are negative, the spending cut alternatives also exact a price. The nation's economic strength and well-being depend on such investments as the the roads, scholarships, air traffic control, and medical research that federal money buys. Among the nation's most fundamental commitments is adequate care for its elderly and poor. Its security rests on maintaining an adequate national defense. Clearly, a rational resolution of how much to raise taxes and how much to cut spending must rest on an assessment of which of the negative consequences of either route seem less damaging.

The composition of outlay reductions or tax increases represents a third major policy choice. Because of their size, and projected growth, three major federal spending programs--national defense, Social Security, and Medicare--are necessary targets in any deficit reduction plan emphasizing outlay restraint. If revenues are not to be raised enough to narrow the budget deficits, the difficult choice between "guns versus butter" becomes inevitable. But raising taxes entails its own delicate balance of equity versus efficiency objectives.

Illustrative Examples

The magnitude of projected deficits means that marginal tinkering with the budget cannot yield adequate savings. To illustrate the kinds of broad strategies needed to reorient the federal budget, three policy examples are considered in this section. For simplicity and to give the examples a common basis of comparison, each illustration assumes that the goal for 1988 is to reduce the deficit to 2 percent of GNP (about $100 billion) from its projected baseline level of 5.6 percent of GNP ($267 billion) in that year. In keeping with the discussion above, all options assume that budget reduction measures are phased in, with revenues increasing only in fiscal year 1985 and spending reductions held under 1 percent of GNP (about $35 billion) in 1984.

Example 1--Raising Revenues to Pay for Defense Growth. This approach illustrates the implications of closing most of the budget gap by means of tax increases; it would raise taxes to 21 percent of GNP by 1988--the postwar high level last seen in 1981. It is further assumed that national defense outlays would grow unchanged from the CBO baseline. 5/ From a cumulative five-year budget gap that would exceed $1,100 billion under the CBO baseline, this option would produce budgetary savings of about $450 billion (see Figure I-6). Of this total, about 70 percent would be derived from higher revenues and the remaining sum from outlay savings.

5. It should be noted that the Administration's defense proposal is in excess of the CBO baseline.

Figure I-6.

Strategy Example 1—Restore Tax Share to 1981 Level, Maintain Baseline Projection for Defense

