

**BASELINE BUDGET PROJECTIONS
FOR FISCAL YEARS 1984-1988**

**The United States Congress
Congressional Budget Office**

For sale by the Superintendent of Documents, U.S. Government Printing Office
Washington, D.C. 20402

NOTES

Unless otherwise noted, all years referred to in this report are fiscal years .

Details in the text, tables, and figures of this report may not add to the totals because of rounding.

In tables, BA refers to budget authority, O signifies outlays.

PREFACE

The Congressional Budget Office (CBO) is required by section 202(f) of the Congressional Budget Act of 1974 to submit an annual report on budgetary options to the House and Senate Committees on the Budget. This year, the report is in three parts: The Outlook for Economic Recovery, Baseline Budget Projections for Fiscal Years 1984-1988, and Reducing the Deficit: Spending and Revenue Options.

Part II, Baseline Budget Projections for Fiscal Years 1984-1988, presents projections of federal revenues and spending that could occur if current laws and policies were to continue unchanged for the next five years. The projections do not represent a forecast of future federal budgets, since those budgets will doubtless include numerous policy changes. They do provide, however, a useful baseline or benchmark against which proposed changes in taxes or spending programs may be measured and assessed.

The Congressional Budget Office is required under section 308(c) of the Congressional Budget Act to issue a report each year that projects new budget authority, outlays, and revenues for the next five years. This report fulfills that statutory requirement for fiscal years 1984 to 1988. The Congressional Budget Act also requires CBO to project tax expenditures for each of the next five fiscal years. A separate report on tax expenditure projections will be issued at a later date.

The baseline budget projections were prepared by staff of the Budget Analysis and Tax Analysis Divisions, under the supervision of James L. Blum and James M. Verdier. The principal authors were Paul N. Van de Water, Rosemary D. Marcuss (Chapter III), and Charles J. Richardson (Chapter V). Robert L. Faherty and Francis S. Pierce edited the manuscript, assisted by Nancy Brooks. David A. Bashore prepared the report for publication.

Alice M. Rivlin
Director

February 1983

CONTENTS

	<u>Page</u>
PREFACE	iii
SUMMARY	xiii
CHAPTER I. INTRODUCTION	1
The Baseline Concept	1
The Use of Baseline Projections	2
Plan of This Report	3
CHAPTER II. OVERVIEW OF THE PROJECTIONS	5
Economic Assumptions	5
Baseline Budget Projections	8
Alternative Economic Assumptions	13
Comparison of 1983 and 1981 Baseline Projections	16
CHAPTER III. BASELINE REVENUE PROJECTIONS	23
Definition of Baseline Revenues	23
The Changing Federal Tax Structure	25
Effect of Recession and Tax Law Changes on Revenue Projections	35
CHAPTER IV. BASELINE SPENDING PROJECTIONS	39
National Defense Programs	42
Entitlements and Other Mandatory Spending	46
Nondefense Discretionary Spending	49
Net Interest	53
Offsetting Receipts	54
Off-Budget Federal Entities	55
Effect of Recession and Tax Law Changes on Outlay Projections	56
CHAPTER V. BASELINE CREDIT PROJECTIONS	59
Credit Definitions and Assumptions	59
Credit Projections	62

CONTENTS (Continued)

	<u>Page</u>
APPENDIX A. BASELINE SPENDING PROJECTIONS BY FUNCTIONAL AND MAJOR PROGRAM CATEGORY	71
APPENDIX B. BASELINE SPENDING PROJECTIONS BY COMMITTEE JURISDICTION	77
APPENDIX C. FEDERAL RECEIPTS AND EXPENDITURES IN THE NATIONAL INCOME ACCOUNTS	91
APPENDIX D. BASELINE SPENDING CONCEPTS AND ASSUMPTIONS	95
APPENDIX E. BASELINE REVENUE CONCEPTS AND ASSUMPTIONS	121
APPENDIX F. BASELINE CREDIT PROJECTIONS BY FUNCTION	125

