

affect firms with geographically dispersed facilities, and steel, paper, and chemical industry users of pollution control bonds; limits on modified coinsurance would affect only the life insurance industry; requiring capitalization of construction period interest and taxes would affect primarily corporations that construct their own offices, stores, and warehouses; and the corporate minimum tax could have a significant effect on the oil and gas industry, exporters, mining companies, banks, and others, depending on its terms.

Some of these industries did comparatively well under ERTA, and some did not. While measurement of the relative corporate tax savings under ERTA is somewhat controversial, a just-published analysis suggests that the tax savings on construction machinery, general industrial equipment, and trucks, buses, and trailers are quite significant, while industrial and commercial buildings received less favorable treatment. <sup>1/</sup> In terms of particular industries, the analysis suggests that petroleum refining, transportation services, motor vehicles, mining, and pulp and paper did especially well, while agriculture, services and trade, and utilities did less well.

The Administration's budget also contains two proposals that would reduce revenues. The first would authorize the establishment of 75 enterprise zones over the three-year period from 1984 to 1986. Businesses locating in designated depressed areas would receive special tax incentives and relief from regulation, designed to increase investment and employment. This would reduce federal revenues by about \$0.5 billion, rising to over \$1 billion a year by 1987, assuming that no more than 75 zones were established. The second revenue-reducing item is the proposal to eliminate the federal railroad retirement system and replace it with a combination of Social Security and an industry-run pension plan. This would reduce federal receipts by \$1.7 billion in 1983 and \$1.9 billion in 1985, although federal outlays would be reduced by a slightly greater amount.

The Administration's revenue projections, in total and by major component, are shown in Table 5. Total budget receipts rise from \$626.8 billion in 1982 to \$796.6 billion in 1985--an increase of about 8.3 percent a year. Social insurance contributions rise more rapidly--about 9.8 percent a year--in part as a result of the Social Security tax rate increase scheduled for 1985. Individual income taxes, on the other hand, because of the scheduled tax rate cuts, grow by only 6.6 percent a year. Corporate income tax payments fall sharply in 1982, because of the recession, but grow rapidly during the next two years, as the economy recovers.

---

<sup>1/</sup> Council of Economic Advisers, Economic Report of the President (February 1982), pp. 122-25.

TABLE 5. COMPOSITION OF REVENUES (By fiscal year)

|   | Actual<br>1981 | Administration Estimates |             |             |             |
|---|----------------|--------------------------|-------------|-------------|-------------|
|   |                | 1982                     | 1983        | 1984        | 1985        |
| In Billions of Dollars                      |                |                          |             |             |             |
| Individual Income Taxes                     | 285.9          | 298.6                    | 304.5       | 322.9       | 362.0       |
| Corporation Income Taxes                    | 61.1           | 46.8                     | 65.3        | 83.7        | 88.2        |
| Social Insurance Taxes and<br>Contributions | 182.7          | 206.5                    | 222.5       | 242.5       | 273.1       |
| Excise Taxes                                | 40.8           | 43.0                     | 41.7        | 41.5        | 40.8        |
| Other Taxes and Receipts                    | <u>28.7</u>    | <u>31.9</u>              | <u>32.1</u> | <u>32.4</u> | <u>32.5</u> |
| Total Budget Receipts                       | 599.3          | 626.8                    | 666.1       | 723.0       | 796.6       |
| -----                                       |                |                          |             |             |             |
| Percent Change                              |                |                          |             |             |             |
| Individual Income Taxes                     | 17.1           | 4.4                      | 2.0         | 6.0         | 12.1        |
| Corporation Income Taxes                    | -5.4           | -23.4                    | 39.5        | 28.2        | 5.4         |
| Social Insurance Taxes and<br>Contributions | 15.8           | 13.0                     | 7.7         | 9.0         | 12.6        |
| Excise Taxes                                | 67.9           | 5.4                      | -3.0        | -0.5        | -1.7        |
| Other Taxes and Receipts                    | <u>9.1</u>     | <u>11.1</u>              | <u>0.6</u>  | <u>0.9</u>  | <u>0.3</u>  |
| Total Budget Receipts                       | 15.9           | 4.6                      | 6.3         | 8.5         | 10.2        |
| -----                                       |                |                          |             |             |             |
| Percent Share of Total Receipts             |                |                          |             |             |             |
| Individual Income Taxes                     | 47.7           | 47.6                     | 45.7        | 44.7        | 45.4        |
| Corporation Income Taxes                    | 10.2           | 7.5                      | 9.8         | 11.6        | 11.1        |
| Social Insurance Taxes and<br>Contributions | 30.5           | 32.9                     | 33.4        | 33.5        | 34.3        |
| Excise Taxes                                | 6.8            | 6.9                      | 6.3         | 5.7         | 5.1         |
| Other Taxes and Receipts                    | <u>4.8</u>     | <u>5.1</u>               | <u>4.8</u>  | <u>4.5</u>  | <u>4.1</u>  |
| Total Budget Receipts                       | 100.0          | 100.0                    | 100.0       | 100.0       | 100.0       |

SOURCE: Budget of the United States Government, Fiscal Year 1983,  
pp. 4-2, 9-48.

These tax changes represent for the most part a continuation of the trends of the past 10 or 12 years. Social insurance taxes, as shown in Figure 3, have grown as a federal revenue source from 23 percent of the total in 1970 to 31 percent in 1980, and would reach 34 percent of revenues by 1985. Individual income taxes have represented a relatively constant share of revenues--47 percent in 1970, 44 percent in 1975, 47 percent in 1980, and 45 percent projected for 1985. And corporation income taxes have declined relatively as a source of income to the federal government--17 percent in 1970, 15 percent in 1975, 12 percent in 1980, and 11 percent in 1985.

