

**AN ANALYSIS OF
THE PRESIDENT'S BUDGETARY PROPOSALS
FOR FISCAL YEAR 1983**

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

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.

ERRATA Sheet

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- Page xxv: In Summary Table 7, the 1982 estimate for the debt subject to limit should be \$1,143.0 billion (not \$1,430.0 billion).
- Page 74: The last line on this page is missing. It should read: "support basic research in all science and engineering disciplines. For fiscal"
- Page 77: In the last sentence of the third paragraph, the Administration's estimate of commercial sales should be \$2.0 billion (not \$2.1 billion).
- Page 86: The third stub up from the bottom in the table should read "Free Stock" (not Tree Stock).
- Page 110: The last sentence of the fourth paragraph should read: "This would increase projected program costs in 1984 and 1985 by \$279 million and \$364 million."
- Page 133: In the table for Function 750: Administration of Justice, the 1984 figure for the President's budget reestimated should be \$4,571 million (not \$4,600 million).
- Page 141: The last two sentences in the final paragraph should read: "The deficits resulting from the CBO reestimates (excluding the induced interest costs) exceed the Administration's estimates by about \$12.5 billion in 1982, \$26.1 billion in 1983, \$38.1 billion in 1984, and \$54.3 billion in 1985 (excluding off-budget reestimates). The interest outlays resulting from these higher levels of deficit financing rise from about \$0.7 billion in 1982 to about \$14.5 billion in 1985, as shown in the table at the start of this function."

PREFACE

This analysis was prepared at the request of the Senate Committee on Appropriations to provide Members an overview of the President's budgetary proposals for fiscal year 1983. The report describes the problem of chronic budget deficits faced by the federal government under existing tax laws and current spending programs and the Administration's proposals for dealing with this problem. It discusses the economic outlook and the assumptions used for the February budget.

This report also presents the Congressional Budget Office's reestimates of the budgetary impact of the Administration's proposals based on alternative economic assumptions and on CBO's technical estimating methods and programmatic assumptions. Finally, the report analyzes in some detail the major budget increases proposed for national defense programs.

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. Robert L. Faherty, Patricia H. Johnston, Francis S. Pierce, and Johanna Zacharias edited the manuscript. It was typed for publication by Barbara Bakari, Gwen Coleman, Dorleen Dove, Susie Fominaya, Betty Jarrells, Thelma L. Jones, Brice McDaniel, Paula Spitzig, and Nancy Wenzel.

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Director

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CONTENTS

	<u>Page</u>
PREFACE	iii
SUMMARY	xiii
CHAPTER I. THE ADMINISTRATION'S PROPOSALS	1
The Budget Outlook Under Current Policies	1
The Administration's Budget Proposals	5
The Credit Budget	29
CHAPTER II. THE ADMINISTRATION'S ECONOMIC ASSUMPTIONS	33
Economic Developments in 1981	33
Comparison of Administration and CBO Forecasts for 1982 and 1983	34
The Prospects for Growth Through 1987	37
Conclusion	41
CHAPTER III. CBO REVENUE REESTIMATES	43
Differences in Economic Assumptions.	44
Technical Estimating Differences	48
CHAPTER IV. CBO OUTLAY REESTIMATES	55
Differences in Economic Assumptions.	57
Technical Estimating Differences	62
Unevaluated Administration Savings Estimates	64
Outlay Reestimates by Major Function	65

CONTENTS (CONTINUED)

	<u>Page</u>
CHAPTER V.	
THE ADMINISTRATION'S DEFENSE BUDGET	157
Defense Budget Growth in Perspective	158
Growth in Forces, Major Purchases, and Development	160
Risks of Underpricing.	169
Potential Reductions	173
APPENDIX.	
MAJOR CONTRIBUTORS TO THE PREPARATION OF THIS REPORT	181