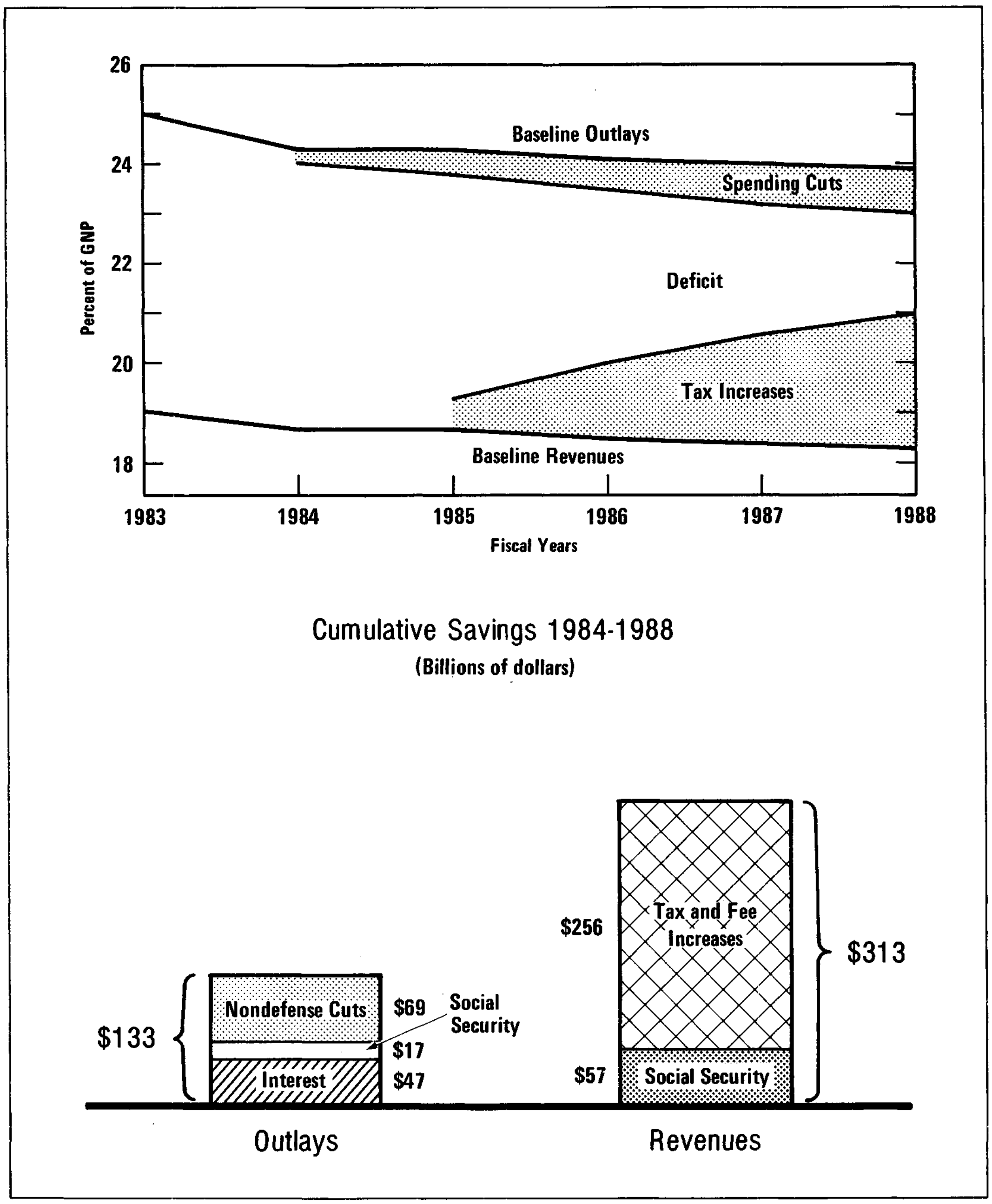
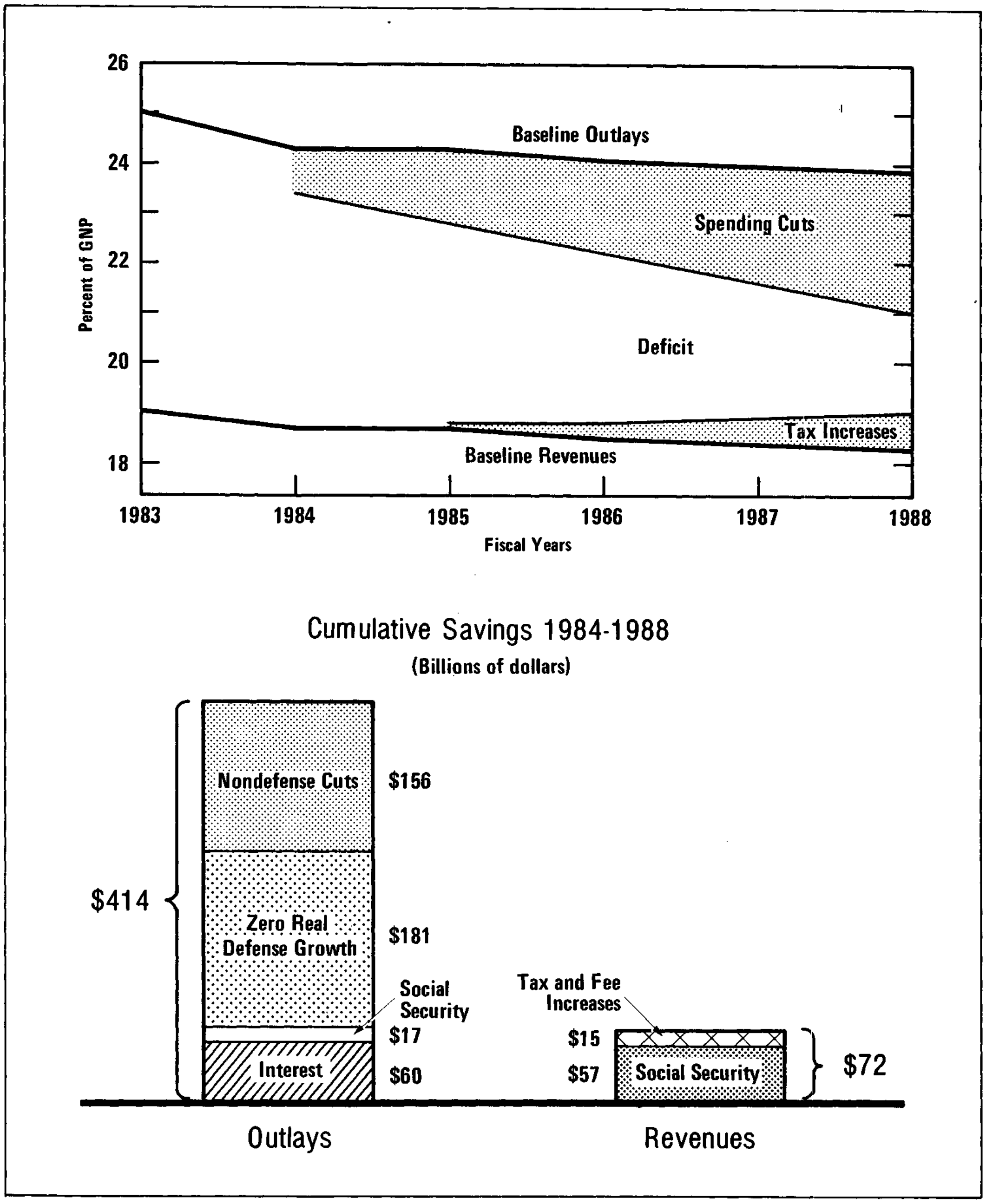


Figure I-7.

Strategy Example 2—Freeze Tax Share at 1983 Level, Cut Government Spending



If one assumes that the recently submitted proposals of the National Commission on Social Security Reform are adopted (see Chapter III` and further, that budgetary savings are phased in so that interest costs over five years would be reduced by almost $50 billion from the CBO baseline, the implications of this strategy are as follows.

More than $250 billion in new taxes (aside from the Social Security commission proposals) over the next five years would have to be raised. A revenue goal of this magnitude could be met by repealing both the indexing of the individual income tax and the third-year tax cut enacted under ERTA. Measures that could either be alternatives to these or in some way combined with them include major base-broadening tax reform or instituting some new revenue measure such as a value-added tax (see Chapter X). At the same time, about $70 billion in outlay savings would be required during the five-year period over and above the Social Security commission proposals and interest savings Given the maintenance of national defense growth implied in the CBO baseline, these savings would have to come from entitlement and nondefense programs. If all appropriated nondefense programs were frozen at 1983 levels, five-year outlay savings would be about $50 billion (see Chapter VII).