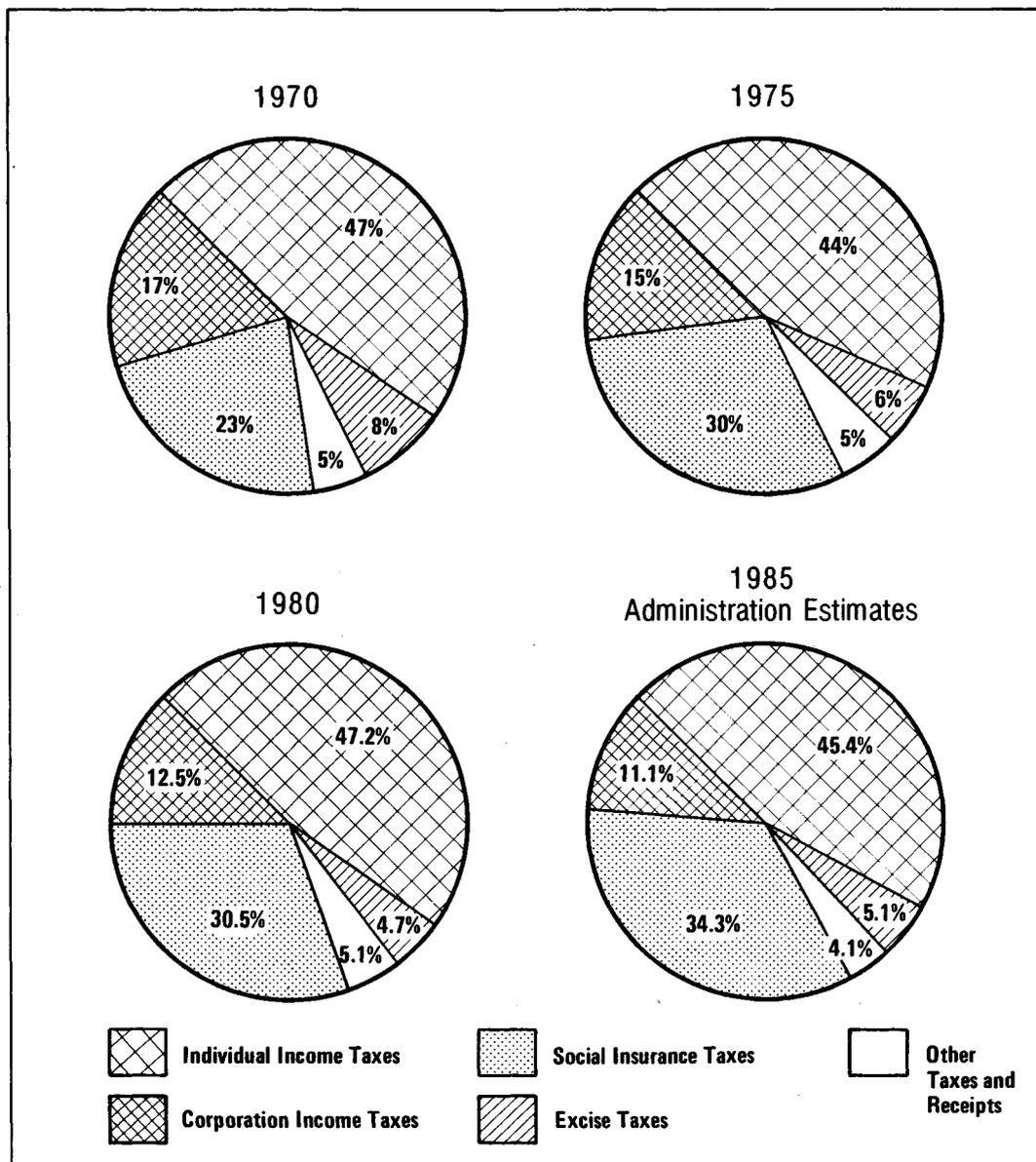
### Spending Proposals

The Administration's budget proposals continue the basic themes introduced last March. Total real federal spending is to be reduced in 1983, with more spent on national defense and less on nondefense programs. Budget outlays in current dollars are projected to rise from \$725.3 billion in 1982 to \$868.5 billion in 1985 (see Table 6), for an average increase of 6.2 percent a year. This constitutes a sharp reduction from recent growth rates--17.4 percent in 1980 and 14.0 percent in 1981. Including off-budget entities, total federal outlays are estimated to grow by 5.7 percent a year. Since inflation, as measured by the GNP deflator, averages about 5.4 percent over the 1982-1985 period in the Administration's projection, real federal outlays would grow hardly at all under the Administration's program.

Although total federal spending would remain roughly constant in real terms over the next three years, individual categories of spending are projected to grow or contract sharply, as pictured in Figure 4. Defense spending would rise most rapidly--from \$187.5 billion in 1982 to \$292.1 billion in 1985--an average rate of increase of 15.9 percent a year. Social Security outlays would increase from \$154.6 billion to \$202.3 billion over the 1982-1985 period--an average annual increase of 9.4 percent.

Benefit payments to individuals, other than for Social Security, would fall in 1983 and grow only slowly in 1984 and 1985, as a result of benefit cutbacks proposed by the Administration. The average growth rate in these other benefit payments would be only 1.8 percent a year--about one-third of the average rate of inflation. Net interest costs are projected to rise at an annual rate of 6.7 percent as the government budget continues to be in deficit. The remainder of nondefense spending, particularly grants to state and local governments, would bear the brunt of the Administration's budget reduction measures. Over the 1982-1985 period, this category of outlays would fall by more than one-third in current dollars and by almost one-half in real terms.

Figure 3.  
Major Sources of Federal Revenues



NOTE: Details may not add to 100 percent because of rounding.

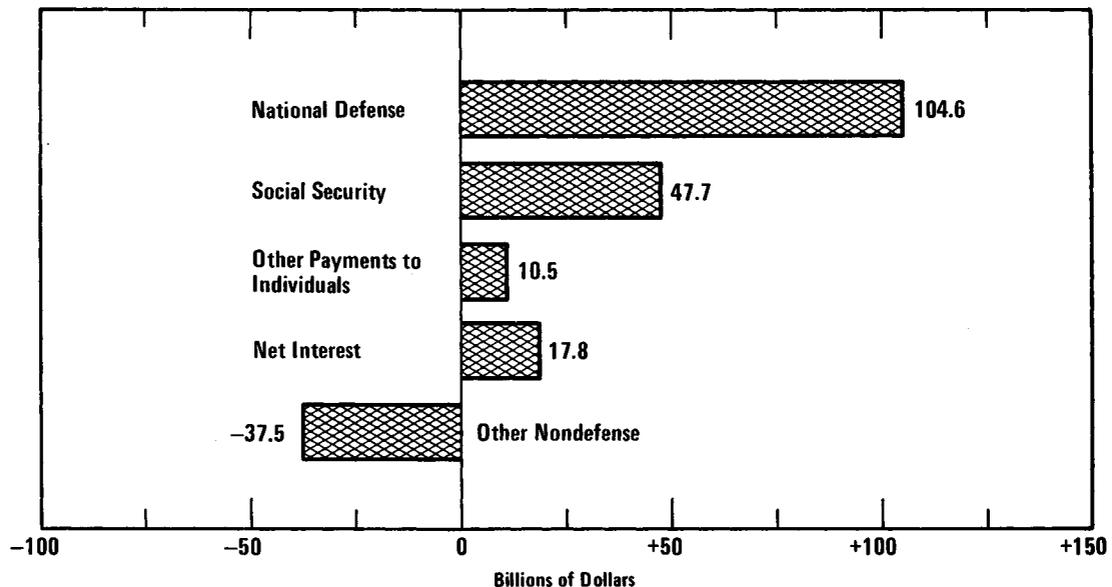
SOURCE: *Budget of the United States Government, Fiscal Year 1983*, p. 4-2, and Table 18, pp. 9-48 and 9-49; and data from the Office of Management and Budget.