TABLES

	<u>Page</u>
TABLE 1. THE BUDGET OUTLOOK UNDER CURRENT POLICIES	3
TABLE 2. ESTIMATED REVENUE LOSSES RESULTING FROM THE ECONOMIC RECOVERY TAX ACT OF 1981	4
TABLE 3. THE ADMINISTRATION'S PROPOSED DEFICIT REDUCTIONS MEASURES	6
TABLE 4. THE ADMINISTRATION'S REVENUE INCREASE PROPOSALS	8
TABLE 5. COMPOSITION OF REVENUES	10
TABLE 6. COMPOSITION OF OUTLAYS	13
TABLE 7. OUTLAYS FOR BENEFIT PAYMENTS FOR INDIVIDUALS	17
TABLE 8. PROPOSED REDUCTIONS IN BENEFIT PAYMENTS FOR INDIVIDUALS	18
TABLE 9. OUTLAYS FOR DIRECT GRANTS TO STATE AND LOCAL GOVERNMENTS	20
TABLE 10. OUTLAYS FOR OTHER FEDERAL OPERATIONS	22
TABLE 11. GROSS OUTLAYS FOR OTHER FEDERAL OPERATIONS	23
TABLE 12. OUTLAYS OF OFF-BUDGET FEDERAL ENTITIES	24
TABLE 13. NET OUTLAYS OF THE FEDERAL FINANCING BANK	26
TABLE 14. ESTIMATES OF DEBT SUBJECT TO STATUTORY LIMIT	28
TABLE 15. TOTAL CREDIT BUDGET	30
TABLE 16. CHANGES IN THE 1983 CREDIT BUDGET TOTALS	31
TABLE 17. COMPARISON OF ADMINISTRATION AND CBO FORECASTS	34
TABLE 18. COMPARISON OF ADMINISTRATION AND CBO LONG-RUN ECONOMIC ASSUMPTIONS	38

TABLES (Continued)

	<u>Page</u>
TABLE 19. CBO REESTIMATES OF ADMINISTRATION BUDGET REVENUES	44
TABLE 20. ADMINISTRATION BUDGET REVENUES AND CBO REESTIMATES, BY SOURCE	45
TABLE 21. CBO REVENUE REESTIMATES, BY SOURCE, BASED ON CBO TECHNICAL ESTIMATING DIFFERENCES	50
TABLE 22. REVENUE REESTIMATES BASED ON THE EFFECTS OF ECONOMIC RECOVERY TAX ACT	51
TABLE 23. CBO REESTIMATES OF THE ADMINISTRATION'S SPENDING PROPOSALS	57
TABLE 24. OUTLAY REESTIMATES BASED ON CBO'S BASELINE ECONOMIC ASSUMPTIONS	60
TABLE 25. OUTLAY REESTIMATES BASED ON CBO'S PESSIMISTIC ECONOMIC ASSUMPTIONS	61
TABLE 26. CBO TECHNICAL OUTLAY REESTIMATES	62
TABLE 27. UNEVALUATED ADMINISTRATION SAVINGS ESTIMATES	65
TABLE 28. THE ADMINISTRATION'S DEFENSE BUDGET	159
TABLE 29. SUMMARY OF MAJOR FORCES, MANPOWER, AND PROCUREMENT LEVELS	162
TABLE 30. ADMINISTRATION'S NAVY SHIPBUILDING PROGRAM FOR 1983-1987	163
TABLE 31. COMPARISON OF CARTER AND REAGAN ADMINISTRATION AIRCRAFT ACQUISITION PLANS, BY SERVICE	164
TABLE 32. COMPARISON OF CARTER AND REAGAN ADMINISTRATION PLANS TO ACQUIRE STRATEGIC AND THEATER NUCLEAR MISSILES, BY SERVICE	166

TABLES (Continued)

	<u>Page</u>
TABLE 33. COMPARISON OF CARTER AND REAGAN ADMINISTRATION PLANS TO ACQUIRE TACTICAL MISSILES	167
TABLE 34. COMPARISON OF CARTER AND REAGAN ADMINISTRATION PLANS TO ACQUIRE ARMORED COMBAT VEHICLES	168
TABLE 35. PROPOSED FUNDING AND PERCENT OF REAL GROWTH FOR READINESS ITEMS, BY SERVICE	169
TABLE 36. COMPARISON OF CBO AND ADMINISTRATION INFLATION ASSUMPTIONS FOR DEFENSE PURCHASES	170
TABLE 37. MAJOR WEAPONS SYSTEMS COST GROWTH PER UNIT	171
TABLE 38. MAJOR WEAPONS SYSTEMS COST GROWTH IN THE 1983 PROGRAM	172
TABLE 39. COMPARISON OF THE PRESIDENT'S DEFENSE BUDGET WITH ALTERNATIVE BUDGET PROJECTIONS	176

