 1986	FY 1987
450: Community and Regional Development	DL	1.6	1.7	1.7	1.7
	PLG	0.3	0.3	0.4	0.4
500: Education, Training, Employment, and Social Services.	DL	0.8	0.8	0.9	0.9
	PLG	7.4	7.8	8.0	8.2
550: Health	DL	(*)	(*)	(*)	(*)
	PLG	0.2	0.2	0.2	0.2
600: Income Security	DL	1.0	(*)	(*)	(*)
	PLG	14.7	14.7	14.7	14.7
700: Veterans Benefits and Services	DL	1.3	1.2	1.0	0.9
	PLG	18.7	22.9	25.5	28.8
850: General Purpose Fiscal Assistance	DL	0.3	0.3	0.3	0.3
	PLG				
Totals	DL	37.6	36.7	40.8	41.8
	PLG	105.2	110.8	116.7	123.3
	SLG	68.3	68.3	71.6	75.1

*Less than $50 million.

Table 2

SUMMARY OF BASELINE CREDIT BY FUNCTION

[In billions of dollars]

Function	Activity	FY 1984	FY 1985	FY 1986	FY 1987
150: International Affairs	DL	9.1	10.6	12.4	13.3
	PLG	8.7	9.3	10.3	10.8
250: General Science, Space, and Technology	DL	0.1			
	PLG				
270: Energy	DL	4.7	4.8	4.9	5.1
	PLG	(*)	0.1	(*)	0.1
300: Natural Resources and Environment	DL	0.1	0.1	0.1	0.1
	PLG				
350: Agriculture	DL	11.2	11.5	13.8	13.6
	PLG	4.7	3.2	3.2	3.2
370: Commerce and Housing Credit	DL	6.2	6.6	6.8	6.9
	PLG	50.0	52.8	55.2	57.8
	SLG	68.3	71.4	74.6	77.5

SUMMARY OF BASELINE CREDIT BY FUNCTION—Continued

[In billions of dollars]

Function	Activity	FY 1984	FY 1985	FY 1986	FY 1987
400: Transportation	DL	1.1	0.1	0.1	0.1
	PLG	0.5	0.5	0.5	0.5
450: Community and Regional Development	DL	1.6	1.7	1.7	1.8
	PLG	0.3	0.4	0.4	0.4
500: Education, Training, Employment, and Social Services.	DL	0.8	0.8	0.9	0.9
	PLG	7.4	7.8	8.0	8.2
550: Health	DL	(*)	(*)	(*)	(*)
	PLG	0.2	0.2	0.2	0.2
600: Income Security	DL	1.0	(*)	(*)	(*)
	PLG	14.7	14.7	14.7	14.7
700: Veterans Benefits and Services	DL	1.3	1.2	1.0	0.9
	PLG	18.7	22.9	25.5	28.8
850: General Purpose Fiscal Assistance	DL	0.3	0.3	0.3	0.3
	PLG				
Totals	DL	37.6	37.7	41.9	43.1
	PLG	105.2	111.6	117.9	124.6
	SLG	68.3	71.4	74.6	77.5

*Less than $50 million.

Table 3

SUMMARY OF PRESIDENT'S CREDIT BUDGET REQUEST AS RE-ESTIMATED BY CBO

[In billions of dollars]

Function	Activity	FY 1984	FY 1985	FY 1986	FY 1987
150: International Affairs	DL	10.3	11.1	11.3	11.5
	PLG	10.3	10.3	10.3	10.3
250: General Science, Space, and Technology	DL	0.1			
	PLG				
270: Energy	DL	4.7	2.2	2.1	2.2
	PLG		0.1	(*)	(*)
300: Natural Resources and Environment	DL	0.1	0.1	(*)	(*)
	PLG				

SUMMARY OF PRESIDENT'S CREDIT BUDGET REQUEST AS RE-ESTIMATED BY CBO—Continued

[In billions of dollars]

Function	Activity	FY 1984	FY 1985	FY 1986	FY 1987
350: Agriculture	DL	12.1	11.9	13.6	12.9
	PLG	4.7	3.2	3.2	3.2
370: Commerce and Housing Credit	DL	6.1	5.0	4.9	4.8
	PLG	41.5	44.2	44.6	46.8
	SLG	68.3	68.3	68.3	68.3
400: Transportation	DL	1.1	0.1	0.1	0.1
	PLG	0.6	0.6	0.6	0.6
450: Community and Regional Development	DL	1.4	1.0	1.0	1.0
	PLG	0.3			
500: Education, Training, Employment, and Social Services.	DL	0.8	0.6	0.6	0.6
	PLG	6.9	6.8	7.0	7.1
550: Health	DL	(*)	(*)	(*)	(*)
	PLG	0.3	0.2	0.2	0.2
600: Income Security	DL	0.3	0.3	0.2	0.2
	PLG	15.2	14.9	14.6	14.3
700: Veterans Benefits and Services	DL	1.0	0.5	0.4	0.4
	PLG	18.4	22.3	24.9	28.2
850: General Purpose Fiscal Assistance	DL	0.1			
	PLG				
Totals	DL	38.1	32.7	34.4	33.7
	PLG	98.1	102.5	105.3	110.7
	SLG	68.3	68.3	68.3	68.3

*Less than $50 million.

ROLLCALL VOTES IN COMMITTEE

Rollcall votes taken during Committee consideration of this legislation are as follows:

1. Symms full budget plan:

	1984	1985	1986	1987	Total 1984-1987
Total Change to Deficit:	-3.7	-28.3	-60.7	-93.1	-185.8

Motion rejected: 3 yeas, 14 nays

Yeas:	Nays:
Hatch	Armstrong
Symms	Boschwitz
Grassley	Tower
	Kasten
	Quayle
	Gorton
	Chiles
	Biden
	Johnston
	Sasser
	Riegle
	Moynihan
	Exon
	Domenici

2. Hollings, Andrews, Exon full budget plan:

	1984	1985	1986	1987	Total 1984-1987
Total Change to Deficit:	-6.4	-46.6	-101.6	-161.5	-315.9

Motion rejected: 6 yeas, 13 nays

Yeas:	Nays:
Andrews	Armstrong
Chiles	Kassebaum
Hollings	Boschwitz
Johnston	Hatch
Sasser	Tower
Exon	Symms
	Grassley
	Quayle
	Gorton
	Biden
	Metzenbaum
	Moynihan
	Domenici

3. Grassley, Kassebaum, Biden full budget plan:

Motion was withdrawn before final vote tally.

