Chapter One

The President's Budgetary Proposals

The budget for fiscal year 1995 submitted by President Clinton carries on the fiscal policy established last August by the Omnibus Budget Reconciliation Act of 1993 (OBRA-93). The Congressional Budget Office (CBO) projects that under current policies--which have changed little since last August--the deficit will be about $180 billion in fiscal years 1995 and 1996 and gradually grow to $213 billion in 1999. Adopting the Administration's budgetary proposals (excluding its health proposal) would not substantially affect anticipated deficits. CBO estimates that, in general, deficits under the policies set forth in the budget that the President submitted to the Congress would be slightly lower than those in CBO's current policy baseline; the largest reduction, in 1999, would be less than $7 billion. Total outlays (excluding deposit insurance) in the President's budget would grow at a rate of less than 4 percent in 1995--the third year in a row that outlays have increased by less than 5 percent. In the previous 10 years, outlays grew at an average annual rate exceeding 6 percent. The relatively slow rate of growth in total outlays in 1995 is in large part the result of continued restraint of discretionary spending--total discretionary outlays will increase by less than 0.5 percent in 1995.

Overall, CBO's estimates of deficits under the policies reflected in the President's budget are little different from the Administration's: they are lower by $7 billion in 1994 and higher by less than $10 billion a year in 1995 through 1999.

Deficit Projections

CBO projects that under current policies the deficit will decline from $228 billion in fiscal year 1994 to $180 billion in 1995 and 1996 before climbing to $213 billion in 1999 (see Table 1). These baseline projections assume that discretionary spending will not exceed the limits in the Balanced Budget and Emergency Deficit Control Act of 1985 (Balanced Budget Act) for fiscal years 1995 through 1998 and will grow at the same rate as inflation in 1999. They also assume no change in current policies affecting mandatory spending or revenues. The current projections reflect small increases in deficits from the baseline projections released in January 1994 in CBO's *The Economic and Budget Outlook: Fiscal Years 1995-1999*. Those changes include the effects of legislation enacted on February 12, 1994, to provide relief for victims of the California earthquake (the Emergency Supplemental Appropriations Act of 1994, P.L. 103-211) as well as revisions resulting from new information. (The current projections and changes from the January baseline are detailed in Appendix A.)

CBO estimates that if the policies proposed by the Administration were adopted (other than the Administration's proposal to reform the nation's health care system), they would result in deficits little different from CBO's revised baseline deficits. (The Administration's health proposal is discussed later in this chapter.) This outcome is hardly surprising because the President's budget was intended to comply with the discretionary spending limits of the Balanced Budget Act and, except for the provisions included in the health proposal, the budget proposes only a few relatively minor changes in laws affecting mandatory spending or revenues.

Under the Administration's policies, CBO estimates that the deficit would be lower than the current baseline projection in 1994, 1996, 1997, and 1999 and higher than the baseline in 1995 and 1998. In only one year would the difference exceed $5 billion--in 1999, when the deficit would be reduced by nearly $7 billion below the baseline level. The reduction in 1999 is the result of continued restraint in discretionary spending in the President's budget in that year compared with CBO's baseline assumption that discretionary outlays will grow at the rate of inflation after the discretionary caps expire at the end of 1998.

Table 1.
CBO's Estimates of the President's Budgetary Proposals (By fiscal year, in billions of dollars)

	1994	1995	1996	1997	1998	1999
April Baseline Deficit Projections[a]	227.8	179.5	179.9	191.6	187.2	212.7
President's Budgetary Proposals Excluding Health						
Outlays						
Discretionary[b]	0	3.1	-5.1	-3.5	0.8	-11.0
Federal employee retirement offsets	0	0.5	1.1	1.6	2.1	2.6
Other mandatory and offsetting receipts	-0.4	-0.2	0.7	0.7	1.0	1.6
Net interest	c	0.1	0.1	c	0.1	c
Total	-0.4	3.5	-3.3	-1.2	4.0	-6.8
Revenues[d]	0	-0.5	c	0.1	0.3	0.3
Total Deficit Effect[b]	-0.4	3.0	-3.3	-1.2	4.3	-6.5
Deficits Under the President's Budgetary Proposals as Estimated by CBO and Excluding Health[b]	227.4	182.5	176.6	190.4	191.5	206.2
Administration's Health Proposal						
Deficit effect	0	-10.2	1.2	19.5	32.0	21.5
Debt service	0	-0.3	-0.5	c	1.5	3.1
Total	0	-10.5	0.7	19.5	33.5	24.6
Deficits Under the President's Budgetary Proposals as Estimated by CBO and Including Health	227.4	172.0	177.2	209.9	225.0	230.7

SOURCES: Congressional Budget Office; Joint Committee on Taxation.

a. Assumes compliance with the discretionary spending limits of the Balanced Budget and Emergency Deficit Control Act of 1985.

b. Adjusted to reflect enacted supplemental appropriations and rescissions in the Emergency Supplemental Appropriations Act of 1994 (P.L. 103-211).

c. Less than $50 million.

d. Reductions in revenues are shown with a positive sign because they increase the deficit.

The health proposal that is part of the President's budget would have a more significant effect on federal spending and revenues than the other proposals in the budget. CBO estimates that enactment of the health proposal would reduce the deficit by $10 billion in 1995, when proposed increases in tobacco taxes would have taken effect but not most spending increases. In subsequent years, the deficit would be higher because the additional spending required to carry out the proposal would exceed the revenues proposed to pay for it.