TABLES

	<u>Page</u>
TABLE 1. BASELINE ECONOMIC ASSUMPTIONS	6
TABLE 2. BASELINE BUDGET PROJECTIONS	9
TABLE 3. PROJECTIONS OF FEDERAL GOVERNMENT DEBT ...	12
TABLE 4. ALTERNATIVE ECONOMIC ASSUMPTIONS	15
TABLE 5. BASELINE BUDGET PROJECTIONS UNDER ALTERNATIVE ECONOMIC ASSUMPTIONS	17
TABLE 6. DIFFERENCES BETWEEN JULY 1981 AND FEBRUARY 1983 BASELINE DEFICIT PROJECTIONS	18
TABLE 7. COMPARISON OF JULY 1981 AND FEBRUARY 1983 BASELINE ECONOMIC ASSUMPTIONS	20
TABLE 8. DIFFERENCES BETWEEN JULY 1981 AND FEBRUARY 1983 BASELINE DEFICIT PROJECTIONS ATTRIBUTABLE TO LEGISLATIVE ACTION	20
TABLE 9. BASELINE REVENUE PROJECTIONS BY SOURCE	24
TABLE 10. FEDERAL REVENUES BY SOURCE, AS A PERCENT- AGE OF GNP AND OF TOTAL REVENUES	26
TABLE 11. REVENUE EFFECTS OF THE ECONOMIC RECOVERY TAX ACT OF 1981	27
TABLE 12. REVENUE EFFECTS OF THE TAX EQUITY AND FISCAL RESPONSIBILITY ACT OF 1982	28
TABLE 13. REVENUE INCREASES DUE TO INCREASES IN SOCIAL SECURITY TAX RATES	34
TABLE 14. COMPARISON OF CBO 1981 AND 1983 BASELINE REVENUE PROJECTIONS	35

TABLES (Continued)

	<u>Page</u>
TABLE 15. BASELINE OUTLAY PROJECTIONS FOR MAJOR SPENDING CATEGORIES	40
TABLE 16. BASELINE OUTLAY PROJECTIONS FOR NATIONAL DEFENSE	44
TABLE 17. ALTERNATIVE LEVELS OF DEFENSE SPENDING	45
TABLE 18. BASELINE OUTLAY PROJECTIONS FOR ENTITLE- MENTS AND OTHER MANDATORY SPENDING	47
TABLE 19. SOURCES OF GROWTH IN ENTITLEMENTS AND OTHER MANDATORY SPENDING PROGRAMS	49
TABLE 20. NONDEFENSE DISCRETIONARY SPENDING	50
TABLE 21. SOURCES OF GROWTH IN NONDEFENSE DISCRETIONARY SPENDING PROGRAMS	52
TABLE 22. NET INTEREST OUTLAYS UNDER ALTERNATIVE ASSUMPTIONS	54
TABLE 23. BASELINE PROJECTIONS OF OFFSETTING RECEIPTS	55
TABLE 24. BASELINE OUTLAY PROJECTIONS FOR OFF-BUDGET FEDERAL ENTITIES	56
TABLE 25. DIFFERENCES BETWEEN JULY 1981 AND FEBRUARY 1983 BASELINE OUTLAY PROJECTIONS	57
TABLE 26. BASELINE CREDIT PROJECTIONS	63
TABLE 27. BASELINE PROJECTIONS OF NET DIRECT LOAN OBLIGATIONS AND PRIMARY LOAN GUARANTEE COMMITMENTS BY PURPOSE OF LOAN	65

APPENDIX TABLES

	<u>Page</u>
TABLE A-1. BASELINE BUDGET AUTHORITY PROJECTIONS BY FUNCTION	73
TABLE A-2. BASELINE OUTLAY PROJECTIONS BY FUNCTION ..	74
TABLE A-3. BASELINE OUTLAY PROJECTIONS BY MAJOR PROGRAM CATEGORY	76
TABLE B-1. TRENDS IN SPENDING BY HOUSE COMMITTEE JURISDICTION	81
TABLE B-2. BASELINE BUDGET PROJECTIONS BY HOUSE COMMITTEES WITH SPENDING JURISDICTION	82
TABLE B-3. BASELINE BUDGET PROJECTIONS BY SENATE COMMITTEES WITH SPENDING JURISDICTION	83
TABLE B-4. BASELINE BUDGET PROJECTIONS BY HOUSE COMMITTEES WITH AUTHORIZING JURISDICTION ..	84
TABLE B-5. BASELINE BUDGET PROJECTIONS BY SENATE COMMITTEES WITH AUTHORIZING JURISDICTION ..	88
TABLE C-1. PROJECTIONS OF BASELINE REVENUES AND OUTLAYS ON A NATIONAL INCOME ACCOUNTS BASIS	93
TABLE D-1. MAJOR TEMPORARY COST-SAVING PROVISIONS ...	96
TABLE D-2. BASELINE PROJECTIONS FOR NATIONAL DEFENSE	100
TABLE D-3. PROGRAMMATIC COMPONENT OF THE DEFENSE BASELINE BY DEFENSE PLANNING AND PROGRAM- MING CATEGORY IN CURRENT DOLLARS	101
TABLE D-4. PROGRAMMATIC COMPONENT OF THE DEFENSE BASELINE BY DEFENSE PLANNING AND PROGRAM- MING CATEGORY IN CONSTANT 1983 DOLLARS	102

