

**BASELINE BUDGET PROJECTIONS
FOR FISCAL YEARS 1983-1987**

**The Congress of the United States
Congressional Budget Office**

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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 totals because of rounding.

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

PREFACE

The Congressional Budget Office 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 Prospects for Economic Recovery, Baseline Budget Projections for Fiscal Years 1983-1987, and Reducing the Federal Deficit: Strategies and Options.

Part II, Baseline Budget Projections for Fiscal Years 1983-1987, 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 1983 to 1987. 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 and Rosemary D. Marcuss. Robert L. Faherty and Francis S. Pierce edited the manuscript, and Paula Spitzig prepared the report for publication.

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Director

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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	14
Social Security Projections	17
Budget Resolution Targets	19
CHAPTER III. BASELINE REVENUE PROJECTIONS	23
The Economic Recovery Tax Act of 1981	24
Implications of the Tax Act	28
Changes in Revenue Projections Under Different Economic Assumptions	33
Revisions in Projected Revenues Since the Budget Resolution	34
CHAPTER IV. BASELINE SPENDING PROJECTIONS	39
Spending Projections for Major Program Categories	39
Sensitivity of Spending Projections to Economic Assumptions	50
Relation of Projections to Budget Resolution Targets	53

CONTENTS (Continued)

	<u>Page</u>
APPENDIX A. BASELINE SPENDING PROJECTIONS BY MAJOR FUNCTIONAL CATEGORY	57
APPENDIX B. BASELINE SPENDING PROJECTIONS BY COMMITTEE JURISDICTION	63
APPENDIX C. FEDERAL RECEIPTS AND EXPENDITURES IN THE NATIONAL INCOME ACCOUNTS	75
APPENDIX D. BASELINE SPENDING CONCEPTS AND ASSUMPTIONS	79
Overview of Baseline Spending Concepts	79
National Defense	81
International Affairs	89
General Science, Space, and Technology	91
Energy	91
Natural Resources and Environment	92
Agriculture	93
Commerce and Housing Credit	94
Transportation	97
Community and Regional Development Education, Training, Employment, and Social Services	98
Health	99
Income Security	100
Veterans' Benefits and Services	100
Administration of Justice	101
General Government	102
General Purpose Fiscal Assistance	102
Interest	102
Allowances	103
Undistributed Offsetting Receipts	104

TABLES

	<u>Page</u>
TABLE 1. BASELINE ECONOMIC ASSUMPTIONS	6
TABLE 2. BASELINE BUDGET PROJECTIONS	9
TABLE 3. EFFECT ON BASELINE OUTLAYS AND DEFICITS OF ALTERNATIVE DEFENSE APPROPRIATION ASSUMPTIONS	12
TABLE 4. EFFECT ON BASELINE OUTLAYS AND DEFICITS OF NO DISCRETIONARY INFLATION ADJUSTMENTS	14
TABLE 5. ALTERNATIVE ECONOMIC ASSUMPTIONS	15
TABLE 6. BASELINE BUDGET PROJECTIONS UNDER ALTERNATIVE ECONOMIC ASSUMPTIONS	16
TABLE 7. PROJECTIONS OF SOCIAL SECURITY TRUST FUND OUTLAYS, INCOMES, AND BALANCES UNDER ALTERNATIVE ECONOMIC ASSUMPTIONS	18
TABLE 8. COMPARISON OF BASELINE BUDGET PRO- JECTIONS AND FISCAL YEAR 1982 BUDGET RESOLUTION TARGETS	19
TABLE 9. COMPARISON OF ECONOMIC ASSUMPTIONS UNDER- LYING BASELINE BUDGET PROJECTIONS AND FISCAL YEAR 1982 BUDGET RESOLUTIONS	20
TABLE 10. BASELINE REVENUE PROJECTIONS BY SOURCE	24
TABLE 11. REVENUE EFFECTS OF ECONOMIC RECOVERY TAX ACT	25
TABLE 12. REVENUE REDUCTIONS UNDER THE 1981 TAX ACT COMPARED WITH INFLATION OFFSETS	32
TABLE 13. BASELINE REVENUE PROJECTIONS UNDER ALTERNATIVE ECONOMIC ASSUMPTIONS	35
TABLE 14. BASELINE REVENUE PROJECTIONS AS SHARES OF GNP UNDER ALTERNATIVE ECONOMIC ASSUMPTIONS	36
TABLE 15. COMPARISON OF BASELINE REVENUES AND FISCAL YEAR 1982 BUDGET RESOLUTION TARGETS	37

