

AN ANALYSIS OF
THE PRESIDENT'S BUDGETARY PROPOSALS
FOR FISCAL YEAR 1984

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Congressional Budget Office

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NOTES

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

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

PREFACE

This analysis of the President's budget for fiscal year 1984 was prepared at the request of the Senate Committee on Appropriations. The report describes the problem of large and growing budget deficits faced by the federal government under existing tax laws and current spending policies. It discusses how the Administration's proposals would reduce these projected deficits over the next five years.

This report includes the Congressional Budget Office's preliminary reestimates of the budgetary impact of the Administration's proposals using CBO's economic assumptions and technical estimating methods. The report analyzes in some detail the major tax changes proposed by the Administration as well as the major spending increases proposed for defense programs and reductions in domestic programs. Finally, the report also discusses the economic outlook and the assumptions used for the President's budget.

This report was prepared by the staff of the Budget Analysis, Fiscal Analysis, and Tax Analysis Divisions under the supervision of James L. Blum, William J. Beeman, and James M. Verdier, respectively. Principal contributors are listed in an appendix.

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CHAPTER I. SUMMARY AND INTRODUCTION

The Administration's budget proposal for fiscal year 1984 contains a number of tax increases and spending reductions designed to reverse the trend of growing federal deficits. At the same time, the Administration proposes to increase defense spending more rapidly than assumed in the First Concurrent Resolution on the Budget for Fiscal Year 1983. The Congressional Budget Office (CBO) estimates that the net effect of these changes would be to reduce projected deficits by \$332 billion over the next five years. Nevertheless, the deficit in 1988 would still remain at a high level--\$159 billion, or 3.3 percent of the gross national product (GNP). Of this amount, about \$100 billion would persist even if the economy were to resume operating at a high-employment level.

THE BUDGET UNDER CURRENT POLICIES

CBO projects that, if current spending and taxing policies were to continue unchanged, the federal budget deficit would grow from \$194 billion in fiscal year 1983 to \$200 billion in 1984, \$210 billion in 1985, and \$268 billion in 1988. As a percentage of GNP, the deficit would decline only slightly--from 6.1 percent in 1983 to 5.6 percent by 1988.

These baseline budget projections, which are preliminary revisions of those published earlier this month, assume no change in current tax laws. In instances of federal spending mandated by law, as is the case 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 influences in the same way as in the past. In instances of federal spending that 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. For national defense programs, the projections assume the spending levels specified in last year's Congressional budget resolution, as extrapolated by CBO.

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1. See Congressional Budget Office, Baseline Budget Projections for Fiscal Years 1984-1988 (February 1983).

TABLE I-1. THE BUDGET OUTLOOK UNDER CURRENT POLICIES
(By fiscal year, in billions of dollars)

