

This chapter analyzes President Carter's spending proposals for fiscal year 1982 in each major budget functional category. The function classification is used as the basis for discussing national budget priorities in the deliberations by the Congress on the annual budget resolutions. The functional classifications presented in President Carter's 1982 budget have not changed significantly from those used for the 1981 budget. The surplus income of the Federal Financing Bank, an account that was formerly included in function 370 (Commerce and housing credit), is part of function 800 (General government) in the 1982 budget.

The Congressional Budget Office (CBO) estimates of the President's budget proposals for both fiscal years 1981 and 1982 are preliminary adjustments of budget authority and outlay estimates using CBO economic assumptions and alternative programmatic assumptions where relevant. These preliminary reestimates have not been reviewed by the Budget and Appropriations Committees and are subject to change. This review will take place in February after CBO completes its analysis of President Carter's 1982 budget estimates.

The CBO baseline projections of 1982 spending are described in Chapter III. CBO's baseline projections are not a forecast of spending for 1982. Rather, they are projections of spending if current laws were to remain unchanged and adjustments were made for expected inflation. These projections serve as a useful baseline for analyzing the effects of policy changes that are proposed by the President. These estimates are also preliminary and subject to change after CBO's February review of the Carter budget estimates and the completion of the CBO economic forecast for calendar years 1981 and 1982.

It should be noted that in the 1981 columns containing the President's latest request and the CBO estimate of the President's request in the following tables, the cost of 1981 supplemental appropriations for the civilian agencies' part of the October 1, 1980 payraise is shown in the allowances function rather than distributed by function and program as is done in the President's printed 1981 budget proposals. The cost of the civilian agencies' share of the anticipated federal employee payraise for October 1, 1981 is shown in the allowances function in all 1982 estimates.

NATIONAL DEFENSE (FUNCTION 050)

This function includes programs in Department of Defense (DoD)-- Military that provide for the pay and allowances for military personnel, the maintenance of forces, construction of military facilities, research and development, and the procurement of support and major combat equipment. It also provides funding for Department of Energy atomic energy defense activities and various defense related activities such as the Intelligence Community Staff, Selective Service System, and the Federal Emergency Management Agency.

Function Totals: In Billions of Dollars

	1981 Estimates			1982 Estimates		
	2nd Bud. Res.	Pres. Latest Request	CBO Estimate of Pres. Request <u>a/</u>	CBO Baseline Projection <u>a/</u>	Pres. Budget Request	CBO Estimate of Pres. Request <u>a/</u>
Budget Authority	172.7	173.9	174.2	200.2	200.3	201.9
Outlays	159.05	161.1	160.1	183.6	184.4	187.1

a/ Preliminary, subject to change.

The President's request for 1982 budget authority exceeds his 1981 request by \$26.4 billion. 1982 Administration outlay estimates exceed 1981 levels by \$23.3 billion. The President's 1982 funding increase includes roughly \$18 billion to cover inflationary growth in prices and pay, and about \$8 billion of real growth (about 4 percent) for various defense programs.

The President's 1982 budget represents a change in policy relative to his 1981 request. The 1981 request contains about \$9 billion real growth concentrated in investment programs, especially procurement of weapon systems. The \$8 billion real growth contained in the 1982 request is more evenly distributed between operating and investment programs. The 1982 request implies about \$0.6 billion real decline in the procurement program (that is, \$4.7 billion short of the CBO baseline estimate), but it has about

\$4.7 billion real growth in the other major investment areas: research and development, military construction, and atomic energy defense activities. Higher military end strength, a larger force structure, higher force operating levels, and other readiness initiatives cause the operating accounts to increase in real terms in 1982 by about \$3 billion. The Administration estimates higher 1982 real growth in this area (about \$5 billion) generally because its estimates of fuel price growth are much lower than CBO's.

The \$0.6 billion real decline in procurement results primarily from reductions in the number of major weapon systems procured. In the President's budget fewer aircraft, ships, and tanks would be purchased at significantly higher costs per unit in 1982 than previously planned.

CBO estimates that the 1982 defense purchases are underfunded by \$5.4 billion in President Carter's budget. As a result of higher inflation assumptions for defense purchases than used by the Carter Administration, CBO estimates that an additional \$2 billion in new budget authority will be required for projected fuel consumption, \$2 billion for full funding of proposed weapon purchases, and \$1.4 billion for defense supplies and other purchases.