4. Chiles full budget plan:

	1984	1985	1986	1987	Total 1984-1987
Total Change to Deficit:	-3.0	-33.0	-64.0	-100.0	-200.0

Motion rejected: 10 yeas, 11 nays

Yeas:	Nays:
Andrews	Armstrong
Grassley	Kassebaum
Chiles	Boschwitz
Biden	Hatch
Johnston	Tower
Sasser	Symms
Metzenbaum	Kasten
Riegle	Quayle
Moynihan	Gorton
Exon	Hollings
	Domenici

5. Domenici full budget plan:

	1984	1985	1986	1987	Total 1984-1987
Total Change to Deficit:	-2.7	-25.9	-49.6	-65.5	-143.7
Total Change from CBO Baseline:	(+0.6)	(-16.5)	(-31.5)	(-41.7)	(-89.1)

Motion agreed to: 11 yeas, 10 nays

Yeas:	Nays:
Armstrong	Andrews
Kassebaum	Chiles
Boschwitz	Hollings
Hatch	Biden
Tower	Johnston
Symms	Sasser
Grassley	Metzenbaum
Kasten	Riegle
Quayle	Moynihan
Gorton	Exon
Domenici	

6. Domenici motion to report resolution as agreed to:

Motion agreed to by voice vote.

ADDITIONAL VIEWS OF CHAIRMAN PETE V. DOMENICI

I support the Committee's recommended budget resolution as a pragmatic and reassuring first step toward attacking looming Federal deficits. The Committee's ability to report a budget resolution with a deficit downpayment of $144 billion during the fiscal year 1984–87 period is a responsible act. It is even more courageous given this is an election year.

In retrospect, the budget resolutions of the past 3 years were developed using optimistic economic assumptions. This year, the reverse seems true. The underlying economic assumptions used to develop the budget are too pessimistic in my view. This was confirmed by the administration's new economic forecast released on the second day of the Committee's markup, and other recent economic indicators reflecting increased economic growth and lower unemployment.

If the Committee had up-dated the economic forecast upon which it based its numbers for the reality of higher growth and lower unemployment, the deficits remaining after the Committee's deficit reduction efforts would be: $183.1 billion in FY 1984, $166.2 billion in FY 1985, $163.0 billion in FY 1986, and $164.0 billion in FY 1987. I believe that the latter set of numbers more accurately reflects reality and that either during Senate floor action or during conference with the House of Representatives an appropriate update for economic reality should take place. The following table 1 shows Senate Budget Committee staff calculations of a more realistic economic forecast and compares it to the CBO's January estimates. Table 2 shows an alternative baseline deficit using the more current economic assumptions. Table 3 shows the deficit numbers resulting from these economic assumptions and the interest rate reductions resulting from the resolution's budget recommendations.

Finally, I believe that we must make budget recommendations this year recognizing three important facts: (1) that any budget must be one that Congress will enforce and implement; (2) that much of the action that Congress will take to reduce deficits is underway in the House and Senate; and (3) that more fundamental changes may have to occur during the rest of the 1980s in the spending and revenue policies of the Nation. Each of these three factors deserves further amplification.

First, I am acutely aware of the problem of passing a budget resolution that simply is out of touch with congressional intent. The

Committee's FY 1984 budget recommendations were eventually rejected by the Senate and replaced with a budget recommendation that proved unrealistic and unenforceable. Indeed, even with action now underway in the House and Senate, the reconciliation instructions and spending and tax policies contained in that budget will not be met. Such lack of realism in the budget this year, I believe, would corrode the budget process. So, above all, the Committee's recommended budget attempts to be pragmatic and realistic. The recommendations are not perfect, but they are good.

Second, the Committee's deliberations were conducted as the House of Representatives passed a major revenue-raising measure, its own budget recommendations, and a reconciliation instruction on spending. In addition, the full Senate began consideration of a revenue-raising measure that almost exactly parallels the Committee's recommendations, after rejecting by large margins efforts to increase the amount of new revenues.

Third, I believe that more needs to be done in reforming the tax and spending policies of the Nation. A large number of the members of the Committee also strongly believe that even larger deficit-reduction actions must be taken by Congress soon. Many of the members wanted such action this year, but recognized that such action seems unlikely given congressional activity to date. I fully believe that further deficit-reduction measures must be part of any congressional agenda starting early next year.

Table 1

COMPARISON OF ECONOMIC ASSUMPTIONS

[Calendar years]

	1984	1985	1986	1987
Nominal GNP (percent change, annual):				
CBO January	10.3	9.4	8.6	8.4
Administration April update	10.6	9.1	8.7	8.4
Possible forecast revision	11.0	9.4	8.6	8.4
Real GNP (percent change, annual):				
CBO January	5.4	4.1	3.5	3.5
Administration April update	5.9	4.1	4.0	4.0
Possible forecast revision	6.0	4.1	3.5	3.5
CPI (percent change, annual):				
CBO January	4.5	5.0	4.9	4.7
Administration April update	4.1	4.6	4.5	4.2
Possible forecast revision	4.5	5.0	4.9	4.7
Unemployment rate (annual average):				
CBO January	7.8	7.3	7.0	6.8
Administration April update	7.6	7.4	7.0	6.6
Possible forecast revision	7.6	7.0	6.7	6.5

COMPARISON OF ECONOMIC ASSUMPTIONS—Continued

[Calendar years]

	1984	1985	1986	1987
91-day Treasury bill rate (annual average):				
CBO January	8.9	8.6	8.4	8.2
Administration April update	8.9	8.0	7.1	6.2
Possible forecast revision:				
Baseline	9.3	9.2	9.0	8.9
Post-policy	9.1	8.6	8.0	7.6

Table 2

BUDGET EFFECTS OF ALTERNATIVE ECONOMIC ASSUMPTIONS

[In billions of dollars]

	FY 1984	FY 1985	FY 1986	FY 1987
CBO baseline revenues	663.0	733.0	794.9	863.5
Technical estimates [1]	−3.6	−2.1	+0.8	+10.4
Alternative economic forecast	+10.3	+15.8	+17.3	+19.0
Alternative baseline revenues	669.7	746.7	813.0	892.9
CBO baseline outlays	852.4	930.3	1,011.8	1,108.7
Shift to President's defense request	+3.2	+8.6	+16.0	+19.6
Alternative economic forecast (UI, GSL)	−0.5	−0.7	−0.2	−0.4
Interest adjustment based on alternative economic forecast and other changes above	+0.5	+2.4	+5.1	+8.0
Alternative baseline outlays	855.6	940.6	1,032.6	1,136.0
CBO baseline deficit	189.4	197.3	216.9	245.2
Revenue and outlay changes	−3.5	−3.3	+2.7	−2.2
Alternative baseline deficit	185.9	193.9	219.6	243.1

[1] Treasury technical re-estimates.

Table 3

FIRST BUDGET RESOLUTION USING ALTERNATIVE ECONOMIC FORECAST

[In billions of dollars]

	FY 1984	FY 1985	FY 1986	FY 1987	Total FYs 1984-87
Alternative baseline deficit [1]	185.9	193.9	219.6	243.1	
Revenues	−2.4	−10.7	−16.1	−19.1	−48.3
Defense		−6.0	−16.0	−18.2	−40.2
Nondefense	−0.2	−7.6	−12.2	−17.4	−37.4
Net interest savings due to above changes	−0.1	−1.7	−5.7	−11.6	−19.1
Total policy change	−2.7	−26.0	−49.9	−66.3	−145.0
Interest rate reduction caused by plan		−1.7	−6.7	−12.8	−21.2
Total policy change and interest rate reduction	−2.7	−27.7	−56.6	−79.1	−166.2
Alternative First Budget Resolution deficit	183.1	166.2	163.0	164.0	

[1] Reflects President's defense request, alternative economic forecast, and related technical re-estimates.