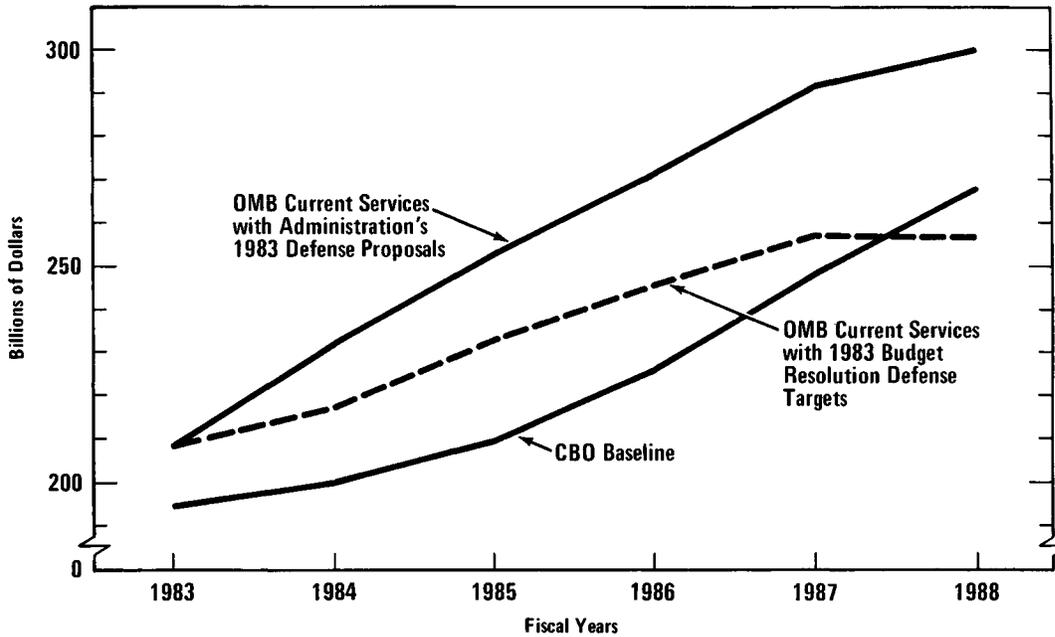
	1983	Projections				
	Base	1984	1985	1986	1987	1988
Revenues						
CBO baseline	606	654	718	774	827	882
OMB current services	598	649	713	781	849	927
Outlays						
CBO baseline	800	853	928	1,000	1,075	1,150
OMB current services <u>a/</u>	806	880	966	1,052	1,141	1,227
Deficit						
CBO baseline	194	200	210	226	248	268
OMB current services	208	232	253	271	292	300
Differences in Deficit Projections						
Policy Differences						
National defense	*	-12	-16	-22	-32	-39
Other	*	-3	-4	-3	-3	-5
Subtotal	*	-15	-20	-25	-35	-44
Economic and Technical Differences						
	-14	-17	-23	-20	-9	12
Total Difference	-14	-32	-43	-45	-44	-32

* Less than \$500 million.

SOURCES: The CBO baseline figures are preliminary revisions of those appearing in Congressional Budget Office, Baseline Budget Projections for Fiscal Years 1984-1988 (February 1983). The OMB current services figures are taken from Budget of the United States Government, Fiscal Year 1984 (January 1983).

a. Includes the Administration's February 1982 defense proposals.

Figure I-1.
Federal Budget Deficit Under Current Policies



SOURCES: *Budget of the United States Government, Fiscal Year 1984*; and Congressional Budget Office.

As shown in Table I-1, the current services budget projections of the Office of Management and Budget (OMB) present the same picture of large and growing deficits as do CBO's baseline projections. In the OMB projection, the deficit under current policies would rise from \$208 billion in 1983 to \$300 billion by 1988. Most of the difference between the CBO baseline and the OMB current services projections is attributable to different assumptions about current spending policy for defense.

The OMB current services projections for defense assume the levels of defense spending requested by the Administration in its 1983 budget, while the CBO baseline projections assume the defense spending levels provided in the 1983 Congressional budget resolution. This, together with other smaller policy differences, causes the two projections of outlays to diverge by \$15 billion in 1984 and \$44 billion by 1988. The remaining, and smaller, portion of the difference results from different economic and technical assumptions.

Figure I-1 depicts the CBO baseline and OMB current services deficit projections. It also shows the OMB projections adjusted to incorporate the

budget resolution defense targets and otherwise to put them on the same conceptual basis as the CBO figures. With adjustments made to account for the differences in policy assumptions, CBO shows slightly lower deficits than OMB in the 1983-1987 period and a slightly higher deficit in 1988. This pattern reflects a more optimistic CBO forecast of economic growth in the early years and more pessimistic assumptions for the latter part of the period.

THE ADMINISTRATION'S BUDGET PROGRAM

The Administration's budget program is designed to reduce the deficits that would result from a continuation of current policies, as well as to provide further large increases in defense spending. The major elements of the program are depicted in Figure I-2 and listed in Table I-2. CBO estimates that the Administration's budget program would reduce projected deficits by \$332 billion over the next five years.

