

**BASELINE BUDGET PROJECTIONS:
FISCAL YEARS 1982-1986**

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

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NOTES

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

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

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

PREFACE

The Congressional Budget Office is required by section 308(c) of the Congressional Budget Act of 1974 to issue a report each year that projects new budget authority, outlays, and revenues for the next five fiscal years. This report fulfills that statutory requirement for budget projections for fiscal years 1982 to 1986. The Congressional Budget Act also requires CBO to project tax expenditures for each of the next five fiscal years. A separate report on tax expenditure projections will be issued at a later date.

The revenue projections in this report are identical to the current law revenue estimates used for the conference agreement on the First Concurrent Resolution on the Budget for Fiscal Year 1982. The spending projections in this report were used by the Budget Committees in developing the reconciliation instructions specified in the first budget resolution to achieve spending reductions in 1982-1984. These projections also serve as the baseline that CBO used to prepare estimates of savings for legislation contained in the House and Senate reconciliation bills.

The budget projections in this report are based on Congressional action through the end of the 96th Congress and the economic assumptions used for the first budget resolution for fiscal year 1982. They do not include final Congressional action on the 1981 supplemental appropriations bill nor any new policy initiatives proposed by the Administration or assumed in the 1982 first budget resolution to cut taxes and spending. The report is intended to provide useful background information on the reconciliation instructions to achieve spending reductions.

The report was prepared by staff of the Budget Analysis and Tax Analysis Divisions, under the supervision of James L. Blum. Robert L. Faherty and Francis S. Pierce edited the manuscript, and Paula Spitzig prepared the final manuscript for publication.

Alice M. Rivlin
Director

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SUMMARY

This report provides the Congressional Budget Office (CBO) budget projections for fiscal years 1982-1986 that served as the baseline for the reconciliation instructions contained in the First Concurrent Resolution on the Budget for Fiscal Year 1982. These projections of federal revenues, budget authority, and outlays are based on the economic assumptions of that first budget resolution and essentially assume that tax laws and spending policies in effect at the close of the 96th Congress remain unchanged.

Baseline budget projections typically have the following characteristics:

- o Projected revenues grow more rapidly than the economy because of the progressive nature of individual income taxes;
- o Projected outlays grow at a slower pace than the economy because little or no increase in spending in real terms is assumed for a large share of the budget; and
- o The projected baseline budget begins to show a surplus within the five-year projection period because revenues grow faster than outlays.

Baseline projections are not a forecast of future budgets, since changes will undoubtedly be made in existing taxing and spending laws in response to changes in the economy and in national priorities and needs. Baseline projections do, however, provide a useful starting point for developing new budgetary plans such as those contained in the annual Congressional budget resolutions.

The primary purpose of the CBO budget projections is to provide a neutral baseline against which the Congress can consider potential changes during its deliberations on the annual budget resolutions. The Senate Budget Committee uses CBO budget projections as a starting point for formulating its recommendations for the first budget resolution. The committee makes explicit decisions about how spending and revenues should be altered in the future to meet fiscal policy goals and national needs. The House Budget Committee also uses CBO budget projections to show the outyear effects of its recommendations for the first budget resolution.

The CBO budget projections took on added importance this year because they served as the baseline for the reconciliation instructions

contained in the first budget resolution for 1982. The reconciliation instructions required 14 Senate committees and 15 House committees to revise existing spending programs to achieve outlay reductions of approximately \$36 billion in fiscal year 1982 and even greater amounts in 1983 and 1984. Estimates of spending savings to be generated by committee recommendations have been calculated in terms of reductions from the baseline projections presented in this report.

THE PROJECTIONS

Baseline revenues are projected to rise from \$612 billion in 1981 to \$1,159 billion in 1986--an increase of almost 90 percent in five years (see Summary Table 1). As a percent of the gross national product (GNP), total revenues would rise from 21.4 percent in 1981 to an unprecedented high of 23.9 percent in 1986. This increase is dominated by individual income tax receipts. Because of the progressive structure of individual income taxes, taxpayers are subject to higher rates as their incomes increase. Some of this increased tax burden can be attributed to the effects of inflation. The increase in individual income taxes attributable to inflation is \$15 billion in fiscal year 1982, and that is projected to rise to \$98 billion by 1986 under the baseline economic assumptions.