PETE V. DOMENICI.

ADDITIONAL VIEWS OF SENATOR ORRIN G. HATCH

My support of the deficit-reduction plan adopted by the Senate Budget Committee reflects my concern about the lack of control over Federal spending levels that has existed not only this year, but over the last 25 years. Rather than vote against all of the proposed options because they failed the test, I chose to support the one plan, the Republican leadership plan, which comes closest to the ideal economic policy required to permit long-term growth for our Nation. Let me take this opportunity to explain my concern over the economic policy fallacies of the past few years.

The heart of the matter is that Federal spending is the best indicator of the damage caused by our fiscal policy. Federal spending is the key because it is the best measure of the fiscal disincentives imposed on the private sector by the Federal Government. In the long run, it makes only a small difference whether we finance spending by raising taxes or borrowing funds, as long as we do not expect to do so forever. Increased taxes discourage work and investment, and, likewise, borrowing discourages both investment and consumption by raising interest rates. Each takes resources out of our economy for use by the Federal Government, often for programs that are of questionable value. So the size of the deficit simply tells us how Congress and the administration have chosen to fund Federal spending and not how damaging fiscal policy is to the economy.

A better measure of the burden of fiscal policy, as I have said, is the total amount of Federal spending. We ought to measure the number of jobs destroyed, the number of businesses closed, and the amount of income removed from the economy by Federal spending. Yet, this is an aspect of fiscal policy often overlooked. Recent years, of course, have seen a resurgence of concern about either the negative impact of high tax levels or the damaging effects of deficit spending. Nevertheless, very few concerned commentators in Washington focus their attention on the force that drives both of these variables—Federal spending.

The most puzzling aspect of the "pop" analyses now circulating in the Congress is the claim that large deficits will suddenly curtail the economic expansion currently underway. In fact, there is little evidence that Federal deficits raise interest rates, the mechanism by which this curtailment is supposed to occur. The Congressional Budget Office recently surveyed the studies available on this point and found little or no evidence of such increases. So to believe that the expansion will stop is to believe that the financial markets have only suddenly noticed our large Federal deficits and that interest rates will rise as a result. The truth is that nothing has changed. The congressional track record of fiscal irresponsibility is well known and unlikely to change. Federal spending is likely to continue to grow *not* despite what Congress does with its budget resolutions, but because these empty political statements hide the real truth about congressional irresponsibility. The truth is that since the Budget Act was implemented in FY 1976, real Federal spending has had a faster growth rate than previously. It is unlikely that Congress will reform or that anything else will happen in the future to alter this spending pattern. So, I would be surprised if the participants in the financial markets, well aware of the congressional track record, have *not* already adjusted their anticipations and actions accordingly. Therefore, I see no reason to expect any sudden change in economic activity as a result of the continuing deficit.

It has also been popular over the last 2 years to claim that the tax cuts of 1981 are the cause of today's large deficits. One way to lay this falsehood to rest is to look at Federal revenues and spending as a percentage of national income. Comparing these figures as percentages of national income illustrates the increasing burden of Federal financing. In 1973, revenues were 23.8 percent; but in 1983 they had increased, to 24.3 percent. In contrast, in 1973, Federal spending amounted to 24.3 percent of national income; but in 1983 it surged to 31.2 percent, a 6-point increase. Even taking into account the business cycle's effect on national income, the point is clear. The deficits are not the result of a lack of revenue. Federal spending is to blame.

A more exacting measure of the burden of Federal spending would include an analysis of the degree of interpersonal cross-subsidies existing in Federal programs. I am not referring to assistance to needy groups, but to the myriad of programs, many for the middle class, that discourage initiative, innovation, and plain hard work and instead encourage waiting for Federal grants, subsidies, and handouts. No one group is necessarily ahead in this crosss-subsidy game—the net transfer could be nil. The point is that funneling money through Washington reduces everyone's incentive, and it is this incentive that our Nation has thrived on in the past and will surely need in the future. The surest way to achieve economic stagnation is to remove incentive.

ORRIN G. HATCH.

ADDITIONAL VIEWS SENATOR STEVE SYMMS

The budget resolution contained in this document is the product of months of hard work and negotiation by the Senate leadership and the White House. While few members of Congress are in complete agreement with the spending and revenue recommendations contained therein, I believe this deficit reduction package is at least a better alternative than the other major alternatives presented to the Committee which contained greater tax increases and lower defense numbers, neither of which is conducive to, respectively, economic recovery or heightened national security.

I was disappointed, but not surprised, that the budget proposal which I put forward to the Committee was rejected. It is unfortunate that Congress is always reluctant, particularly during an election year, to hold the line on spending. My budget plan would have: frozen all Federal pay, benefit and retirement checks at their current level for 3 years, exempting means-tested programs, thereby protecting those citizens at the poverty level; enacted 10 percent cuts in nondefense discretionary programs from their 1984 levels, freezing that spending level in 1986 and 1987. This plan would have saved $180 billion over 4 years, without increasing taxes, and without reducing anyone's current benefit levels. While some viewed this plan as "harsh," I am convinced that it contained exactly the spending remedy that this economy needs to stay on the road to recovery. Although President Reagan's economic program has dramatically slowed inflation and increased employment, long-term interest rates will remain unacceptably high until Congress can demonstrate the political will to restrain ever-increasing transfer payments. To date, the political will for fiscal restraint has been virtualy nonexistent.

In 1955, after both the Second World War and the conflict in Korea, the national debt stood at $273 billion. Before President Reagan submitted his budget in 1980, the national debt stood at $930 billion. During the time period that big spenders controlled both Houses of Congress, when the "tax, spend, and elect" mentality gripped our legislators, interest rates rose from 5 to 20 percent. Money drained from our capital markets could have built homes, refurbished antiquated factories and industries, and allowed young people to buy houses which they cannot afford today. Instead, this money was spent wastefully, on porkbarrel projects, on excessive regulation, and on grants and low-interest loans to Communist countries, while the American taxpayer was forced to pay the escalating prime interest rate. Thus, our taxpayers essentially get hit twice, once with taxes to pay for spending programs, and secondly, with the higher interest rates that accompany deficit spending. Congress' big spenders spoke of compassion and urged more spending programs as a solution for perceived social ills. Yet there was little compassion or thought for the young people of today condemned to paying exorbitant interest rates on the debts which were incurred by a series of fiscally negligent Congresses.

The basic premises of the Reagan economic recovery program were sound. Excessive, anti-capital formation taxes had depressed economic activity, the Federal Government had tended to rely on high rates of monetary inflation to finance increased spending, and expenditures had shifted at the national level from defense and capital resource investment to domestic social programs. The Reagan administration sought to reverse that dangerous trend with its accompanying negative impact on economic vitality, free enterprise, and individual initiative. The 1981 tax cuts were meant to leave more money in the hands of those who earned it, and by so doing, spur investment and economic growth. The basic assumption was that tax cuts are more effective in promoting economic growth than Government spending. This approach to economic growth is also termed supply-side economics, and is 100 percent consistent with the fundamental tenets of capitalism, the singular most successful economic system in the world.