APPENDIX TABLES (Continued)

	<u>Page</u>
TABLE D-5. ACTIVE MILITARY AND CIVILIAN PERSONNEL IN THE PROGRAMMATIC COMPONENT OF THE DEFENSE BASELINE	103
TABLE D-6. MAJOR ACTIVE FORCE LEVELS USED IN THE PROGRAMMATIC COMPONENT OF THE DEFENSE BASELINE	105
TABLE D-7. MAJOR PROCUREMENT PROGRAMS CONTAINED IN THE PROGRAMMATIC COMPONENT OF THE DEFENSE BASELINE	106
TABLE E-1. TAX PROVISIONS EXPIRING DURING 1983-1988 PERIOD	122
TABLE F-1. BASELINE CREDIT PROJECTIONS BY BUDGET FUNCTION	126

FIGURES

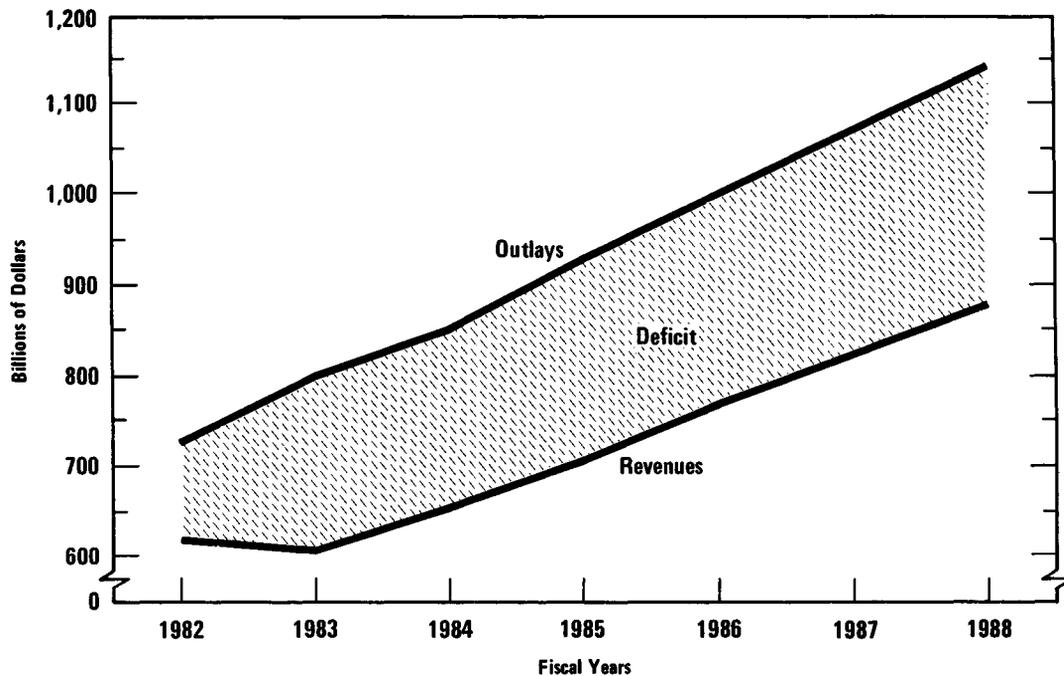
	<u>Page</u>
FIGURE 1. MAJOR ECONOMIC ASSUMPTIONS	7
FIGURE 2. FEDERAL REVENUES AND OUTLAYS AS A PERCENTAGE OF GNP	10
FIGURE 3. FEDERAL DEBT HELD BY THE PUBLIC AS A PERCENTAGE OF GNP	13
FIGURE 4. FEDERAL DEFICIT UNDER ALTERNATIVE ECONOMIC ASSUMPTIONS	16
FIGURE 5. THE COMPOSITION OF FEDERAL REVENUES	29
FIGURE 6. REVENUE SOURCES AS A PERCENTAGE OF GNP ...	30
FIGURE 7. INDIVIDUAL INCOME TAXES AS A PERCENTAGE OF TAXABLE PERSONAL INCOME	31
FIGURE 8. CORPORATE INCOME TAX AS A PERCENTAGE OF ECONOMIC PROFITS	33
FIGURE 9. THE COMPOSITION OF GROSS FEDERAL SPENDING	41
FIGURE 10. OUTLAY CATEGORIES AS PERCENTAGES OF GNP	43
FIGURE 11. ENTITLEMENT SPENDING	48
FIGURE 12. FEDERAL CREDIT AS A PERCENTAGE OF GNP	64