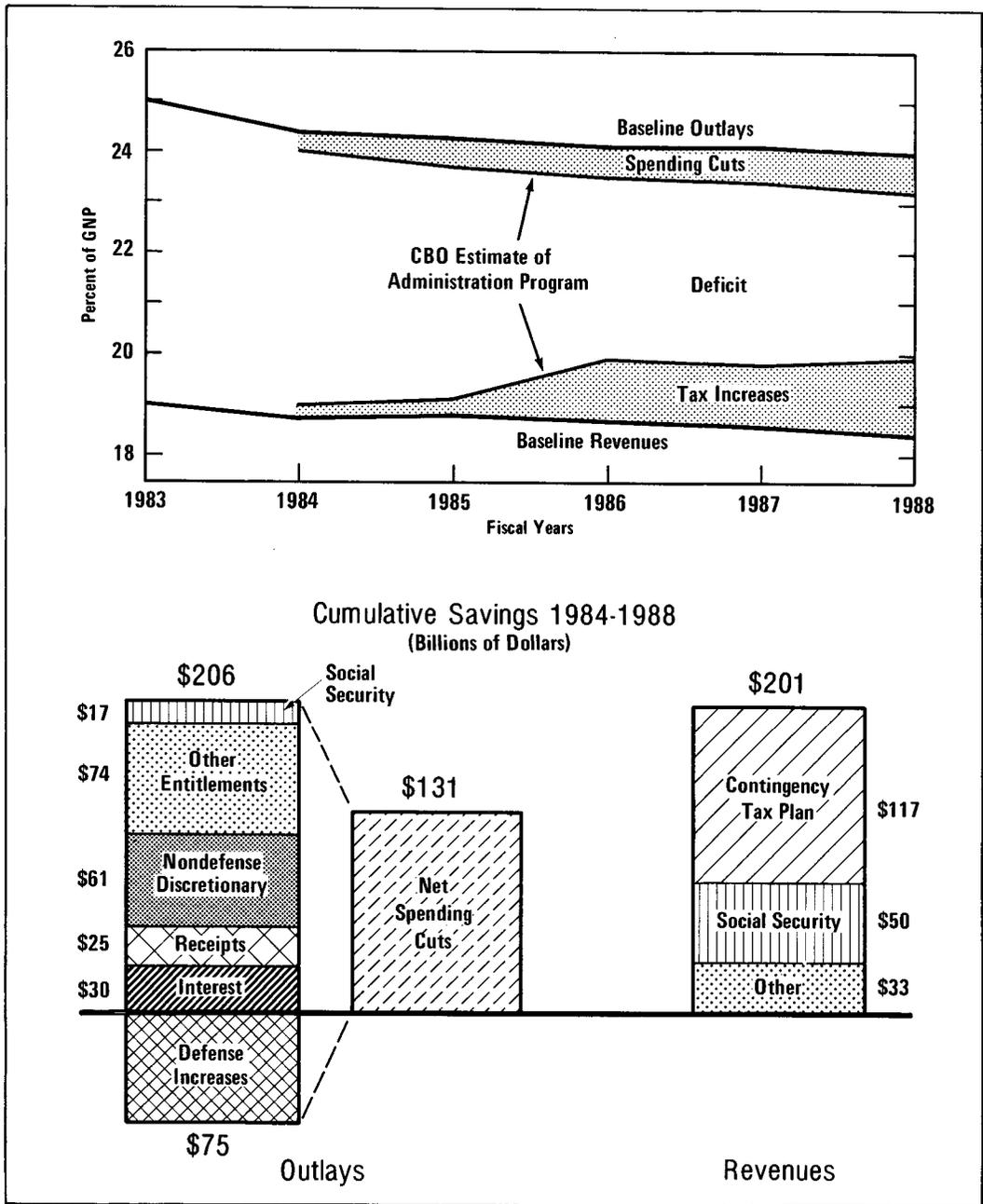
Tax increases proposed by the Administration total \$201 billion over the 1984-1988 period. Of this increase, about 60 percent--\$117 billion--would result from a contingency tax plan. The contingency taxes consist of an income tax surcharge and an excise tax on oil. These contingency taxes would go into effect in fiscal year 1986 if the projected budget deficit exceeds 2.5 percent of GNP, if the economy is growing, and if the Administration's other deficit reduction measures are enacted.

Another \$50 billion in additional tax revenues would result from adoption of the recommendations of the National Commission on Social Security Reform. These include increases in the Social Security payroll and self-employed tax rates, taxation of half of Social Security benefits for upper-income taxpayers, and extension of coverage to include all employees of nonprofit institutions and new federal civilian employees. Finally, various other proposed tax increases and reductions would, on balance, produce \$33 billion more in revenues from 1984 to 1988. (Revenue estimates and tax proposals are detailed in Chapter III.)