TABLES (Continued)

	<u>Page</u>
TABLE 16. BASELINE OUTLAY PROJECTIONS FOR MAJOR PROGRAM CATEGORIES	40
TABLE 17. DEFENSE SPENDING PROJECTIONS UNDER ALTERNATIVE PROGRAM ASSUMPTIONS	43
TABLE 18. BASELINE OUTLAY PROJECTIONS FOR BENEFIT PAYMENTS FOR INDIVIDUALS	45
TABLE 19. BASELINE OUTLAY PROJECTIONS FOR GRANTS TO STATE AND LOCAL GOVERNMENTS	46
TABLE 20. NET INTEREST OUTLAY PROJECTIONS UNDER ALTERNATIVE DEFICIT ASSUMPTIONS	48
TABLE 21. BASELINE OUTLAY PROJECTIONS FOR OTHER FEDERAL OPERATIONS	49
TABLE 22. BASELINE OUTLAY PROJECTIONS FOR OFF-BUDGET FEDERAL ENTITIES	50
TABLE 23. EFFECT ON BASELINE OUTLAY PROJECTIONS OF ALTERNATIVE ECONOMIC ASSUMPTIONS	51
TABLE 24. COMPARISON OF BASELINE OUTLAY PROJECTIONS AND FISCAL YEAR 1982 BUDGET RESOLUTION TARGETS	54

APPENDIX TABLES

	<u>Page</u>
TABLE A-1. BASELINE BUDGET AUTHORITY PROJECTIONS BY FUNCTION	59
TABLE A-2. BASELINE OUTLAY PROJECTIONS BY FUNCTION .	60
TABLE A-3. BASELINE BUDGET AUTHORITY PROJECTIONS, WITHOUT DISCRETIONARY INFLATION, BY FUNCTION	61
TABLE A-4. BASELINE OUTLAY PROJECTIONS, WITHOUT DISCRETIONARY INFLATION, BY FUNCTION . .	62
TABLE B-1. BASELINE BUDGET PROJECTIONS BY HOUSE COMMITTEES WITH SPENDING JURISDICTION	67
TABLE B-2. BASELINE BUDGET PROJECTIONS BY SENATE COMMITTEES WITH SPENDING JURISDICTION	68
TABLE B-3. BASELINE BUDGET PROJECTIONS BY HOUSE COMMITTEES WITH AUTHORIZING JURISDICTION	69
TABLE B-4. BASELINE BUDGET PROJECTIONS BY SENATE COMMITTEES WITH AUTHORIZING JURISDICTION	73
TABLE C-1. PROJECTIONS OF BASELINE REVENUES AND OUTLAYS ON A NATIONAL INCOME ACCOUNTS BASIS	77
TABLE D-1. BASELINE PROJECTIONS FOR NATIONAL DEFENSE .	82
TABLE D-2. CURRENT-DOLLAR DEFENSE BASELINE BY DEFENSE PLANNING AND PROGRAMMING CATEGORY	83
TABLE D-3. CONSTANT-DOLLAR DEFENSE BASELINE BY DEFENSE PLANNING AND PROGRAMMING CATEGORY	84
TABLE D-4. ACTIVE MILITARY AND CIVILIAN PERSONNEL IN THE DEFENSE BASELINE	85

APPENDIX TABLES (Continued)