CBO's estimates of deficits, spending by category, and revenues under the President's budgetary proposals (excluding health) are shown in Table 2. As in the baseline, deficits decline to about $180 billion before rising to more than $200 billion in 1999. As a percentage of gross domestic product (GDP), deficits are stable at about 2.4 percent after 1995--down from 3.4 percent in 1994. Although revenues are more or less constant as a percentage of GDP throughout the 1994-1999 period, total outlays decline from 22.3 percent of GDP in 1994 to 21.4 percent in 1999. Mandatory spending grows relative to the economy during the period--from 12.1 percent of GDP to 12.8 percent--while discretionary spending declines. By 1999, total discretionary spending will equal just 6.5 percent of GDP--down from 8.2 percent in 1994 and from an average of about 10 percent during the 1980s. Defense discretionary spending under the President's budget will decline from 4.2 percent of GDP in 1994 to 3.0 percent in 1999. Domestic discretionary spending will fall from 3.7 percent to 3.2 percent.

CBO has adjusted its estimates of the President's budget to reflect enactment of the Emergency Supplemental Appropriations Act of 1994. That act included emergency supplemental funding for relief for victims of the California earthquake and other disasters that was not part of the President's budget. In addition, the legislation rescinded some funds previously appropriated for fiscal year 1994 and provided nonemergency supplemental appropriations. CBO's estimates of the President's budget include these enacted rescissions and supplementals (emergency and nonemergency) in place of those proposed in the President's budget. CBO's estimates also reflect previously appropriated contingent funds released after the President's budget was completed (through February 18, 1994).

CBO's Reestimates of the President's Budget

CBO's estimates of the President's budget (excluding the Administration's health proposal) are not substantially different from the Administration's estimates (see Table 3 on page 6). Except for 1994, when CBO estimates that the deficit under the President's policies would be $7 billion less than the Administration has calculated, CBO's projections of the deficit are slightly higher than those of the Administration. The reestimates of the budget are small by historical standards, although the total CBO deficit reestimate is slightly larger than last year's, when the Administration adopted CBO's economic assumptions as the basis for preparing the President's budget. The Administration's economic assumptions this year are, for the most part, similar to CBO's, but the Administration's assumptions of lower interest rates in most years and higher inflation tend to reduce its estimates of the deficit (see Chapter 2). These reductions are offset to a large extent by CBO's more optimistic technical estimating assumptions.

Under CBO's assumptions, discretionary outlays would be higher than the Administration's estimates in the 1995-1999 period but lower in 1994. Part of the difference between the two sets of estimates is due to enactment of the Emergency Supplemental Appropriations Act of 1994, which was not reflected in the President's budget or the Administration's estimates but is included in CBO's reestimate. Total outlays from mandatory spending and offsetting receipts, according to CBO, would be lower in every year but 1997, because CBO's lower baseline spending--in part the result of its lower inflation forecast--generally offsets its estimate that legislation proposed in the President's budget would increase spending rather than reduce it, as the Administration asserts. For the first time in several years, the differences between CBO's and the Administration's estimates of spending for deposit insurance are not counted in double-digit billions, reflecting the improved health of financial institutions, reduced demands for federal funds to merge or close insolvent institutions, and the diminished volatility of net spending. CBO estimates that spending for net interest will be substantially higher than the Administration projects because CBO forecasts higher interest rates than the Administration.

CBO's estimates of revenues under the President's policies (which differ only slightly from current law) are similar to the Administration's estimates. CBO's forecast of lower inflation reduces anticipated revenues, but this reduction is

Table 2.
CBO's Estimates of the President's Budgetary Proposals Excluding Health (By fiscal year)

	1994	1995	1996	1997	1998	1999
	In Billions of Dollars					
Revenues						
Individual income	547	596	635	667	707	747
Corporate income	128	130	133	138	144	148
Social insurance	468	499	526	551	578	604
Other	107	113	118	122	127	131
Total	1,251	1,339	1,411	1,479	1,556	1,630
On-budget	910	978	1,031	1,080	1,136	1,190
Off-budget	341	360	380	399	419	440
Outlays						
Discretionary						
Defense	280	272	262	257	257	258
International	21	21	21	21	21	21
Domestic	246	257	263	268	272	277
Subtotal	547	549	546	545	550	555
Mandatory	801	847	898	964	1,030	1,102
Deposit insurance	-3	-12	-14	-6	-5	-4
Net interest	201	214	230	241	252	264
Offsetting receipts	-68	-77	-72	-75	-80	-82
Total	1,478	1,521	1,587	1,669	1,747	1,836
On-budget	1,198	1,231	1,284	1,354	1,420	1,497
Off-budget	280	291	303	315	327	339
Deficit	227	182	177	190	192	206
On-budget deficit	288	252	253	275	284	307
Off-budget surplus	60	70	76	84	92	100
Debt Held by the Public	3,464	3,653	3,840	4,044	4,251	4,473
Memorandum:						
Gross Domestic Product	6,637	7,006	7,386	7,780	8,185	8,597

(Continued)

offset in most years by assumed higher effective income tax rates that increase the estimates. Reestimates of the relatively minor revenue proposals included in the budget (excluding revenue provisions included in the Administration's health proposal) are quite small.

Discretionary Spending

Total discretionary budget authority proposed in the President's budget (adjusted for the enacted supple-

Table 2.
Continued

	1994	1995	1996	1997	1998	1999
	As a Percentage of GDP					
Revenues						
Individual income	8.2	8.5	8.6	8.6	8.6	8.7
Corporate income	1.9	1.9	1.8	1.8	1.8	1.7
Social insurance	7.1	7.1	7.1	7.1	7.1	7.0
Other	1.6	1.6	1.6	1.6	1.6	1.5
Total	18.8	19.1	19.1	19.0	19.0	19.0
On-budget	13.7	14.0	14.0	13.9	13.9	13.8
Off-budget	5.1	5.1	5.1	5.1	5.1	5.1
Outlays						
Discretionary						
Defense	4.2	3.9	3.5	3.3	3.1	3.0
International	0.3	0.3	0.3	0.3	0.3	0.2
Domestic	3.7	3.7	3.6	3.4	3.3	3.2
Subtotal	8.2	7.8	7.4	7.0	6.7	6.5
Mandatory	12.1	12.1	12.2	12.4	12.6	12.8
Deposit insurance	-0.1	-0.2	-0.2	-0.1	-0.1	a
Net interest	3.0	3.0	3.1	3.1	3.1	3.1
Offsetting receipts	-1.0	-1.1	-1.0	-1.0	-1.0	-1.0
Total	22.3	21.7	21.5	21.5	21.3	21.4
On-budget	18.0	17.6	17.4	17.4	17.3	17.4
Off-budget	4.2	4.1	4.1	4.0	4.0	3.9
Deficit	3.4	2.6	2.4	2.4	2.3	2.4
On-budget deficit	4.3	3.6	3.4	3.5	3.5	3.6
Off-budget surplus	0.9	1.0	1.0	1.1	1.1	1.2
Debt Held by the Public	55.1	52.1	52.0	52.0	51.9	52.0

SOURCE: Congressional Budget Office.

a. Less than 0.05 percent.