Proposed outlay reductions total \$131 billion over the 1984-1988 period. This reduction is the net effect of \$75 billion in increased spending for national defense and \$206 billion in nondefense spending cuts. (The defense and nondefense portions of the budget are examined in Chapters IV and V.) The proposed reductions in nondefense spending consist of:

- o **\$17 billion in lower net spending resulting from the National Commission's Social Security financing plan.** This consists of \$22 billion in reduced Social Security benefits stemming from a six-

Figure I-2.
Administration's Budget Program



SOURCE: Congressional Budget Office.

TABLE I-2. CBO ESTIMATE OF ADMINISTRATION'S BUDGET PROGRAM
(By fiscal year, in billions of dollars)

	1984	1985	1986	1987	1988	Cumulative Five-Year Total
CBO Baseline Deficit	200	210	226	248	268	1,152
Proposed Changes						
Revenues						
Contingency tax plan	--	--	-37	-39	-41	-117
Social security plan	-8	-5	-8	-9	-20	-50
Other, net	-3	-5	-7	-8	-11	-33
Subtotal	<u>-11</u>	<u>-11</u>	<u>-52</u>	<u>-57</u>	<u>-71</u>	<u>-201</u>
Outlays						
National defense	3	5	12	24	32	75
Social Security plan	-3	-3	-4	-4	-4	-17
Other entitlements	-6	-12	-16	-19	-21	-74
Nondefense discretion- ary spending	-5	-7	-11	-17	-21	-61
Offsetting receipts	-2	-4	-5	-6	-8	-25
Net interest	*	-1	-5	-10	-15	-30
Subtotal	<u>-13</u>	<u>-23</u>	<u>-28</u>	<u>-31</u>	<u>-38</u>	<u>-131</u>
Total Policy Changes	-24	-33	-79	-87	-109	-332
President's Budget as Estimated by CBO	176	177	147	160	159	820

month delay in cost-of-living adjustments, partly offset by liberalizations in Supplemental Security Income and by other benefit changes.

- o **\$74 billion in reductions in entitlement programs other than Social Security.** The largest reductions are in spending for Medicare, including increased copayment charges and changes in the hospital payment system. Cost-of-living adjustments in various pension programs would be delayed or reduced. Reductions are also proposed in farm price supports and various means-tested programs.

Under the Administration's proposals, outlays for non-Social Security entitlements would still rise from an estimated \$221 billion in 1983 to about \$270 billion by 1988, but their projected growth under CBO's baseline would be cut nearly in half.

- o **\$61 billion in lower nondefense discretionary spending.** This includes lower federal pay raises, a freeze on most human resources programs, broad reductions in transportation and natural resource programs, and cuts in aid to business and commerce. Only basic federal government operations and assistance to foreign governments remain largely unscathed. Relative to CBO's baseline projections, which allow spending to keep pace with inflation, the projected growth of nondefense discretionary outlays would be reduced by 50 percent over the next five years.
- o **\$25 billion in increased offsetting receipts.** This reflects higher premium charges for Supplementary Medical Insurance (Part B of Medicare), increased federal agency payments for employee retirement and health benefits, and a number of new user fees.
- o **\$30 billion in reduced interest costs.** This results largely from reductions in projected levels of debt caused by other deficit reduction measures. Even so, net interest outlays would rise from \$87 billion in 1983 to \$116 billion by 1988 on account of continued deficit financing.

In the aggregate, the foregoing revenue and outlay changes would reduce the deficit by \$109 billion in fiscal year 1988, but a deficit of \$159 billion would still remain.

The Administration's budgetary program would also significantly redirect the pattern of federal government spending, as shown in Table I-3. Total budget outlays would rise by \$312 billion between 1983 and 1988. Of this amount, \$176 billion--56 percent--would be devoted to national defense. As depicted in Figure I-3, defense spending would rise from 6.7 percent of GNP in 1983 to 8.1 percent of GNP in 1988--the level it reached in the Vietnam War year of 1970. In contrast, nondefense discretionary spending would decline to 3.4 percent of GNP, well below its 1970 level of 4.5 percent. Spending for entitlements and other mandatory programs would also decline significantly as a fraction of GNP.