The following table compares Administration and CBO budget authority deflators.

Comparison of CBO and Administration Budget Authority Deflators: By Fiscal Year, In Percentage Change

	1981	1982	1983	1984	1985	1986
CBO Economic Assumptions <u>a/</u>						
Fuel	28.1	24.8	15.8	15.7	15.5	16.5
Procurement	10.4	10.3	9.8	9.2	8.7	8.6
Total Defense	12.9	10.6	9.8	9.5	9.2	9.0
President's Economic Assumptions						
Fuel	23.3	9.7	8.6	8.0	7.2	6.4
Procurement	8.6	8.0	7.5	6.9	6.5	6.4
Total Defense	11.7	8.9	8.6	7.6	7.0	6.6

a/ Based on CBO assumptions for all purchases except military and civilian pay, where the Administration payraises are used.

The Administration estimates that its federal compensation reform proposals would save about \$2.3 billion in the defense function. In fact, the budget already assumes greater savings (about \$3.0 billion). This is because civilian payraises are capped at 5.5 percent, which is lower than the 8.6 percent projected under the reform proposals and the military payraise is funded at 9.1 percent, the same as projected under the reform. Enactment of this legislation would not reduce the budget authority request. Current law provides for so-called comparability payraises that would theoretically align federal government and private sector salaries, but it also permits the President to propose alternative payraises which has often been the case.

CBO estimates that comparability payraises under current law would be 14.6 percent for general schedule civilians (and, hence, military personnel) and 15.9 percent for wage board civilians. A payraise of 10.2 percent would hold federal employees even with CBO's estimated change in personal consumption prices. The costs to DoD of alternative payraise assumptions are:

- o President's Request - \$3.8 billion
- o Comparability - \$7.4 billion
- o Constant Real Personal Consumption - \$5.2 billion.

The table on the next page summarizes the major defense programs, including real growth in budget authority and the sections following discuss each of the major programs in greater detail.

MILITARY PERSONNEL

The President's budget request for fiscal year 1982 contains \$38.4 billion for military personnel, an increase of \$1.7 billion above the President's latest fiscal year 1981 request of \$36.7 billion. The President's 1982 request contains 1.3 percent real growth based on both the Administration's economic assumptions and CBO inflation rates.

The proposed increase of \$1.7 billion in military personnel is distributed among five major categories: (1) increased average strengths (based on fiscal year averages) in the active and reserve forces (approximately \$456 million); (2) increases associated with compensation legislation effective in fiscal year 1981 (approximately \$484 million); (3) new initiatives consisting of permanent-change-of-station (PCS) policy changes and a

Summary of Major Programs--Function 050: By Fiscal Year, In Billions of Dollars

		1981	1982		
		President's Latest Estimate <u>a/</u>	CBO Baseline Projection <u>b/</u>	President's Budget Request	Real Growth <u>b/</u> In BA <u>c/</u>
Military Personnel	BA	33.5	36.9	38.4	0.5
	O	33.5	36.7	38.3	
Retired Pay	BA	13.8	15.5	15.6	0.4
	O	13.8	15.5	15.6	
Operation & Maintenance	BA	52.9	61.1	61.5	1.8
	O	51.2	59.8	59.7	
Procurement	BA	45.1	53.8	49.1	-0.6
	O	35.4	41.7	40.1	
Research & Development	BA	16.1	18.1	19.8	2.3
	O	15.4	17.0	18.5	
Military Construction	BA	3.3	4.0	5.6	1.8
	O	2.5	2.3	2.9	
Family Housing	BA	2.1	2.1	2.2	-0.05
	O	1.9	1.8	2.0	
Atomic Energy Defense	BA	3.6	4.0	4.7	0.6
	O	3.6	4.0	4.5	
Other	BA	3.6	4.7	3.5	1.1
	O	3.8	4.7	2.9	
Total--Function 050	BA	173.9	200.2	200.3	8.0
	O	161.1	183.6	184.4	

a/ The 1981 pay supplemental has been taken out of the various accounts and consolidated in the "Other" category.

b/ Preliminary, subject to change.

c/ Real growth in the President's 1982 budget over 1981, based on CBO economic assumptions with President's payraise.

career basic allowance for subsistence proposal (approximately \$77 million); (4) increases resulting from price growth in military personnel accounts (approximately \$400 million); and (5) increases in other accounts (approximately \$237 million). Each category is discussed below.