	<u>Page</u>
TABLE D-5. MAJOR ACTIVE FORCE LEVELS USED IN THE DEFENSE BASELINE	86
TABLE D-6. MAJOR INVESTMENT PROGRAMS CONTAINED IN THE NATIONAL DEFENSE BASELINE PROJECTIONS	87
TABLE D-7. ASSUMPTIONS USED FOR CCC PRICE SUPPORT OUTLAY ESTIMATES	95

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 DEFICIT UNDER ALTERNATIVE DEFENSE APPROPRIATION ASSUMPTIONS . . .	13
FIGURE 4. REVENUE SOURCES AS PERCENTAGES OF GNP	30
FIGURE 5. INDIVIDUAL INCOME TAXES AS A PERCENTAGE OF TAXABLE PERSONAL INCOME	32
FIGURE 6. THE COMPOSITION OF FEDERAL SPENDING . . .	41



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, it is useful to have a baseline or benchmark that represents what might happen to the budget if no changes in current laws or policies were made. This report provides such a baseline for assessing the possible budgetary effects of changes in taxes or spending.

Baseline budget projections are not a forecast of future budget outcomes. Those outcomes will be influenced to a great extent by new policy decisions that will be made during the next year. They will also be affected by how well the economy performs, by international events, and by many other factors that influence the levels of federal revenues and spending.

In previous reports, baseline projections always showed revenues growing more rapidly than budget outlays. As a consequence, baseline budgets began to show a surplus within two or three years. The baseline projections presented in this report for fiscal years 1983 to 1987 have an entirely different set of characteristics. As a result of the Economic Recovery Tax Act of 1981, the growth in federal revenues will be sharply reduced from rates experienced over the past decade. Under the economic and spending assumptions used for this report, baseline outlays grow at a faster rate than revenues (by about two percentage points a year on average). Consequently, the baseline projections show large and growing budget deficits for the next five years.

ECONOMIC ASSUMPTIONS

Since economic conditions have major effects on federal budget revenues and outlays, budget projections must be based on explicit assumptions about economic trends over the next several years. The baseline budget projections are based on the Congressional Budget Office (CBO) economic forecasts for calendar years 1982 and 1983, and longer-run economic assumptions for 1984-1987.

The CBO baseline economic forecast shows an early end to the current recession and an acceleration of economic growth following the July tax cut. The unemployment rate is expected to be at very high levels in the

near term and to decline only gradually during the recovery. The rate of inflation is expected to continue its decline, but interest rates are projected to bottom out during the first half of this year and to rise during the first year of the recovery.

There is considerable uncertainty about the strength of the projected recovery, as discussed in the companion volume to this report, The Prospects for Economic Recovery. The economic assumptions for 1984 and beyond are subject to even more uncertainty than the short-run forecast. They are not forecasts of probable economic conditions; instead, they are extrapolations of the near-term forecast that point to moderate noncyclical growth with sustained progress in reducing inflation and unemployment. It is uncertain whether the economic progress assumed in these projections can be attained with the prospective trend of money growth and without the enactment of further spending cuts or tax increases to reduce the deficit below projected baseline levels.

In addition to the baseline forecast and longer-run assumptions, CBO has prepared two alternative sets of economic assumptions. One is a more optimistic set based on lower inflation and a strong rebound in productivity growth. The other is a more pessimistic set, which illustrates the potential risks that the economy faces. It assumes higher inflation and lower productivity growth than is in the baseline assumptions. The major features of all three sets of assumptions are shown in Summary Table 1.