SUMMARY

Each year, the Congress makes numerous decisions about how laws and policies affecting the budget should be changed to meet fiscal policy goals and national needs. In making these decisions, a useful starting point is to know what might happen to the budget under current laws and policies. This report provides such an assessment. The baseline budget projections that it presents are not a forecast of future budget outcomes, but they are a useful analytical tool for budget decisionmaking.

Again this year, the principal feature of the baseline budget projections is large and growing deficits. As a result of the current deep recession and the high level of unemployment, the federal budget deficit is expected to reach a new postwar high of \$194 billion in fiscal year 1983. Under the Congressional Budget Office's (CBO's) baseline economic assumptions, and assuming no change in current taxing and spending policies, the unified budget deficit is projected to grow steadily to \$197 billion in 1984, \$214 billion in 1985, and \$267 billion in 1988 (see Summary Figure 1), despite projected economic recovery.

Summary Figure 1.
Baseline Projections



ECONOMIC ASSUMPTIONS

Since the performance of the economy has significant effects on federal revenues and outlays, baseline budget projections are based on explicit assumptions about economic trends over the next several years. The projections presented in this report use the CBO baseline economic forecast for calendar years 1983 and 1984, and longer-run economic assumptions for 1985-1988.

CBO projects a modest recovery from the current recession, with real growth rates of 2.1 percent in calendar year 1983 and 4.7 percent in 1984. The unemployment rate is projected to average 10.6 percent during calendar year 1983 and to decline to an average of 9.8 percent in 1984. Inflation is expected to be less than 5 percent annually during the next two years. Short-term interest rates are projected to decline somewhat from current levels in 1983 and to rise slightly in 1984 as the recovery progresses. In real terms, interest rates remain high in the forecast, providing considerable restraint on economic growth.

The longer-run economic assumptions for the 1985-1988 period are not an attempt to forecast probable economic conditions for those years. They are noncyclical projections that assume what appears to be an attainable average rate of growth. Whether this growth path is attainable with the tax and spending policies now in place is not certain.

To illustrate the uncertainty in the economic outlook and the consequences for the federal budget, CBO has produced two alternative economic paths. One path shows higher real growth, a more rapid decline in unemployment, but somewhat higher inflation. The other path shows a very weak recovery with extremely high unemployment, but with more rapidly declining inflation. The major features of the three sets of economic assumptions are shown in Summary Table 1.

BUDGET PROJECTIONS

Under baseline economic assumptions, revenues in fiscal year 1983 are estimated to be \$606 billion, outlays \$800 billion, and the unified budget deficit \$194 billion. Assuming no change in budgetary policies, the deficit would grow by only \$3 billion in 1984 and would decline from 6.1 percent to 5.6 percent of gross national product (GNP), as shown in Summary Table 2. Revenues and outlays would grow at similar rates in the following four years, and the deficit would remain a constant fraction of GNP (see Summary Figure 2).