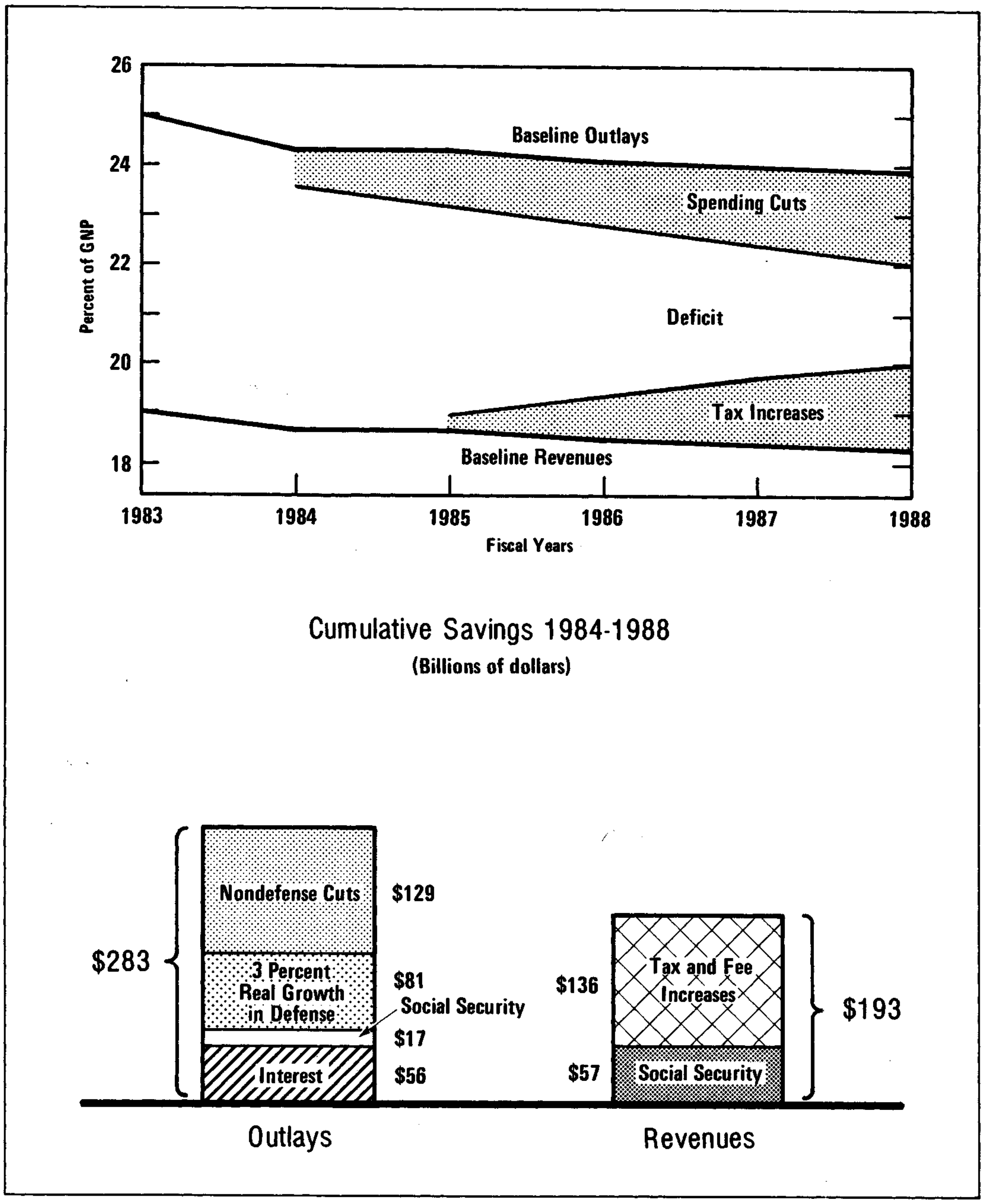
Example 2--Cutting Government Spending. This approach would emphasize cutting federal spending and allowing the tax burden to rise no higher than 19 percent of GNP, the level projected for 1983. Under this alternative, nearly $500 billion in cumulative deficit reduction would be realized by about $70 billion in higher revenues and more than $400 billion in outlay savings (see Figure I-7).

Achieving a five-year plan to curb outlays by more than $400 billion would necessitate major cuts not only in the defense budget, but in nondefense programs as well. Even if the real growth rate of national defense appropriations were held to zero, outlay savings from the CBO baseline would amount to about $180 billion over the 1984-1988 period. This means that spending cuts in nondefense programs would have to come to about $150 billion (assuming again that the Social Security commission's proposals and interest savings were realized). If all appropriated nondefense programs were frozen at the 1983 level, and if Medicare patients' copayments for hospital charges were raised, and if veterans' compensation payments were reduced, aggregate five-year savings would only be about $80 billion. So the domestic cuts would have to go even deeper. Thus, to hold the tax burden at this year's level, even a major reversal of defense growth would still imply substantial further nondefense cuts.

Example 3--An Intermediate Strategy. This approach would strike a balance between the extremes of the tax increase and defense spending

Figure I-8.

Strategy Example 3—Raise Tax Share to Intermediate Level, Limit Defense to 3 Percent Real Growth



patterns under the other two examples. To do so, it would set an intermediate tax target of 20 percent of GNP by 1988 and cut defense appropriations back to 3 percent real growth. This option would require outlays to fall to 22 percent of GNP of 1988, and would shift the division of cumulative deficit reductions to about 60 percent from outlays and 40 percent from revenues (see Figure I-8).