SUMMARY TABLE 1. BASELINE BUDGET PROJECTIONS (By fiscal year)

	1981 Base	Projections				
		1982	1983	1984	1985	1986
In Billions of Dollars						
Baseline Revenues	612	709	810	920	1,033	1,159
Baseline Outlays	660	739	792	843	895	950
Implied Deficit (-) or Surplus	-48	-30	18	76	138	209
----- As a Percent of GNP						
Baseline Revenues	21.4	22.0	22.3	22.8	23.3	23.9
Baseline Outlays	23.1	22.9	21.8	20.9	20.2	19.6
Implied Deficit (-) or Surplus	-1.7	-0.9	0.5	1.9	3.1	4.3

Under existing tax law, individual income taxes would increase as a share of total revenues from 47 percent in 1981 to 53 percent in 1986. Social insurance taxes and contributions make up the second largest share of total federal revenues--31 percent in 1981, declining slightly to 28 percent in 1986. Although social security contributions will decline as a share of federal revenues, they will grow slightly as a fraction of taxable income because of the tax increases established in the Social Security Amendments of 1977. The Social Security tax rate increases scheduled for 1982, 1985, and 1986 will increase fiscal year 1986 revenues by \$19 billion.

Baseline outlays grow at a slower pace than baseline revenues during the projection period. They are projected to increase from \$660 billion in 1981 to \$950 billion in 1986--an increase of 44 percent (one-half the projected percentage growth in revenues). The projected growth rate for outlays is lower than the assumed growth in the economy. Consequently, projected baseline outlays would fall as a percentage of GNP from 23.1 percent in 1981 to 19.6 percent in 1986.

The largest component of the projected \$290 billion growth in outlays under baseline assumptions is benefit payments for individuals. These payments are for retired and disabled workers and their dependents, unemployed workers, veterans, and low-income families and individuals. They are projected to grow by \$168 billion during the next five years under current laws and policies, largely as a result of projected inflation. Most of these payments are adjusted automatically each year for increases in the cost of living as measured by the Consumer Price Index. Benefit payments are also projected to increase because of growth in the number of beneficiaries and such factors as a rising wage base that leads to higher retirement benefit entitlements for new recipients. Under current policy, benefit payments would increase as a share of total outlays from 48 percent in 1981 to 51 percent in 1986.

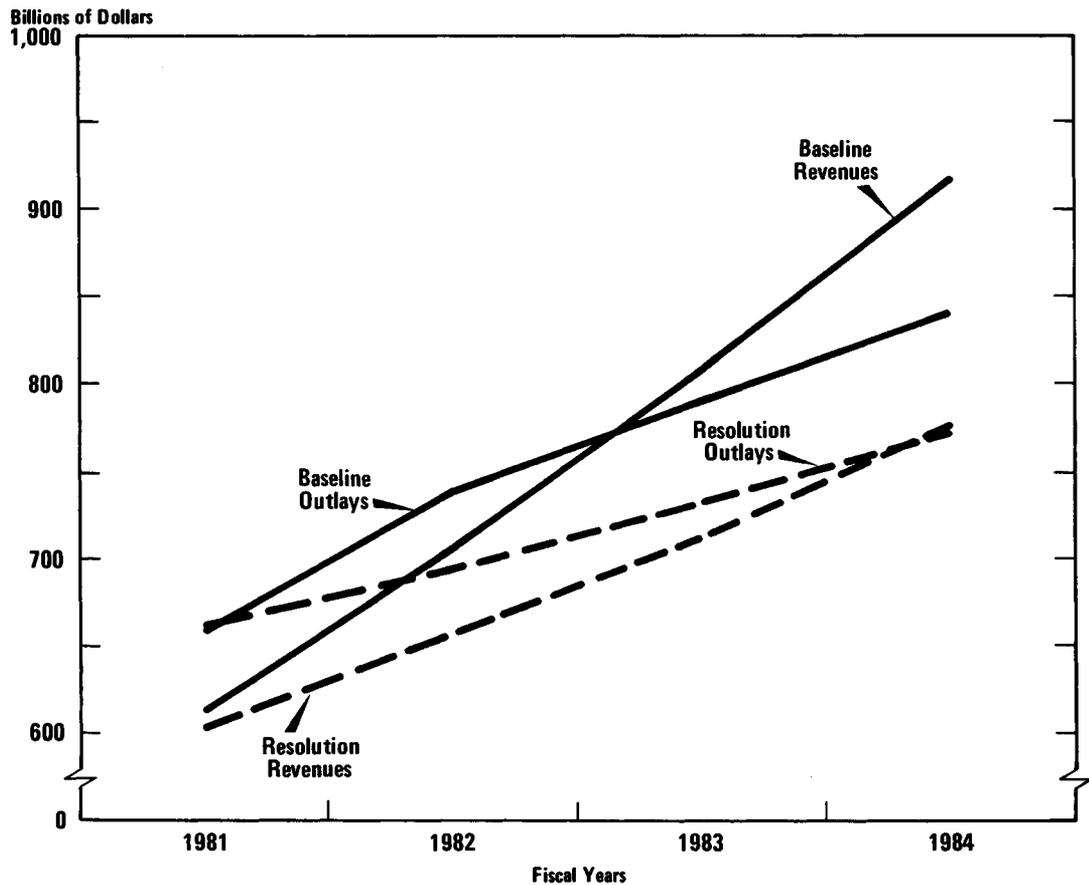
The second largest outlay component, and one that also would increase in its share of the budget during the projection period, is national defense. Under CBO baseline assumptions, national defense outlays would grow by \$94 billion between 1981 and 1986. This growth would exceed the projected rate of inflation by an average of about 3 percent annually. A major reason for this projected real growth is an increase in the cost of strategic forces resulting from the assumed phase-in of the MX missile and a new manned bomber. Relative to the baseline budget as a whole, spending for national defense would increase from 24 percent of total outlays in 1981 to about 27 percent in 1986.

