PERSPECTIVES ON THE BUDGET

This part of the budget explains several topics that help to interpret the budget totals and to place the budget in perspective:

- the relationship of budget authority to outlays;
- limitations on the availability of funds;
- fiscal activities outside the Federal budget:
  - —outlays of off-budget Federal entities,
  - —Government-sponsored enterprises,
  - —loan guarantees, and
  - —tax expenditures;
- Federal debt and the relationship of budget funds to changes in Federal debt;
- the difference between the initial 1983 budget estimate and the actual outcome for:
  - —total outlays,
  - —outlays of relatively uncontrollable programs, and
  - —total receipts; and
- the allocation of windfall profit tax receipts.

RELATIONSHIP OF BUDGET AUTHORITY TO OUTLAYS

The Congress must usually provide budget authority, generally in the form of appropriations, before Federal agencies can obligate the Government to make outlays. For 1985, $1,006.5 billion of new budget authority is proposed for those Federal agencies included in the budget. In addition, $24.7 billion in new budget authority is proposed for those Federal entities that are excluded from the budget.[1]

Of the total new budget authority proposed for agencies within the budget in 1985, $560.8 billion will require congressional action. New budget authority of $628.9 billion will be available through permanent appropriations under existing law. This consists mainly of trust fund receipts, which in most trust fund programs are automatically appropriated under existing law, and interest on the public debt, for which budget authority is automatically provided under a permanent appropriation enacted in 1847. This gross amount of new budget authority is offset by $183.2 billion of deductions for offsetting receipts, which consist of transactions within the Government and proprietary receipts from the public. Most of

[1] Budget authority is discussed further in Part 7 of this volume.

the budget authority proposed for off-budget Federal entities will be available under existing law.

BUDGET AUTHORITY

(In billions of dollars)

Description	1983 actual	1984 estimate	1985 estimate	1986 estimate	1987 estimate
Available through current action by the Congress:					
Enacted and pending appropriations	525.6	521.7	.....	.....	.....
Proposed in this budget:					
Appropriations	.....	.....	551.5	605.4	641.7
Supplemental requests	.....	5.3	.....	.....	.....
Rescission proposals	.....	−0.4	.....	.....	.....
To be requested separately:					
Upon enactment of proposed legislation	.....	0.3	5.3	5.9	6.1
Allowances:					
Civilian agencies [1]	.....	.....	0.4	3.1	5.2
Department of Defense—Military [2]	.....	.....	3.1	9.1	14.9
Other allowances [3]	.....	.....	.5	1.1	1.1
Subtotal, available through current action by the Congress	525.6	527.0	560.8	624.6	669.0
Available without current action by the Congress (permanent appropriations):					
Trust funds (existing law)	326.6	355.7	417.2	451.4	488.2
Interest on the public debt [4]	128.8	149.5	164.5	177.4	187.6
Other	52.3	29.9	47.2	46.1	47.0
Subtotal, available without current action by the Congress	507.7	535.1	628.9	674.9	722.8
Deductions for offsetting receipts	−166.5	−149.6	−183.2	−199.2	−210.6
Total, budget authority	866.7	912.5	1,006.5	1,100.3	1,181.2
ADDENDUM					
Budget authority for off-budget Federal entities:					
Available through current action by the Congress	2.1	0.6	1.9	1.7	1.7
Available without current action by the Congress	19.1	28.4	22.8	10.8	8.3
Total, off-budget Federal entities	21.2	29.1	24.7	12.4	10.0
Total, budget authority including off-budget Federal entities	887.9	941.6	1,031.2	1,112.7	1,191.2

* $50 million or less.
[1] Allowance for civilian agency pay raises.
[2] Includes allowances for civilian and military pay raises for Department of Defense—Military.
[3] Allowance for increased employing agency payments for employee retirement.
[4] Increases in interest on the public debt are included as proposed legislation above in the following amounts: 1984, less than $50 million; 1985, $0.2 billion; 1986, $0.5 billion; 1987, $1.0 billion.