FIGURES

	<u>Page</u>
FIGURE 1. CBO BASELINE BUDGET PROJECTIONS	2
FIGURE 2. FEDERAL BUDGET DEFICIT AS A PERCENTAGE OF GNP	5
FIGURE 3. MAJOR SOURCES OF FEDERAL REVENUES	12
FIGURE 4. PROPOSED CHANGE IN OUTLAYS BETWEEN 1982 AND 1985	14
FIGURE 5. THE COMPOSITION OF FEDERAL SPENDING	15
FIGURE 6. FEDERAL DEBT	27
FIGURE 7. COMPONENTS OF NET FEDERAL CREDIT	32
FIGURE 8. COMPARISON OF MAJOR ECONOMIC ASSUMPTIONS	39
FIGURE 9. PERCENT CHANGE IN THE VELOCITY OF MIB FROM TWO YEARS EARLIER	42
FIGURE 10. CBO OUTLAY REESTIMATES	55
FIGURE 11. BUDGET AUTHORITY FOR THE DEPARTMENT OF DEFENSE	160
FIGURE 12. NATIONAL DEFENSE OUTLAYS AS A PERCENTAGE OF TOTAL OUTLAYS AND OF GNP	161
FIGURE 13. PERCENTAGE OF DEFENSE OUTLAYS RESULTING FROM CURRENT AND PRIOR YEAR BUDGET AUTHORITY	175

SUMMARY

The budget deficit for fiscal year 1982 is now expected to exceed \$100 billion. The sharp rise from previously estimated levels can be attributed largely to the current economic recession, which was not anticipated in last year's budget estimates by either the Administration or the Congress. The economy is expected to recover during 1982 and to move upward thereafter. But budget deficits are projected to increase steadily for the foreseeable future, even after economic recovery, unless existing tax and spending policies change.

The President's 1983 budget contains proposals--mostly affecting spending policies--to reduce projected deficits during the next three years by \$239 billion. According to Administration estimates, adoption of these proposals would result in only marginal reductions in the budget deficit from the record high level of 1982. The Administration anticipates deficits of \$92 billion in 1983, \$83 billion in 1984, and \$72 billion in 1985, all substantially above the 1981 level of \$58 billion.

The Congressional Budget Office (CBO) has analyzed the President's budgetary proposals and finds that revenues are likely to be slightly lower than projected by the Administration and outlays significantly higher. Hence, even if the President's proposals are adopted, CBO estimates that the budget deficit will climb steadily from an estimated \$111 billion in 1982 to \$121 billion in 1983, \$129 billion in 1984, and \$140 billion in 1985. Furthermore, there is the possibility that the budget deficits could be even larger, if tight credit conditions produce a weaker economy than assumed by either the Administration or CBO.

THE BUDGET OUTLOOK UNDER CURRENT POLICIES

Under existing law, the future growth in federal revenues will be sharply reduced from rates experienced over the past decade as a result of the tax cuts contained in the Economic Recovery Tax Act of 1981. Without further cuts in spending, budget outlays will grow at a faster rate than revenues. Consequently, without steps to raise revenues or to lower the growth in spending, the budget deficit will continue to grow.

This budget outlook is portrayed clearly by both the CBO baseline budget projections and the Administration's projection of current services

(which includes the Administration's defense spending proposals). These projections are shown in Summary Table 1.

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

	1981 Actual	1982 Estimate	Projections		
			1983	1984	1985
CBO Baseline Projections					
Revenues	602	631	652	701	763
Outlays	660	740	809	889	971
Deficit	58	109	157	188	208
Administration Current Services Baseline with Proposed Defense Spending Growth <u>a/</u>					
Revenues	599	626	653	704	778
Outlays	657	728	799	869	946
Deficit	58	101	146	165	168

a/ The President's 1983 budget has reclassified certain social insurance contributions as offsetting collections to spending, thereby reducing both revenues and outlays but leaving unchanged the deficit.