CBO BUDGET ESTIMATES

CBO's estimates of the budget picture under Administration policies differ less from OMB's estimates than they have in recent years, although

TABLE I-3. CBO ESTIMATES OF ADMINISTRATION SPENDING PROGRAM BY MAJOR CATEGORIES (By fiscal year)

	1983	1984	1985	1986	1987	1988
In Billions of Dollars						
National Defense	214	245	282	322	358	390
Entitlements and Other Mandatory Spending	385	386	403	430	458	492
Nondefense Discretionary Spending	145	147	152	156	160	163
Net Interest	87	96	105	110	114	116
Offsetting Receipts	<u>-31</u>	<u>-33</u>	<u>-38</u>	<u>-44</u>	<u>-46</u>	<u>-48</u>
Total Budget Outlays	801	840	905	973	1,044	1,113
As a Percent of GNP						
National Defense	6.7	7.0	7.4	7.8	8.0	8.1
Entitlements and Other Mandatory Spending	12.0	11.0	10.6	10.4	10.3	10.3
Nondefense Discretionary Spending	4.5	4.2	4.0	3.8	3.6	3.4
Net Interest	2.7	2.7	2.7	2.7	2.6	2.4
Offsetting Receipts	<u>-1.0</u>	<u>-1.0</u>	<u>-1.0</u>	<u>-1.1</u>	<u>-1.0</u>	<u>-1.0</u>
Total Budget Outlays	25.1	24.0	23.7	23.5	23.4	23.2

there still are noticeable differences. In the aggregate, most of these differences derive from small variations in economic forecasts and assumptions. The remainder result from technical estimating factors. Overall, the CBO estimates suggest that the budget deficits in 1983-1985 would be somewhat lower than the Administration projects. For 1987-1988, on the other hand, CBO projects somewhat higher deficits under the Administration's plan.