But the Reagan economic program was watered down, as Congress diminished the tax cuts, and refused to restrain social spending. Today, we are confronted with the largest budget and the largest budget deficit in our history. The major media tends to incorrectly cite the President's tax cuts and the badly needed defense modernization program as the deficit culprits. The 1981 tax cuts, however, were largely obliterated by several revenue "enhancement" measures which followed their passage: changing the original Kemp-Roth 10–10–10 formula to a delayed 5–10–10 formula, the 1982 social security tax hike, the Tax Equity and Fiscal Responsibility Act (TEFRA), a $100 billion package which promised to eliminate the deficit, and the $50 billion tax package which Congress just recently enacted. Indexing, the single most important tax reform achieved by the Reagan administration, has been preserved. But even indexing, which largely protects the middle and lower income families from the unlegislated taxes of bracket creep, has been under constant attack since its passage.

Clearly, the tax cuts have done little more than to stabilize the tax burden of the average American. Two decades ago, taxes amounted to about 18.7 percent of GNP. Tax collections in 1983 ran at about 20 percent of GNP. Federal spending, in contrast, increased in 20 years from 20 to 25 percent of GNP. The deficit is the consequence of excessive Government spending, not undertaxation. Although the President's tax stabilization effort has given new incentives for production and encouraged economic resurgence, the continued high rate of Federal spending threatens long-term recovery.

The defense budget, according to popular media mis-reporting, is responsible for the deficit, and anti-defense forces urge that the defense budget take a disproportionate cut in comparison to nondefense programs which comprise 73 percent of the overall Federal budget. Defense, as a portion of the Federal pie has been sharply reduced from its 45 percent level during the Kennedy administration to about 27 percent during the current administration. Since President Carter's last year in office, *nondefense* spending has increased by $150 billion, the equivalent of 75 percent of our current deficit.

I would not contend that savings cannot be achieved in the Department of Defense. If Congress continues to enact arbitrary cuts, however, it only precipitates a re-occurence of the problems that have plagued the Pentagon in the past—stretch-out of procurement programs at uneconomic rates of production, decreases in readiness by restricting funding for operations and maintenance, foregoing modernization of our strategic and theatre nuclear forces, and slowdowns of general purpose and naval force modernization extending already over-long leadtimes.

The multiyear approach to defense program planning and budgeting deserves serious consideration. Our defense personnel system must be scrutinized. The all-volunteer force and the military retirement program are consuming over half of our defense budget, while in comparison the Soviets spend 11 percent of their defense outlays on personnel costs.

Congress has become fixated with micro-management, and are over-involved in decisions on specific weapons based on parochial interests. Congress has failed to provide the long-term program stability that is the key to curbing defense costs. Long-term program stability could cut 5 to 6 years out of the acquisition cycle and consequently, achieve tremendous savings. Often, the Soviets are able to steal our technology, deploy, test and repair their new weapons before the Pentagon can even secure a "yes" or "no" on a specific design from the Congress. This unpleasant truth is not reassuring to anyone concerned about our efforts to catch up with Soviet military superiority. The Soviets, with a GNP 80 percent less than our own, devote 15 percent of their GNP to defense allocations, while we spend 6.7 percent of our GNP for defense. I am pleased that this budget resolution provides adequate funds to continue our efforts to regain military parity with the Soviet Union. Last, the defense budget should never be predicated on budgetary priorities. It should be calculated to counter threats to our national security.

What has brought about the marked shift in Federal spending priorities away from national defense toward increased domestic social spending? The simple, compelling fact is that funding a strong national defense does not have the immediate political gratification that Congress receives from satisfying the demands of the expanding social spending constituency. Politicians discovered years ago that votes were easily bought with social programs and managed to sell their voting public on the outrageous falsehood that government, rather than the private sector, is the creator of wealth.

As a result, the United States has accumulated more debt in the past 13 years than in the first 175 years of the Nation's existence. Indexed benefits have been responsible for the majority of program growth in the decade of the 1970's. Although indexing was intended to counter the effect of inflation, it actually contributes to further price inflation since automatic multi-billion dollar increases in income benefits fuel increased Federal spending *and* higher taxes. Today, nearly every major welfare, retirement, disability, and survivor benefit program adjusts benefits yearly—and some as often as semi-annually—to reflect increases in some measuring index. Not surprisingly, entitlements have moved from 36.1 percent of the Federal budget in 1967 to a high of 59.1 percent in 1980.

H. L. Mencken once made a statement that Franklin D. Roosevelt thought the Federal Government was a gigantic milch cow with 100 million teats. It has also been said that government is the illusion that we can all live at someone else's expense. Under the guise of helping the poor and needy, a lot of money has found its way to government administrators, to statisticians, consultants, economists, sociologists, think tanks, and assorted social agencies. The big spenders keep asking for more money for social programs, without questioning how much of the resources intended for the unfortunate in our society actually reaches the source. Yet efforts to circumvent the welfare bureaucracy through block grants or cash payments are met with cries of indignation that the poor would be hurt by such direct aid.

Today's spendthrift politicians should heed advice that was offered by President Coolidge—"We must have no carelessness in our dealings with public property or the expenditures of public money. Such a condition is characteristic either of an undeveloped people or of a decadent civilization." Our Republic was created by men of vision, who believed foremost in individual and national freedom. Their premise was that a government composed of imperfect leaders exercising power over others should possess strictly limited authority. That unique concept led to an experiment in freedom that resulted in unparalleled economic growth and a standard of living unmatched by any other nation. That prototype of government has all but disappeared. We face a monumental decision as free people today—do we want continued expansion of the social welfare state and greater usurpation of individual freedom, or do we want to restore individual work incentives, fiscal restraint, and allow for a stable and prosperous economy?

This country has been infected with a sense of entitlement that feeds upon itself. Special interest groups and their beneficiaries are adept at pressuring Congress to enact new and expensive programs and to expand existing ones. I believe we should remember the one "entitled" group that is neither highly vocal, visible, or astute at lobbying Congress for hand-outs—the American taxpayers.

There are several major initiatives that Congress should implement, and perhaps such will be attainable following the November elections. The balanced-budget concept was dismissed as naive in modern economics. The Federal Government's power to print money was abused, and monetizing the dificit seemed a harmless way to wipe out debt. The side-effect was rampant inflation, reduced purchasing power, and economic disaster. I strongly support a constitutional amendment mandating a balanced budget, and restrictions on Federal spending authority to a realistic percentage of the gross national product.

Secondly, the President should be given line item veto authority, which nearly all State Governors now possess. Last, fundamental reforms to scale down the growth of the entitlement sector must be instituted.

There is a current pervasive attitude of defeatism about controlling spending in Washington that I find intolerable. Members find enacting tax increases easier than addressing necessary spending reform. Our budgetary problems can only be solved by reassessing proper levels of Federal spending. Public awareness of the impact of higher levels of public spending is crucial to the redirection of national priorities—toward limited government, freedom for the American citizen, and the survival and competitiveness of the United States internationally.