TABLE 6. COMPOSITION OF OUTLAYS (By fiscal year)

|                                 | Actual<br>1981 | Administration Estimates |              |             |              |
|---------------------------------|----------------|--------------------------|--------------|-------------|--------------|
|                                 |                | 1982                     | 1983         | 1984        | 1985         |
| In Billions of Dollars          |                |                          |              |             |              |
| National Defense                | 159.8          | 187.5                    | 221.1        | 253.0       | 292.1        |
| Social Security                 | 138.0          | 154.6                    | 173.5        | 188.5       | 202.3        |
| Other Payments to Individuals   | 178.6          | 196.9                    | 192.3        | 196.8       | 207.6        |
| Net Interest                    | 68.7           | 83.0                     | 96.4         | 98.7        | 100.8        |
| Other Nondefense                | <u>112.1</u>   | <u>103.3</u>             | <u>74.3</u>  | <u>69.0</u> | <u>65.8</u>  |
| Unified Budget Outlays          | 657.2          | 725.3                    | 757.6        | 805.9       | 868.5        |
| Off-Budget Federal 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        |
| -----                           |                |                          |              |             |              |
| Percent Change                  |                |                          |              |             |              |
| National Defense                | 17.6           | 17.4                     | 17.9         | 14.4        | 15.4         |
| Social Security                 | 17.8           | 12.0                     | 12.2         | 8.6         | 7.3          |
| Other Payments to Individuals   | 15.9           | 10.2                     | -2.3         | 2.3         | 5.5          |
| Net Interest                    | 31.0           | 20.8                     | 16.1         | 2.4         | 2.1          |
| Other Nondefense                | <u>-4.4</u>    | <u>-7.9</u>              | <u>-28.1</u> | <u>-7.1</u> | <u>-4.6</u>  |
| Unified Budget Outlays          | 14.0           | 10.4                     | 4.5          | 6.4         | 7.8          |
| Off-Budget Federal Entities     | <u>47.5</u>    | <u>-6.3</u>              | <u>-20.3</u> | <u>-9.0</u> | <u>-23.3</u> |
| Total Outlays                   | 14.8           | 9.9                      | 3.8          | 6.1         | 7.2          |
| -----                           |                |                          |              |             |              |
| Percent Share of Unified Budget |                |                          |              |             |              |
| National Defense                | 24.3           | 25.9                     | 29.2         | 31.4        | 33.6         |
| Social Security                 | 21.0           | 21.3                     | 22.9         | 23.4        | 23.3         |
| Other Payments to Individuals   | 27.2           | 27.1                     | 25.4         | 24.4        | 23.9         |
| Net Interest                    | 10.5           | 11.4                     | 12.7         | 12.2        | 11.6         |
| Other Nondefense                | <u>17.1</u>    | <u>14.2</u>              | <u>9.8</u>   | <u>8.6</u>  | <u>7.6</u>   |
| Unified Budget Outlays          | 100.0          | 100.0                    | 100.0        | 100.0       | 100.0        |

SOURCE: Budget of the United States Government, Fiscal Year 1983, pp. 3-21, 3-23, 9-61.

Figure 4.  
Proposed Change in Outlays Between 1982 and 1985

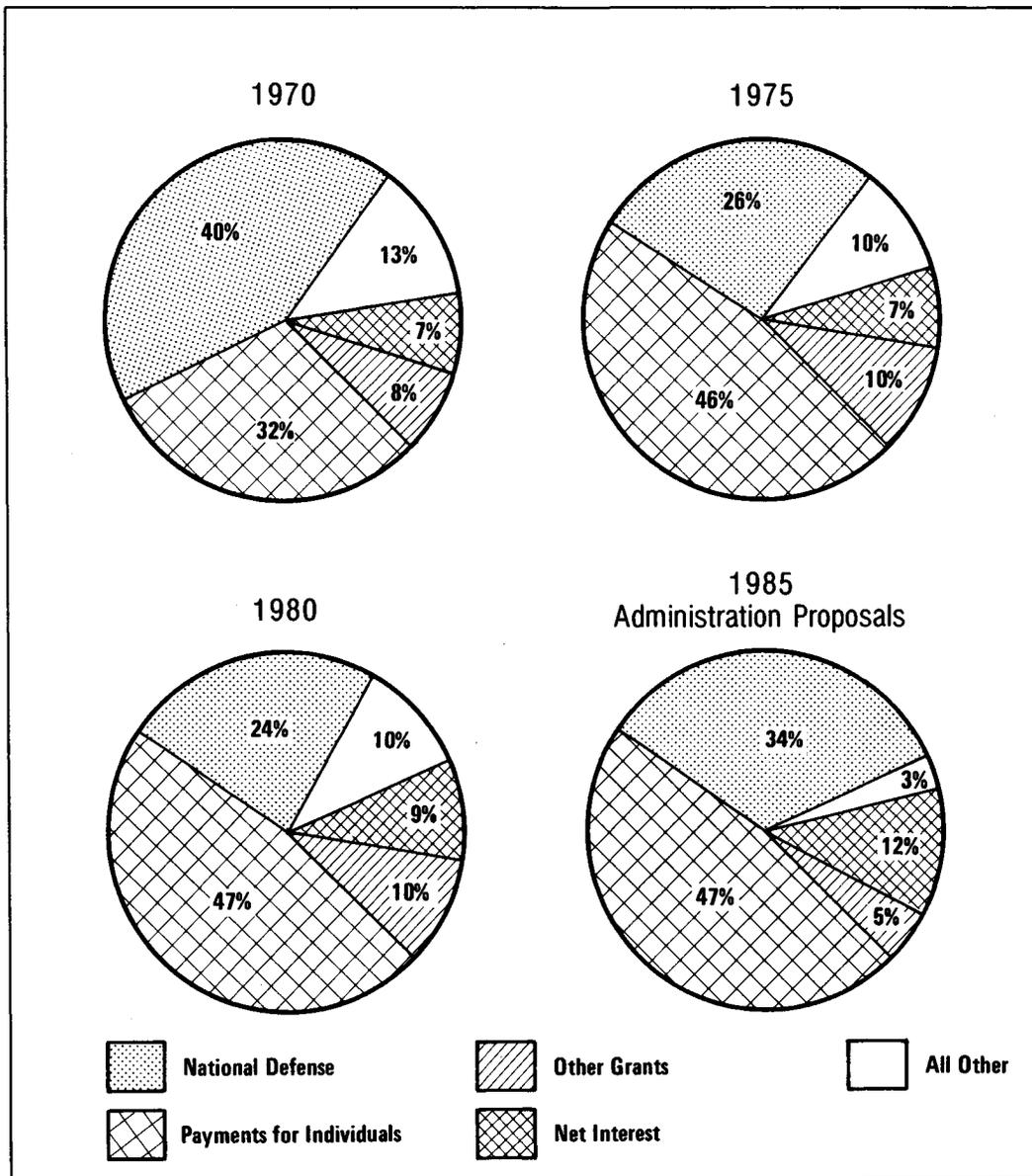


SOURCE: *Budget of the United States Government, Fiscal Year 1983*, p. 3-21.