SUMMARY TABLE 1. CBO BASELINE AND ALTERNATIVE ECONOMIC ASSUMPTIONS (By calendar year)

	1983	1984	1985	1986	1987	1988
Gross National Product (GNP)						
Current dollars (percent change, year to year)						
High-growth alternative	9.0	11.3	9.5	9.1	8.9	8.1
CBO baseline projection	6.8	9.6	9.0	8.1	7.6	7.4
Low-growth alternative	5.4	7.9	7.9	7.2	6.6	6.4
Constant (1972) dollars (percent change, year to year)						
High-growth alternative	4.0	6.0	4.2	4.0	4.0	4.0
CBO baseline projection	2.1	4.7	4.1	3.7	3.5	3.5
Low-growth alternative	0.8	3.3	3.3	3.2	3.0	3.0
Prices						
GNP deflator (percent change, year to year)						
High-growth alternative	4.8	4.9	5.1	4.9	4.8	4.9
CBO baseline projection	4.6	4.7	4.7	4.3	3.9	3.8
Low-growth alternative	4.5	4.4	4.4	3.9	3.5	3.2
Consumer Price Index (percent change, year to year)						
High-growth alternative	4.6	5.3	5.0	4.6	4.6	4.8
CBO baseline projection	4.5	5.0	4.6	4.1	3.9	3.7
Low-growth alternative	4.5	4.9	4.4	3.8	3.4	3.2
Unemployment Rate (percent, annual average)						
High-growth alternative	9.9	8.5	7.7	7.0	6.4	6.0
CBO baseline projection	10.6	9.8	9.0	8.4	8.0	7.5
Low-growth alternative	11.2	10.9	10.3	9.8	9.4	9.0
Interest Rate (91-day Treasury bills, percent, annual average)						
High-growth alternative	4.4	5.4	5.7	5.0	5.0	4.9
CBO baseline projection	6.8	7.4	7.2	6.6	6.1	5.9
Low-growth alternative	8.4	9.9	8.9	7.7	7.2	6.3

SUMMARY TABLE 2. BASELINE PROJECTIONS (By fiscal year)

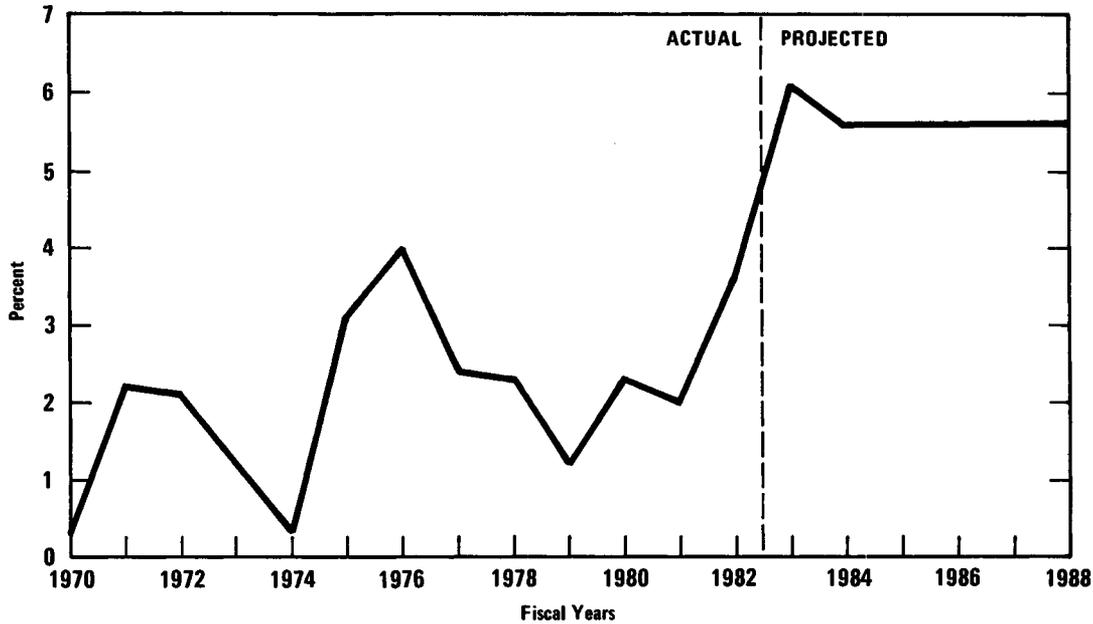
	1983 Base	Projections				
		1984	1985	1986	1987	1988
In Billions of Dollars						
Baseline Revenues	606	653	715	768	822	878
Baseline Outlays	800	850	929	999	1,072	1,145
Baseline Deficit	194	197	214	231	250	267
As a Percent of GNP						
Baseline Revenues	19.0	18.7	18.7	18.5	18.4	18.3
Baseline Outlays	25.0	24.3	24.3	24.1	24.0	23.9
Baseline Deficit	6.1	5.6	5.6	5.6	5.6	5.6