STEVEN D. SYMMS.

MINORITY VIEWS OF SENATORS NANCY LANDON KASSEBAUM AND JOSEPH R. BIDEN, JR.

We continue to be concerned that the budget reported by the Senate Budget Committee will not prevent rising interest rates and an eventual economic downturn.

In contrast, the bipartisan budget freeze, which we offered in Committee, would provide a high degree of protection against such economic consequences. In FY 1985, our freeze would reduce baseline deficits by $45.2 billion, to $161.5 billion. Thus it could have a major impact on deficits and on 1985 Treasury borrowings. By comparison, the budget adopted by the Budget Committee shows a deficit of $180.8 billion for that same year, $19.3 billion greater than the bipartisan freeze.

Although ours is only a 1-year program, its beneficial budget effects continue beyond the first year. By FY 1987, its deficit is projected at $162 billion while the Committee-adopted deficit will have risen to $203.6 billion.

We offered a 1-year freeze because we consider the coming fiscal year to be of critical importance to the future economic stability and growth of this country. During FY 1985, Congress must have in place strong action against deficits to prevent an upward surge of interest rates and a downward slide in our economy. To this end, our proposal would freeze all aspects of the Federal budget for 1 year, FY 1985. Our proposal would freeze budget authority for defense and nondefense discretionary programs for 1 year. To restrain medical costs, it would freeze hospital and doctor payments. There would be a 1-year freeze of cost-of-living adjustments for all indexed programs. For farm programs, it would freeze target prices and loan levels at the 1984 crop year levels. And it proposes that revenues be increased by $10 billion in FY 1985.

Once this emergency action is in place, there will be an opportunity to consider further actions to reverse the upward trend of deficits. All the beneficial deficit reduction actions of the bipartisan budget freeze would be immediate, in FY 1985. In contrast, the budget adopted by a majority of the Committee will require 3 years to become fully effective, if it ever does.

The bipartisan freeze is equitable, reining in all aspects of Federal activity. It asks the American people to accept even-handed, short-term sacrifice to rescue the American economy. Such an action will demonstrate the concern that the American people feel about a fiscal policy that is careening out of control. It delivers its whole impact in 1 year. If we do not move vigorously on a freeze now, it may be too late, as deficits rise and interest on the national debt eats up such savings as we have made.

The issue of deficits is critical to the American economy. The budget approved by the Budget Committee hardly addresses the problem. Therefore, we intend to pursue the adoption of the bipartisan budget freeze on the Senate floor.

Below is a summary of the bipartisan budget freeze prepared by the staff of the Senate Budget Committee.

[In billions of dollars]

	FY 1984	FY 1985	FY 1986	FY 1987	Total FYs 1984–87
Baseline deficit [1]	192.7	206.7	235.0	269.0	
Revenues		−10.0	−10.0	−10.0	−30.0
Defense	−3.2	−19.3	−44.2	−54.1	−120.7
Nondefense		−13.4	−23.2	−24.2	−60.8
Subtotal—change	−3.2	−42.7	−77.4	−88.3	−211.5
Net interest [2]	−0.1	−2.5	−9.1	−18.6	−30.3
Total change	−3.3	−45.2	−86.5	−106.9	−241.8
(Total change from CBO baseline)	(......)	(−35.8)	(−68.4)	(−83.2)	(−187.4)
Plan deficit	189.4	161.5	148.5	162.0	

[1] Assumes CBO baseline for nondefense and President's budget request (not re-estimated by CBO) for defense, plus interest adjustment to take account of the defense change. This is the baseline used in the leadership discussions and used by the House Budget Committee to describe their deficit reduction proposals.

[2] Using CBO economic forecast.

Note.—Details may not add to totals due to rounding.

NANCY LANDON KASSEBAUM.
JOSEPH R. BIDEN, JR.

MINORITY VIEWS OF SENATORS LAWTON CHILES, JIM SASSER, HOWARD M. METZENBAUM, DONALD W. RIEGLE, JR., AND DANIEL PATRICK MOYNIHAN

According to the Congressional Budget Office (CBO), the budget resolution reported by the Committee will cut deficits a total of $89 billion over the next 3 years. But even behind that disappointing headline is an even more disappointing bottom line. The bottom line deficit *rises* rather than falls in the years ahead.

The Committee had several options before it, each one of which would have cut the deficit by a substantially larger amount. In fact, the plan approved by the Committee was the smallest deficit reduction plan under consideration.

We are confronted with a national debt expected to reach $2.7 trillion by 1989. Even with the deficit reducers included in the so-called "rose garden" plan approved by the Committee, deficits between 1984 and 1989 will still total an additional $570 billion. A reduction of $89 billion against $659 billion of projected deficits is a drop in the bucket of Federal red ink.

But even more outlandish is the fact that the deficits under the rose garden package will actually be higher—$204 billion in 1987—than they are now.

The verdict on the plan approved by this Committee must, therefore, be simply this: while masquerading as deficit reduction, it allows deficits to rise, surging in 3 years back over the $200 billion mark annually. This is not effective action. This is not even a downpayment. In fact, it is not even a down turn in the path of rising deficits.

All this plan would accomplish is to camouflage the fact that deficits are rising, that serious discipline has not been applied, and that the future of the economy is imperiled. Those truths may be evaded in this budget resolution, but they cannot be hidden.

The Committee report tries to give the impression that merely "updating" economic assumptions to reflect recent strong economic growth would produce a vastly lower estimate of deficits under the Republican plan. This is simply misleading.

While the CBO forecast is slightly less optimistic than the average of private forecasters for 1984, it shows considerably higher real growth in 1985 and 1986.

The Chairman has also referred to a "post-policy" adjustment to reduce interest rate projections as a result of the deficit reduction contained in the reported resolution. However, Dr. Rudolph Penner, Director of the CBO has testified that we need significant deficit reduction just to stay on track with the CBO forecast. Unless we are willing to take Chairman Volcker's advice and cut $40 billion off the deficit in the first year, we will certainly not get interest rates below the CBO level.

The economy is recovering a lot faster than anyone expected and I think we're all glad about that. But there are some real threats to this recovery. Interest rates are on the rise again. Both short-term and long-term Government bonds are up sharply. The mortgage rate on conventional 30-year fixed mortgages is heading up again to 14 percent. The prime rate has gone up twice in the last 3 weeks by 100 basis points to 12 percent. And Henry Kaufman says it may go to 13.5 percent by year-end. The Fed has increased its discount rate by one-half percent. And there's talk about it going to 9.5 percent. So it is clear what the market thinks. With strong economy and the minimal deficit reduction in the rose garden plan, the market says interest rates will go up, not down.

Under the Rose Garden Plan, military spending will grow at an annual real rate of 7 percent. That figure is far higher than the current rate of growth, and builds on top of a massive 40 percent increase in military spending over the last 3 years. We can defend American interests with a slower rate of spending growth.

In the name of deficit reduction, we end up with substantial increases in military spending under the rose garden plan. How that can be called deficit reduction is beyond understanding.

The revenue increases implicit in the Committee-approved budget plan fall short of the levels needed to reverse the growth of deficits, and thus restrain the rise in interest rates.