As a result of such disparate growth rates, the composition of federal spending would be sharply altered over the next three years, as illustrated in Figure 5. By 1985, defense spending would represent 34 percent of the budget--an increase from its 1975 and 1980 levels of 26 and 24 percent, respectively, but less than the 1970 level of 40 percent. The share of the budget devoted to benefit payments for individuals, which grew from 32 percent to 46 percent between 1970 and 1975, would remain roughly constant at about 47 percent of the total. Net interest would grow from 9 percent of the total in 1980 to 12 percent in 1985. The remainder of the budget, which accounted for 20 to 21 percent of the budget from 1970 to 1980, would shrink to 8 percent by 1985.

National Defense. The Administration requests, as it did last year, large increases in spending for national defense. Budget authority would rise by \$44 billion in 1983. This represents a real increase of 13.1 percent under the Administration's economic assumptions. Over the 1982-1985 period, defense outlays would grow by \$104.6 billion, or by 9.2 percent a year in real terms.

Figure 5.  
The Composition of Federal Spending



SOURCE: *Budget of the United States Government, Fiscal Year 1983*, Table 22, p. 9-61.

The Administration argues that spending increases of this size are necessary to provide an adequate level of defense. Its defense plan provides for, among other things, the acquisition of a new bomber (the B-1), the development of an advanced technology (Stealth) bomber to be operational in the early 1990s, the development and procurement of the MX missile, the continued deployment of Trident ballistic missile submarines, and the acquisition of 149 additional ships. These and other Administration defense proposals are analyzed in detail in Chapter V.

Benefit Payments for Individuals. Projected outlays for benefit payments for individuals are shown in Table 7. The Administration is proposing substantial cuts in this category of spending. While it is not now proposing any changes in Social Security cash benefits, it is recommending that physician and hospital reimbursement rates under the hospital insurance program (Part A of Medicare) be reduced and that federal civilian employees be required to pay the hospital insurance portion of the Social Security payroll tax. The budget also assumes, but does not propose, extension of the provision enabling the three major Social Security trust funds to borrow from each other. Under the Administration's economic assumptions, these changes would ensure the solvency of Social Security for the next several years. They would not be sufficient to prevent cash flow problems, however, under a more pessimistic forecast. A recently formed National Commission on Social Security Reform is to examine the financial situation of the Social Security system and report its recommendations by January 1983.

The remaining proposals for cuts in benefit payments are aimed at federal employee benefits and at the means-tested programs, as shown in Table 8. The periodic cost-of-living adjustments in retirement benefits for civilian and military employees of the federal government would be limited to the lower of the percentage increase in federal pay or the increase in the Consumer Price Index. In addition, as noted earlier, Social Security and a private rail industry pension would replace the present federal railroad retirement system.

The proposed cuts in the means-tested programs would affect many of the same programs that were cut during 1981. In Medicaid, most of the President's proposals would increase the states' share of the cost while lowering the federal share; Medicaid beneficiaries would also be required to make small copayments in order to receive services. In food stamps and aid for families with dependent children (AFDC), work requirements would be strengthened, benefit reductions resulting from additional income would be increased, and federal payments for administrative costs would be reduced. In guaranteed student loans, the needs test would be made more stringent, and the fee for taking out a loan would be increased. Most of these changes

TABLE 7. OUTLAYS FOR BENEFIT PAYMENTS FOR INDIVIDUALS (By fiscal year, in billions of dollars)

|   | Actual<br>1981 | Administration Estimates |              |              |              |
|---|----------------|--------------------------|--------------|--------------|--------------|
|   |                | 1982                     | 1983         | 1984         | 1985         |
| <b>Social Insurance Programs</b>                    |                |                          |              |              |              |
| Social Security (OASDI)                             | 139.6          | 156.6                    | 173.5        | 188.5        | 202.3        |
| Railroad retirement                                 | 5.3            | 5.3                      | ---          | ---          | ---          |
| Medicare  | 42.5           | 49.5                     | 55.3         | 61.2         | 68.3         |
| Unemployment compensation                           | 19.7           | 25.2                     | 22.6         | 19.8         | 18.0         |
| Civil Service retirement<br>and disability          | 17.7           | 19.4                     | 21.1         | 22.4         | 23.9         |
| Veterans' compensation and<br>readjustment benefits | 10.8           | 11.5                     | 11.9         | 12.0         | 12.3         |
| Other   | 11.8           | 12.6                     | 15.1         | 15.4         | 15.8         |
| Subtotal  | <u>247.4</u>   | <u>280.1</u>             | <u>299.5</u> | <u>319.3</u> | <u>340.7</u> |
| <b>Means-Tested Programs</b>                        |                |                          |              |              |              |
| Guaranteed student loans<br>and other education     | 6.2            | 6.3                      | 5.7          | 4.3          | 3.9          |
| Medicaid  | 16.8           | 17.8                     | 17.0         | 18.6         | 20.4         |
| Food stamps   | 11.3           | 11.2                     | 9.6          | 9.7          | 10.0         |
| Other food and<br>nutrition programs                | 4.9            | 4.2                      | 4.1          | 4.2          | 4.3          |
| Housing   | 6.8            | 8.1                      | 8.5          | 8.9          | 9.4          |
| Supplemental security income                        | 7.2            | 7.9                      | 8.9          | 7.8          | 8.6          |
| Assistance payments (AFDC)                          | 8.5            | 8.1                      | 5.5          | 5.5          | 5.5          |
| Veterans' pensions                                  | 3.8            | 3.9                      | 4.0          | 4.1          | 4.2          |
| Other   | 3.8            | 4.0                      | 3.1          | 2.9          | 2.8          |
| Subtotal  | <u>69.3</u>    | <u>71.5</u>              | <u>66.4</u>  | <u>66.0</u>  | <u>69.1</u>  |
| Total   | 316.7          | 351.6                    | 365.9        | 385.3        | 409.8        |

would concentrate program benefits on families with little or no other income, while reducing the extent to which transfer payments would be available to supplement low or moderate earnings.