Table 3.
CBO's Reestimates of the President's Budgetary Proposals Excluding Health
(By fiscal year, in billions of dollars)

	1994	1995	1996	1997	1998	1999
Deficits Under the President's Budgetary Proposals as Estimated by the Administration	234.8	176.1	173.1	180.8	187.4	201.2
Reestimates of Outlays						
Discretionary outlays						
Supplemental estimates	1.5	4.7	2.5	0.8	0.5	0.7
Other proposals	-4.8	2.1	-0.9	0.2	1.6	0.3
Subtotal, Discretionary Outlays	-3.3	6.8	1.6	0.9	2.1	1.0
Mandatory outlays and offsetting receipts						
Baseline						
Economic differences	-0.7	-0.8	-1.5	-3.2	-3.8	-5.6
Technical differences	0.1	-3.2	a	3.0	1.8	-0.9
Subtotal	-0.6	-4.1	-1.5	-0.2	-2.0	-6.5
Proposed legislation	0.2	0.6	1.3	1.3	1.8	2.8
Subtotal, Mandatory Outlays and Offsetting Receipts	-0.4	-3.5	-0.2	1.2	-0.2	-3.7
Deposit insurance	-0.1	-1.0	-2.8	0.1	0.1	-0.3
Net interest						
Economic differences	-1.0	1.0	6.5	8.6	11.0	15.2
Technical differences	-1.3	-0.5	-1.4	-2.0	-4.0	-6.5
Subtotal, Net Interest	-2.3	0.5	5.2	6.6	7.0	8.7
Total, Outlays	-6.1	2.9	3.8	8.8	9.0	5.7
Reestimates of Revenues[b]						
Baseline						
Economic differences	-0.6	1.0	5.0	12.0	21.8	33.8
Technical differences	-0.8	2.4	-5.3	-11.2	-26.7	-34.5
Subtotal	-1.4	3.4	-0.3	0.9	-4.9	-0.7
Proposed legislation	a	a	a	-0.1	a	0.1
Total, Revenues	-1.3	3.4	-0.3	0.8	-4.8	-0.7
Total Deficit Reestimates	-7.4	6.4	3.5	9.6	4.1	5.0
Deficits Under the President's Budgetary Proposals as Estimated by CBO	227.4	182.5	176.6	190.4	191.5	206.2
Memorandum:						
Total Economic Differences	-2.3	1.2	10.1	17.5	29.0	43.4
Total Technical Differences	-5.1	5.1	-6.6	-7.9	-24.9	-38.4

SOURCE: Congressional Budget Office.

a. Less than $50 million.

b. Reductions in revenues are shown with a positive sign because they increase the deficit.

mental appropriation bill) would be well below CBO's capped baseline in every year through 1999. CBO's analysis indicates that discretionary outlays would also be below the baseline in 1996, 1997, and 1999 but would be above it in 1995 and 1998. Because baseline discretionary spending is equal to CBO's estimated end-of-session spending limits for each year under the Balanced Budget and Emergency Deficit Control Act, the outlay cap would be exceeded in 1995 and 1998 according to CBO's estimates. The Administration has calculated that 1995 discretionary outlays in the President's budget would be almost exactly equal to the spending limit (a scant $10 million below), but CBO estimates that spending would exceed the cap by $3.1 billion.

Estimating Differences for Discretionary Outlays for 1995

There are three reasons for the difference between the Administration's and CBO's estimates of total outlays for discretionary programs in 1995. First, CBO estimated that outlays from discretionary proposals in the budget other than proposed supplementals or rescissions of 1994 budget authority would be $2.1 billion higher than the Administration had calculated. About one-third of this difference lies in estimates of the General Services Administration's Federal Buildings Fund and another account related to facilities for federal agencies; the rest is the result of smaller reestimates in numerous programs.

Second, the Administration calculated that together the rescissions and nonemergency supplemental appropriations proposed in the President's budget would cut discretionary outlays by more than $1.2 billion. The Congressional Budget Office, however, estimated that the net reduction in outlays resulting from the rescissions and nonemergency supplementals actually enacted in the Emergency Supplemental Appropriations Act was less than $0.8 billion--almost $0.5 billion less than the reduction that the President's budget assumed.

Box 1.
Budget Enforcement Act Scorekeeping Rule 3

The Budget Enforcement Act of 1990 (BEA) amended the Balanced Budget and Emergency Deficit Control Act of 1985 to establish new controls on spending and revenue legislation It instituted two separate systems of control--one for discretionary spending and another for mandatory spending and revenues. Under the procedures established by the BEA, discretionary spending is limited by annual caps on budget authority and outlays. If enacted discretionary appropriations for any year exceed either cap, an across-the-board cut of those appropriations lowers discretionary spending to the cap level. Mandatory spending and revenues are controlled by pay-as-you-go (PAYGO) procedures. Under the PAYGO procedures, the Office of Management and Budget (OMB) and the Congressional Budget Office (CBO) track all mandatory spending or revenue legislation enacted since the BEA. If all such legislation together has the effect of increasing the deficit, spending for nonexempt mandatory programs is cut by the amount of the deficit increase.