Finally, the domestic spending freeze contained in the Republican plan cannot be realistically achieved. If it actually were enacted, it would work unfair hardship on domestic programs, while still allowing massive increases in military spending. Programs directly operated by the Federal Government, like the FBI, like veterans medical facilities, like the space program, would have to cut actual services if funding were frozen in the face of continued inflation. The same would hold true for programs like WIC (funding for women, infants and children), education of the disadvantaged, and job training. Who would ask that kind of sacrifice while allowing 7 percent real growth in Defense?

There are other plans which won substantial support within the Budget Committee, including one offered by Senator Chiles on behalf of the Democratic Senators. Using administration accounting, the deficit under this proposal would be cut by $200 billion, bringing it down from 5.2 percent of GNP to 3.6 percent of GNP by 1987. It would allow defense spending to grow in real terms by 4 percent, adding $27 billion to the 1984 defense spending level. But it would still have Defense contribute $11 billion to deficit reduction. It calls for $81 billion in additional revenues, while keeping the lid on spending for domestic programs. This and other plans remain a stronger approach to deficits, and the Senate will have an opportunity to judge them in full detail during the forthcoming debate.

In addition to these existing options to the reported budget package, there are two other reasons to be optimistic that we will be able to do better in the full Senate. First, the evidence strongly suggests a high level of bipartisan dissatisfaction with the plan the Committee approved. Second, without a single exception, the Committee demonstrated it is seriously committed to genuine deficit reduction.

The stage is now set for strong action. It will require the combined efforts of both parties. And it can be done. The hard choice—doing something in an election year—has already been made. The next responsible step is to cut the deficit by a meaningful amount, and that is what we must do.

Unfortunately the plan approved by the Committee is simply not enough.

The Committee majority has attempted to portray their plan as $144 billion in deficit reduction, including $40 billion in defense restraint. However, using C.B.O. estimates, they reduce deficits only $89 billion. Moreover, C.B.O. calculates that their defense figure *adds* $4 billion to the deficit over the next three years. The following corrected version of the Committee's Table 1 shows the components of their plan compared to the C.B.O. Baseline.

SUMMARY OF CHANGES FROM CBO BASELINE IN FIRST BUDGET RESOLUTION AS REPORTED (REPUBLICAN LEADERSHIP PLAN)

[In billions of dollars]

	FY 1984	FY 1985	FY 1986	FY 1987	Total FY1984–87
Revenues:					
Baseline	663.0	733.0	794.9	863.5	
Proposed increases	+2.4	+10.7	+16.1	+19.1	+48.3
Reported resolution	665.4	743.7	811.0	882.6	
Outlays:					
Baseline	852.4	930.3	1,011.8	1,108.7	
National defense	+3.2	+2.6	0	+1.4	+7.2
Entitlements and other mandatory programs	−0.1	−4.6	−5.6	−9.2	−19.4
Nondefense discretionary programs and Federal pay	−0.1	−3.1	−5.6	−7.1	−15.9
Net interest	0	−0.8	−3.2	−6.6	−10.6
Offsetting receipts		+(*)	−1.0	−1.1	−2.1
Total outlay savings	+2.9	−5.9	−15.4	−22.6	−41.0
Reported resolution	855.3	924.4	996.6	1,086.1	
Deficit: (*)					
Baseline	189.4	197.3	216.9	245.2	
Proposed changes	+0.6	−16.5	−31.5	−41.7	−89.1
Reported resolution	189.9	180.7	185.6	203.5	

(*) Less than $50 million.

Note.—Details may not add to totals due to rounding.

Table 2

SENATE DEMOCRATIC ALTERNATIVE PLAN

[In billions of dollars]

	FY 1984	FY 1985	FY 1986	FY 1987	FY 1984–87
Revenues:					
Baseline	663.0	733.0	794.9	863.5	
Proposed increases	2.4	15.7	26.1	37.1	81.3
Total revenues	665.4	748.7	821.0	900.6	
Outlays:					
Baseline:					
CBO accounting	852.4	930.3	1,011.8	1,108.7	
National defense:					
CBO accounting	−0.2	−0.2	−3.2	−7.4	−11.0
(Republican accounting)	(−0.2)	(−9.0)	(−19.5)	(−27.1)	(−55.9)
Entitlements and other mandatories	−0.1	−4.6	−5.6	−9.2	−19.4
Nondefense discretionary programs	−0.1	−1.9	−5.6	−10.9	−18.4
Net interest:					
CBO accounting	−0.1	−1.5	−5.0	−11.0	−17.6
(Republican accounting)		(−2.0)	(−6.8)	(−14.9)	(−23.8)
Offsetting receipts		(*)	−1.0	−1.1	−2.1
Total outlay savings:					
CBO accounting	−0.5	−8.2	−20.4	−39.5	−68.6
(Republican accounting)	(−0.4)	(−17.5)	(−38.5)	(−63.1)	(−119.7)
Total outlays (CBO)	851.9	922.1	991.4	1,069	
Deficit:					
Baseline:					
CBO accounting	189.4	197.3	216.9	245.2	
Proposed changes:					
CBO accounting	−2.9	−23.9	−46.5	−76.6	−150.0
(Republican accounting)	(−2.8)	(−33.2)	(−64.6)	(−100.2)	(−200.0)
Remaining deficit	186.5	173.0	170.5	168.7	

*Less than $50 million.

Note.—Details may not add to totals due to rounding.

LAWTON CHILES.
JIM SASSER.
HOWARD M. METZENBAUM.
DONALD W. RIEGLE, Jr.
DANIEL PATRICK MOYNIHAN.

MINORITY VIEWS OF SENATOR ERNEST F. HOLLINGS

Once again, the Budget Committee has faced the challenge of deficits and failed. After 3 days of talk on the perils of $200 billion deficits, the majority of this committee then voted that much in red ink and more. There is no doubt that the "double speak" of 1984 is here.

The budget process has been used and abused since 1981. Instead of policy, all we now debate is partisan politics. It would be more honest if we all admitted that and replaced the budget staff with a pollster. Because that is the environment this Committee now operates in—it identifies a problem, expresses grave concern to the public, and then does nothing. If anyone wonders why the budget process is in trouble, they need only to have observed its actions last week.

Senators Exon and Andrews joined me in presenting a real deficit reduction plan to the Budget Committee. The majority of the Committee refused to act responsibly and voted down our plan for a balanced budget. Rather, they publicly embraced $200 billion deficits as a cure for our Nation's economic ills. Our budget freeze proposal would essentially balance the budget by 1989 and would be bipartisan.

There is no question that this bipartisan freeze is politically attainable now. That won't be true later on. When inflation reignites, touching entitlements will be far more difficult. If recession comes, restraining countercyclical spending is all but impossible. How much easier to take, in essence, the budget that was politically attained last year, and to which Congress and the President set their seals, and extend it for another year. No one is really hurt, and rather than a down payment on disaster, we pick up $268 billion over 3 years and $750 billion over the 5-year period to be near balance by 1989.