Active Forces

In fiscal year 1982, the average strength of the active forces would increase from 2,051,596 to 2,071,743, a change slightly larger than that of 1981. The changes by service are as follows: Army, 3,001; Navy, 11,200; Air Force, 6,212; and Marine Corps, -266. The budget contains \$291 million to cover the growth in the active forces. This growth is due to current and planned force modernization and the introduction of new weapons systems, a proposed reduction in European tour lengths for unaccompanied first-term enlistees, a proposed extension of initial entry enlisted training from seven to eight weeks, and improved manning of existing forces.

Reserve Forces

The Department of Defense projects that the average strength of the reserve forces will increase from 870,159 to 908,500, a change somewhat smaller than that of 1981. The budget contains \$165 million to fund this increase. The projected growth in the reserve forces is the result of planned efforts to overcome manning shortfalls and meet force structure requirements through improved recruiting and retention. This budget now counts more than 11,000 individual mobilization augmentees, personnel previously in the Individual Ready Reserve who will train for two weeks per year with the Selected Reserve.

Enacted Compensation Legislation

The President's request for 1982 contains an increase of approximately \$484 million for benefits included in compensation legislation effective in fiscal year 1981. The increase in fiscal year 1982 is due to a change in the level of entitlements rather than programmatic changes, with one exception. For travel associated with permanent-change-of-station, the allowance increases from seven cents/mile and \$35/day per diem to 18.5 cents/mile and \$45/day per diem. The largest increases in this category are for the travel allowance (\$254 million); sea pay and submarine pay (\$54 million); the variable housing allowance (\$25 million), which experienced much larger growth in fiscal year 1981; and enlistment and re-enlistment bonuses (\$98 million).

New Initiatives

The President's budget request contains three initiatives for fiscal year 1982. The first proposal reduces the length of overseas duty for first-term three-year enlistees on unaccompanied tours in Europe from three years to eighteen months. Although the proposal increases rotational costs, it is expected to decrease attrition rates and result in long-term savings. The increased cost for this proposal is \$23 million. The second proposal revises current regulations to permit shipment of furniture to posts in Germany and Japan. An increase of approximately \$19 million is included for this proposal. The third proposal permits personnel in the pay grades of E-5 and above (career personnel) to draw a cash basic allowance for subsistence (BAS) in place of subsistence in-kind. The increased cost of this proposal is \$35 million.

Price Growth

Approximately \$400 million is included in the President's 1982 request to cover price growth in the military personnel accounts. Of this amount, \$125 million is for transportation rate increases, \$57 million for clothing cost and item changes, and \$217 million for increases in the costs of subsistence (food) and the movement of household goods.

Other Increases

The fiscal year 1982 request proposes increases for higher average salaries resulting from current increases in average grade and time in grade, current FICA rate and base changes, the proposed expansion of Reserve training programs, and the proposed payment of revenue from fines and forfeitures to the Soldiers' and Airmen's Home. These increases total \$237 million.

RETIRED PAY

Retired pay includes the consolidated requirements of the military services for: (a) payments to retired officers and enlisted personnel of the Army, Navy, Marine Corps, and Air Force; (b) retainer pay of enlisted personnel of the Fleet Reserve of the Navy and Marine Corps; and (c) survivor benefits. The average strength of the retired pay population for fiscal year 1982 is projected to be 1,390,900, an increase of 44,300 above fiscal year 1981 estimates. The President's request contains \$16.1 billion for retired pay (\$15.6 billion, including the savings from the proposed legislation discussed below).

The President's budget for 1982 includes a proposal to limit CPI adjustments to retired pay to one per year instead of two. The proposal assumes that the September 1981 CPI adjustment will not be made. The Administration estimates annual savings of \$85 million in fiscal year 1981 and \$477 million in fiscal year 1982 from this proposal. CBO estimates that savings of \$59 million in fiscal year 1981 and \$357 million in fiscal year 1982 will result from enactment of the legislation.