The revenue increase target of nearly $200 billion over five years required to meet this goal is attainable under a number of options that are often discussed. For example, repeal of the indexation of individual income taxes scheduled to take effect in 1985 would save $90 billion over the projection period. Repeal of half of the third stage of the ERTA individual tax cut would yield about $90 billion. And implementation of the Social Security commission's proposals would yield another $57 billion. Many other choices are discussed in Chapter X.

Meeting a goal of about $280 billion in outlay savings over the five-year period would allow some, but limited, flexibility as to where spending cuts could be made. Setting aside the $17 billion in the Social Security commission's proposed savings and the $56 billion in reduced interest would leave about $200 billion in needed savings from all other spending programs. As an illustration, this sum could be composed of $81 billion from defense spending (held at 3 percent real growth), $88 billion from a 2 percent cut in nondefense discretionary spending, and the remainder from other nondefense sources.

Perhaps the main lesson in these illustrations is that, without a substantial contribution from increased taxes and reduced spending from all major programs, it is very hard to devise a deficit reduction package that is realistic or sensible. The examples outlined above represent three quite different courses for narrowing the budget deficit under a common reduction goal. However strict an objective the Congress sets for reducing the deficit will determine the difficulty of this pressing task. Certainly, though, any major proposals to increase spending, such as the Administration's planned defense efforts (see Chapter II), would necessitate greater cuts in other spending programs and greater increases in taxes if a particular deficit reduction objective were to be met. Even with a commitment to a balanced approach with no sectors immune, many difficult choices would confront the Congress.

ON USING THIS VOLUME

The remainder of this volume presents a wide array of budgetary elements that could be combined in various strategies to narrow the deficit.

Chapters II-IX are organized according to the budget categories identified earlier in this chapter. Each chapter presents major arguments for and against a number of deficit reduction measures within that budget category that have been proposed or might be considered in the future. The "budget savings" of each proposal are measured in terms of outlay reductions or revenue increases from the CBO baseline just described. Unless otherwise noted, the estimates assume that a proposal is fully implemented by the start of fiscal year 1984, under baseline economic assumptions. The chapters also report "cumulative five-year savings," which simply represent the sum of savings in each of the fiscal years 1984-1988. Similarly, Chapter X presents options for raising revenues above the baseline projections. Appendix A contains brief descriptions of 28 revenue-increasing options referred to in Chapter X but not analyzed in the chapter. Appendix B provides a crosswalk to distribute the spending and revenue options discussed in this volume by functional categories used in the budget resolution. The tables in this appendix include page references to the chapter discussion of the various options, and thus they also serve as an index to the volume.

Three cautions must be noted at the outset. First, the deficit reductions discussed in this volume represent only a first approximation of savings that might actually be realized. In some instances, a reduction in one program might result in program expansion elsewhere. Reducing Social Security benefits, for example, would generally increase payments from other programs such as Supplemental Security Income and Food Stamps. In most cases, unless otherwise specified, these offsetting effects are not included in the estimates presented in this report.

Second, any enduring reduction in outlays or increase in revenues will ultimately result in a lower public debt, and therefore in lower net interest outlays than would otherwise be the case. Thus, an annual savings of $4 billion in a program would reduce the projected public debt outstanding by $20 billion in five years and--at a 5 percent interest rate--would lower annual net interest outlays by $1 billion. Obviously, one cannot attribute such savings to particular deficit reduction measures, but only to a whole package of changes. Therefore, the options in the chapters that follow do not include the induced interest savings.

Finally, the relation of the underlying economic assumptions and changes in budget policy needs to be understood. The economic assumptions for the outyears of the CBO baseline budget projections represent a plausible path for the economy to take. These assumptions are consistent with a variety of fiscal policies. If a policy change from the baseline budget were undertaken, it should not be presumed that such a change would necessarily affect the economic assumptions used in the baseline. On the other hand, a major budget change might warrant revisions of the assumed economic path. In 1982, for example, when the First Concurrent Resolution on the Budget for Fiscal Year 1983 was under consideration, the supporters of deficit reduction (mainly through a tax increase) argued that such a change would work to reduce interest rates below those that were assumed in the baseline then being used. On the basis of these lower interest rates, they further adjusted the budgets projected in the budget resolution. In this report, all deficit reduction options are estimated under the CBO baseline economic assumptions without any feedback effects.

CHAPTER II. NATIONAL DEFENSE

Defense budget authority has grown rapidly in real terms in recent years and is scheduled for further increases in Administration plans for fiscal year 1984 and beyond. In 1984, it represents 29 percent of Administration spending plans, second only to direct payments to individuals at 42 percent. Defense spending will undoubtedly be a major focus this year, as last, of any Congressional effort to reduce the level of budget deficits. While last year the Congress cut the Administration's defense budget request, it still provided about 7 percent real growth in budget authority over the previous year.

The national defense portion of the budget provides funding for the operations of existing armed forces and the purchase of new equipment and facilities to improve and expand the capabilities of those forces. Department of Defense (DoD) spending makes up the bulk of national defense funding. Nuclear weapons programs funded through the Department of Energy are included in national defense, but are not analyzed in this chapter. Other expenditures that are arguably part of the costs of defense, though not included in this chapter, are veterans' benefits (see Chapter V); most of the costs of retirement for Defense Department civilians (see Chapter VIII); and tax expenditures such as tax-free military allowances for housing (see Chapter X).