Despite the separate control mechanisms, changes in mandatory spending can affect the enforcement of the discretionary limits, and appropriations for discretionary accounts can enter into the PAYGO calculations. The statement of managers accompanying the conference report on the BEA (House Report 101-964) contains a set of scorekeeping rules to guide OMB, CBO, and the House and Senate Budget Committees in carrying out the BEA procedures. Scorekeeping rule 3--the so-called fingerprint rule--states that substantive changes in mandatory spending made in appropriation bills will be scored as discretionary. This rule is intended to assign responsibility for any BEA violation to those who caused the violation. Following the lead of OMB and the House and Senate Budget Committees, CBO has complied with scorekeeping rule 3 and an extension of the rule that holds that an appropriation for a discretionary account provided in an authorizing bill should be included on the PAYGO scorecard. Because the legislative language of the BEA clearly puts all changes in revenues on the PAYGO side of the ledger, CBO does not believe that the scorekeeping rule can be further extended to allow increases in revenues provided in appropriation bills to be counted as offsets to discretionary spending.

Finally, the Administration assumed that $0.5 billion in new revenues would be generated by new or increased fees to be enacted in appropriation acts and that those revenues would be counted as offsets to discretionary spending for purposes of complying with the spending limits. CBO believes that the Balanced Budget Act does not allow revenue increases to be counted as offsets to discretionary spending in determining compliance with the caps, even if the revenue increases are the result of provisions contained in appropriation acts (see Box 1 on page 7). CBO includes the effect of these proposed changes in its estimate of revenues under the President's budgetary proposals.

Box 2.
The President's Proposals for Civilian Personnel

President Clinton's budget limits the growth of federal civilian payrolls on two fronts: by reducing the number of civil servants and by curtailing the pay raises that they would receive. Because neither aspect of this two-pronged plan is fully spelled out in the President's budgetary proposals, no precise budgetary effects can be attached. Nevertheless, the plan's broad shape is clear.

The Administration estimates that full-time-equivalent (FTE) employment in the executive branch of government will be 2.084 million in fiscal year 1994, down from 2.134 million in 1993.[1] (These totals exclude employees of the Postal Service and the legislative and judicial branches.) The Administration wants to trim FTE employment to 2.037 million in 1995 and to 1.903 million in 1999. Attaining this last goal would enable the Administration to claim that it had met the National Performance Review's goal of cutting federal employment by 252,000, measured against a base (roughly, the number of people that the new Administration thought could have been employed in 1993) of 2.155 million.

Not surprisingly, many of the reductions in employment would occur in the Department of Defense. Between 1994 and 1999, the number of civilian employees of the Pentagon would drop by about 120,000, or 14 percent (continuing a trend that began around 1990), and the number of employees of other agencies would fall by about 60,000, or about 5 percent.

Recently enacted legislation requires somewhat steeper reductions in the executive branch work force than were assumed in the President's budget. The Federal Workforce Restructuring Act of 1994 (P.L. 103-226), signed on March 30, limits FTE employment in 1999 to 1.882 million, about 20,000 less than the Administration had assumed. That legislation will also help agencies to achieve the required reductions by permitting them to offer the lower of $25,000 or normal severance pay to employees who resign or retire--an approach that is widely viewed as not just more humane but more efficient than a reduction in force.[2] The Defense Department has had similar authority since 1993.

The President's budget for 1995 also assumes pay raises that are less than half as generous as those that would be payable under current law. Current law provides for two types of raises for civil servants: an across-the-board raise tracking the national increase in the employment cost index minus one-half of a percentage point, plus a locality increase, which varies by area and is designed to gradually narrow estimated gaps between federal and nonfederal pay scales. The initial round of local salary surveys found that, on average, federal salaries lagged 26 percent behind those for comparable jobs in the private sector. CBO estimates that across-the-board pay raises in 1995 through 1999 under current law would average about 2.9 percent and locality increases about 2.3 percent, for a combined raise of more than 5 percent. The President's budget assumes a total increase of 1.6 percent in 1995 and average increases of 2.4 percent in 1996 through 1999. The Administration is silent about whether these increases would be paid across the board or whether they would differ by locality. It has promised to consult with the Congress on this matter.

1. The FTE concept automatically adjusts for the presence of part-time or seasonal workers and is thus a better way to measure employment than a simple head count or "snapshot."

2. Congressional Budget Office, *Reducing the Size of the Federal Civilian Work Force* (December 1993).

Proposed Discretionary Spending Compared with CBO's Uncapped Baseline

Compliance (or near compliance) with the discretionary spending limits of the Balanced Budget Act in 1995 through 1998 requires a substantial reduction in appropriations below CBO's uncapped baseline--the amount needed, after adjusting for inflation, to maintain the level of funding enacted for 1994 (excluding emergency funding, which is assumed to meet one-time needs). CBO estimates that the President's budgetary proposals for discretionary spending (excluding the Administration's health proposal) would total $162 billion in budget authority below the uncapped baseline amounts for the 1995-1999 period. Reductions that the President's budget specifies in discretionary funding for defense account for $136 billion of this amount. (See Chapter 3 for a discussion of the President's proposals for defense spending.)

An additional $15 billion in cuts is included in the Allowances section of the budget; these cuts represent reductions--such as assumed savings from reforming procurement practices--that were not assigned to specific accounts. According to budget amendments submitted by the Administration, some of these savings are proposed for the Department of Defense and other agencies that administer defense spending--implying that there should be cuts in defense as well as nondefense accounts to achieve the assumed savings (see Chapter 3). The remaining reductions are widely distributed among nondefense programs. Because the great bulk of expenditures for federal personnel are discretionary, the Administration's plans to reduce the number of executive branch employees and constrain pay raises over the next five years will help achieve the proposed reductions in discretionary spending (see Box 2). If the savings from trimming personnel are less than the Administration assumes and discretionary spending is not increased, less funding will be available for nonpersonnel purposes.