The Administration's proposed cuts in means-tested benefits are also an integral part of its plan to transfer full responsibility for the AFDC and food stamp programs to the states. In exchange, it proposes that the federal

TABLE 8. PROPOSED REDUCTIONS IN BENEFIT PAYMENTS FOR INDIVIDUALS (By fiscal year, in billions of dollars)

|  | 1982       | 1983        | 1984        | 1985        |
|--|------------|-------------|-------------|-------------|
| <b>Direct Payments to Individuals</b>                        |            |             |             |             |
| Medicare   | 0.3        | 2.5         | 5.1         | 7.8         |
| Supplemental security income                                 | 0.1        | 0.3         | 0.5         | 0.7         |
| Federal employee retirement and disability                   | ---        | 0.7         | 1.4         | 1.9         |
| Railroad retirement  | ---        | 2.0         | 2.2         | 2.4         |
| Food stamps  | 0.3        | 2.4         | 2.8         | 2.9         |
| Guaranteed student loans                                     | 0.2        | 0.8         | 1.1         | 1.4         |
| Other  | ---        | 0.3         | 0.6         | 0.6         |
| Subtotal   | 0.9        | 9.0         | 13.7        | 17.7        |
| <b>Indirect Payments through State and Local Governments</b> |            |             |             |             |
| Medicaid   | 0.3        | 2.0         | 2.3         | 3.7         |
| Assistance payments program (AFDC)                           | 0.2        | 1.2         | 1.1         | 1.1         |
| Child nutrition  | ---        | 0.3         | 0.4         | 0.5         |
| Other  | ---        | 0.4         | 0.6         | 0.7         |
| Subtotal   | 0.5        | 3.9         | 4.4         | 6.0         |
| <b>Total Reductions</b>                                      | <b>1.4</b> | <b>12.8</b> | <b>18.1</b> | <b>23.8</b> |

SOURCE: Budget of the United States Government, Fiscal Year 1983, p. 3-9.

NOTE: These figures represent the difference between the Administration's proposal and its current services baseline.

government take full responsibility for Medicaid. The Administration estimates that this exchange would save the states more than \$2 billion in 1984. The savings would be contingent, however, upon enactment of the cuts in AFDC and food stamps and upon the increase in state Medicaid costs described above. Without any program changes, CBO estimates that the states would lose \$1.5 billion under the swap. Neither a federal cost nor a savings, however, is reflected in the published budget figures.

Direct Grants to State and Local Governments. Grants to state and local governments accounted for \$95 billion in federal government outlays in

fiscal year 1981. Of this amount, \$40 billion represented benefit payments to individuals made through state and local governments; these indirect payment grants were discussed in the previous section of this chapter. Direct grants to state and local governments totaled \$55 billion.

Spending for direct grants was substantially reduced during the first session of the 97th Congress. The Omnibus Reconciliation Act of 1981 (Public Law 97-35) reduced authorized spending for sewage treatment plant construction grants, limited obligations for federal-aid highways, and decreased authorizations for urban mass transportation. Existing grant programs in the areas of community development, elementary and secondary education, community services, and social services were combined into new block grants and their funding reduced. Finally, and largest in dollar terms, appropriations under the Comprehensive Employment and Training Act were halved in 1982 and not authorized in later years.

The Administration proposes further substantial reductions in grants for 1983 and later years, as shown in Table 9. New grant consolidations are proposed for vocational and adult education, education for the handicapped, employment and training, rehabilitation services, child welfare services, and welfare administration. Funding for these new consolidated grants would be less than that for the predecessor programs, and funding for the block grants enacted last year and for other grants would also be reduced. Under the Administration's program, grant outlays would decline to \$44 billion in 1983, \$42 billion in 1984, and \$41 billion in 1985.

Most of the grants that would be reduced during the 1983-1985 period would be terminated by fiscal year 1988 as part of the Administration's new federalism initiative. One major element of that initiative--the swap of responsibility for certain public assistance programs between federal and state governments--has already been discussed. The second part--called the turnback component--consists of the transfer of responsibility from the federal government to the states of over 40 programs, along with the resources with which the states may finance them. The states would have the choice of continuing to carry out the programs that the federal government gives up, modifying them, or discontinuing them. The plan's details are described by the Administration as a framework for discussion. Specific legislative proposals are to be developed after extensive consultation with Members of Congress and state and local officials.

The new federalism proposal reflects the Administration's concept that state and local governments should have full responsibility for local transportation, community development and capital investment, general education, social service delivery, and cash assistance to the nonelderly needy. The federal government would be involved only in programs deemed

TABLE 9. OUTLAYS FOR DIRECT GRANTS TO STATE AND LOCAL GOVERNMENTS (By fiscal year, in billions of dollars)

|  | Actual<br>1981 | Administration Estimate |            |            |            |
|--|----------------|-------------------------|------------|------------|------------|
|  |                | 1982                    | 1983       | 1984       | 1985       |
| Energy Conservation Grants                             | 0.5            | 0.5                     | 0.2        | 0.1        | ---        |
| Environmental Protection Agency<br>Construction Grants | 3.9            | 4.0                     | 3.4        | 2.8        | 2.7        |
| Other Natural Resources and<br>Environment             | 1.1            | 1.1                     | 0.8        | 0.7        | 0.7        |
| Agriculture  | 0.8            | 0.9                     | 0.9        | 0.9        | 0.9        |
| Highway Grants   | 9.1            | 8.2                     | 8.2        | 8.2        | 8.3        |
| Urban Mass Transportation Fund                         | 3.8            | 3.7                     | 3.1        | 2.9        | 2.9        |
| Airport Grants   | 0.5            | 0.5                     | 0.4        | 0.5        | 0.6        |
| Community Development Grants                           | 4.0            | 4.0                     | 3.4        | 3.2        | 3.5        |
| Urban Development Action Grants                        | 0.4            | 0.5                     | 0.6        | 0.5        | 0.5        |
| Rental Rehabilitation Grants                           | ---            | ---                     | ---        | 0.1        | 0.1        |
| Area and Regional Development                          | 1.2            | 1.0                     | 0.8        | 0.5        | 0.3        |
| Elementary, Secondary, and<br>Vocational Education     | 6.6            | 6.7                     | 5.1        | 4.2        | 3.6        |
| Training and Employment                                | 8.0            | 4.2                     | 2.0        | 2.7        | 2.3        |
| Social Services  | 6.2            | 6.1                     | 4.8        | 4.8        | 4.8        |
| Combined Welfare Administration                        | ---            | ---                     | 1.7        | 1.7        | 1.7        |
| General Revenue Sharing                                | 5.1            | 4.6                     | 4.6        | 4.6        | 4.6        |
| Other General Purpose Fiscal<br>Assistance             | 1.6            | 1.7                     | 2.0        | 2.2        | 2.5        |
| Other  | <u>2.0</u>     | <u>1.9</u>              | <u>1.7</u> | <u>1.2</u> | <u>1.1</u> |
| Total  | 54.8           | 49.6                    | 43.7       | 41.8       | 41.1       |