The President's budget also assumes enactment of the Uniformed Services Retirement Benefits Act with an effective date of October 1, 1982. The new system would grant entitlements to members with less than twenty years of service, while offsetting reductions would occur in benefits after twenty years of service. The proposal is expected to result in greater annual outlays throughout this century; annual savings will begin and grow through the twenty-first century.

OPERATION AND MAINTENANCE

The President's request for operation and maintenance (O&M) proposes about \$3.8 billion or 6.5 percent real growth based on Administration economic assumptions (\$1.8 billion or three percent using CBO inflation rates).

Steaming hours of the Sixth Fleet and flying hours per Air Force pilot would increase in 1982. Proposed funding for Air Force flying hours increases by about \$300 million in 1982 over a 1981 base that would be reduced by about \$200 million because of projected reprogramming to make up spare parts shortages. Other significant increases would be:

- o \$700 million for Army prepositioning, force structure changes, and introduction of new weapon systems (e.g., XM-1 and Patriot).
- o \$500 million for real property maintenance.
- o \$600 million to support new ship deployments.
- o \$300-400 million for O&M funding of ship spare parts previously funded in Other Procurement, Navy.

Fuel price assumptions are the main source of divergence between CBO and Administration estimates of real growth in the O&M area. CBO assumes DoD fuel price increases of 25 percent between fiscal years 1981 and 1982 compared with the 9.7 percent assumed in the budget. Decontrol

of domestic oil should cause price increases well above the Administration's estimate which appears low even if there were no decontrol.

The table below shows the DoD fuel requirements in terms of quantity and cost. Increased fuel consumption from higher activity levels consistent with a larger force, more unit training, and other readiness initiatives cause fuel requirements to increase.

Department of Defense Fuel Requirements and Budget: By Fiscal Year

	Actual	Estimates	
	1980	1981	1982
Requirements (in millions of barrels)	177	183	188
Requested Budget Authority (in billions of dollars)	7.2	9.2	10.2
CBO Reestimate of Budget Authority Request (in billions of dollars)	7.2	9.6	12.2
Additional Funding Requirement (in billions of dollars)	--	0.4	2.0

PROCUREMENT

The President's fiscal year 1982 procurement program has real growth of 1.2 percent based on Administration economic assumptions (-1.3 percent using CBO inflation rates). Four major features of 1982 procurement proposals are:

- o Substantial funding increases for acquisition of specific Rapid Deployment Force (RDF) related items.
- o Substantial funding increases to enhance readiness by building up ammunition and aircraft spare parts and equipment inventories.
- o Substantial cutbacks in the rate of acquisition of non-RDF major type type weapons systems.
- o Substantial increases in unit prices.

Rapid Deployment Force (RDF)

Mobility Forces. In the mobility area, the seabased RDF capability would be enhanced by:

- o Initiation of a program to modify the eight SL-7 fast logistics ships which are to be acquired in 1981. Two ships are planned for modification in 1982 for \$216 million.
- o Acquisition and conversion of an underway replenishment ship at a cost of \$20 million.
- o Conversion of the U.S.S. United States to a 2,000 bed hospital ship at a total cost of \$380 million. Long lead funding in 1982 is \$10 million.
- o Initiation of an eight ship program to construct maritime prepositioning ships (MPS). In 1982, \$187 million is provided for the first ship.
- o Initiation of a program to convert four RO/RO ships to be used to preposition equipment for marine brigades. The 1982 program provides \$94 million for the first ship.

These programs will provide an additional 22 support ships. However, no 1982 funding is proposed for an LSD-41 class landing craft for which the Congress provided long lead funding in 1981.

Marine Corps. The Marine Corps, the land forces element most closely identified with the RDF, would receive substantial funding increases. Marine Corps procurement would increase from \$489 million in 1981 to \$1,172 million in 1982. Items proposed include 72 light armored vehicles to provide more mobile ground based firepower for the Marine Corps, and ammunition, radios, artillery and light weapons presumably intended to be placed on MPS Ships discussed above and/or to offset items placed on ships already deployed at Diego Garcia.

Readiness Enhancement

As shown in the table at the top of the next page, proposed funding for readiness enhancing items would increase to \$8.3 billion in 1982.