In 1995, the budget proposes total discretionary budget authority that is $4.0 billion below the uncapped baseline and $12.9 billion above the amount needed to freeze funding at the 1994 level without adjusting for inflation. Proposed cuts in defense below the uncapped baseline equal $5.2 billion plus the portion of the $1.2 billion in cuts carried in the Allowances section that is ultimately applied to defense programs. The President's budget for international programs essentially equals the uncapped baseline; the budget proposes a real increase--above the uncapped baseline--for domestic discretionary programs. The proposed increase in domestic funding totals $1.1 billion if all of the reductions carried in the Allowances function are assumed to come from domestic accounts; it is larger to the extent those savings come from defense spending. Table 4 shows the level of discretionary spending for fiscal year 1995 proposed in the budget for each functional category compared with CBO's uncapped baseline for the function. For this table the baseline has been adjusted to remove from each function any projected 1995 funding that resulted from extrapolating 1994 emergency appropriations.

As Table 4 indicates, the aggregate increase in budget authority for domestic discretionary programs is not equally distributed. Funding for a number of budget functions and programs is cut below the baseline to allow increases for others. For instance, proposed funding for the General Science, Space, and Technology function is nearly 5 percent below the baseline, largely as a result of cuts in the Department of Energy's general science and research activities and reductions in funding for the National Aeronautics and Space Administration. The Natural Resources and Environment function is also cut about 5 percent below the baseline, with reductions in funding for water resources activities of the Department of Agriculture and the Army Corps of Engineers and land management and conservation programs of the Forest Service and other agencies. Funding cuts for other functions are smaller in percentage terms.

The largest increase in 1995 funding above the baseline--16 percent--is for the Administration of Justice function. This expansion reflects funding for the President's proposed crime bill, including an increase of more than $2 billion for criminal justice assistance to state and local governments. The budget also boosts funding for salaries and expenses related to the operation of Federal courts and prisons, but this is partially offset by reduced funding for prison construction and federal law enforcement activities. The President's budget proposes to raise the level of funding for Community and Regional Development by nearly 10 percent, almost entirely the result of $800 million for new project-based community development grants. The increase for Education, Training, Employment, and Social Services is smaller as a percentage of baseline funding--about 7 percent--but represents the largest increase in dollars. The $2.9 billion increase includes $683 million in additional funding for the Summer Youth and Dislocated Worker programs, $230 million more for the National Service program, and $558 million more for Children and Family Services--primarily for the Head Start program. The President's budget also proposes to expand funding for the General Government func-

Table 4.
The Administration's Proposals for Discretionary Spending in Fiscal Year 1995
(In billions of dollars)

Category	CBO Baseline Without Discretionary Caps[a]		President's Budget as Estimated by CBO		President's Budget Minus CBO Baseline	
	Budget Authority	Outlays	Budget Authority	Outlays	Budget Authority	Outlays
Defense	269.5	273.2	264.3	271.7	-5.2	-1.5
International	20.9	20.9	20.9	20.9	b	b
Domestic						
General science, space, and technology	18.1	17.8	17.3	17.2	-0.8	-0.6
Energy	6.6	6.4	6.4	6.5	-0.2	0.1
Natural resources and environment	22.4	22.0	21.4	21.4	-1.1	-0.6
Agriculture	4.5	4.5	4.2	4.3	-0.3	-0.2
Commerce and housing credit	3.5	3.3	3.7	3.5	0.2	0.2
Transportation	15.4	39.7	15.4	39.2	b	-0.5
Community and regional development	8.4	12.0	9.2	12.1	0.8	b
Education, training, employment, and social services	41.2	39.9	44.1	40.5	2.9	0.7
Health	22.8	22.4	22.4	22.0	-0.4	-0.4
Medicare	3.1	3.1	3.0	3.0	-0.1	-0.1
Income security	34.4	38.2	32.8	37.1	-1.6	-1.1
Social Security	0	2.9	0	2.6	0	-0.4
Veterans' benefits	18.5	18.4	17.9	17.7	-0.5	-0.7
Administration of justice	15.7	15.9	18.3	17.0	2.6	1.1
General government	12.7	13.1	13.5	13.5	0.8	0.4
Allowances	0	0	-1.2	-1.0	-1.2	-1.0
Subtotal, Domestic[c]	227.3	259.7	228.4	256.6	1.1	-3.1
Total, Discretionary Spending	517.7	553.8	513.6	549.2	-4.0	-4.6

SOURCE: Congressional Budget Office.

a. Adjusted to remove from each function any 1995 funding that results from extrapolating 1994 emergency appropriations.

b. Less than $50 million.

c. Includes all proposed reductions carried in function 920 in the President's budget.

tion by 7 percent in order to provide additional funds for construction and acquisition of new federal buildings to replace space that is currently being leased.

In general, CBO's estimate of discretionary outlays in the President's budget represents spending that will occur if the budget authority requested for each discretionary account is appropriated, rather than the effects of carrying out discretionary program policies that may be described in the budget. For instance, the budget proposes to reduce discretionary budget authority by more than $12 billion over the 1995-1999 period as a result of savings that the Administration asserts can be achieved by reforming federal procurement practices. The budget carries these reductions as a lump sum in the Allowances function, but the Administration has provided the Congress with amended budget requests indicating how these reductions should be distributed by agency. CBO's analysis of reform legislation proposed last year (S. 1587) suggests that savings from reforming procurement are highly uncertain. However, CBO gives full credit for the claimed savings in its estimate of the budget because the budget proposes that appropriations be reduced by a specified amount, regardless of the amount actually saved by reforming procurement practices. Thus, even if reform fails to reduce the costs of purchasing the level of goods assumed in the budget by as much as the Administration believes it will, savings will still be achieved because the lower level of appropriations will force a reduction in the amount of goods purchased.