This is traumatic. But the economic forces afoot in this Federal budget are so devastating that it has to be draconian rather than a down payment. We cannot wait until next year. We have all been on a political spending binge and now is the time for us to act like U.S. Senators and give the future a chance.

COMPARISONS OF ALTERNATIVE BUDGET PROPOSALS

Deficits

[In billions of dollars]

	FY 1985	FY 1986	FY 1987	FY 1988	FY 1989
CBO baseline [1]	197	217	245	272	308
Reagan/Republican plan	181	185	204	NA	NA
Democratic plan	173	171	169	NA	NA
Kassebaum/Grassley/Biden plan	162	149	162	NA	NA
Hollings/Exon/Andrews bipartisan budget freeze	158	129	104	68	26

[1] Congressional Budget Office estimate of what would happen if no changes were made in Federal budget.
NA. Estimates not available.

BIPARTISAN DEFICIT REDUCTION PLAN

[Fiscal year—in billions of dollars]

	1985	1986	1987	1988	1989	1985–89
CBO baseline deficit	197	217	245	272	308	1,239
Deficit reduction measures						
Spending:						
(1) Defense (4 percent real growth 1985–86; 3 percent real growth 1987–89)		−6	−16	−27	−41	−90
(2) Discretionary programs—1-year freeze, then 3 percent annual nominal growth	−3	−6	−8	−11	−13	−41
(3) Civilian agency pay raises—1-year freeze, then 3 percent raises each year	−1	−2	−3	−4	−5	−15
(4) COLAs—1-year freeze, then 3 percent COLA each year	−7	−14	−18	−23	−27	−89
(5) Impact of pending reconciliation, finance, and farm bill legislation	−2	−6	−9	−10	−13	−40
(6) Impact of 1-year physician and hospital freeze (modification of finance provision)	−2	−3	−3	−4	−4	−16
(7) Offsets	+1	+2	+3	+4	+4	+14
(8) Interest savings	−2	−9	−20	−36	−59	−133
Subtotal, spending	−16	−44	−74	−111	−158	−403
Revenues	−23	−44	−67	−93	−124	−350
Total, spending and revenues	−39	−88	−141	−204	−282	−753
Remaining deficit	158	129	104	68	26	485

Note.—Totals may not add due to rounding.

POSSIBLE ALTERNATIVES DEFICIT REDUCTION PLAN—REVENUE PROPOSAL

[In billions of dollars]

	FY 1985	FY 1986	FY 1987	FY 1988	FY 1989	FY 1985–89
Pending finance and reconciliation action to date (preliminary estimate)	10.9	15.9	20.8	26.8	32.8	107.2
Dalay indexing	5.7	17.1	30.9	46.7	64.7	165.1
CBO estimate of improved taxpayer compliance	1.9	3.3	5.0	7.1	9.5	26.8
Subtotal	18.5	36.3	56.7	80.6	107.0	299.1
Additional revenue requirement, as determined by Finance Committee[1]	4.0	7.2	9.8	13.0	16.9	50.9
Total	22.5	43.5	66.5	93.6	123.9	350.0

[1] Possible alternatives include repeal of excess bad debt allowance for banks, increased minimum corporate tax, full basis adjustment for investment tax credit, and other base broadening measures.

NATIONAL ASSOCIATION OF HOME BUILDERS,
Washington, D.C., March 29, 1984.

DEAR SENATOR: On behalf of the 120,000 members of the National Association of Home Builders, I am writing to urge rapid action on a deficit reduction package. After reviewing a variety of options which have been presented, we would support the bipartisan "freeze" proposal sponsored by Senator Hollings, Senator Andrews and Senator Exon. We believe that a one-year freeze on all domestic discretionary and entitlement program increases represents the fairest way of spreading the burden across-the-board. Similarly, the 3% rate of growth in defense spending represents a reasonable attempt to hold down spending without crippling our national security.

We would urge that the increased revenue portion of the plan similarly focus on broad-based, across-the-board "shared sacrifice" as opposed to the Finance Committee's approach which takes at least 20% of the increased revenue from the real estate sector of the economy.

We are deeply concerned about recent increases in interest rates which threaten the continuation of economic recovery. We are pleased to see various alternative budget proposals which offer greater deficit reduction than the three-year $150 billion "downpayment." And we share the view of Senator Chiles that such competition can lead to "a bidding war to see who can cut the deficit the most."

We urge you to act responsibly to reduce the deficit substantially in FY 85. We support an approach which is fair, across-the-board and represents the spirit of "shared sacrifice" in the Hollings-Andrews-Exon plan. We believe that this is the only plan which has been proposed which would provide for a budget near balance in five years.

A budget reduction package of $285 billion over three years and $800 billion over five years is *politically attainable* . . and makes good common sense. We cannot wait until next year to take such a step in order to keep the economic recovery on track.

Get on with the "competition"—the American people and the American homebuyer will be the real beneficiaries.

Sincerely,

PETER D. HERDER, *President.*

NATIONAL ASSOCIATION OF REALTORS,
Washington, D.C., April 5, 1984.

Hon. J. JAMES EXON,
U.S. Senate,
Hart Office Building, Washington, D.C.

DEAR SENATOR EXON: The National Association of Realtors is extremely concerned about the threat to continued economic growth in housing and the entire economy imposed by the continued enormous deficits. We continue to urge significant deficit reduction now through spending reductions in all categories: defense growth should be held to the 5 percent real growth level agreed upon by Congress last year; real domestic discretionary spending should be frozen; and the rapid growth of entitlements should be slowed. Any tax increases necessary to help lower the deficit toward balance should not discourage savings and investment.

We offer support for the deficit reduction plan you are sponsoring since it calls for across the board spending reductions. Of all proposals being offered it is the only one which promises to bring the budget to a near balance by 1989. This result would be a dramatic improvement over the $326 billion deficit now being predicted for 1989.

We are concerned, however, that the plan encompasses the tax increases included in the Finance Committee bill and calls for an additional $50.9 billion to be recommended by the Finance Committee. We urge you to oppose tax changes which discourage savings and investment. Some provisions of the Finance Committee bill, if put in law, such as increases in the cost recovery by 33 percent from 15 to 20 years would effectively reduce the growth of jobs and family income. Moreover, the rollback of ACRS for rental residences and commercial structures proposed by the Finance Committee bill asks housing and real estate *alone* to bear 25 percent of the total tax bill, twenty-five times greater than the burden on all industries.

Requiring the Finance Committee to report $50.9 billion additional tax increases could have the effect of putting housing or other investment in greater jeopardy unless you make clear your intention to encourage savings and investment.

To suggest, as I have in this letter, that your proposal contains flaws is not to damn it with faint praise. We understand that your support of the Dole package is based on a support of the aggregate number only, a position we too support, and that you, as well as we might oppose components within the Finance bill. We are merely trying to point out, as we have consistently done throughout the deficit debates of the last five years, that there are two basic ways to provide jobs and economic growth:

(1) Through the stimulation provided by new, excessive government expenditures and deficits;

(2) By providing the private sector with sufficient incentives to save and invest in the capacity to grow on a more long-term and stable basis—clearly this approach is preferable.

With that understanding, the National Association of Realtors supports your effort to reduce deficits.