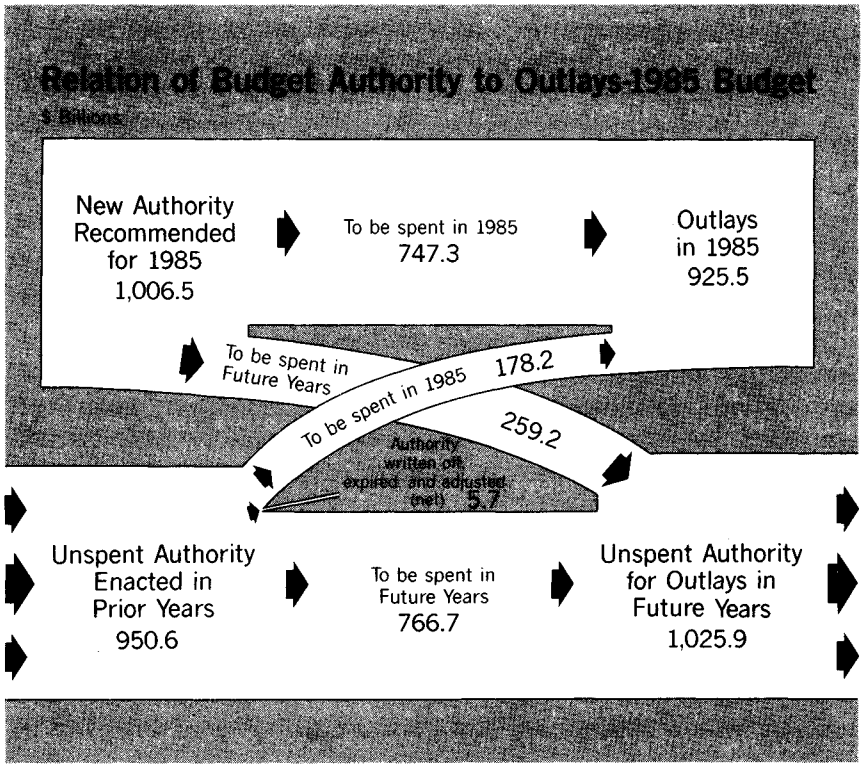
Not all of the new budget authority for 1985 will be obligated or spent in that year: [2]

[2] This subject is also discussed in a separate OMB report, "Balances of Budget Authority," which can be purchased from the National Technical Information Service shortly after the budget is transmitted.

- Budget authority for most trust funds comes from the authority of these funds to spend their receipts from special taxes and contributions and from Federal fund payments. Any balances arising from these receipts remain available to these trust funds indefinitely in order to finance benefits and other purposes specified by law.
- Budget authority for most major construction and procurement projects covers the entire cost estimated when the projects are initiated, even though costs will be incurred and outlays made over a period extending beyond the year for which the budget authority is enacted. Some exceptions are made to this convention, notably for water resource programs.
- Government enterprises are occasionally given budget authority for standby reserves that will be used only in the event of special circumstances.
- Budget authority for the subsidized housing programs is equal to the Government's estimated obligation to pay subsidies under contracts, which may extend for periods of up to 40 years.
- Budget authority for most other long-term contracts also covers the estimated maximum obligation of the Government.
- Budget authority for many direct loan programs provides financing for a number of years; budget authority for many insurance and loan guarantee programs consists of amounts to be used only in the event of defaults or other contingent claims made upon the programs.

As a result of these factors, a substantial amount of budget authority carries over from one year to the next. Most of this is earmarked for specific uses and is not available for new programs. A small part may never be obligated or spent, because it is primarily for contingencies that do not occur or reserves that never have to be used.

As shown in the chart on the next page, $178.2 billion of the budget outlays in 1985 (19% of the total) will be made from budget authority enacted in previous years. At the same time, $259.2 billion of the new budget authority proposed for 1985 (26% of the total amount proposed) will not lead to budget outlays until future years. Thus, the total budget authority for a particular year is not useful for the analysis of that year's outlays, since it combines various types of budget authority that have different short-term and long-term implications for budget obligations and outlays. The relationship between budget authority, obligations, and outlays is discussed further in Part 7 of the *Budget* and displayed in table 9 of Part 9.



LIMITATIONS ON THE AVAILABILITY OF FUNDS

Limitations on the availability of funds are another control mechanism that supplements the use of appropriations or other budget authority discussed in the previous section. Limitations on the availability of funds generally are not the source of authority to incur obligations; rather, they place a special ceiling on the use of authority by limiting the amount that can be obligated or committed for a specific purpose. These limitations are established most often through the appropriations process.

Some limitations establish stricter control over amounts provided by appropriations or other acts.

- Many appropriation accounts provide funding for several activities. A limitation can single out and restrict obligations for one or more of these activities within the overall budget authority provided for the account. For example, the 1984 appropriation of $844 million for Operation of Indian programs in the Department of the Interior includes language specifying that an amount not to exceed $55 million is available for higher education scholarships.
- In some instances limitations are established on the amount that can be used for a particular type of expense, such as the

purchase of passenger vehicles, travel, or entertainment. These can be restricted to a single account; can cover all amounts within a single appropriations act; or in some cases, can cover amounts in more than one appropriations act or amounts provided in substantive law.

Limitations are frequently used for the above purposes. However, such use generally does not change the overall availability of funds within an appropriation or fund account, because the amounts covered by these limitations could be used for other purposes as authorized by law.