BUDGET PROJECTIONS

Baseline revenue projections assume no change in current tax laws, except that highway trust fund taxes are assumed to be extended beyond their scheduled expiration dates at current rates. Under the CBO baseline economic assumptions, revenues are projected to rise from an estimated \$631 billion in fiscal year 1982 to \$882 billion in 1987. This represents an average growth of 6.9 percent a year, compared with an assumed average growth in nominal GNP of about 10 percent a year for the projection period. As a consequence, revenues as a proportion of GNP are projected to decline from 20.6 percent in 1982 to 17.7 percent in 1987--the smallest ratio since 1965. The decline is relatively rapid during 1982-1984, when staged reductions in individual and corporation income taxes take place. The decline slows thereafter, when personal income tax brackets become tied to the Consumer Price Index in order to prevent effective tax rates from rising with inflation.

Under current tax laws, the greatest growth in revenues will occur in social insurance taxes and contributions. These are projected to rise from an estimated \$209 billion in 1982 to \$339 billion in 1987 under CBO baseline

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

	1982	1983	1984	1985	1986	1987
Gross National Product (GNP)						
Current dollars (percent change, year to year)						
Optimistic alternative	7.7	13.0	11.5	10.7	9.6	9.1
CBO baseline projection	7.5	11.9	10.4	9.7	9.4	9.1
Pessimistic alternative	7.3	11.1	9.8	9.2	8.9	8.5
Constant (1972) dollars (percent change, year to year)						
Optimistic alternative	0.2	5.8	5.1	5.0	4.4	4.0
CBO baseline projection	-0.1	4.4	3.6	3.5	3.5	3.5
Pessimistic alternative	-0.3	3.0	2.1	2.0	2.0	2.0
Prices						
GNP deflator (percent change, year to year)						
Optimistic alternative	7.4	6.8	6.0	5.4	5.0	4.9
CBO baseline projection	7.5	7.3	6.6	6.0	5.7	5.4
Pessimistic alternative	7.6	7.9	7.5	7.1	6.7	6.4
Consumer Price Index (percent change, year to year)						
Optimistic alternative	7.5	6.4	6.2	5.7	5.3	5.2
CBO baseline projection	7.5	6.9	6.9	6.4	6.0	5.7
Pessimistic alternative	7.6	7.6	8.0	7.6	7.2	6.9
Unemployment Rate (percent, annual average)						
Optimistic alternative	8.9	7.6	6.6	6.0	5.6	5.6
CBO baseline projection	8.9	8.0	7.4	7.2	6.9	6.7
Pessimistic alternative	8.9	8.5	8.4	8.5	8.5	8.5
Interest Rate (91-day Treasury bills, percent, annual average)						
Optimistic alternative	11.5	10.7	9.4	8.3	7.6	7.4
CBO baseline projection	12.0	13.2	11.3	9.4	8.7	8.1
Pessimistic alternative	13.0	14.3	12.7	10.8	10.1	9.4

economic assumptions--a 62 percent increase. The share of total revenues raised from this source will increase from 33 percent in 1982 to 38 percent by 1987. Individual income taxes are projected to increase by only 32 percent during the next five years, rising from \$300 billion in 1982 to \$396 billion in 1987. The share of total revenues raised from individual income taxes would decline from 47.5 percent to 45 percent. Corporate income taxes under current laws and CBO's baseline economic assumptions are projected to increase by 46 percent, from \$50 billion in 1982 to \$73 billion in 1987, and to maintain its 8 percent relative share of total revenues. Revenues raised from excise taxes and other sources are projected to remain at about the same level during the projection period. As a result, their relative share of total revenues would fall from 11 percent in 1982 to 8 percent in 1987.

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 1982 appropriation levels will be maintained, with future increases to keep pace with inflation. In some cases, such as defense programs, the projections are based on explicit programmatic assumptions that can be associated with specific Congressional decisions.

Under the CBO baseline assumptions, federal outlays are projected to grow at a faster pace than revenues. As shown in Summary Table 2, baseline outlays are projected to increase from an estimated level of \$740 billion in 1982 to \$1.1 trillion by 1987. This represents an annual average growth in outlays of 8.9 percent during the projection period, only slightly less than the assumed growth in GNP. Consequently, outlays would decline only slightly as a share of GNP--from 24.2 percent in 1982 to 22.7 percent in 1987--about the same level as for 1975-1980.