Revenues

Baseline revenue projections assume no change in current tax laws, except that airport and airway trust fund taxes are assumed to be extended at current rates beyond the present expiration date of December 31, 1987. Under the CBO baseline economic assumptions, revenues are projected to rise from an estimated \$606 billion in fiscal year 1983 to \$878 billion in 1988. The estimated 1983 revenues level is \$12 billion below the amount collected in 1982. Because of the recession, taxable personal income growth will not be sufficient to overcome the effects of the lower 1983 personal income tax rates. Corporation income taxes also are expected to fall in 1983 because of the recession, despite the corporate tax increases enacted last year.

The projected growth in total revenues over the next five years is slightly lower than the assumed average growth in nominal GNP. As a consequence, baseline revenues as a proportion of GNP are projected to

Summary Figure 2.
Federal Deficit as a Percentage of GNP



decline from 19.0 percent in 1983 to 18.3 percent in 1988. The 1983 level is down sharply from the 1982 rate of 20.4 percent because of the scheduled reduction in individual income tax rates.

Outlays

Baseline outlay projections are more complex in concept than baseline revenue projections. Where federal spending is mandated by law, as it is for Social Security benefits and other entitlement programs, the existing laws are assumed to remain unchanged, and future spending is assumed to respond to economic conditions and other factors in the same way as in the past. Where federal spending is discretionary and subject to annual appropriations, the CBO baseline projections generally assume that the 1983 appropriation levels will be maintained, with future increases to keep pace with inflation. A major exception is for national defense programs. Here the baseline projections assume the spending levels for 1984 and 1985 as specified in the 1983 budget resolution, which provide for substantial real growth. The 1986-1988 projections for national defense programs are an extrapolation of the budget resolution targets.

In 1983, unified budget outlays are estimated at \$800 billion, an increase of \$72 billion from 1982. Under CBO baseline assumptions, federal outlays are projected to grow at a slightly slower pace than revenues during the next five years. Total outlays under baseline assumptions are projected to reach \$850 billion in 1984 and to grow to over \$1.1 trillion by 1988. Relative to GNP, baseline outlays would decline from 25.0 percent in 1983 to 23.9 percent in 1988, a ratio higher than for all postwar years before 1982.

By 1988, spending for national defense, Social Security, Medicare and Medicaid, and net interest will account for three-quarters of baseline outlays, as shown in Summary Table 3. They will also represent about 90 percent of the \$345 billion in outlay growth projected over the 1983-1988 period.

SUMMARY TABLE 3. COMPOSITION OF FEDERAL OUTLAYS
(By fiscal year, in billions of dollars)

	1983 Base	1988 Projection	Change
National Defense	213	358	144
Entitlements and Other Mandatory Spending			
Social Security Benefits	168	232	64
Medicare and Medicaid	76	142	66
Other Entitlements	<u>142</u>	<u>137</u>	<u>-5</u>
Subtotal	386	511	125
Nondefense Discretionary Spending	145	184	39
Net Interest	87	134	47
Offsetting Receipts	<u>-32</u>	<u>-41</u>	<u>-9</u>
Total	800	1,145	345

SUMMARY TABLE 4. BASELINE BUDGET PROJECTIONS UNDER ALTERNATIVE ECONOMIC ASSUMPTIONS (By fiscal year, in billions of dollars)

	1983	1984	1985	1986	1987	1988
Baseline Revenues						
High-growth alternative	615	676	742	798	862	933
CBO baseline projection	606	653	715	768	822	878
Low-growth alternative	599	636	686	730	777	825
Baseline Outlays						
High-growth alternative	793	830	904	971	1,041	1,116
CBO baseline projection	800	850	929	999	1,072	1,145
Low-growth alternative	804	868	958	1,032	1,110	1,187
Baseline Unified Budget Deficit						
High-growth alternative	178	155	162	172	179	183
CBO baseline projection	194	197	214	231	250	267
Low-growth alternative	205	232	272	302	333	363