Comparison of 1981 and 1982 Readiness Programs: In Millions of Dollars

	1981	1982	Increase	Percent Change
Aircraft Spares and Support Equipment	4,256	6,000	1,744	41
Ammunition	<u>1,565</u>	<u>2,267</u>	<u>702</u>	<u>45</u>
Total	5,821	8,267	2,446	42

Cutback in Procurement of Major Items

Army Procurement. In the Army, every major procurement program shows a reduction in 1982 in the size of the buy when the 1982 budget is compared with the plan for 1982 submitted with the 1981 budget.

The first table on the next page shows substantial reductions in both 1982 and the 1982-1985 time period. The reductions from the planned program could be interpreted as a substantial change in earlier commitments to modernization of U.S. land forces in NATO. For example, the cumulative 1982-1985 reduction plus adjustments to prior year programs in XM-1 tanks and fighting vehicles is equal to the amount of equipment needed to modernize two U.S. armored divisions. It is significant that while the 1979-1985 program is reduced by 717 XM1 tanks, no further orders are placed for M60A3 tanks and the A1-A3 tank conversion program is ended.

Aircraft Procurement. The aircraft acquisition program in the 1982 budget follows a similar pattern, as seen in the second table on the next page.

In the 1982 budget, planned purchases of three types of aircraft (including the A-10, a NATO oriented anti-tank aircraft) are cancelled and acquisition levels for nine types of aircraft are reduced compared to the plan for 1982 submitted with the 1981 budget. The Navy, which reportedly requires 300 new aircraft per year to sustain the flying units, funds the procurement of 121 aircraft in 1982.

Comparison of 1981 and 1982 Major Army Programs: In Units Procured

	President's 1981 Program		President's 1982 Program		President's 1982-85 Program	
	Jan 1980	Jan 1981	Jan 1980	Jan 1981	Jan 1980	Jan 1981
Aircraft						
AH-64 Attack Helicopter	--	--	14	8	284	181
UH-60 Blackhawk Helicopter	80	80	96	78	231	305
CH47D Helicopter Modification	9	9	19	10	96	68
Tracked Fighting Vehicles						
XM1 Tank	569	360	720	569	3,322	2,877
Fighting Vehicle	400	300	600	404	3,229	1,727
Air Defense						
Roland	600	400	1,230	--	2,054	--
Divad Gun	12	--	98	12	510	114
Patriot	183	130	391	130	2,584	1,883
Other Missile Systems						
Hellfire	--	--	2,760	502	21,490	8,638
MLRS	2,340	2,340	2,496	2,496	107,916	90,432

Comparison of 1981 and 1982 Aircraft Programs: In Units Procured

	President's 1981 Program		President's 1982 Program		President's 1982-83 Program	
	Jan 1980	Jan 1981	Jan 1980	Jan 1981	Jan 1980	Jan 1981
Army	80	103	118	86	294	231
Navy/Marine Corps	104	188	179	121	488	296
Air Force	<u>282</u>	<u>306</u>	<u>212</u>	<u>130</u>	<u>425</u>	<u>248</u>
Total	466	597	509	337	1,167	775

Naval Forces. Naval Forces reflect a 26 percent reduction between the 1981 plan and 1982 budget, and a 25 percent reduction for the period 1982-1985.

Comparison of 1981 and 1982 Navy Ship Programs: In Units Procured

	President's 1981 Program		President's 1982 Program		President's 1982-85 Program	
	Jan 1980	Jan 1981	Jan 1980	Jan 1981	Jan 1980	Jan 1981
Trident Submarine	1	1	1	1	5	5
Attack Submarine	1	2	1	1	10	5
Guided Missile Cruiser	2	2	3	2	14	12
Guided Missile Destroyer	--	--	--	--	1	--
Guide Missile Frigate	4	6	4	1	11	1
Fleet Frigate (new design)	--	--	--	--	5	3
Amphibious Warfare Ship	1	1	--	--	2	--
Mine Counter Measures Ship	--	--	1	1	9	9
Fleet Oiler	--	--	--	1	4	5
ASW Surveillance Ship	5	5	4	4	4	10
Salvage Ship	1	1	2	2	3	4
Maritime Prepositioning Ship <u>a/</u>	<u>2</u>	<u>--</u>	<u>3</u>	<u>1</u>	<u>12</u>	<u>6</u>
Total	17	18	19	14	80	60

a/ Plans may not be comparable because of change in ship design.