The largest component of the projected \$390 billion growth in outlays under baseline assumptions is benefit payments for individuals. These payments are for retired and disabled workers and their dependents, unemployed workers, veterans, and low-income families and individuals. They include both cash payments and the provision of services such as health care. These payments are projected to grow by \$182 billion during the next five years under current laws and policies, largely as a result of projected inflation. Most of these payments are adjusted automatically each year for increases in the cost of living as measured by the Consumer Price Index. Benefit payments are also projected to increase because of growth in the

SUMMARY TABLE 2. BASELINE BUDGET PROJECTIONS (By fiscal year)

	1982 Base	Projections				
		1983	1984	1985	1986	1987
In Billions of Dollars						
Baseline Revenues	631	652	701	763	818	882
Baseline Outlays	740	809	889	971	1,052	1,130
Baseline Deficit	109	157	188	208	234	248

As a Percent of GNP						
Baseline Revenues	20.6	19.0	18.5	18.3	18.0	17.7
Baseline Outlays	24.2	23.6	23.5	23.3	23.1	22.7
Baseline Deficit	3.6	4.6	5.0	5.0	5.1	5.0

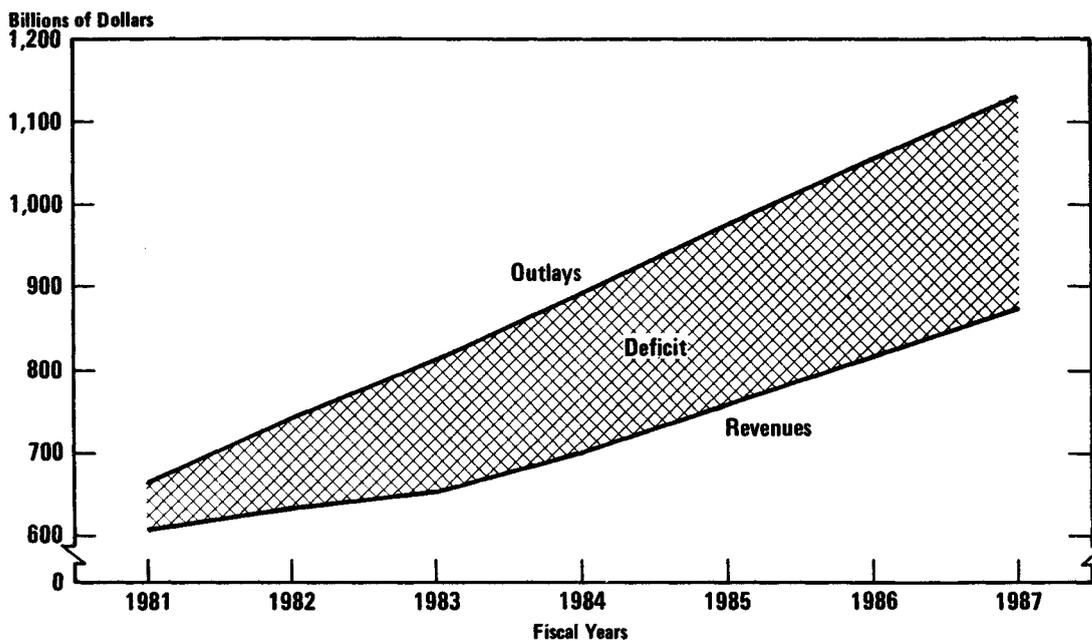
number of beneficiaries together with such factors as rising costs in providing health care services and a rising wage base that leads to higher retirement benefit entitlements for new recipients. Under the CBO baseline assumptions, the growth rate for benefit payments would be about the same as for total outlays, so that their share of the total budget would remain level at 47 percent during the projection period.