Net interest outlays, which represent interest paid on that portion of the public debt held by the public, have been the fastest growing category of

federal spending during the last five years. They now account for 10 percent of total outlays. Under baseline assumptions, however, net interest outlays would decrease by \$7 billion by 1986, when they would make up only 6 percent of the budget. Grants to state and local governments (other than for benefit payments) would also decline as a share of the budget under baseline assumptions, from 9 percent in 1981 to 7 percent in 1986.

Under baseline assumptions, the budget would begin to show a surplus in 1983. By 1986, this surplus would grow to sizable proportions (over \$200 billion) because of the faster growth of revenues than outlays. Such a result, however, would not be consistent with the underlying economic growth assumptions. If existing tax laws were unchanged during the next

Summary Figure.
Baseline Projections and Budget Resolution Targets



five years, rising tax burdens--caused largely by inflation and the progressive tax structure--would slow economic growth. For the assumed economic growth to be realized, sizable tax cuts would in all likelihood have to be made to offset the increasing tax burden in the baseline budget projections. Such tax cuts are, in fact, assumed in the first budget resolution for 1982.

BUDGET RESOLUTION TARGETS

The first budget resolution proposes large cuts in baseline revenues and a sharp reduction in federal spending from baseline levels (see the Summary Figure). The reductions from projected baseline revenues are \$51 billion in 1982, \$97 billion in 1983, and \$145 billion in 1984 (see Summary Table 2). The intent of the budget resolution is to accommodate the Administration's entire tax program as outlined in its March budget revisions. These tax cuts would lower revenues relative to GNP to 19.2 percent in 1984, a level last attained in 1977. The resolution outlay target for 1982 is \$43 billion below the projected baseline level, and for 1984 the reduction grows to \$70 billion. Outlays as a percentage of GNP would fall to 19.2 percent in 1984, the lowest level since 1966.

In addition to dramatically slowing the annual growth of federal spending, the first budget resolution would significantly change spending

SUMMARY TABLE 2. BUDGET RESOLUTION TARGETS AND CHANGES FROM BASELINE PROJECTIONS (By fiscal year, in billions of dollars)