Nondiscretionary Spending

Aside from the Administration's health proposal, the President's 1995 budget proposes relatively few changes in law affecting spending that is not controlled by annual appropriation action. This category comprises mandatory spending (including spending for deposit insurance), offsetting receipts, and net interest payments. CBO estimates that the President's budgetary proposals would increase nondiscretionary spending (other than net interest) by more than $11 billion above the CBO baseline over the 1994-1999 period.

Proposed Nondiscretionary Spending Compared with CBO's Baseline

The biggest change in this category triggered by the President's budgetary proposals--the loss of almost $8 billion in receipts of federal employee retirement trust funds--comes from proposed changes in discretionary spending rather than amendments to current law governing those receipts. Under current law, agencies must contribute a specified percentage of each employee's salary to the retirement trust funds. Because the payments are generally made out of salary and expense accounts that are annually appropriated, they are largely categorized as discretionary spending. The offsetting receipts deposited in the trust funds are counted as mandatory negative budget authority and outlays.

The President's budget proposes to reduce the number of federal civilian employees below this year's level over the next five years and to hold pay raises for employees below the rates required under current law (see Box 2 on page 8). Both of these actions will reduce total employee salaries and correspondingly lower payments to the retirement trust funds. The reduction in contributions to the trust funds helps the Administration hold down total discretionary spending, but it also shows up on the mandatory side of the budget as a loss of offsetting receipts, which is equivalent to an increase in mandatory spending. (Of course, trimming the federal work force also reduces the long-term liabilities of the trust funds, which will show up as lower outlays sometime after 1999.)

Other proposals affecting mandatory programs and offsetting receipts reduce spending slightly in 1994 and 1995 while increasing outlays by more than $3 billion over the entire 1994-1999 period (see Table 5). A proposal to expand the crop insurance program to provide additional assistance to farmers who suffer crop losses as a result of natural disasters--forgoing the current practice of providing assistance through ad hoc emergency legislation to deal with a specific disaster--produces the largest increase in mandatory spending, about $1 billion a year by 1998. Other major proposals include new mandatory spending from the Nuclear Waste Fund that totals $1.0 billion over five years, changes in Pension Benefit Guaranty Corporation premiums and funding requirements that would save $1.7 billion in 1995 through 1999, and a new program to subsidize U.S.-flag cargo vessels that would cost $0.5 billion over five years but would be offset by an increase of $0.1 billion a year in tonnage fees. The budget also proposes asset sales--of the Alaska Power Administration and of rights to produce Naval Petroleum Reserve oil--that would produce offsetting receipts of $1.4 billion over five years. The proceeds from the asset sales would be offset, however, by an approximately equal amount of lost income that would have been generated by these assets.

The President's budget does not include any proposals relating to welfare reform or the General Agreement on Tariffs and Trade (GATT). The costs of welfare reform are uncertain because the Administration's plan is still being developed. Based on preliminary information, the implementa-

Table 5.
Estimates of Changes in the President's Budgetary Proposals for Mandatory Spending and Offsetting Receipts (By fiscal year, in billions of dollars)

	1994	1995	1996	1997	1998	1999
New Farm Disaster Relief Program	0	0.3	0.8	0.9	1.0	1.1
Pension Benefit Guaranty Corporation Reforms	0	-0.1	-0.3	-0.5	-0.5	-0.5
Nuclear Waste Fund	0	a	0.2	0.2	0.3	0.3
Maritime Administration Operating Differential Subsidy	0	0.1	0.1	0.1	0.1	0.1
Tonnage Fees	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Hardrock Mineral Royalties	0	0	a	-0.1	-0.1	-0.1
Extend Family Preservation and Support	0	0	0	0	0	0.2
Multifamily Property Disposition	-0.4	0	0	0	0	0
Asset Sales	0	-0.4	-0.3	-0.3	-0.3	a
Forgone Receipts from Asset Sales	0	0	0.4	0.4	0.4	0.3
Other	0.1	-0.1	-0.1	a	0.1	0.2
Total	-0.4	-0.2	0.7	0.7	1.0	1.6

SOURCE: Congressional Budget Office.

NOTE: The figures in the table exclude the effects of the Administration's health proposal and federal employee retirement offsets.

a. Less than $50 million.

tion of GATT is likely to reduce revenues by roughly $13 billion over five years, which under pay-as-you-go rules must be offset by enacting spending reductions or increases in other revenues before the final sequestration report for each affected year.

CBO's Reestimates of Nondiscretionary Spending

CBO's estimates of the effects of proposed changes to mandatory programs and offsetting receipts in the President's budget over the 1994-1999 period are $8 billion higher than the Administration's estimates. The most expensive proposal--the new farm disaster assistance program--was also subject to the largest CBO reestimate. CBO estimated somewhat higher spending for the proposed new program than did the Administration in every year except 1999. But the major part of the difference arose because the Administration counted savings of $0.5 billion in 1995 and $1.0 billion a year in 1996 through 1999 from repeal of the Secretary of Agriculture's current authority to provide disaster relief to some farmers. Because this authority has never been used, CBO does not include any spending under it in the baseline and does not count any savings from its repeal. As a result, CBO estimates that the new policy will increase spending by more than $4.1 billion over five years. In contrast, the Administration estimates net savings of more than $0.6 billion.

Another substantial reestimate involves the savings in the U.S. Enrichment Corporation Fund. The Administration estimates that proposed reforms will produce savings of $1.1 billion over five years. CBO estimates that the proposals will generate no savings. Other reestimates of proposed policies produced smaller differences than this one and the difference in the estimates for farm disaster assistance.