Over half of total DoD budget authority for 1983 provides compensation for military and civilian personnel (including military retirement), and for the operations and maintenance of existing equipment and facilities (see Figure II-1). These operating accounts fund pay and allowances, combat training and exercises, maintenance and repair activities at extensive DoD-owned and commercial industrial facilities, and operations at more than 5,000 installations and properties in the United States and overseas. The remaining budget authority--generally called the investment accounts--pays for ongoing research, development and production of new equipment, and construction of new facilities. Procurement of new combat and support equipment is by far the largest category, projected at 35 percent of total 1983 budget authority.

Figure II-1 also shows DoD budget authority by mission activities, using standard DoD definitions. Each of these activities requires funding for operations and maintenance, and pay for the military and civilian personnel assigned to the activity. To a varying degree, each mission activity also

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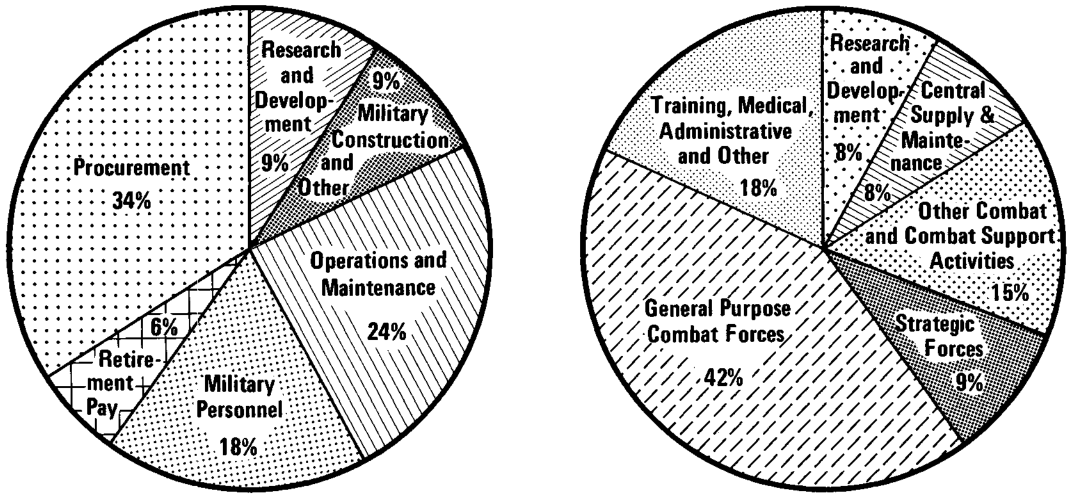
Figure II-1.

Fiscal Year 1983 Defense Budget (Budget Authority)



By Appropriation Account

By Military Mission

requires procurement, military construction, and research and development (R&D) funding. Strategic forces, while prominent in the defense debate, require a relatively small portion (9 percent) of total defense budget authority, though that portion is highly concentrated in investment accounts. General-purpose forces and other combat-related activities (such as communications and intelligence, Reserve and National Guard forces, and mobility forces) will receive 55 percent of DoD funds in 1983. Support activities--such as central logistics support and basic training--require the remaining 35 percent.

BUDGET HISTORY AND PROJECTIONS

Recent History, 1980-1982

The Administration has made higher defense spending a primary objective, and to date the Congress has generally endorsed this. Defense outlays have increased from $136 billion in 1980 to $187 billion in 1982, an increase of 38 percent (12 percent in real terms--that is, excluding inflation). Budget authority--a better measure of the commitments assumed through the defense buildup--has increased 50 percent (25 percent in real terms) in just three years. Budget authority entails the legal right to make spending commitments. Actual defense expenditures, called outlays, often lag budget authority by several years because of the time needed to build weapons.

Investment in new equipment has received primary emphasis, while other categories of defense spending have also increased; budget authority for procurement has increased 85 percent since 1980 (60 percent in real terms). All types of military equipment are being purchased, though particular emphasis is given to modernizing strategic forces (the B-1 bomber, the advance technology "stealth" bomber, cruise missiles, the Trident II missile, the MX missile) and expanding the size of the Navy. Operating accounts have increased by 36 percent since 1980 (12 percent in real terms).

The Current Situation

The President requested budget authority of $263 billion and outlays of $221 billion for national defense in 1983. Excluding inflation, this would amount to an increase of 15 percent in budget authority and 13 percent in outlays over 1982. Rather than pass a defense appropriation in the usual manner (except for military construction), the Congress enacted the 1983 defense budget as part of a continuing resolution that will remain in force for the remainder of the fiscal year. This continuing resolution, containing the program details of a normal appropriation bill, cut budget authority for 1983 by $19 billion below the President's request, limiting real growth to about 7 percent.

Baseline Projections, 1984-1988

This chapter adopts a different approach for baseline projections from that used in the other chapters. Instead of using CBO's baseline projections, this chapter uses the Administration's announced spending targets as the base for discussing reductions in the defense budget. The Congress has generally selected Administration defense spending plans as the basis for establishing budget resolutions. However, both spending paths will likely enter the defense debate in coming months. As such, the annual budget authority and outlay figures for both baselines are shown in Tables II-1, II-2, and II-3 below. The program cuts (Table II-4) discussed below should be subtracted only from the Administration targets (Table II-3), since the program cuts are more consistent with the proposed budget than with Administration plans submitted last year, which is the basis for the CBO baseline.