	1981 Base	Projections		
		1982	1983	1984
Revenues				
First budget resolution	603	658	713	775
Change from baseline	-9	-51	-97	-145
Outlays				
First budget resolution	661	695	732	774
Change from baseline	1	-43	-60	-70
Deficit (-) or Surplus				
First budget resolution	-58	-38	-19	1

priorities from those of the baseline. The first resolution targets for national defense outlays exceed the projected baseline levels for the next three years, and by 1984 would be \$29 billion above the CBO defense baseline estimate. Nondefense outlays, however, would be reduced by large amounts below projected baseline levels. These reductions would total \$48 billion in 1982, \$80 billion in 1983, and \$98 billion in 1984. The major portion of these reductions is assumed to be achieved through the reconciliation process. The outlay savings included in the reconciliation instructions for nondefense programs total about \$34 billion in 1982, \$44 billion in 1983, and \$52 billion in 1984. Most of these reconciliation reductions are targeted for the human resources categories, particularly those covering education, training, employment, social services, and income security programs. Other major reductions are contemplated for energy, transportation, and natural resources and environment programs.

The first budget resolution also assumes that additional reductions in nondefense spending will be achieved outside of the reconciliation process through the appropriation process or by other means. These additional outlay savings from the projected baseline levels for nondefense programs total \$14 billion for 1982, \$36 billion for 1983, and \$46 billion for 1984. Over half of these additional nondefense savings in 1983 and 1984 consist of unspecified future legislative changes. They amount to \$20 billion in 1983 and \$28 billion in 1984.

The baseline budget projections and those in the first budget resolution both depend on the underlying economic assumptions. Changes in economic conditions can have dramatic effects on the budget. A reduction in real growth or an increase in the unemployment rate will lead to reductions in revenues, increases in outlays, and increases in the budget deficit (or decreases in the surplus). An increase in inflation will lead to increases in both revenues and outlays, but the effect on revenues will be greater so that, on balance, the change will lead to a smaller deficit (or larger surplus). An increase in interest rates would also increase both revenues and outlays, but the revenue effect would be quite small so that, on balance, the change would lead to a larger deficit (or smaller surplus).

CHAPTER I. INTRODUCTION

This report provides projections made by the Congressional Budget Office (CBO) of federal revenues, budget authority, and outlays for fiscal years 1982-1986. These projections are not a forecast of future federal budgets since the budgets for the next five years will include changes in current tax laws and spending policies. The projections are those that would hold if existing tax laws were to remain in effect and if spending policies at the end of the 96th Congress, adjusted for inflation, were to continue unchanged. They are designed to provide a useful baseline against which the effects of different taxing and spending policies can be evaluated. The Senate Budget Committee, for example, uses baseline budget projections as the starting point each year for formulating multiyear budget targets in the first concurrent resolution on the budget. Also, the spending projections in this report served as the baseline for developing the reconciliation instructions contained in the First Concurrent Resolution on the Budget for Fiscal Year 1982 to achieve spending reductions in 1982, 1983, and 1984.

THE BASELINE CONCEPT

The baseline concept for the revenue projections is quite simple: federal tax laws existing at the end of the 96th Congress are assumed to continue unchanged, and all future tax changes under current law will occur as scheduled. The projections of tax receipts are calculated in terms of current dollars and include the effects of real economic growth and inflation on taxable incomes. This concept is consistent with the definition of current law revenues used by Congressional budget and tax-writing committees and by the Administration.

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The baseline concept for the spending projections is more complex. As discussed more fully in Chapter II, federal spending can be divided essentially into two categories. About half of total net federal spending is mandated by existing law. This includes spending for Social Security benefits and other entitlement programs, for permanent appropriations such as interest on the public debt, and for most trust funds and other special funds. The baseline spending projections for these programs are comparable to the baseline revenue projections. The projections assume that existing law at the close of the 96th Congress will continue unchanged, and that future spending will respond to assumed economic and population changes in essentially the same way that they have responded to such changes in the past.

The remainder of the federal spending budget is discretionary under existing law and is subject to annual review through the appropriation process. The baseline projections for these programs are generally based on fiscal year 1981 appropriation funding levels as enacted by the Congress through December 1980, with increases in the projection period to keep pace with inflation. For some discretionary spending, such as defense programs, the baseline projections also include future programmatic changes that can be associated with specific Congressional decisions through the end of the 96th Congress.

A number of special assumptions also must be made as to what constitutes current policy for the baseline spending projections. The 96th Congress, for example, did not complete final action on all of the regular appropriation bills for 1981--the base period for the projections. The Congress authorized continued funding for the affected programs in December 1980 in a continuing resolution that was scheduled to expire on June 5, 1981. The baseline spending projections for these programs assume that the spending authority in that continuing resolution would be extended to the end of the fiscal year.