Other limitations can affect the total level—not just the composition—of on and off-budget obligations and spending. As discussed in the previous section on budget authority, limitations in one year can affect spending in subsequent years as well as the current year. They are used to control funds that would otherwise become available under relatively broad authority provided in substantive law without Appropriations Committee action. In most cases these limitations apply either to some trust fund activities, which are normally financed through earmarked receipts for a specific purpose, like the payroll tax receipts for the social security trust funds; to revolving funds, which finance business-type operations that generate their own income to pay their expenses; or to other accounts where substantive law provides spending authority. The three main types of this kind of limitation are as follows:

- Under the credit control system, limitations on Federal direct loan obligations and guaranteed loan commitments are the principal method of controlling the allocation of Federal credit.[3] These limitations provide a mechanism for annual Congressional review of the gross level of new loan activity. Most direct loan programs are financed through revolving funds, such as the rural development insurance fund and the Export-Import Bank. All direct lending and all loan guarantees that result in direct loans by the Treasury Department's off-budget Federal Financing Bank will result in gross outlays. The other guaranteed loan limitations, though also important because of effects on the credit market and the economy, generally do not lead to Government spending except in the event of default.
- Certain Federal programs in addition to credit activities are also constrained through the use of limitations on operating and administrative expenses. For example, the use of the budget authority of the highway and airport and airway trust funds is controlled by limitations on the agency's ability to obligate the Federal Government to make payments. Non-

[3] The credit control system is discussed further in Part 7 of this volume and in Special Analysis F, "Federal Credit Programs."

loan, business-type activities that are controlled through limitations include the Federal buildings fund and the national defense stockpile transaction fund, both through limitations on the use of receipts.

- For many trust funds, all receipts of the fund automatically become budget authority and are available for spending. The Congress exercises control over the benefits that are paid from these funds through the use of eligibility criteria and benefit levels established in substantive law. With the use of limitations, the Congress can also exercise control over the administrative expenses of these trust funds. Such limits apply, for example, to the old-age and survivors insurance trust fund and the hospital insurance trust fund. Administrative amounts in the unemployment trust fund are not available in the absence of authorization in appropriations acts.

The following table summarizes some of the major limits on the availability of funds that affect on or off-budget spending. The amounts identified are not inclusive of all limitations, especially for credit programs, but help to illustrate that significant spending changes can be directed without changing budget authority.

SELECTED LIMITATIONS THAT AFFECT OUTLAYS

(In billions of dollars)

	1983 enacted	1984 estimate	1985 estimate
Direct loans:			
Direct loan obligations	12.7	11.9	11.0
Guaranteed loan commitments resulting in direct loans by the FFB	9.9	8.5	1.3
Program levels (other than loans)	11.3	16.8	18.4
Administrative expenses	7.2	7.6	7.8
Total, selected limitations	41.1	44.8	38.5

FISCAL ACTIVITIES OUTSIDE THE FEDERAL BUDGET

The budget does not include a number of fiscal activities of the Federal Government that result in spending similar to budget outlays. These activities, nevertheless, channel economic resources toward particular uses in ways that are analogous to the effects of budget spending.

The outlays of off-budget Federal entities are a major exclusion from the budget. They are discussed in some detail below. This is followed by a description of the Government-sponsored enterprises, which are outside the budget because of their private ownership. Loan guarantees, which are discussed next, allocate economic resources toward particular uses by providing credit to borrowers at more favorable terms than would otherwise be available in the private market. Taxation and tax expenditures, which also have

significant allocative effects on the economy, are discussed subsequently.

The regulation of economic activity changes resource allocation in different ways. Some types of regulation have economic effects that in certain respects are similar to budget outlays by requiring the private sector to make expenditures for specified purposes such as safety and pollution control. The effects of this spending are very important, but many of them have not been quantified satisfactorily and therefore cannot be clearly related to the budget.

Outlays of off-budget Federal entities.—Off-budget Federal entities are federally owned and controlled, but their transactions have been excluded from the budget totals under provisions of law.[4] [5] Therefore, their spending is not reflected in either budget outlays or the budget surplus or deficit; appropriation requests for their programs are not included in the totals of budget authority for the budget; and their outlays are not subject to the targets set by the congressional budget resolutions. As shown in the table on page 6-25, the outlays of the off-budget Federal entities are added to the budget deficit to derive the total Government deficit, which for the most part has to be financed by borrowing from the public. When off-budget outlays are financed by Treasury borrowing, as is usual, the additional debt is subject to the statutory debt limitation; when financed by the entities' own borrowing, it is not. In either case the additional debt is part of the gross Federal debt.

Since the 1969 budget, the Federal Government has used the unified budget concept as the foundation for its budgetary analysis and presentation. This concept measures the Government's cash payments to and from the public. The first departure from the unified budget concept occurred in August 1971, when the Export-Import Bank was excluded by statute from the budget. Further departures followed in the next few years under various statutes. The Postal Service fund, the Rural Telephone Bank, the lending transactions that became the Rural Electrification and Telephone revolving fund, and the Housing for the Elderly or Handicapped fund were removed from the budget. The Federal Financing Bank, the U.S. Railway Association, and the Pension Benefit Guaranty Corporation were established off-budget. The Exchange Stabilization Fund had always been outside the unified budget, although it was initially classified as a deposit fund instead of an off-budget Federal entity.