TABLE II-1. ALTERNATIVE LEVELS OF DEFENSE SPENDING (In billions of dollars)

Spending Level	Actual 1980	Actual 1982	Estimated 1983	Baseline Projection 1984	1985	1986	1987	1988
CBO Baseline--1983 Budget Resolution Extended a/								
Budget Authority	182	219	244	278	322	350	373	398
Outlays	160	187	213	242	278	310	333	358
Administration's Request								
Budget Authority	182	219	245	281	330	365	397	433
Outlays	160	187	215	245	285	323	354	386

a. The fiscal year 1983 budget resolution covered only the years 1983-1985. The resolution figures for 1984 and 1985 are shown here. Spending beyond 1985 was estimated by lowering previous Administration growth targets by 2 percentage points. That reduction was the average real growth cut imposed by the budget resolution relative to Administration spending plans for the 1983-1985 period.

The CBO Baseline. The CBO baseline for defense spending is built on the fiscal year 1983 budget resolution. The projections for 1984 and 1985 are the budget authority and outlay figures specified in the resolution adopted last year. Beyond 1985, the CBO baseline reduces the annual real rate of growth assumed in the Administration's fiscal year 1983 budget request by two percentage points, which is consistent with the resolution. Whereas the Administration had planned an average of about 9 percent real growth (1983-1985), the 1983 budget resolution provided an average of slightly more than 7 percent for the same period, over two percentage points less than the President's request. This spending path would provide defense budget authority of $278 billion and outlays of $242 billion for 1984, with the complete spending path shown in Tables II-1 and II-2.

The primary value of this baseline is to present five-year budget authority and outlay targets consistent with the budget compromises and decisions reached last year by the 97th Congress. The President indicated during a press conference in August 1982, however, that he did not feel

TABLE II-2. SAVINGS UNDER ALTERNATIVE SPENDING ASSUMPTIONS RELATIVE TO CBO BASELINE (In billions of dollars)

Spending Level	1984	1985	1986	1987	1988	Cumulative Five-Year Savings
CBO Baseline--1983 Budget Resolution Extended						
Budget Authority	278	322	350	373	398	
Outlays	242	278	310	333	358	
Savings Under Alternative Assumptions						
5 Percent Real Growth						
Budget Authority	11	23	18	4	-12	44
Outlays	2	10	12	2	-6	20
3 Percent Real Growth						
Budget Authority	16	34	37	31	25	143
Outlays	4	16	23	19	19	81
Zero Real Growth						
Budget Authority	20	49	62	69	76	276
Outlays	8	27	43	48	55	181

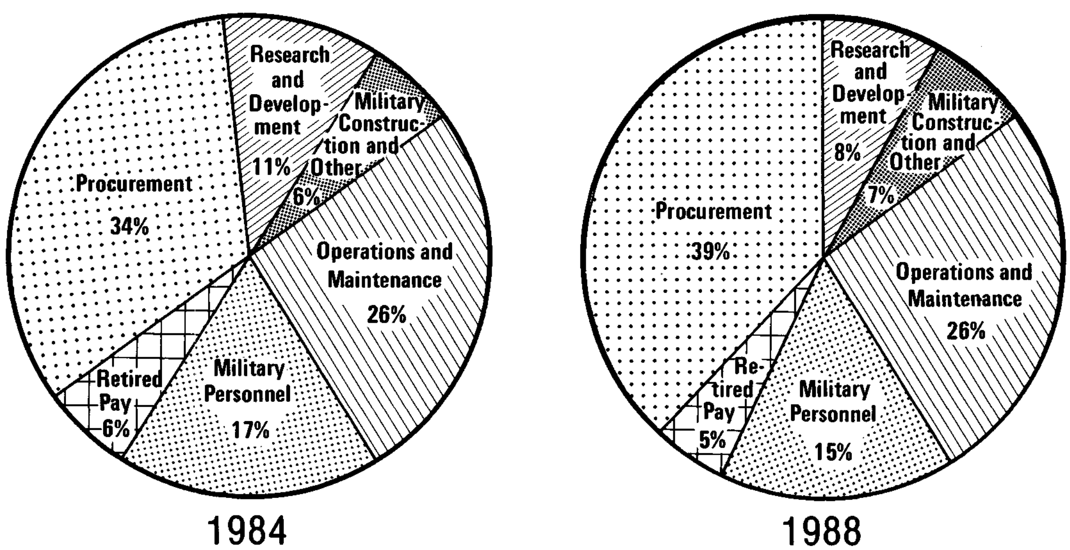
NOTE: Program cuts and projected savings discussed below and shown in Table II-4 should not be deducted from baseline projections shown on this table, but from those projections shown on Table II-3. The CBO baseline, which is based on the 1983 budget resolution, is built on the program details submitted with last year's budget. The program cuts discussed in this chapter are more consistent with current Administration spending plans.

obligated to follow the defense spending targets set in the 1983 budget resolution for 1984 and beyond, but rather only to follow total spending levels of the resolution.

The Administration's Defense Request. The Administration's 1984 budget proposal for defense would require budget authority of $281 billion and $245 billion in outlays for 1984, with continuing increases thereafter, as shown in Table II-1. While close to the CBO baseline in 1984, the Administration proposes substantially higher outyear levels than the Congress intended last year, some $85 billion more in budget authority over the five-year period (see Table II-3). This chapter uses these Administration targets as the base against which savings from options to lower defense spending are measured. It adopts this higher spending path as the base because the Congress will likely use the Administration's request as the basis for its deliberations over the 1984 budget resolution. Further, DoD's detailed plans for weapons purchases--which are the primary basis for this chapter's discussion of targeted reductions--are most consistent with these Administration spending targets. Figure II-2 compares, by appropriation account, budget authority in 1984 and 1988 for the Administration program. Administration plans continue to emphasize procurement, which would require 39 percent of total defense budget authority by 1988.