The second largest outlay component in the budget is national defense. Under CBO baseline assumptions, national defense outlays would grow by \$113 billion between 1982 and 1987. This represents an average annual growth of 9.8 percent, which exceeds the projected rate of inflation by about 3 1/2 percentage points. The budget resolutions for 1982, however, assumed that defense appropriations would grow at even a faster rate in real terms--by 6.2 percent in 1983 and by 7.0 percent in 1984. If these growth rates in defense appropriations were assumed, and the 7.0 percent real growth rate were continued through 1987, projected outlays for national defense would increase by another \$70 billion by the end of the projection period. Conversely, if no real growth in defense appropriations were assumed, national defense outlays would be \$14 billion lower in 1987 than projected under CBO's baseline assumptions.

Net interest outlays, which represent for the most part interest paid on that portion of the federal debt held by the public, have been the fastest growing category of federal spending during the last five years. They now account for 11 percent of total outlays. Under baseline assumptions, net interest outlays would increase by \$83 billion by 1987 and would make up 15 percent of the budget. The remaining categories of federal spending would increase only slightly under baseline assumptions--by \$13 billion between 1982 and 1987. The share of the budget allocated to these programs would decline from 16 percent in 1982 to 11 percent in 1987.

As depicted in the summary figure, the budget deficit under baseline assumptions would more than double during the next five years. The unified budget deficit for 1982 is estimated at \$109 billion, and is projected to rise to \$248 billion by 1987. Relative to GNP, the budget deficit would grow from 2.0 percent in 1981 to 5.0 percent by 1984 and remain at that level through 1987.

Summary Figure.
Baseline Projections



The projected baseline deficits would be even larger if the spending of off-budget federal entities is included. Under the CBO baseline assumptions, off-budget outlays are projected to decline from an estimated

\$20 billion in 1982 to \$18 billion in 1984 and 1985, but increase thereafter to \$22 billion in 1987.

Under alternative economic assumptions, the outlook for the budget deficit is equally grim, as shown in Summary Table 3. Even with more optimistic economic assumptions, the baseline budget deficit rises to \$150 billion by 1984 and remains at this level for the next three years. Under more pessimistic economic assumptions, the baseline budget deficit would grow sharply throughout the projection period and exceed \$300 billion by 1986.

SUMMARY TABLE 3. BASELINE BUDGET PROJECTIONS UNDER ALTERNATIVE ECONOMIC ASSUMPTIONS (By fiscal year, in billions of dollars)

	1983	1984	1985	1986	1987
Baseline Revenues					
Optimistic alternative	658	713	786	849	921
CBO baseline projection	652	701	763	818	882
Pessimistic alternative	650	695	752	799	852
Baseline Outlays					
Optimistic alternative	800	863	932	1,001	1,067
CBO baseline projection	809	889	971	1,052	1,130
Pessimistic alternative	819	912	1,011	1,115	1,219
Baseline Deficit					
Optimistic alternative	142	150	146	152	146
CBO baseline projection	157	188	208	234	248
Pessimistic alternative	169	217	259	316	367

BUDGET RESOLUTION TARGETS

The 1982 budget resolutions adopted by the Congress assumed a much different budgetary outcome than that presented in the baseline projections. The target deficit for 1982 was \$38 billion and a balanced budget was planned for 1984. In contrast, the baseline projections show a \$109 billion deficit for 1982 and a deficit for 1984 of \$188 billion.

The high deficits in the baseline projections are the result of lower revenues and higher outlays than projected for the 1982 budget resolutions. The projected shortfall in revenues amounts to \$27 billion in 1982 and rises to \$74 billion by 1984. These shortfalls can be attributed almost entirely to changes in the economic outlook since the adoption of the first budget resolution over eight months ago. The first resolution did not anticipate the current recession, and assumed faster economic growth than contained in the baseline forecast and longer-term assumptions.