In the past few years the trend toward steadily increasing the number of off-budget Federal entities has been changed. The

[4] Financial statements for off-budget Federal entities are published in the *Appendix, Budget of the United States Government, Fiscal Year 1985.* See Part III, "Off-Budget Federal Entities."

[5] The Board of Governors of the Federal Reserve System is a Federal organization. It is excluded from the budget and from this discussion.

Export-Import Bank, the Housing for the Elderly or Handicapped fund, and the Pension Benefit Guaranty Corporation were put on-budget by statute in different years. The operations of the Exchange Stabilization Fund were put on-budget in a series of legislative and administrative actions. Most of the transactions of the U.S. Railway Association were brought into the budget by legislation that required its purchases of Conrail securities to be included in the budget. Whenever a former off-budget entity was put on-budget, the budget outlays and deficits of previous years were revised to include the entity to the extent feasible so that the historical series measuring budget transactions would be as accurate and consistent as possible.

Two new off-budget Federal entities, however, were established to carry out energy programs. The Synthetic Fuels Corporation was created outside of the budget in 1980, although all of its funding is provided in the budget totals of the Treasury Department. The cost of purchasing oil for the strategic petroleum reserve was put off-budget beginning in 1982. The costs of operations, maintenance, construction, and administration, however, remain in the budget. The Social Security Amendments of 1983 provide that beginning in 1993 the old-age and survivors insurance trust fund, the disability insurance trust fund, and the hospital insurance trust fund shall be excluded from the budget.

Despite the exclusion of the off-budget entities from the budget, some of the outlays related to their operations are nonetheless included in the budget totals. The budget totals include the funding of the Synthetic Fuels Corporation, certain expenses of the strategic petroleum reserve, the Federal payment to the Postal Service fund, and the administrative expenses of the Rural Electrification Administration lending programs and of the U.S. Railway Association. Moreover, while the budget authority and outlays of off-budget Federal entities are excluded from the budget totals, some of their activities are subject to other methods of Presidential and congressional review. For example, the credit budget, discussed on page 6-19 and in Part 7 of this volume, includes the direct loans and guaranteed loans of off-budget entities as well as budget agencies; and the outstanding debt and annual borrowing of the Postal Service are limited by statute.

Even though the exclusion of off-budget Federal entities from the budget results from provisions of law, the executive and the Congress have on several occasions expressed concern about this practice and have taken actions to control off-budget spending. This Administration has been very concerned about the effects of off-budget direct loans in allocating credit toward particular uses and about the necessity of financing these loans by additional Federal borrowing from the public. It has used the credit budget process to

help reduce off-budget direct loans from $20.9 billion in 1981 to an estimated $13.2 billion in 1984 and still lower levels in 1985 and later years.

This Administration also supports the basic intent of the bills before the Congress that would include the outlays of programs financed by the Federal Financing Bank (FFB) in the budget and would charge these outlays to the agencies that use the FFB to finance their programs. This would improve the review and control of Federal outlays by both the Congress and the executive branch. At the same time, these bills would prevent agencies from avoiding the budgetary control process by financing their programs through fully guaranteed obligations of the type ordinarily financed in the investment securities market. Thus, this change would improve budgetary control while maintaining the principle of efficient debt management that was the purpose for setting up the FFB.

Within Congress, the budget resolutions for 1980 recommended that the congressional budget process should accurately relate the off-budget outlays to the budget. Following this procedural recommendation, the budget resolutions beginning in 1981 have included targets for credit that covered the obligations for new direct loans made by the off-budget Federal entities. The 1984 congressional budget resolution furthermore recommended that the outlays resulting from FFB transactions should be attributed to the agencies using the FFB rather than to the off-budget FFB itself.

The off-budget Federal entities, except for the strategic petroleum reserve account and the Postal Service, incur their outlays in order to carry out direct loan programs. These programs have the same general characteristics as the direct loan programs in the budget. The outlays of the off-budget loan programs are approximately equal to the difference between the new loans disbursed and the repayments of principal. The difference is due to such factors as administrative expenses and interest paid and received.

Like direct loans in the budget, the loans of the off-budget entities are designed to allocate economic resources toward particular purposes. Part 5 of the *Budget,* "Meeting National Needs: the Federal Program by Function," shows the outlays of the off-budget Federal entities by function and discusses some of their more significant activities.

As the following table shows, the Federal Financing Bank accounts for most of the off-budget outlays. The only other off-budget Federal entities with comparatively large outlays are the strategic petroleum reserve account and, in some years, the Postal Service fund. The outlays of the Postal Service fund and the Synthetic Fuels Corporation are calculated net of offsets for the payments that they receive from accounts in the budget. These offsets are estimated to be $1.7 billion and $0.2 billion, respectively, in 1985.