National defense spending is the largest component of the projected growth in outlays. Defense programs are projected to grow by \$144 billion during the next five years under CBO's extrapolation of the targets adopted for 1984 and 1985 in the 1983 budget resolution. The second largest outlay growth component is entitlements and other mandatory spending. Within this category, all of the projected growth is for Social Security, Medicare, and Medicaid, which will together increase by \$130 billion. Net interest costs are projected to grow by \$47 billion between 1983 and 1988, largely as a consequence of the projected growing deficits under baseline assumptions. Nondefense discretionary spending is projected to grow by only \$39 billion; this increase is attributable to discretionary inflation adjustments, pay raises for civilian agency employees, and growth in transportation programs already provided in law.

Alternative Economic Growth Paths

The outlook for the budget deficit under current policies varies under alternative economic assumptions. Even under the high-growth alternative, in which unemployment declines to 6 percent by 1988, the deficit remains virtually flat. As shown in Summary Table 4, the budget deficit under a

more rapid economic recovery would decline to \$155 billion in 1984 but then rise gradually to \$183 billion by 1988. Under the weak recovery path, the budget deficit climbs rapidly from \$232 billion in 1984 to \$363 billion in 1988.

As would be expected, future revenues would be higher if the economy recovers more rapidly than projected in the CBO baseline forecast and longer-run assumptions. Conversely, if the expected economic recovery is quite weak, federal revenue growth would be lower.

Under the high-growth alternative economic assumptions, the growth in outlays would be slightly lower over the next five years (\$323 billion), largely because a more rapid decline in unemployment would reduce outlays for unemployment compensation, and because lower deficits would reduce net interest costs. Under CBO's low-growth economic path, however, the growth in outlays would be larger (\$383 billion) because these same factors would operate in reverse.

SUMMARY TABLE 5. UNIFIED BUDGET AND TOTAL DEFICITS, INCLUDING OFF-BUDGET (By fiscal year, in billions of dollars)

	1983 Base	Projections				
		1984	1985	1986	1987	1988
Baseline Unified Budget Deficit	194	197	214	231	250	267
Outlays of Off-Budget Federal Entities	17	15	16	19	17	17
Total Deficit, Including Off-Budget	210	212	231	250	267	284

OFF-BUDGET SPENDING AND FEDERAL CREDIT

The unified budget does not provide a complete picture of federal government financial activities. First, the unified budget does not include certain federal activities, such as the acquisition of oil for the strategic

petroleum reserve and the loan asset purchases of the Federal Financing Bank. These off-budget outlays must be added to the unified budget deficit in order to determine the total federal deficit that must be financed. Off-budget outlays are projected to average about \$17 billion per year, as shown in Summary Table 5, bringing the projected total deficit to \$210 billion in 1983 and \$284 billion by 1988.

Even when off-budget spending is included, however, the deficit does not fully measure the federal government's involvement in credit markets. The federal government provides credit to individuals, businesses, and other borrowers both by the direct provision of loans and by guaranteeing loans made by nonfederal lenders. Federal outlays do not reflect the total volume of new direct federal loans but only the amount of net lending--that is, new loans less repayments. Also, federal loan guarantees are not reflected at all in the unified budget unless borrowers default.

This year for the first time, CBO has prepared baseline projections of federal credit. CBO projects that the total of federal loan obligations and guarantee commitments will grow from \$136 billion in 1983 to \$164 billion by 1988 under baseline assumptions (see Summary Table 6). This represents a rate of growth in federal and federally guaranteed lending of 4 percent per year, considerably less than the growth in lending during the 1970s and less than the projected growth in the economy.

SUMMARY TABLE 6. BASELINE CREDIT PROJECTIONS
(By fiscal year, in billions of dollars)

	1983 Base	Projections				
		1984	1985	1986	1987	1988
Direct Loan Obligations	49	49	49	47	50	52
Primary Loan Guarantees	<u>87</u>	<u>90</u>	<u>95</u>	<u>101</u>	<u>106</u>	<u>112</u>
Total	136	139	144	148	156	164