The budget deficit under baseline assumptions is projected by CBO as almost doubling between 1982 and 1985, from \$109 billion to \$208 billion. The Administration's projections also show a sharp rise in the budget deficit during this period, although not quite so much as CBO's, largely because of different economic assumptions. In the absence of tax increases or spending reductions, the CBO projections show the deficit rising to 5.0 percent of GNP in both 1984 and 1985; the Administration's show it rising to 4.3 percent of GNP in 1984 and 4.0 percent in 1985. The last time the budget deficit was this large relative to GNP was in 1976 when it was 4.0 percent as a result of the 1974 recession.

THE ADMINISTRATION'S BUDGETARY PROPOSALS

President Reagan's budget for fiscal year 1983 recommends outlays of \$757.6 billion, revenues of \$666.1 billion, and a unified budget deficit of \$91.5 billion. The main features of the President's 1983 budget include:

- o No change in the scheduled individual income tax cuts enacted in 1981, but some significant increases in corporate taxes;
- o Rapid real growth in defense spending;
- o Further reforms in entitlement programs, but no reductions in Social Security benefits;
- o Additional cuts in discretionary nondefense spending programs; and
- o Substantial savings from various management initiatives.

Total revenues under the Administration's proposals would increase by 27 percent from an estimated \$627 billion in 1982 to \$797 billion in 1985. Outlays would grow by only 20 percent, from an estimated \$725 billion in 1982 to \$869 billion in 1985. Net spending by off-budget entities--primarily the Federal Financing Bank and oil purchases for the strategic petroleum reserve--is projected to decline from an estimated \$20 billion in 1982 to \$11 billion by 1985. As shown in Summary Table 2, the total budget deficit--including off-budget entities--would decline by 30 percent from \$118 billion in 1982 to \$83 billion in 1985. Relative to GNP, however, the reduction in the total deficit would be larger--falling from 3.8 percent in 1982 to 2.0 percent in 1985. The federal debt subject to statutory limit is projected to grow from \$1.0 trillion at the end of fiscal year 1981 to \$1.5 trillion by the end of 1985.

The Administration's Budget Deficit Reduction Program

The Administration's proposals to reduce the size of the federal deficit from the levels indicated by current policies are concentrated largely on the spending side of the budget. As shown in Summary Table 3, almost 80 percent of the deficit reduction proposals over the next three years are calculated as reductions in outlays from the Administration's projected current services baseline. The biggest share of the outlay reductions--40 percent--would be accomplished largely through the appropriation process by holding back increases or cutting nondefense discretionary

programs. Another 29 percent of these outlay reductions are to be achieved through legislative proposals to reform entitlement programs, primarily Medicare, Medicaid, food stamps, and Aid to Families with Dependent Children (AFDC). No entitlement reforms for Social Security are proposed in the President's budget.

SUMMARY TABLE 2. THE ADMINISTRATION'S BUDGET ESTIMATES
(By fiscal year, in billions of dollars)

Budget Component	Actual 1981	Administration Estimates			
		1982	1983	1984	1985
Revenues	599.3	626.8	666.1	723.0	796.6
Outlays					
Unified budget	657.2	725.3	757.6	805.9	868.5
Off-budget entities	<u>21.0</u>	<u>19.7</u>	<u>15.7</u>	<u>14.3</u>	<u>11.0</u>
Total Outlays	678.2	745.0	773.3	820.2	879.4
Deficit (-)					
Unified budget	-57.9	-98.6	-91.5	-82.9	-71.9
Off-budget entities	<u>-21.0</u>	<u>-19.7</u>	<u>-15.7</u>	<u>-14.3</u>	<u>-11.0</u>
Total Deficit	-78.9	-118.3	-107.2	-97.2	-82.8
Debt Subject to Limit	998.8	1,130.0	1,254.3	1,368.7	1,482.0

An estimated 28 percent of outlay savings would be achieved through various management initiatives, such as accelerated leasing of Outer Continental Shelf (OCS) lands, the sale of surplus or underused federal property, improved debt collection procedures, and further restraint on increases in federal pay. Fully two-thirds of these management initiatives would reduce net outlays by increasing receipts that are recorded on the spending side of the budget. Finally, proposed increases in user fees that would be counted as offsetting receipts make up the remaining 3 percent of the proposed outlay savings.