It is in the national interest that a significant deficit reduction plan be adopted now. Interest rates are already rising—we cannot wait.

Sincerely,

DONALD H. TREADWELL, *President.*

ERNEST F. HOLLINGS.

MINORITY VIEWS OF SENATOR JIM SASSER

The recent actions taken by this Committee only serve to accentuate and reinforce the growing disillusionment with the congressional budget process. Indeed, this budget resolution offers little hope to those purists who believe that the process, as presently constituted, is capable of addressing the serious economic issues facing Congress and the Nation.

From either a policymaking or priority setting perspective, the budget process has become irrelevant. No clearer evidence than the inability to pass a budget for the current fiscal year is necessary. In short, the budget process has devolved into little more than a political charade. I will refrain from stating my personal views as to the origin of this demise at this point, and leave such explanations to the scholarly pursuits of students of the congressional budget process. Suffice it to say, however, that the strong partisan overtones which have marred serious consideration of budgetary issues over the past several years have had an unmistakably adverse impact upon the current economic outlook.

The economic policies of this administration have given us the deepest recession since the Great Depression and the prospect of $200 billion-plus annual deficits for the remainder of the decade. The resolution adopted by the Republican majority on this committee simply reaffirms the acceptance of these large deficits. According to the administration's own projections, the approach advocated by the White House and the Republicans on this committee will leave us with a $203 billion deficit in 1987. The consequences these deficits will have upon current and future interest rates further defies the optimistic economic assumptions embodied in this budget plan. The prospects for continued economic growth and a better standard of living for our children are seriously jeopardized. The Committee's rejection of sound and prudent fiscal responsibility in the face of these large budget deficits simply illustrates the power and pervasiveness of the political conscience.

It is unfortunate that we find ourselves at this juncture, caught between the crossroads of political convenience and fiscal responsibility. It seems clear, however, which path the Committee has chosen. Where we go from here is uncertain. What is certain though is that we simply cannot continue to ravage the process without endangering its existence.

JIM SASSER.

MINORITY VIEWS OF SENATOR DANIEL PATRICK MOYNIHAN

According to the budget the President sent us in January, the Government will run $200 billion deficits, in Mr. Stockman's phrase "as far as the eye can see." More accurately, according to the Congressional Budget Office, now directed by Rudolph G. Penner, an economist of impeccable conservative credentials, the deficits will approach $300 billion by the end of this decade.

Eight years of Ronald Reagan would treble the national debt. None dispute the numbers. We are in a fiscal crisis.

In the face of this fiscal crisis, the majority party in the Senate Budget Committee has overwhelmingly endorsed the GOP budget compromise announced by the President 1 month ago. This plan, the smallest deficit reduction measure presented to the Committee for its consideration, will decrease deficits by substantially less than the $150 billion claimed by the President. In fact, the GOP compromise will cut the deficit, by CBO's calculation, by only $89 billion over 3 years. By 1988 and 1989, if this budget package is enacted, deficits will be even higher than they are now.

I join my Democratic colleagues in calling for much stronger action. The GOP budget compromise simply is not enough.

The present fiscal crisis did not just happen, it was made to happen. The President's policies *created* the deficit—deliberately—in order, as he assumed, to reduce the size of the Federal Government.

It was an act of irresponsibility which only could come from an administration that did not understand what it is the Federal Government does, and that in any event wished to bring about a great increase in defense spending, not having heard that it was already increasing.

Now, the Senate leadership in seeking to support the President, is perpetuating this irresponsibility, by voting out a budget resolution that boasts a reduction of only $89 billion from $650 billion in projected deficits over the next 3 years.

We must do better. The consequences of the deficit are pervasive.

By 1989, the annual interest payment on the national debt will have reached $207 billion. In that year, then, nearly one-half of personal income tax receipts will be required just to pay this interest.

Who pays the personal income tax? Overwhelmingly, it is paid by men and women who work for wages and have the tax deducted from their pay checks.

Who receives the interest payments on government bonds issued to finance the administration's deficits? Again, the answer is as stark as when Henry George propounded his theory of rents. It is the owners of capital who have rented it to the Federal Government.

It would be some comfort if these lessors were at least all fellow Americans. But according to the Morgan Stanley Economics Department, in the latter part of the 1980's upwards of $30 billion a year in interest payments will go abroad, for increasing proportions of our national debt are now owned abroad. According to Morgan Stanley, foreign holdings of Treasury securities are expected to rise to $280 billion by 1989 from only $14 billion in 1970. The cost of servicing this debt could, according to Morgan Stanley, offset all net investment inflows from foreign sources. In other words, U.S. citizens would be left with both the interest burden of huge foreign debt holdings and a declining capital stock with which to service that debt.

The result is inevitable: America's place in the world economy will erode. The dollar, according to the President's Council of Economic Advisers, is overvalued by close to 32 percent. The President has heard that this means that the dollar is "strong" and perhaps the term pleases him. "The facts are," he told the Conservative Political Action Conference on March 2, "the dollar is strong because of people's confidence in our currency . " The facts are nothing of the sort.

The economic policies of the Reagan administration created our overvalued dollar—it is the price we have to pay to get foreigners to lend to us the money to finance the deficit. And it is a dear price we have to pay domestically. The interest burden on the Federal debt represents one of the largest transfers of wealth from the wages of working men and women to the holders of the Treasury securities ever experienced in this Nation. It is a transfer of resources from labor to capital on a scale that would finally endanger our very economic and political stability.

I will work with my colleagues to improve this package on the Senate floor. Clearly there is strong bipartisan dissatisfaction with the terms of this budget resolution. We will take the next steps to ensure the economic prosperity the people of this Nation need and deserve.

DANIEL PATRICK MOYNIHAN.

MINORITY VIEWS OF SENATOR J. JAMES EXON

I am especially disappointed that the Senate Budget Committee did not make a serious attack on the deficit. Instead of reducing the deficits, the "rose garden" plan adopted by the Committee allows the deficits to grow to $207 billion in 1987. This is not only unacceptable, it is irresponsible.

We cannot wait to bring the deficit under control. Already, the stock and bond markets are sending us warning signals. It is evident that the already spotty recovery will turn sour unless swift and serious action is taken.

Senators Hollings, Andrews, and I offered the Committee a plan which takes the tough action now. It was the only plan presented to the Committee which attempted to balance the budget. The Hollings-Andrews-Exon plan concentrates on long-term spending reductions, while ensuring that the most needy are protected and the national defense is maintained.

Our plan, which received the endorsements of the National Association of Home Builders and the National Association of Realtors, takes the actions necessary to send a clear signal to the financial markets to lower the interest rates and would spur a sustained economic recovery. It is an across-the-board, long-term approach. Over 5 years, the Hollings-Andrews-Exon plan slashes deficits by $800 billion.

Senators Hollings, Andrews, and I will take our plan to the floor of the Senate. I urge my colleagues to consider what is necessary to address the deficit crisis, then to look at our plan. It will be obvious that the Hollings-Andrews-Exon plan is the most reasonable and responsible step toward fiscal sanity.

J. JAMES EXON.

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