OUTLAYS OF OFF-BUDGET FEDERAL ENTITIES

(In billions of dollars)

Off-budget Federal entity	1983 actual	1984 estimate	1985 estimate	1986 estimate	1987 estimate
Federal Financing Bank	10.4	12.7	10.2	6.9	4.4
Rural Electrification and Telephone revolving fund	—*				
Rural Telephone Bank	.1	.2	.2	.2	.2
Strategic Petroleum Reserve account	1.6	2.2	1.7	1.6	1.7
Postal Service fund	.3	1.2	2.8	.1	1.0
U.S. Railway Association	—.1	—.1			
Synthetic Fuels Corporation					
Total	12.4	16.2	14.8	8.8	7.2

*$50 million or less.

The payment to the Postal Service fund is primarily for revenue forgone from carrying certain mail at free or reduced rates; the payment to the Synthetic Fuels Corporation is to fund its entire operations.

The Federal Financing Bank does not operate programs itself. Rather, the FFB finances other programs within the Government by purchasing their debt securities, making direct loans on their behalf, or purchasing their loan assets. FFB obtains the funds for these transactions by borrowing an equal amount from Treasury. The operation of the assisted programs remains with the agencies that FFB finances.

FFB purchases of agency debt securities do not increase FFB outlays. An agency incurs outlays when it spends the proceeds of its borrowing from the FFB, so FFB outlays must exclude this borrowing transaction in order to prevent double counting.

In contrast, FFB outlays are generated by its direct loans and its purchases of loan assets. Both types of transactions involve loan guarantees by another agency. FFB makes direct loan disbursements to the public upon the request of an agency, with the repayment of the loan to the FFB being guaranteed by that agency. These direct loans are outlays outside the budget.

FFB purchases loan assets from various agencies, also upon agency request. Loan assets are loans that an agency has made to the public and for which repayments are still owed. The agency guarantees the loan assets sold to the FFB in order to ensure that the FFB will be paid in the event of default. Loan asset sales are offsets to the outlays of the agency that sells them, regardless of whether they are sold to the FFB or the public. Sales thus reduce the size of an agency's outlays immediately rather than over the normal course of time during which the loans that are sold would be repaid. Therefore, if the selling agency's outlays are included in the budget, the budget outlays caused by its direct loans are offset by the amount of its sales of loan assets. 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.

According to law, the category of loan assets also includes certificates of beneficial ownership issued by the Farmers Home Administration and the Rural Electrification and Telephone revolving fund. These certificates are securities backed by loans that the agency continues to hold and service, and they comprise almost all of the loan assets bought by FFB. The President's Commission on Budget Concepts recommended that the sale of such securities (also known as participation certificates) be treated as borrowing, since as a means of financing outlays there is little difference between an agency selling securities labeled "certificates of beneficial ownership," the same agency selling securities labeled "debt," and the Treasury selling securities labeled "debt."[6]

The remainder of FFB outlays consists of the interest that it pays on its borrowings from Treasury, its administrative expenses, and its payment of surplus income to the general fund, the sum of which is offset by the interest that it receives on its holdings of loans and debt. However, under current policy the net interest received (less administrative expenses) is paid in the same year to the general fund. Therefore, this remainder is approximately zero, and FFB outlays approximately equal direct loan disbursements to the public plus purchases of loan assets from other agencies, less repayments.

In order to present the effects of the FFB's transactions for different programs, the budget documents attribute the FFB outlays that are made on behalf of an agency to that agency itself. The following table summarizes this attribution, showing the direct loans to the public or purchases of loan assets, less repayments, for selected agencies and programs. The attribution of FFB outlays by function is shown as an addendum to the tables throughout Part 5, and a complete listing is given in Part 8 in the section that displays the off-budget entities.

As shown in this table, FFB finances a wide variety of programs. Since its inception, over half of its outlays have been for the purchase of certificates of beneficial ownership from the Farmers Home Administration. This proportion is now around one-quarter, however, and is estimated to remain about the same in the next few years due to large repayments of previously issued certificates and declining FFB purchases of new certificates. In 1983 and 1984 over half of FFB outlays are accounted for by direct loans to the public guaranteed by the Rural Electrification and Telephone revolving fund and the foreign military sales credit program. The direct loans guaranteed by the Rural Electrification and Telephone

[6] See *Report of the President's Commission on Budget Concepts* (Washington: U.S. Government Printing Office, 1967), pp. 8, 47-48, and 54-55.