CBO's estimate of total outlays for mandatory programs and offsetting receipts under current law is below the Administration's estimate by a total of $14.8 billion over the 1994-1999 period. A significant portion of this net reestimate stems from the $4.5 billion in spending for emergency farm disaster assistance that the Administration built into its baseline; the CBO baseline, in contrast, assumes no outlays for the disaster assistance that would be allowed under current law. CBO estimates that Medicare spending under current law during this period would be $6.7 billion higher than the Administration expects but that Medicaid spending would be $4.3 billion less than the Administration anticipates. CBO's current-law estimate of the cost of benefits in a number of programs such as Food Stamps, Supplemental Security Income, and civil service and military retirement is $12.1 billion lower than the Administration's. Almost half of that difference is the result of a lower inflation forecast; the rest stems from a variety of technical estimating differences. Lower inflation also pushes CBO's estimate of baseline Social Security spending below the Administration's by $8.2 billion. That reduction is partially offset, however, by other factors that increase CBO's estimate by $3.7 billion compared with that of the Administration--a small reestimate compared with total spending for Social Security.

CBO's baseline estimate of spending for veterans' programs is lower than the Administration's by $9.0 billion, of which $0.5 billion is the result of CBO's lower inflation assumption. The remaining difference is largely the result of CBO's assumption that the number of veterans receiving compensation and pension benefits is smaller and declining more rapidly than the Administration projects.

CBO's estimate of net spending for the Federal Housing Administration's mutual mortgage and cooperative housing insurance fund and other credit reform liquidating accounts related to housing is $10 billion higher than the Administration's. Different assumptions about defaults, recoveries, debt redeemed, and a number of other factors that affect liquidating accounts are responsible for the difference between the two estimates.

CBO estimates that receipts from the Federal Communications Commission's auction of rights to part of the electromagnetic spectrum will be $5 billion less than the Administration projects. Although there is a good deal of uncertainty about the exact amount that the auction will generate, CBO believes that competitive pressures are likely to hold bids below the level that the Administration assumes. Other smaller reestimates--some higher, some lower--were also made by CBO.

Both CBO and the Administration estimate that aggregate collections by deposit insurance agencies (largely from premiums and the disposal of assets that those agencies hold) will exceed the spending needed to close additional insolvent institutions in every year through 1999. Compared with previous years, the difference between CBO's and the Administration's baseline estimates of net deposit insurance spending is small--CBO's estimate is $4.0 billion lower over the 1994-1999 period. The President's budget did not include any proposals that would affect deposit insurance.

CBO's estimate of net interest under the policies of the President's budget is $25.7 billion higher than the Administration's estimate over the 1994-1999 period. CBO's forecast that interest rates after 1994 will be higher than the Administration assumes pushes up projected net interest spending by $33.7 billion. An additional $7.7 billion reestimate of interest costs can be attributed to the increase in estimated deficits and borrowing that results from using CBO's economic assumptions. These reestimates are partially offset--CBO's interest projections are lowered by $15.7 billion--by reestimates attributable to differences between CBO's and the Administration's assumptions and projection methods relating to intermediate-term securities and to reductions in estimated deficits and borrowing that result from using CBO's technical assumptions.

Revenues

CBO's estimate of revenues under the policies of the President's budget is quite similar to the Administration's. In total over the 1994-1999 period, CBO's estimate is only $3 billion higher (see Table 3 on page 6). The proposals in the President's budget to change laws affecting revenues--other than the revenue provisions that are part of the health proposal--are quite minor. Adopting all of the proposals would change revenues by no more than $0.5 billion in any year; the net change over the 1994-1999 period would be only $0.1 billion. CBO's and the Administration's estimates of the total effect of the proposals differ by less than $0.1 billion in each year.

CBO's baseline estimate of revenues under current law is also quite similar to the Administration's. The two estimates are within $5 billion of each other in all years, and in three years the difference is less than $1 billion. CBO's estimate for 1994 is $1 billion higher than the Administration's, and its 1995 estimate is $3 billion lower. Economic differences are small until 1996, but CBO's forecast of GDP is $33 billion lower than the Administration's in fiscal year 1996, with the difference growing to $154 billion in 1999 (see Chapter 2). If all other assumptions and projection techniques were the same, these differences in the economic forecast would cause CBO's revenue projections to be $34 billion below the Administration's in 1999. But differences in the methods used to project income tax revenues lead to offsetting differences in the estimates. A variety of small technical differences combine to produce higher revenues from individual income taxes in CBO's projections than in the Administration's estimates for the same level of income. In addition, because CBO assumes that a larger share of the growth in profits accrues to taxpaying firms, it estimates higher revenues from corporate income taxes than does the Administration for the same level of income.

The Administration's Health Proposal

The President's budget submission for 1995 incorporates the Administration's proposal to create a universal entitlement to health insurance and to slow the rate of growth of spending for health care. This section summarizes the impact of the proposal on national health expenditures and the federal budget. A more detailed discussion can be found in CBO's *An Analysis of the Administration's Health Proposal* (February 1994), which also examines the proposal's budgetary treatment, its effect on the economy, and other considerations concerning its implementation. Because the Administration's proposal and many other health reform plans would not be fully implemented within the usual five-year estimating period, CBO has provided estimates through 2004. This longer time horizon and the sweeping nature of the proposed changes, however, necessarily make the estimates less precise than usual.

The Administration's health proposal would redesign the current system of financing for health care for people under age 65 while building on the system's existing employer base. All employers would be required to pay premiums on behalf of their employees, and all individuals and families--except people receiving Aid to Families with Dependent Children and Supplemental Security Income, and others with very low income--would be required to pay at least part of their premiums. Subsidies would be available to help employers and low-income families meet these obligations and would also be available to retired people ages 55 to 64.

To strengthen the demand side of the health care marketplace, the proposal would establish regional purchasing alliances through which most people under age 65 would obtain coverage for health care. Consumers would normally have access to a choice of health plans of different types--including at least one fee-for-service plan--that would be offered through the alliance in the area in which they lived. All plans would offer a standard package of benefits, which would be slightly more generous than the average plan currently offered by employers. To lower the rate of growth of health care spending, the proposal would establish a complex mechanism for limiting the growth of premiums for the standard benefit package.