to be of national significance, such as education for the handicapped and the disadvantaged and interstate highways. This new division of responsibilities, the Administration argues, would encourage diversity among state and local governments, give individuals paying for services more voice in deciding whether and how they should be provided, and make governments more accountable for their actions. The Administration also contends that "income redistribution is not a compelling justification in the 1980s for Federal taxing and spending programs. It is the Administration's view that the Federal Government can do more to provide lasting assistance to the disadvantaged by assuring strong and less inflationary economic growth than through income transfer programs." 2/

Other Federal Operations. Other federal operations include foreign aid, loans and subsidies to individuals and businesses, research and development activities, construction and acquisition of certain physical assets, and other general operating expenses of the federal government. Proprietary receipts from the public, including rents and royalties from mineral leasing and timber sales, as well as various user charges, also fall in this category.

For 1982, the Administration's budget shows a decrease of almost \$4 billion in outlays for other federal operations. This reflects the shift off budget of oil acquisition expenditures for the strategic petroleum reserve, as well as a \$1 billion allowance for unspecified reductions in fraud, waste, and abuse. Excluding these two items, the Administration's estimate of 1982 outlays for this category is about the same as the 1981 figure. The proposed budget for 1983, however, shows a drastic decline of \$23 billion in net outlays, with continued reductions in the later years (see Table 10).

The outlay reductions fall into four basic categories. The largest outlay decrease, relative to the 1982 estimates, is not from spending changes, but rather from increases in receipts and collections. Over \$10 billion stems from a planned acceleration in the leasing of Outer Continental Shelf (OCS) lands, which the Administration estimates would almost triple bonus bids in 1983. Proposed user fees account for \$1 billion of the outlay reduction in 1983 and \$2 billion in 1984 and 1985. The new fees would include levies on users of inland waterways and deep draft harbors, commercial and recreational boatmen, electric utilities that generate radioactive wastes, recipients of loans guaranteed by the Veterans Administration, and visitors to the National Parks and other federal recreational facilities.

---

2/ Economic Report of the President, p. 92.

TABLE 10. OUTLAYS FOR OTHER FEDERAL OPERATIONS (By fiscal year, in billions of dollars)

|   | Actual<br>1981 | Administration Estimate |           |          |          |
|---|----------------|-------------------------|-----------|----------|----------|
|   |                | 1982                    | 1983      | 1984     | 1985     |
| Gross Outlays <u>a/</u>   | 89             | 83                      | 71        | 72       | 71       |
| Rents and Royalties on the<br>Outer Continental Shelf                               | -10            | -8                      | -18       | -18      | -18      |
| New User Fees   | --             | --                      | -1        | -2       | -2       |
| Other Proprietary Receipts<br>and Postal Service Payment<br>for Employee Retirement | -11            | -14                     | -15       | -17      | -18      |
| Administrative Initiatives  | --             | -2                      | -5        | -8       | -9       |
| Asset Purchases by the<br>Federal Financing Bank                                    | <u>-11</u>     | <u>-5</u>               | <u>-1</u> | <u>*</u> | <u>*</u> |
| Total (Net Outlays)   | 57             | 54                      | 31        | 27       | 25       |

\*Less than \$500 million.

a/ This figure is an approximation. The figures are understated to the extent that they are net of offsetting collections that are credited to program accounts and not to distinct receipt accounts. Also, the figures include the effects of certain asset transactions, loan repayments, and other factors that can distort the gross spending figures.

The 1983 budget also includes \$5 billion in outlay reductions attributable to a number of administrative actions. Of this, \$3 billion are unspecified savings resulting from reductions in fraud, waste, and abuse, more effective debt collection, and increased sales of excess federal property. These unspecified savings are projected to rise to \$7 billion by 1985.

The remainder of the savings in this category is to be achieved by reductions in gross program outlays. These are projected to decline from \$83 billion in 1982 to \$71 billion in 1983--a drop of 15 percent--and to remain roughly level in 1984 and 1985. About \$7 billion of this drop occurs in nondiscretionary programs, largely in the farm price support programs of the Commodity Credit Corporation (see Table 11). Among discretionary

TABLE 11. GROSS OUTLAYS FOR OTHER FEDERAL OPERATIONS (By fiscal year, in billions of dollars)

|   | Actual<br>1981 | Administration Estimate |             |             |             |
|---|----------------|-------------------------|-------------|-------------|-------------|
|   |                | 1982                    | 1983        | 1984        | 1985        |
| Energy  | 11.0           | 7.3                     | 5.7         | 5.9         | 6.1         |
| Natural Resources and Environment                       | 10.8           | 10.9                    | 10.2        | 10.1        | 10.4        |
| Education, Training, Employment,<br>and Social Services | 4.2            | 4.3                     | 3.7         | 3.2         | 3.3         |
| Farmers Home Administration<br>Credit Programs          | 10.9           | 7.4                     | 4.2         | 3.4         | 3.5         |
| Other Credit Programs <u>a/</u>                         | 5.9            | 4.3                     | 3.5         | 2.5         | 1.9         |
| International Affairs                                   | 11.9           | 11.9                    | 12.8        | 13.2        | 13.9        |
| Space Program   | 4.9            | 5.3                     | 6.1         | 6.1         | 5.8         |
| Federal Aviation Administration                         | 2.7            | 2.6                     | 3.0         | 3.3         | 3.7         |
| Law Enforcement Activities                              | 2.4            | 2.5                     | 2.7         | 2.7         | 2.8         |
| Internal Revenue Service                                | 2.4            | 2.6                     | 2.9         | 3.0         | 3.2         |
| Farm Price Supports                                     | 3.6            | 5.8                     | 1.4         | 1.7         | 1.3         |
| Other Nondiscretionary Programs <u>b/</u>               | 1.1            | -0.9                    | -2.7        | -2.5        | -3.3        |
| Other   | <u>16.8</u>    | <u>18.9</u>             | <u>18.0</u> | <u>19.6</u> | <u>18.6</u> |
| Total   | 88.6           | 82.9                    | 71.5        | 72.2        | 71.2        |

NOTE: These figures are CBO approximations based on data from the Office of Management and Budget. Allowances for pay raises have been distributed to the appropriate program.

a/ Includes the Export-Import Bank, the GNMA special assistance functions fund, housing for elderly and the handicapped under the Department of Housing and Urban Development, Small Business Administration business and disaster loans, and the Central Liquidity Facility.

b/ Includes the Federal Savings and Loan Insurance Corporation fund, the Federal Deposit Insurance Corporation, the Veterans Administration loan guarantee revolving fund, and settlements of railroad litigation.

programs, the largest cuts are targeted for energy, natural resources, environment, education, and credit activities. These are offset to some extent, however, by proposed spending increases for foreign security assistance, the space program, the air traffic control system, law enforcement activities, and the Internal Revenue Service.