ATTRIBUTION OF FEDERAL FINANCING BANK OUTLAYS

(In millions of dollars)

Description	1983 actual	1984 estimate	1985 estimate	1986 estimate	1987 estimate
Outlays from loans, by agency or program:					
Farmers Home Administration: certificates of beneficial ownership	2,955	4,367	2,621	1,481	1,218
Rural Electrification and Telephone revolving fund:					
Certificates of beneficial ownership	344	403	459	262	113
Direct loans to public	2,657	3,565	3,185	4,005	2,805
Foreign military sales credit	2,858	3,631	1,964	−329	−1,024
Energy	554	436	270	15	.....
Housing and Urban Development:					
Section 108 loan guarantees	60	134	47	−105	−129
Low-rent public housing	443	160	1,169	1,133	1,117
Transportation: Railroad programs	15	−890	−*	−14	−15
National Aeronautics and Space Administration	189	131	.....	−7	−86
Small Business Administration	182	636	409	390	384
Tennessee Valley Authority: Seven States Energy Corporation	161	165	88	117	31
Other	−22	−12	−19	−45	−45
Subtotal, outlays from loans	10,396	12,725	10,194	6,903	4,369
Interest, administrative expenses, and payment of surplus income	9	3	.....	.....	.....
Total, FFB outlays	**10,404**	**12,729**	**10,194**	**6,903**	**4,369**

*$500 thousand or less.

revolving fund are estimated to remain sizable during 1985–87 and to be the largest source of FFB outlays in these years. However, the Administration has proposed that the foreign military sales credit program shift its new activity to on-budget direct loans beginning in 1985. This gradually reduces the estimated outlays made by FFB for this program, as obligations made before 1985 result in fewer and fewer new direct loan disbursements and as repayments continue to be received from loans previously made. During the same years that FFB outlays for the foreign military sales credit program decrease, though, FFB outlays for low-rent public housing rise. FFB outlays as a whole are estimated to decrease substantially.

Since the Farmers Home Administration is on-budget, FFB's purchase of its certificates of beneficial ownership reduces total budget outlays as well as Farmers Home outlays. The total outlays of the Federal Government are not affected, since the decrease in budget outlays is exactly offset by the increase in off-budget outlays. FFB's purchase of certificates of beneficial ownership from the off-budget Rural Electrification and Telephone revolving fund reduces the outlays of this fund to a very small amount, as shown in the preceding table on the outlays of off-budget entities. The purchase

COMPARISON OF OUTLAYS FOR THE BUDGET, OFF-BUDGET FEDERAL ENTITIES, AND GOVERNMENT-SPONSORED ENTERPRISES

(In billions of dollars)

Fiscal year	Outlays			
	Federal Government [1]			Government-sponsored enterprises [2]
	Budget	Off-budget Federal entities	Total	
1965	118.4	.....	118.4	1.2
1966	134.7	.....	134.7	1.9
1967	157.6	.....	157.6	−2.9
1968	178.1	.....	178.1	1.7
1969	183.6	.....	183.6	4.3
1970	195.7	.....	195.7	9.6
1971	210.2	.....	210.2	*
1972	230.7	.....	230.7	4.4
1973	245.6	0.1	245.7	11.4
1974	267.9	1.4	269.4	14.5
1975	324.2	8.1	332.3	7.0
1976	364.5	7.3	371.8	4.6
TQ	94.2	1.8	96.0	2.3
1977	400.5	8.7	490.2	9.7
1978	448.4	10.4	458.7	24.5
1979	491.0	12.5	503.5	25.9
1980	576.7	14.2	590.9	25.3
1981	657.2	21.0	678.2	33.4
1982	728.4	17.3	745.7	42.4
1983	796.0	12.4	808.3	34.3
1984 estimate	853.8	16.2	870.0	38.2
1985 estimate	925.5	14.8	940.3	41.0
1986 estimate	992.1	8.8	1,000.9	(3)
1987 estimate	1,068.3	7.2	1,075.5	(3)

*$50 million or less.

[1] The 1972–80 data have been revised to include the Export-Import Bank, the Housing for the Elderly or Handicapped fund, and the Pension Benefit Guaranty Corporation in the budget instead of with the off-budget Federal entities. The administrative expenses and interest collections of the Exchange Stabilization Fund are included in the budget beginning in 1976, and the actual profits and losses realized from foreign exchange transactions are included beginning in 1979. Earlier data for the ESF are not available on a comparable basis.

[2] To prevent double counting, outlays of Government-sponsored enterprises exclude loans to other Government-sponsored enterprises and loans to or from Federal agencies and off-budget Federal entities.

[3] Not available.

reduces this fund's off-budget outlays and augments the off-budget outlays of the FFB by an equal amount.

The table above compares the outlays of the off-budget Federal entities with budget outlays.[7] The outlays of the entities that are now off-budget were negligible in 1973 but grew rapidly afterwards for several years, especially due to the Federal Financing Bank. However, the outlays of the off-budget Federal entities decreased from 3.2% of budget outlays in 1981 to 1.6% in 1983. They are estimated to decrease further after 1985, falling to 0.7% in 1987.

[7] The historical data for budget outlays include Federal entities that are now off-budget for any period when they were in the budget, and include Government-sponsored enterprises for periods when they had any Government ownership. The outlays of former off-budget entities are included in the budget totals for all years to the extent practicable.