The proposal would also expand several federal programs and institute new ones. Important among these provisions are coverage of prescription drugs for Medicare beneficiaries, the provision of wraparound health care benefits for low-income children, and a new program to provide home- and community-based services for severely disabled people.

Financing for the premium subsidies and programmatic expansions would come from a variety of sources. They would include several new revenue measures, increases in income and payroll tax receipts generated by the change in the mix of employee compensation that would occur under the proposal, reductions in the costs of the Medicare and Medicaid programs, and assessments on premiums. States would also make maintenance-of-effort payments to alliances, reflecting their reduced obligations for Medicaid under the proposal.

Once the Administration's proposal was fully implemented, it would significantly reduce the projected growth of national health expenditures. Its provisions for covering the uninsured, providing better coverage for many people who already have insurance, and establishing a new federal program of home- and community-based care for the severely disabled would increase the demand for health care services. But the limits on the growth of health insurance premiums and the reductions in the Medicare program would hold down spending for health. For the first few years after the proposal was in place, the increases in spending would exceed the decreases, and the proposal would raise national health expenditures above the levels in the baseline. From 2000 on, however, national health expenditures would fall below the baseline by increasing amounts. By 2004, CBO projects that total spending for health would be $150 billion--or 7 percent--below where it would be if current policies and trends continued. National health expenditures in 2004 would represent 19 percent of GDP--5 percentage points above the current level but more than a percentage point below the baseline.

The effects of the proposal on the federal budget deficit show a similar pattern (see Table 6). The increase in the deficit is estimated to reach slightly more than $30 billion in 1998, the first year in which all states would be participating in the system, and then begin to fall. It would rise again because of increases in the generosity of the standard benefit package that would occur in 2001 and the extension of subsidies to state and local governments as employers in 2002. By 2004, however, the estimated effects on the deficit would be negligible.

In the President's 1995 budget, the Administration estimates that its health proposal would reduce the deficit by $38 billion in 2000 and by $59 billion cumulatively over the 1995-2000 period. (The Administration has not provided estimates for later years.) In contrast, CBO estimates that the proposal would increase the deficit by $10 billion in 2000 and by a total of $74 billion over the six-year period. The difference between these estimates is small, however, compared with the uncertainty surrounding the budget projections.

Table 6.
Estimated On-Budget and Social Security Effects of the Administration's Health Proposal
(By fiscal year, in billions of dollars)

	1996	1997	1998	1999	2000	2001	2002	2003	2004
Outlays									
Subsidy Payments									
Subsidies for employers	5	17	44	55	58	67	81	92	102
Subsidies for families	6	20	54	67	70	77	83	89	95
State maintenance-of-effort payments	-2	-6	-16	-20	-20	-21	-22	-23	-24
Subtotal	9	30	82	102	108	123	142	158	173
Medicare									
Drug benefit	6	15	16	17	19	21	23	25	28
Program savings	-7	-12	-19	-28	-37	-45	-54	-65	-77
Offset for employed beneficiaries	-1	-2	-6	-8	-8	-8	-9	-9	-10
Other changes	1	1	1	2	2	2	2	2	2
Subtotal	a	2	-8	-16	-24	-30	-38	-47	-57
Medicaid									
Discontinued coverage	-2	-7	-19	-27	-31	-34	-38	-43	-48
Premium limits and DSH cuts	-1	-5	-14	-20	-24	-28	-33	-39	-45
Other changes	1	2	4	1	1	1	1	1	1
Subtotal	-2	-10	-28	-46	-54	-62	-71	-81	-92
Long-Term Care Benefit	5	8	12	16	20	28	37	40	40
Supplemental Services for Children	a	1	2	2	2	2	3	3	3
Medical Education	1	3	4	6	6	6	7	7	7
Public Health Service	2	3	3	2	2	2	2	2	2
Department of Defense	-1	-2	-2	-3	-3	-3	-3	-3	-4
Department of Veterans Affairs	a	a	-4	-5	-5	-5	-5	-5	-5
Federal Employees Health Benefits	a	a	-3	-3	-4	-5	-6	-7	-8
WIC Program	a	1	1	1	1	1	1	1	1
Other Administrative and Start-Up Costs	1	2	1	1	1	1	1	1	1
Social Security	a	a	1	2	2	2	2	2	2
Assessment for Medical Education	-1	-2	-6	-8	-8	-9	-9	-10	-10
Total, Outlays	15	36	54	50	43	51	61	60	53

Table 6.
Continued

	1996	1997	1998	1999	2000	2001	2002	2003	2004
Revenues									
Income and Payroll Taxes on Additional Income	a	1	4	8	12	16	22	28	34
Increase in the Excise Tax on Tobacco	11	11	11	11	10	10	10	10	10
Assessment on Corporate Alliance Employers	1	2	2	2	1	1	1	1	1
Extension of Medicare HI Tax	2	2	2	2	1	1	1	1	1
Exclusion of Health Insurance from Cafeteria Plans	0	1	2	3	4	5	6	7	7
Assessment on Employers for Retiree Subsidies	0	0	3	5	5	2	0	0	0
Deduction of Health Insurance for the Self-Employed	-1	-1	-2	-2	-2	-3	-3	-3	-3
Other Changes	a	2	1	1	1	2	2	3	3
Total, Revenues	14	17	22	29	33	35	40	46	53
Deficit									
Total Effect	1	20	32	21	10	16	22	14	a

SOURCES: Congressional Budget Office; Joint Committee on Taxation.

NOTES: DSH = disproportionate share hospitals; WIC = Special Supplemental Food Program for Women, Infants, and Children; HI = Hospital Insurance.

The Administration's proposal would reduce the deficit by $10 billion in 1995.

The figures in the table include changes in authorizations of appropriations and in Social Security that would not be counted for pay-as-you-go scoring under the Budget Enforcement Act of 1990.

a. Less than $500 million.