The most significant aspect of these reductions is concentration of the reduction in combat ship classes. Four major combat ships are deleted in 1982 and 22 major combat ships in the 1982-1985 time frame.

Escalating Unit Prices

Aside from the number of weapons actually procured, another important aspect of the procurement strategy is the impact of the level of buys on the cost of the weapons. One way to access this impact in the 1982 budget is to compare the January 1980 and January 1981 DoD units cost and the level of procurement, and measure the total dollar value of these price changes (see the table on the next page).

Considering only the major systems in the table, at the 1982 unit prices predicted last year, the fiscal year 1982 budget could be reduced by \$3.7 billion. Conversely, \$3.7 billion worth of weapons had to be deleted from the fiscal year 1982 program to offset these unit price increases.

In many cases, the data indicates that the DoD strategy of small annual unit acquisitions only increases the price of the individual weapons procured. Other possible explanations are substantial real growth in the price of troubled individual weapons systems, poor cost estimates and/or poor estimates of inflation.

RESEARCH AND DEVELOPMENT

Overall, research and development (R&D) funds in 1982 reflect real growth over 1981 of 14.3 percent based on the Administration's economic assumptions (13.2 percent using CBO inflation rates). The R&D share of the Defense Budget continues to remain at its historical average of about 10 percent.

Strategic programs would increase by \$900 million, due entirely to proposed funding increases for three missile systems. The MX ICBM development program increases from \$1,500 million in 1981 to \$2,400 million, an increase of \$900 million. Total cost of the MX is expected to exceed \$50 billion.

Trident II submarine launched ballistic missile funding would increase from \$98 million in 1981 to \$243 million in 1982 with a further projected increase to \$354 million in 1983. These substantial increases are to accelerate Trident II development and should protect a 1989 Initial Operational Capability (IOC). Total cost of this development program alone could exceed \$9 billion.

Proposed funding for the Low Altitude Area Defense System (LOADS), an anti-ballistic missile system, would be increased from

Comparison of 1981 and 1982 Unit Prices of Major Weapon Systems

	Change in 1982 Unit Price Jan 1980 Projections vs. Jan 1981 Budget (in percents)	Total Impact on 1982 Budget of Unit Price Change in 1982 Program (in millions of dollars)	Change in 1982 Units Ordered Jan 1980 Projection vs. Jan 1981 Budget (in percents) <u>a/</u>
Aircraft			
UH-60	33	94	-19
F-16	20	220	-20
EA-6B	52	47	-33
F-14A	9	69	N/C
F-18	44	569	-40
EC-2C	13	30	N/C
EC-130Q	26	16	N/C
P-3C	43	87	-50
AH64	67	137	-43
SH60B	174	377	-56
Missiles			
Patriot	154	295	-67
MLRS	23	34	N/C
Pershing II	19	31	N/C
Hellfire	322	72	-82
Phoenix	30	32	N/C
Harpoon	14	26	N/C
ALCM	27	139	-8
GLCM	39	88	N/C
Tracked Vehicles			
Fighting Vehicle	65	274	-23
XM-1 Tank	49	387	-21
Divad	95	48	-88
Ships			
SN688	20	105	N/C
CG47	18	323	-33
FFG-7	79	220	-75

a/ N/C signifies no change.

\$71 million to \$216 million in response to Congressional guidance to protect the option for an early prototype demonstration. Total cost of this bomber program could exceed \$7 billion.

In 1981, the Congress directed DoD to initiate or substantially accelerate three strategic development programs: the Trident II and LOADS, both plus a new strategic bomber. At that time, the Congress provided \$300 million in development funds and guidance to select an appropriate strategic bomber design with an IOC not later than 1987. Total cost of the program could exceed \$20 billion. However, the President's budget proposes no funding for this program.

In tactical programs the Air Force CX Intertheater cargo transport system is substantially accelerated and receives \$252 million in 1982, an increase of \$217 million over 1981 funding. In 1983, funding is projected to reach \$375 million with a total program cost that could exceed \$12 billion.

The budget also includes \$230.7 million to continue development of the AV8B aircraft and substantial increases in intelligence and communication programs and defense-wide support.