The baseline spending projections also assume that the Congress would enact a 1981 supplemental appropriations bill before the end of the fiscal year to provide additional funds for certain programs such as food stamps, veterans' readjustment benefits, Small Business Administration disaster loans, and for the pay raise for federal civilian and military employees that went into effect on October 1, 1980. In addition, the projections assume that future federal pay raises would be made in accordance with existing law, based on projected results of the annual pay comparability survey, and including a 4 percentage point "catch up" in October 1981 for the below-comparability increases for October 1978 through October 1980.

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After the baseline projections were prepared, a 1981 supplemental appropriation and rescission bill was enacted that included most of the spending items assumed for the projections base, including an extension of the continuing resolution authority to the end of the fiscal year. The baseline spending projections do not, however, include any of the spending rescissions nor all of the additional funds provided in the 1981 supplemental and rescission bill. Also, the baseline projections do not include any tax cuts or spending reductions for 1981-1984 that have been proposed by the Administration or anticipated in the First Concurrent Resolution on the Budget for Fiscal Year 1982 approved by the Congress on May 21, 1981 (H. Con. Res. 115).

Comparison with OMB Projections

The baseline concept for the CBO budget projections is very similar to the concept used by the Office of Management and Budget (OMB) for its current services projections. ^{1/} Beginning with the 1981 budget, OMB has included inflation adjustments for discretionary programs in its current services estimates; CBO has always done this in its current policy projections.

The CBO baseline projections differ from the OMB current services projections in two important aspects. First, the OMB projections are for only one year beyond the current fiscal year, whereas the CBO projections cover a five-year period. The longer projection period is more useful for multiyear budget planning. Second, the OMB projections for discretionary spending programs generally make no specific programmatic assumptions about future spending needs based on current policy. The OMB projections simply extrapolate into the next year the same level of resources (usually in terms of budget authority) provided in the base year, with increases for anticipated inflation. While this may be reasonable for many federal programs that do not change significantly from year to year, it poses a serious problem for programs whose outyear spending needs are influenced or determined by current policy decisions. The major example is defense spending. Under the OMB approach, it is not possible to identify the outyear budget costs of specific defense weapon systems that have been approved by the Congress. Thus, it is not possible to calculate the budgetary effects of explicitly adding or deleting various defense weapon systems when formulating a multiyear budget plan.

To overcome this disadvantage, CBO has developed an alternative approach to defense projections. The CBO baseline projections now assume an explicit defense force structure and investment program that is consistent with Congressional guidance and action on the base-year budget. The projected force structure reflects announced changes in the force level, the introduction of new weapon systems purchased in the current and previous years, and the planned deactivation of obsolete or worn-out systems. The projected investment programs represent the outyear effects of fiscal year 1981 authorization and appropriation decisions through the end of the 96th Congress. ^{2/}

^{1/} For a discussion of the OMB current services concept, see Special Analysis A in Special Analyses, Budget of the United States Government, Fiscal Year 1982 (January 1981).

^{2/} See Appendix C for a more detailed discussion of the CBO defense baseline projections.

A similar approach is used for certain other discretionary programs for which assumptions can be made about future program levels. The CBO baseline projections for the strategic petroleum reserve, for example, are based on the planned fill rates that the Administration used for its March budget estimates. This baseline approach will be applied to other discretionary program areas in future projections when programmatic assumptions can be related to specific Congressional decisions or Administration plans, and when the approach will be useful in considering budget options.

THE USE OF BASELINE PROJECTIONS

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

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

CBO budget projections took on added importance this year because they served as the baseline for the reconciliation instructions contained in the first budget resolution for 1982. The reconciliation instructions required Senate and House committees to revise existing spending programs to achieve outlay reductions of approximately \$36 billion in fiscal year 1982 and even greater amounts in 1983 and 1984. These reductions are necessary for the committees to remain within their spending limits as contemplated by the first budget resolution. The reconciliation instructions contained specific targets for spending savings, but each committee had discretion regarding how these savings were to be achieved and what specific programs were to be reduced.

Estimates of spending savings to be generated by the committee reconciliation recommendations were calculated in terms of reductions from the baseline projections used by the Budget Committees. The spending projections presented in this report are identical to the baseline projections