Figure II-2.

Defense Department Budget, Fiscal Years 1984 and 1988 (Budget Authority)



DEFICIT REDUCTION STRATEGIES

The debate on the defense budget in the 97th Congress took place at two levels. At one level, the Congress broadly debated the extent of the resources that should be devoted to national security compared with other spending priorities of the federal government. At a more detailed level, it examined particular programs of the defense budget--for example, debating the need to buy two aircraft carriers in 1983. The remainder of this chapter parallels that debate. The following section identifies four possible overall levels of defense spending. The next section outlines several broad strategies for trimming the rate of growth in defense spending and then examines potential reductions in specific programs.

ALTERNATIVE SPENDING TARGETS

As in last year's budget review, debate in the opening months of the 98th Congress will focus on aggregate levels of resources devoted to various national priorities, including defense. On one hand, the Congress can choose to accept the Administration's budget targets, which are used as the basis for projected spending and savings in this chapter. With those targets, budget authority would grow from $244 billion in 1983 to $281 billion in 1984 and to $433 billion by 1988 (see Table II-3). This implies annual real growth of 6.5 percent a year in 1984-1988. Over the 1981-1988 period, annual real growth would average about 8 percent.

Alternatively, the Congress can cut the Administration's defense request to the levels that the 1983 budget resolution set for 1984 and 1985, and continue with lower rates of growth than planned by the Administration for the years beyond 1985. This would reduce budget authority and outlays by $3 billion in 1984, with projected five-year savings shown in Table II-3. 1/ With these reductions, real growth in the defense budget in 1984-1988 would average about 4.5 percent a year. For 1981-1988, defense budget authority would grow at an average 6 percent a year in real terms.

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1. Real growth implied by the Administration's 1983-1985 program averaged 9 percent. The 1983 budget resolution provided an average annual real growth of 7 percent. For purposes of projecting a five-year profile, the Administration's real growth targets beyond 1985 were reduced by two percentage points and applied to the lower base of 1985 budget authority stipulated in the 1983 budget resolution.

TABLE II-3. SAVINGS UNDER ALTERNATIVE SPENDING ASSUMPTIONS RELATIVE TO ADMINISTRATION REQUEST (In billions of dollars)

Spending Level	1984	1985	1986	1987	1988	Cumulative Five-Year Savings
Administration's Request						
Budget Authority	281	330	365	397	433	
Outlays	245	285	323	354	386	
Savings Under Alternative Assumptions						
CBO Baseline--1983 Budget Resolution Extended						
Budget Authority	3	8	15	24	35	85
Outlays	3	7	13	21	28	72
5 Percent Real Growth						
Budget Authority	14	31	33	28	23	129
Outlays	5	17	25	23	22	92
3 Percent Real Growth						
Budget Authority	19	42	52	55	60	228
Outlays	7	23	36	40	47	153
Zero Real Growth						
Budget Authority	23	57	77	93	111	361
Outlays	11	34	56	69	83	253

Should the Congress wish to make even greater reductions, it could further limit the increase in defense budget authority. Table II-3 shows the savings possible if defense increases over inflation were limited to 5 percent and 3 percent, respectively, in 1984-1988 in terms of budget authority. Either growth path would be substantially lower than Administration proposals, although both would be imposed upon real increases of about 30 percent in defense budget authority adopted since 1980. Even at the lowest rate of real growth shown here--3 percent annual average over the next five years--growth in defense budget authority in 1981-1988 would still exceed 5 percent a year because of the large increases adopted in 1981 and 1982.

In recent weeks, several more radical approaches for reducing budget deficits have been suggested, including proposals to "freeze" federal spending. Table II-3 shows the savings implied by a zero real growth alternative; it shows budget authority in this 1984-1988 period adjusted only to reflect inflation over the 1983 level. Several of the proposals have called for freezing outlays, since outlays constitute budget deficits. Freezing defense outlays relative to 1983 would be extraordinarily difficult, however, since a major portion of 1984 outlays (about 35 percent) reflect spending commitments made in 1983 and even earlier. Were budget authority frozen, outlays in 1984 would still increase $14 billion over 1983 because of prior year commitments. Far more radical cuts than suggested in this chapter would be needed to meet the spending levels implied in a zero real growth alternative.

TARGETED REDUCTION STRATEGIES

Adopting strategies to meet lower levels of defense spending requires making difficult judgments about the adequacy of existing forces as well as the scope and urgency of defense requirements. Moreover, alternative reduction strategies may have significantly different effects in the timing of their savings, as well as in their impact on combat effectiveness or military readiness. For example, a reduction strategy emphasizing cuts in operating accounts--such as training activity or ship steaming hours--would offer significant near-term savings, since the bulk of operating funds authorized in a fiscal year will be spent in that fiscal year. Such cuts, however, would directly affect near-term combat readiness. Also, since the savings might not carry over to subsequent years, additional cuts in readiness might be needed to meet future lower spending targets.