MILITARY CONSTRUCTION

The military construction budget authority request of \$5.6 billion in fiscal year 1982 reflects a real increase of slightly over \$1.8 billion. This increase translates into real growth of 55.6 percent based on the Administration's economic assumptions (48.4 percent using CBO assumed inflation rates).

A significant factor attributing to the military construction increase in fiscal year 1982 over fiscal year 1981 is the funding of the 1981 shortfall of \$392 million. The primary cause of the shortfall was unexpectedly high costs of labor and materials.

The largest single program contributing to the construction increase in fiscal year 1982 is the MX Ballistic Missile system. Proposed MX-related construction of support facilities, land acquisition, and planning and design totals \$521 million compared to \$17 million in 1981.

Construction in the Indian Ocean/Persian Gulf region in support of the new Rapid Deployment Force is also a major component of the proposed increase in fiscal year 1982. Included in the \$419 million for the RDF are facility upgrade requests of \$51 million at Lajes AFB, Azores and \$159 million at Diego Garcia.

Other major construction projects contributing to the fiscal year 1982 increase are related to the following systems: Air and Ground Launched Cruise Missile (\$180 million), Trident Ballistic Missile Submarine (\$106 million), NATO Infrastructure program (\$390 million), and Patriot Air Defense Missile (\$43 million).

The fiscal year 1982 budget continued to pursue the new approach of incremental funding of military construction appropriations for the Puget Sound Shipyard boiler plant construction project.

There is a real decline in family housing of 2.4 percent. This decrease can be attributed in part to a reduction in domestic leasing made possible by the Variable Housing Allowance effected in fiscal year 1981. Leases for recruiters and ROTC instructors living in areas where no bases exist are also reduced. The family housing program is also anticipating better exchange rates, especially in West Germany, reducing costs by \$38 million in fiscal year 1982.

ATOMIC ENERGY DEFENSE ACTIVITIES

Atomic energy defense activities support nuclear weapons production including the Trident I ballistic missile, the Mark 12A warhead for the Minuteman III, the B61 nuclear bomb, the Army's Lance missile warhead, and the warheads for nuclear cruise missiles. In general, this account funds facility operation and maintenance, materials production, weapon system fabrication, naval reactor development, nuclear waste management, and other activities.

The 1982 request for atomic energy defense activities includes about \$600 million or 15.7 percent real growth primarily for increased production of special nuclear materials and missile warheads.

INTERNATIONAL AFFAIRS (FUNCTION 150)

The international affairs function includes foreign economic and financial assistance, military assistance, activities associated with the conduct of foreign affairs, foreign information and exchange activities, and international financial programs.

Function Totals: In Billions of Dollars

	1981 Estimates			1982 Estimates		
	2nd Bud. Res.	Pres. Latest Request	CBO Estimate of Pres. Request <u>a/</u>	CBO Baseline Projection <u>a/</u>	Pres. Budget Request	CBO Estimate of Pres. Request <u>a/</u>
Budget Authority	23.85	25.1	24.4	17.2	19.6	19.2
Outlays	10.5	11.3	11.2	11.3	12.2	11.9

a/ Preliminary, subject to change.

The 1982 budget requests \$19.6 billion in budget authority for international affairs programs. This represents a \$1.5 billion increase (8 percent) over the Administration's 1981 request, excluding both the \$5.5 billion 1981 quota increase for the International Monetary Fund and a \$1.5 billion accounting change for the Export-Import Bank in 1981. Based on CBO estimates, this increase is \$1.8 billion (10 percent) and is large enough to pay for the costs in the function of expected inflationary price increase above 1981 levels.

This growth, however, is spread unevenly over the function. Military assistance programs would grow the most by 74 percent (\$270 million). Funding for multilateral banks would increase by 52 percent (\$830 million) primarily to cover the entire U.S. subscription to the General Capital Increase of the World Bank. The President proposes to increase bilateral programs by 40 percent (\$684 million) to fulfill a U.S. commitment to meet the terms of the 1980 Venice summit agreement. The requested \$490 million increase for the State Department and \$78 million increase for migration and refugee assistance would provide real growth for these programs. Only one program, the Export-Import Bank, experiences a major program reduction in 1982 (\$900 million).