### Off-Budget Outlays

The Administration's budget also contains new estimates for off-budget outlays and the federal debt. Off-budget outlays are those of certain federal entities whose spending has been excluded from the unified budget totals. These outlays must be added to the unified budget deficit, however, to derive the total federal deficit that must be financed. When off-budget outlays are financed by Treasury borrowing, the additional debt is subject to the statutory debt limit.

A new off-budget entity was created in 1981, when the Congress removed from the budget the appropriation for acquiring oil for the Strategic Petroleum Reserve. The Postal Service fund was given off-budget status in 1974. Except for these two programs, the outlays of the off-budget federal entities are incurred for carrying out federal loan programs. As shown in Table 12, the Federal Financing Bank (FFB) accounts

TABLE 12. OUTLAYS OF OFF-BUDGET FEDERAL ENTITIES (By fiscal year, in billions of dollars)

|   | Actual<br>1981 | Administration Estimates |      |      |      |
|---|----------------|--------------------------|------|------|------|
|   |                | 1982                     | 1983 | 1984 | 1985 |
| Federal Financing Bank                                | 21.0           | 16.2                     | 12.1 | 11.0 | 7.8  |
| Strategic Petroleum Reserve                           | ---            | 2.8                      | 2.8  | 2.3  | 2.2  |
| Postal Service Fund                                   | 0.1            | 0.6                      | 0.7  | 0.9  | 0.8  |
| Rural Electrification and<br>Telephone Revolving Fund | *              | ---                      | ---  | ---  | ---  |
| Rural Telephone Bank                                  | 0.1            | 0.2                      | 0.2  | 0.2  | 0.2  |
| U.S. Railway Association                              | -0.3           | -0.1                     | *    | ---  | ---  |
| Synthetic Fuels Corporation                           | ---            | ---                      | ---  | ---  | ---  |
| Total   | 21.0           | 19.7                     | 15.7 | 14.3 | 11.0 |

\*Less than \$50 million.

for most of these outlays. The FFB's outlays do not come from programs that the FFB operates itself. Instead, the FFB assists other programs within the government by purchasing their outstanding loans (loan assets) or purchasing obligations that they have guaranteed.

When the FFB buys loan assets, it in effect converts direct loans that have already been made by another agency into off-budget direct loans of the FFB. If the selling agency is in the budget, its loan asset sales reduce net budget outlays. Also, when the FFB purchases newly originated guaranteed loans, it has the effect of converting loan guarantees that are not recorded in the budget totals into direct federal loans outside the budget.

As part of its effort to limit the growth of federal credit, the Administration proposes to reduce substantially the outlays of the Federal Financing Bank. FFB outlays are projected to fall from \$21.0 billion in 1981 to \$16.2 billion in 1982, \$12.1 billion in 1983, and \$7.8 billion by 1985. The 1982 and 1983 decreases are primarily the result of reduced purchases of Farmers Home Administration (FmHA) loan assets by the FFB. Net purchases of FmHA loan assets fall from \$10.9 billion in 1981 to \$1.1 billion in 1983 (see Table 13). Net FFB disbursements of direct loans guaranteed by other agencies will remain stable in 1982, 1983, and 1984, as reductions in loans to the Student Loan Marketing Association and the Rural Electrification Administration offset increases in foreign military sales credit. Most major categories of direct loans decline by 1985.

### Federal Debt

Early in fiscal year 1982, the federal debt subject to statutory limit exceeded \$1 trillion. By the end of fiscal year 1985, according to Administration estimates, the debt will reach almost \$1.5 trillion. The increase in debt from the beginning of 1982 to the end of 1985 represents an average annual increase of about 14 percent--only slightly higher than the projected increase in the gross national product over this period. Debt as a percentage of GNP in 1985 will, therefore, be little changed from its 1981 level. In fact, as Figure 6 illustrates, the ratio of debt to GNP has remained relatively constant since the early 1970s.

The Congress customarily has placed statutory limitations on federal debt, and estimates of federal debt are included in the Congressional budget resolutions. The current limitation--\$1,079.8 billion--was enacted on September 30, 1981, and expires on September 30, 1982. Federal debt subject to limit totaled \$1,039.3 billion at the end of January 1982 and is expected to reach the statutory ceiling by May. The Administration's