Only a little more than 20 percent of the Administration's deficit reduction proposals involve revenue increases. About 75 percent of the increases during 1983-1985 would come in corporate income taxes, and would substantially offset the corporate tax reduction enacted in the Economic Recovery Tax Act (ERTA) for that period. No proposals are made in the February budget to delay or eliminate any of the scheduled rate reductions in individual income taxes that also were enacted in ERTA.

SUMMARY TABLE 3. THE ADMINISTRATION'S DEFICIT REDUCTION PROPOSALS (By fiscal year, in billions of dollars) a/

	1983	1984	1985	Total	Percent
Revenues					
Tax revisions	7.2	13.5	13.5	34.1	14.3
Increases in user fees	1.3	1.4	1.6	4.3	1.8
Improved tax collection and enforcement	5.5	5.5	4.7	15.7	6.5
Entitlement reform	-1.1	-1.0	-1.0	-3.1	-1.3
Subtotal	<u>12.8</u>	<u>19.4</u>	<u>18.8</u>	<u>51.0</u>	<u>21.3</u>
Outlays					
Entitlement savings	12.8	18.1	23.8	54.7	22.8
Management initiatives	14.8	18.5	19.2	52.5	22.0
Increases in user fees	1.2	2.1	2.2	5.5	2.3
Reductions in discretionary and other programs	14.2	26.1	35.3	75.6	31.6
Subtotal	<u>43.0</u>	<u>64.7</u>	<u>80.5</u>	<u>188.3</u>	<u>78.7</u>
Total Reductions <u>a/</u>	55.9	84.1	99.3	239.3	100.0

a/ Reductions are calculated by the Administration as changes from a projected current services baseline (see Summary Table 1).

Defense Spending Proposals

The President's February budget includes a 1982 program supplemental appropriation request of \$2.6 billion for the Defense Department, and

proposes a further increase of \$44 billion in national defense appropriations for 1983. The Administration's 1983 budget for national defense programs totals \$263 billion in new budget authority. Further large increases in defense appropriations are projected for 1984 and 1985. Measured in constant (fiscal year 1983) dollars, these projected increases for national defense appropriations for 1983-1985 would mean an average real growth of 9.2 percent per year using the Administration's economic assumptions.

Overall, the President's 1983 budget reflects relatively small funding increases for forces and manpower, and large increases to acquire new weapons for future force expansion and modernization. The most significant new policy proposal is the Administration's plan to increase the size of the naval fleet from 514 ships to over 600.

Restructuring of the Federal Budget

The President's budget proposals would dramatically affect the relative composition of federal spending. Outlays for national defense would increase by 56 percent in the next three years--from \$187.5 billion in 1982 to \$292 billion in 1985. The share of the budget allocated to national defense would rise sharply from 26 percent in 1982 to 34 percent in 1985. Direct federal payments to individuals, which include Social Security, Medicare, and federal employee retirement benefits, would increase by \$57 billion between 1982 and 1985--maintaining their relative share of the budget at about 42 percent. Net interest costs are also projected to rise during the next three years and would claim another 11 percent of total outlays in 1985, the same share as estimated for 1982.

All other federal spending would be reduced by 25 percent--about \$37 billion--between 1982 and 1985. As shown in Summary Table 4, payments for individuals made through state and local governments--which include Medicaid and AFDC--would be cut back in 1983 from 1982 levels and then allowed to grow slightly in 1984 and 1985. Outlays for other grants to states and localities would be reduced steadily from about \$50 billion in 1982 to \$41 billion in 1985. Net outlays for "all other federal programs" would have the sharpest cutback, falling by more than one-half, from an estimated \$54 billion in 1982 to \$25 billion in 1985. This decline, however, masks a projected 60 percent increase in offsetting receipts from the sale of OCS leases, surplus federal property, and other sources. Gross outlays for this sector would be cut back in 1983 by about 15 percent but then held approximately level in current dollars during 1984 and 1985.