Program initiatives in the 1982 budget include a new replenishment for the International Fund for Agricultural Development totalling \$255 billion over a three year period, \$165 million for the Sixth International Tin Agreement and \$74 million for the new Common Fund for Commodities.

Guarantee activities in the international affairs area increase substantially from \$10.6 billion in 1981 to \$20.2 billion in 1982. This increase primarily reflects the \$8.1 billion request for the guarantee portion of the World Bank General Capital Increase. Excluding the World Bank subscription, guarantee activities will increase by 16 percent in 1982.

The budget proposes approximately \$1.2 billion in program supplements for 1981. They include \$1.1 billion for the International Development Association; \$76 million for Public Law 480; \$28 million to cover the cost of the 1980 Foreign Service Act and inflation overseas; \$18 million for the African Development Bank; and approximately \$12 million for the Information Media Guarantee Fund. In addition, the budget requests a \$1 billion increase in the Export-Import program limitation in 1981 for the guarantee and insurance program. Fees on this program would reduce budget authority by \$2 million. No outlay effect is anticipated.

SECURITY ASSISTANCE

The President is requesting \$2,450 million for the economic support fund and peacekeeping operations. This is a \$320 million, or 15 percent, increase over the levels provided in 1981. Israel and Egypt will receive \$785 and \$750 million, respectively; the same levels as in 1981. The increase is for an unallocated special requirements fund of \$100 million, an additional \$100 million for Turkey, and increased funding levels to the Indian Ocean region, Southern Africa, and the Eastern Caribbean.

MULTILATERAL DEVELOPMENT BANKS

Congress will be asked to act on several major authorizing bills for the Multilateral Development Banks. Authorization of \$8.8 billion will be sought for the General Capital Increase of the World Bank, which is scheduled to begin in 1982. A \$3.2 billion authorization request for the International Development Association and \$360 million authorization request for the African Development Bank will be reinitiated because action was not completed on this legislation last session. Additional authorizing legislation is requested for the Inter-American Development Bank and the Asian Development Fund because the 1980 authorization for these institutions did not provide the entire U.S. share of the replenishments. (A replenishment is an international agreement to increase the financial resources of a bank in which each donor country contributes a percentage share of the increase.)

The \$2.4 billion budget request for the Multilateral Development Banks in 1982 provides a 52 percent nominal growth over the 1981 program level that primarily reflects the decision to request the entire \$658 million appropriation for the new IBRD replenishment in one installment rather than in six equal annual installments. The appropriation is being requested in full to maintain the U.S. voting share in the Bank. Funding for the other banks is continued at approximately the 1981 level except for the Asian Development Bank in which no replenishment will be underway for the first time in seven years. The 1982 budget request includes approximately \$280 million that was requested but unfunded in 1981.

Neither the 1981 nor 1982 budget request includes an amount for callable capital. (Callable capital serves as a guarantee of the institutions' borrowing in private markets and has never been drawn.) Prior to 1981, these subscriptions required appropriation in full. Although legislation to change this treatment was initiated last session but not passed, the President's budget assumes its enactment. In the absence of the authorizing legislation the budget request would increase by \$1.1 billion in 1981 and by \$1.4 billion in 1982.

Outlays increase from \$949 million in 1981 to \$1.2 billion in 1982. This includes a \$60 million upward reestimate in outlays in each year to take into account the maintenance of value (MOV) payments to the World Bank. The MOV was appropriated in 1972 and 1973 to maintain the value of Bank holdings of U.S. dollars in terms of gold in the wake of the devaluation of the U.S. dollar. Efforts to hold down outlays in 1981 and 1982 will cause outlays to increase in later years.

BILATERAL DEVELOPMENT ASSISTANCE

The 1982 request of \$2,400 million for bilateral assistance is an increase of \$684 million, or 40 percent, over the President's estimate for fiscal year 1981. The largest increases are \$637 million for functional development assistance that provides U.S. bilateral economic assistance to the developing countries and \$59 million for the Sahel development program.

PUBLIC LAW 480

For fiscal year 1982, the President is requesting a program of \$1,741 million to finance the export of 5.8 million metric tons of agricultural commodities. This is an increase of \$26 million in program and 0.2 million metric tons of commodities over the 1981 level. Net of \$478 million in receipts, the Public Law 480 request will require an appropriation of \$1,263 million and outlays of \$1,211 in 1982.