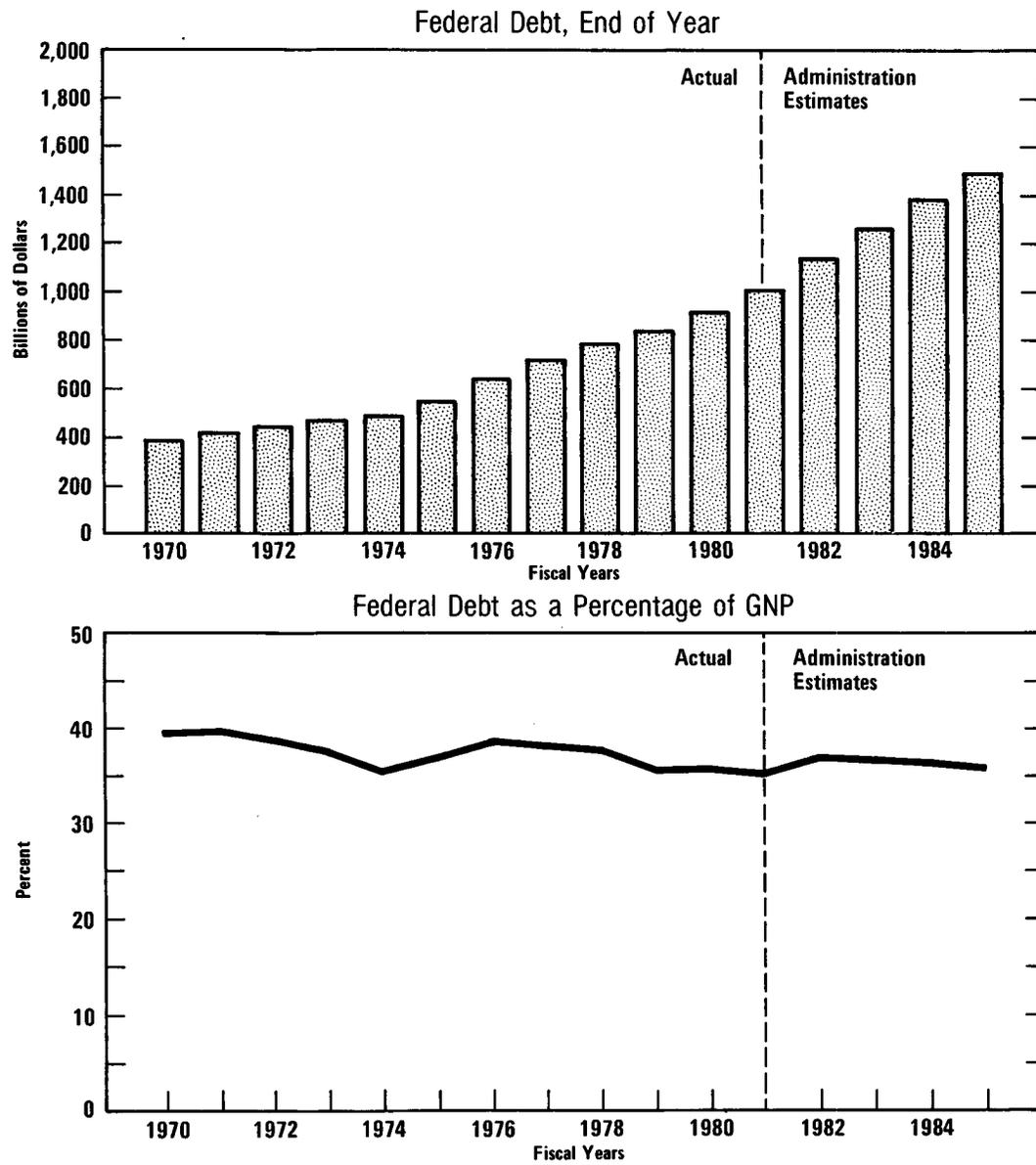
TABLE 13. NET OUTLAYS OF THE FEDERAL FINANCING BANK (By fiscal year, in billions of dollars)

|   | Actual<br>1981 | Administration Estimates |            |             |             |
|---|----------------|--------------------------|------------|-------------|-------------|
|   |                | 1982                     | 1983       | 1984        | 1985        |
| <b>Purchases of Agency Loan Assets</b>                        |                |                          |            |             |             |
| Rural Electrification Administration                          | 0.7            | 0.6                      | 0.5        | 0.4         | 0.5         |
| Farmers Home Administration                                   | <u>10.9</u>    | <u>5.4</u>               | <u>1.1</u> | <u>0.2</u>  | <u>0.2</u>  |
| Subtotal  | 11.5           | 6.0                      | 1.7        | 0.6         | 0.6         |
| <b>Direct Loans (Purchases of Agency Guaranteed Loans)</b>    |                |                          |            |             |             |
| Foreign military sales credit                                 | 1.9            | 2.7                      | 3.7        | 4.2         | 3.0         |
| Rural Electrification Administration                          | 3.9            | 4.3                      | 4.1        | 3.6         | 3.3         |
| Energy Research and Technology Administration                 | *              | 0.5                      | 0.9        | 1.0         | 0.8         |
| Low-rent public housing                                       | 0.8            | 1.2                      | 1.0        | 1.4         | -0.1        |
| Student Loan Marketing Association                            | 2.0            | 0.7                      | ---        | ---         | ---         |
| Small Business Administration                                 | 0.1            | 0.2                      | 0.2        | 0.2         | 0.2         |
| Tennessee Valley Authority                                    | 0.2            | 0.2                      | 0.3        | 0.2         | 0.3         |
| Other   | <u>0.5</u>     | <u>0.4</u>               | <u>0.2</u> | <u>-0.2</u> | <u>-0.3</u> |
| Subtotal  | 9.4            | 10.2                     | 10.4       | 10.4        | 7.2         |
| Interest, Transfer of Surplus,<br>and Administrative Expenses | <u>0.1</u>     | ---                      | ---        | ---         | ---         |
| Total   | 21.0           | 16.2                     | 12.1       | 11.0        | 7.8         |

SOURCES: Budget of the United States Government, Fiscal Year 1983, pp. 8-168-172; and the Office of Management and Budget.

\*Less than \$50 million.

Figure 6.  
Federal Debt



SOURCE: *Budget of the United States Government, Fiscal Year 1983*, Table 21, p. 9-60.

budget estimates that debt subject to limit will reach \$1,130.0 billion, or \$50.2 billion above the current limitation, by the end of fiscal year 1982. For 1983, the budget projects another increase of \$124.3 billion in federal debt subject to limit.

Four elements enter into the calculation of the amount by which the statutory debt limit must be changed: the unified budget deficit or surplus, the investment of trust fund surpluses in federal securities, the deficit of off-budget federal entities, and various means of financing other than borrowing. Table 14 shows the estimates for these elements underlying the public debt levels projected by the Administration. Even if the unified budget were balanced, the debt subject to limitation would increase because of the investment of trust fund surpluses in federal debt securities and because of the deficit of the off-budget entities.

TABLE 14. ESTIMATES OF DEBT SUBJECT TO STATUTORY LIMIT (By fiscal year, in billions of dollars)

|   | Actual<br>1981 | Administration Estimates |         |         |         |
|---|----------------|--------------------------|---------|---------|---------|
|   |                | 1982                     | 1983    | 1984    | 1985    |
| Debt Subject to Limit<br>(beginning of year)                          | 908.7          | 998.8                    | 1,130.0 | 1,254.3 | 1,368.7 |
| Increase in Debt Subject<br>to Limit                                  |                |                          |         |         |         |
| Unified budget deficit  | 57.9           | 98.6                     | 91.5    | 82.9    | 71.9    |
| Trust fund surplus  | 6.8            | 12.5                     | 15.4    | 17.9    | 31.3    |
| Deficit of off-budget<br>federal entities                             | 21.0           | 19.7                     | 15.7    | 14.3    | 11.0    |
| Means of financing (other<br>than borrowing) and<br>other adjustments | 4.3            | 0.4                      | 1.6     | -0.7    | -0.8    |
| Total Increase  | 90.1           | 131.2                    | 124.3   | 114.4   | 113.3   |
| Debt Subject to Limit<br>(end of year)                                | 998.8          | 1,130.0                  | 1,254.3 | 1,368.7 | 1,482.0 |