Estimated outlays in 1982 are \$45 billion higher than assumed for the budget resolutions. Most of the estimated increase can be attributed to changes in economic conditions and in other factors outside the control of the Congress. Unemployment and interest rates are now expected to be higher than assumed for the 1982 resolutions. Also, the costs of providing health care services have been rising faster than anticipated, and outlays for farm price supports are up sharply. The bulk of the higher outlays projected for 1983 and 1984 can be attributed to higher interest costs as a result of higher interest rates and a larger federal debt, and to the exclusion from the baseline assumptions of unspecified legislative savings assumed for these years in the 1982 budget resolutions.

CHAPTER I. INTRODUCTION

This report presents projections made by the Congressional Budget Office (CBO) of federal revenues, budget authority, and outlays for fiscal years 1983 through 1987. The projections take as their starting point taxing and spending policies for fiscal year 1982, as in effect at the end of the first session of the 97th Congress, and show what would happen if those policies were to continue unchanged for the following five fiscal years. The projections therefore do not represent a forecast of future federal budgets, since those budgets will doubtless include numerous policy changes. They are, however, a baseline or benchmark against which proposed changes in taxes or spending may be measured and assessed.

Sometimes it is hard to determine what constitutes current government spending policies and how they should be projected into the future. Always it is difficult to predict the path of the economy and how it will affect the budget. Various assumptions can be made, and for each possible set of assumptions there will be a different baseline. Assumptions about the nature of current policies and the future of the economy must nevertheless be made if any realistic budget planning is to be done. The report clearly identifies the crucial assumptions and indicates, where appropriate, how an alternative choice would have affected the results.

THE BASELINE CONCEPT

Baseline budget projections are designed to show what would happen to federal government revenues, budget authority, outlays, and the deficit if current taxing and spending policies were to be continued into the future. This is not equivalent to assuming that there will be no new Congressional action. Without new legislation, spending programs requiring annual appropriation would quickly wither away because of the lack of funds; many other programs would disappear in later years as their authorizing legislation expired. The baseline projections assume that the Congress will take action as needed to continue the policies embodied in current legislation, including the maintenance of real resource levels in the face of inflation.

The baseline revenue figures in this report are, for the most part, a projection of federal tax laws existing at the end of calendar year 1981. These tax laws are assumed to continue unchanged, and future tax changes called for under current law are generally assumed to occur as scheduled. The only exception to this rule is that the highway trust fund taxes are

assumed to be continued beyond their currently scheduled expiration dates, as they have been continued in the past.

The baseline concept for spending is more complex than that for revenues. Federal spending can be divided essentially into two categories. A large part of federal spending is mandated by existing law. This includes spending for Social Security benefits and other entitlement programs, for permanent appropriations such as interest on the public debt, and for most trust funds and other special funds. The baseline spending projections for these programs are comparable to the baseline revenue projections. It is assumed that existing law at the close of the first session of the 97th Congress will continue unchanged, and that future spending will respond to assumed economic and population changes in the same way that it has responded to such changes in the past.

The remainder of the federal spending budget is subject to annual review through the appropriation process. The baseline projections for these programs are generally based on fiscal year 1982 appropriation funding levels as enacted by the Congress through December 1981, with future increases to keep pace with inflation. In some cases, such as defense programs, the baseline projections also include explicit programmatic assumptions that can be associated with specific Congressional decisions.

Details on the baseline spending assumptions are provided in Appendix D.

THE USE OF BASELINE PROJECTIONS

The primary purpose of the CBO budget projections is to provide a neutral baseline against which the Congress can consider potential changes during its deliberations on the annual budget resolutions. A longer-term framework is helpful in making annual budget choices because these decisions frequently have little impact on the budget in the short run but can significantly influence relative budget priorities over a period of several years.

The Senate Budget Committee uses CBO budget projections, sometimes based on alternative economic assumptions, as a starting point for formulating its recommendations for the first budget resolution. The committee makes explicit decisions about how spending and revenues should be altered in the future to meet fiscal policy goals and national needs. The House Budget Committee also uses CBO budget projections to show the outyear effects of its recommendations for the first budget resolution.