Figure I-3.
Outlay Categories as Percentages of GNP

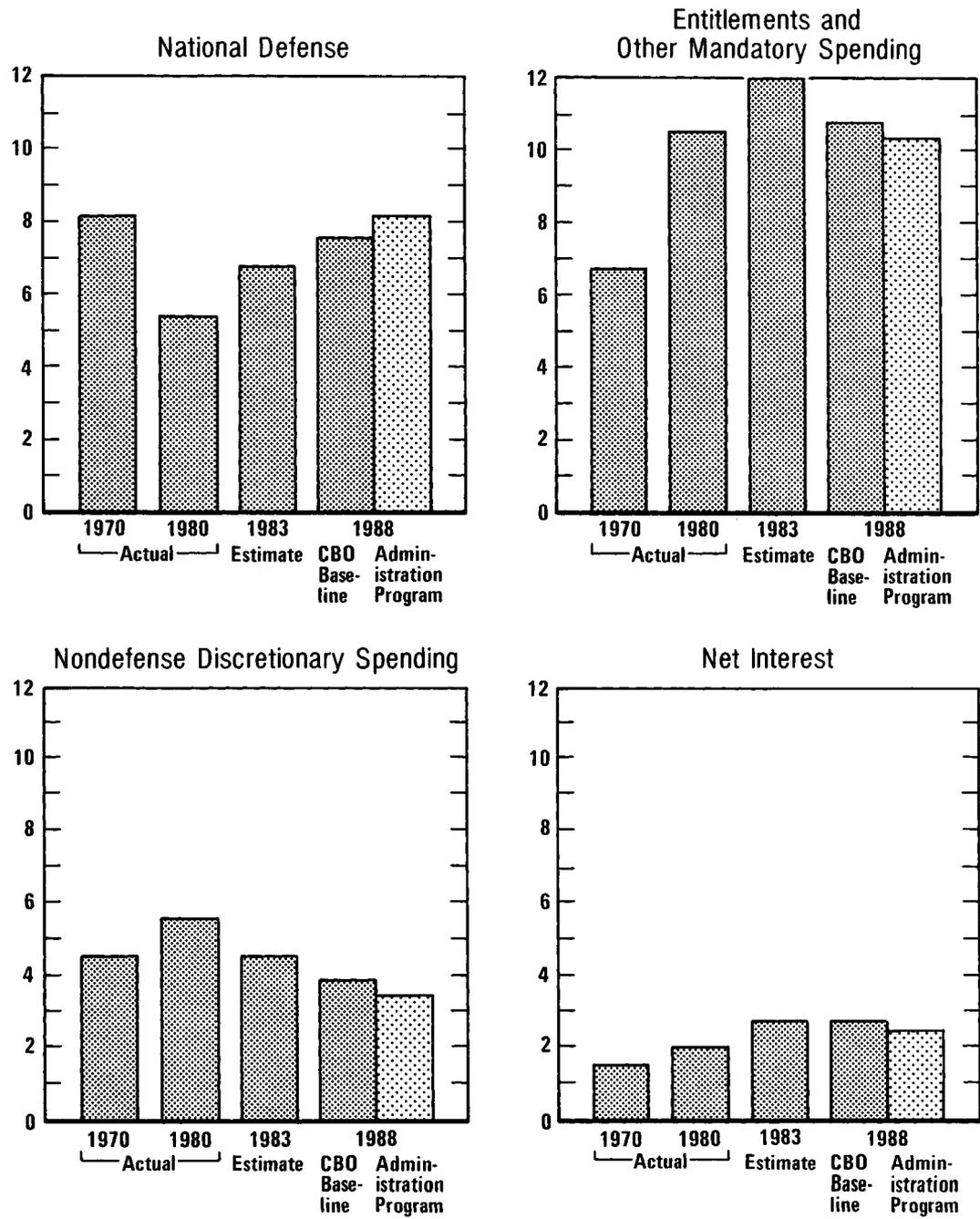


TABLE I-4. THE BUDGET OUTLOOK UNDER ADMINISTRATION POLICIES (By fiscal year, in billions of dollars)

	1983	1984	1985	1986	1987	1988
Revenues						
Administration estimate	598	660	724	842	916	1,010
CBO estimate	606	665	728	826	884	954
Outlays						
Administration estimate	805	848	918	990	1,058	1,127
CBO estimate	801	841	905	973	1,044	1,113
Deficit						
Administration estimate	208	189	194	148	142	117
CBO estimate	195	176	177	147	160	159
Differences in Projections						
Revenues						
Economic	*	2	3	-7	-21	-40
Technical	9	3	1	-10	-12	-17
Total	9	5	4	-16	-33	-57
Outlays						
Economic	-2	-9	-9	-11	-12	-14
Technical	-2	1	-4	-6	-2	*
Total	-4	-8	-13	-17	-14	-14
Deficit						
Economic	-2	-11	-13	-5	9	26
Technical	-11	-2	-5	4	9	17
Total	-13	-13	-18	*	18	43

* Less than \$500 million.

The current CBO economic forecast (detailed in Chapter II) is slightly more optimistic in the near term than is the Administration's. For 1983 to 1985, CBO projects stronger GNP in both current and constant dollars, lower unemployment, lower inflation, and lower interest rates. These factors result in higher revenues and lower outlays than the Administration projects. Using CBO's economic assumptions, the deficit would be lower by \$2 billion in 1983, \$11 billion in 1984, and \$13 billion in 1985, as shown in Table I-4.

In later years, however, CBO assumes less rapid economic growth than does the Administration. Along with the assumption of continued lower inflation, this factor causes the CBO's revenue projections to fall below those of the Administration after 1985. CBO's outlay projections are lower, too, because lower inflation holds down spending for both cash and in-kind benefit programs. By 1987 and 1988, however, the reduction in outlays is not enough to offset the lower revenues. The difference between CBO and Administration economic assumptions adds \$9 billion to the deficit projection in 1987 and \$26 billion in 1988.

The largest technical estimating difference between the CBO and Administration budget estimates involves the oil excise tax, which is part of the contingency tax plan mentioned above. Although the President's budget calls for a \$5 per barrel tax on oil consumption, the budget estimates are based on a \$7 per barrel tax. CBO therefore estimates that the actual contingency tax plan would raise about \$9 billion less per year than reported in the budget, or \$27 billion less over the duration of the tax (1986-1988).

Other technical differences between CBO and Administration estimates are relatively small. These technical estimating differences are discussed in more detail in chapters of this volume on revenues, defense spending, and the domestic budget.