Government-sponsored enterprises.—Several Government-sponsored enterprises have been established and chartered by the Federal Government to perform specialized credit functions. The earlier enterprises were all created with partial or full Government ownership and with direct Government control. In time, however, they were converted to private ownership and some new enterprises were created as privately owned institutions.

The rule governing the budget treatment of these enterprises was established in 1967 in accordance with a recommendation by the President's Commission on Budget Concepts. The Commission basically recommended that the budget exclude those Government-sponsored enterprises that are entirely privately owned. However, the Commission recommended that financial statements of their operations be included in the budget documents, because the enterprises carry out federally designed programs and receive benefits from their close association with the Government.

These benefits differ from one enterprise to another and from one type of debt security to another. In most cases, but not necessarily all, they include such advantages as the following: their debt securities can be held by federally regulated financial institutions under circumstances where other private securities or State and local securities are not eligible; they are exempt from Federal income taxation; the interest on their debt securities is exempt from State and local income taxation; and the enterprises are perceived by the securities market to have a special relationship with the Federal Government. Because of these benefits, the Government-sponsored enterprises can borrow at interest rates only slightly higher than the interest rates paid by Treasury on Federal debt.

The Federal Land Banks and Federal Home Loan Banks had both become entirely privately owned a number of years before the unified budget was adopted and therefore have always been excluded from the unified budget. The Federal National Mortgage Association, the Banks for Cooperatives, and the Federal Intermediate Credit Banks became wholly privately owned by repaying their Federal equity capital late in calendar year 1968 and were accordingly removed from the budget for all later periods. The Federal Home Loan Mortgage Corporation and the Student Loan Marketing Association were later established with full private ownership. The Federal Home Loan Mortgage Corporation is not privately operated, however, because its board of directors consists entirely of members of the Federal Home Loan Bank Board, who are Federal Government officials appointed by the President.

[8] *Report of the President's Commission on Budget Concepts*, pp. 29-30.

[9] Financial statements for the Government-sponsored enterprises are published in the *Appendix*, Part V, "Government-Sponsored Enterprises." Their borrowing and lending are discussed in Special Analysis E, "Borrowing and Debt," and Special Analysis F, "Federal Credit Programs."

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The Government-sponsored enterprises were all created to carry out loan programs, either lending their funds directly for specifically authorized purposes, or buying loans originated by the private groups that they were established to assist. The loans of these enterprises primarily support housing, but also support agriculture and higher education. As shown in the previous table, their outlays have grown considerably—from relatively small amounts in the latter 1960's to over $20 billion in 1978 and over $30 billion each year since 1981.

The operations of the Government-sponsored enterprises are not subject to the Federal budget review process, and the economic assumptions on which their estimates are based are not necessarily the same as the Administration's economic assumptions shown in Part 2. These enterprises estimate that they will spend $41.0 billion in 1985, which equals 4.4% of total Federal outlays in that year. The following table shows the total amounts of Government-sponsored loans outstanding and net loans (i.e., the change in loans outstanding) during 1983–85, in billions of dollars: [10]

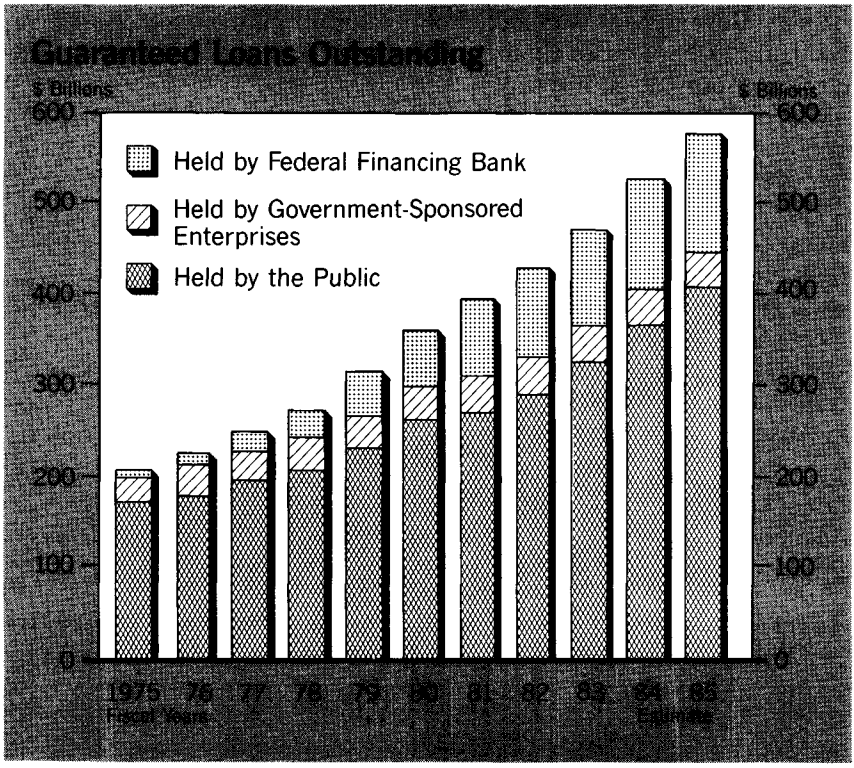
	1983 actual	*1984 estimate*	*1985 estimate*
Loans outstanding, end of year	261.2	301.0	343.9
Net loans	37.1	39.8	42.9