Budget authority cuts in procurement accounts, on the other hand, would offer relatively small near-term savings in outlays, but these savings would stretch out over several years. Cutting a $3.5 billion aircraft carrier, for example, would save only $85 million in the first year, since only limited

TABLE II-4. BUDGET SAVINGS FROM ALTERNATIVE APPROACHES TO DECREASING DEFENSE EXPENDITURES (In billions of dollars)

Options	1984	1985	1986	1987	1988	Cumulative Five-Year Savings
Lower Growth in Procurement Accounts						
Cancel the F/A-18, Buy A-6Es						
Budget Authority	-0.2	0.7	1.6	2.1	4.1	8.4
Outlays	a/	a/	0.4	1.2	1.9	3.5
Cancel the DIVAD						
Budget Authority	0.9	0.8	0.7	0.4	--	2.8
Outlays	0.1	0.5	0.7	0.7	0.5	2.4
Cancel the AHIP b/						
Budget Authority	0.2	0.3	0.3	0.5	0.5	1.8
Outlays	a/	0.1	0.2	0.3	0.4	1.0
Cancel MX, Rely on Trident II						
Budget Authority	8.2	7.0	5.4	4.0	3.2	27.8
Outlays	3.0	5.6	5.7	4.9	4.0	23.2
Scale Back Purchases of F-15s						
Budget Authority	0.7	1.6	2.4	2.6	2.7	9.9
Outlays	0.1	0.5	1.2	1.9	2.3	5.9
Limit Tanker Re-engining c/						
Budget Authority	0.5	0.3	0.3	0.1	a/	1.2
Outlays	0.1	0.3	0.3	0.3	0.2	1.1
Cancel DDG-51 Program						
Budget Authority	0.1	0.2	0.4	1.9	3.5	6.2
Outlays	a/	a/	0.1	0.2	0.5	0.8
Cancel C-17 Program						
Budget Authority	a/	a/	0.2	1.2	2.1	3.5
Outlays	a/	a/	0.1	0.4	0.9	1.5

(Continued)

a. Savings less than $50 million.

b. The Army has indicated that modest cancellation penalities maybe required. This has not been deducted from the above savings.

c. Program detail for fiscal year 1984 of the Administration's budget was the only data available at time of publication. No outyear information was provided. Preliminary data suggest the savings shown are overstated, at least for 1984, though lack of substantive detail prevents formal estimates.

TABLE II-4. (Continued)

Options	1984	1985	1986	1987	1988	Cumulative Five-Year Savings
Impose Modest Force Structure Cuts/Boost Contributions of Allies						
Deactivate One Army Division						
Budget Authority	0.2	0.4	0.6	0.6	0.6	2.4
Outlays	0.2	0.4	0.5	0.6	0.6	2.3
Boost Canadian Support of NORAD						
Budget Authority	a/	a/	a/	a/	a/	0.2
Outlays	a/	a/	a/	a/	a/	0.2
Press for Japanese Purchases of AWACS c/						
Budget Authority	0.2	0.5	0.6	0.2	-0.6	1.0
Outlays	a/	0.2	0.4	0.5	0.3	1.3
Limit Growth in Pay and Benefits						
Reflect Savings Created by Pay Freeze in 1984 d/						
Budget Authority	a/	2.0	1.7	1.7	1.7	7.0
Outlays	a/	1.9	1.7	1.7	1.7	7.0
Restructure Military Pay e/						
Budget Authority	a/	a/	0.3	0.6	0.9	1.9
Outlays	a/	a/	0.3	0.6	0.9	1.9
Limit Growth in O&M Accounts						
Budget Authority	0.7	1.5	2.6	3.8	5.1	13.7
Outlays	0.6	1.3	2.4	3.5	4.8	12.6
Total						
Budget Authority	11.5	15.3	16.8	15.5	22.9	85.9
Outlays	4.1	10.8	13.7	16.2	18.1	62.8

d. The Administration provides no catchup raise to compensate for the 1984 freeze. They have programmed a "contingency" raise, which is shown here. These savings incorporate CBO's comparability assumptions.

e. These savings might be overstated since the Administration's budget already provides for permanent enactment of the half COLA provision, which constitutes the bulk of saving shown here. These savings are not included in the totals shown below.

work can be accomplished in the first year of funding and it takes eight years to build the carrier. By the same token, cuts in procurement accounts might have only a limited impact on near-term combat effectiveness but more significant longer-term effects. Since the savings in outlays stretch over several years, cutting procurement items would help meet future lower spending targets whereas cuts in one year's readiness activity (such as reduced flying hours for training) would not.

The Congress might adopt a number of strategies for lowering defense spending. These could include:

- Scaling back real growth in procurement accounts, by canceling programs experiencing development problems, by slowing the pace of modernization in selected areas, or by redirecting preliminary development efforts to emphasize less expensive longer-term systems;

- Imposing modest cuts in current force structure or buildup plans;

- Limiting growth in pay and benefits; and

- Limiting growth in operations and maintenance accounts.

The remainder of this chapter presents specific options for budget reductions, organized to follow these reduction strategies. The Administration's 1984-1988 program is the baseline used for the analysis. Not all program details had yet been presented to the Congress when this report was sent to the publisher. Specific program changes in the 1984 budget relative to last year's plans could alter this discussion. As such, some of the savings discussed below may be incorrect. 2/

Scale Back Real Growth in Procurement Programs

The Administration's primary emphasis in defense spending has been the purchase of new combat and support equipment. Budget authority for procurement is currently over a third of the defense budget and has

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2. Savings are limited to those costs directly tied to the primary decision. For example, savings from cutting MX would include savings in related military construction, support equipment, and initial spare parts. Unless otherwise indicated, there are no personnel savings included.