Loan guarantees.—Government-guaranteed loans are loans for which the Government guarantees the payment of the principal and the interest in whole or in part in the event of borrower default. Loan guarantees are contingent liabilities of the Federal Government. They generally do not result in budget outlays except in case of default.

Guaranteed loans may be made to many types of borrowers: individuals, businesses, State and local governments, and foreign governments. The guarantees may be full or partial, and in some programs, such as the guaranteed student loan program, they are supplemented by explicit subsidies or other forms of assistance. Most guaranteed loans are made by banks or other private institutional lenders, and may take the form of mortgages or bank loans. Others are sold in securities markets. In 1983, 16% of total loan guarantee commitments were used to guarantee direct loans disbursed or purchased by the Federal Financing Bank (FFB), which is described above on pages 6-11 to 6-14. Since the FFB is an off-budget Federal entity, these disbursements are off-budget direct loans. An additional amount of guaranteed loans originally made

[10] In order to prevent double counting in adding Government-sponsored loans to Federal direct loans and guaranteed loans, this table excludes loans from one Government-sponsored enterprise to another, loans from the Federal Government, and guaranteed loans acquired.

by private institutions is purchased and held by privately owned, Government-sponsored enterprises, as the following chart shows.



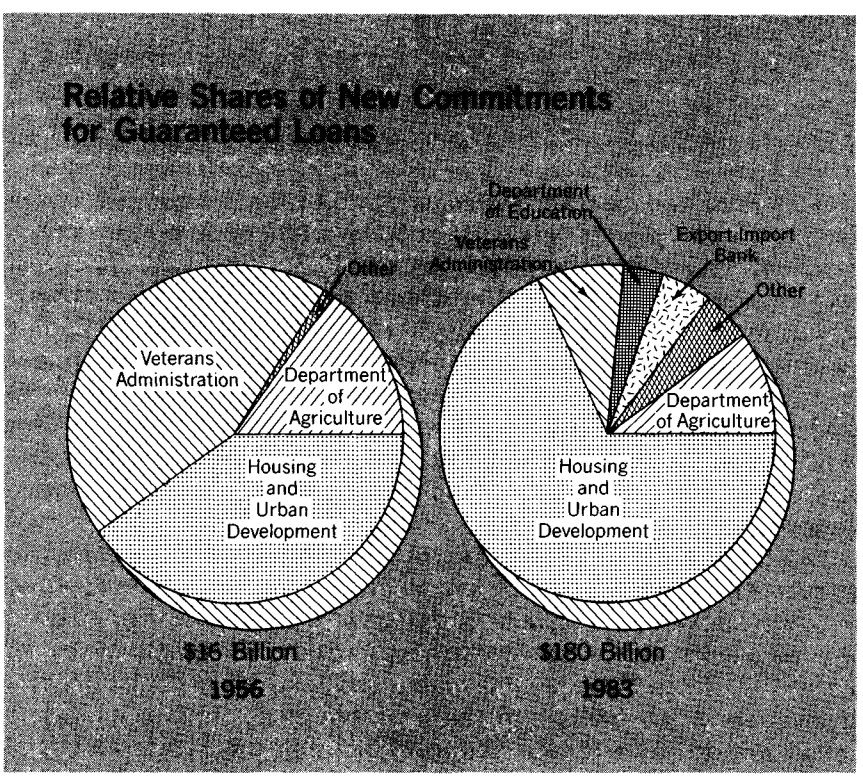
A loan guarantee transfers some or all of the default risk of the loan from the private lender to the Government. Where the Government guarantees timely payment of 100% of the loan principal and interest, it effectively transforms a private loan into a near-government loan financed by a near-government security. The guaranteed loan will not have all the attributes of a Government loan, since private lenders will negotiate different financial terms and conditions (e.g., fees) than would a Government agency. Nor will the guaranteed loan have all of the attributes of a U.S. Treasury security. It will be less liquid and may involve higher transaction costs.

Loan guarantees are designed to allocate economic resources to particular uses by providing credit at more favorable terms than would otherwise be available in the private market. If loan guarantee recipients would not have been sufficiently creditworthy to borrow without Federal assistance, the subsidy provided by the guarantee will be large and the guarantee will directly reallocate credit toward federally selected uses, increasing the total volume of credit channeled into these uses. This leaves a smaller supply of credit to be allocated to those potential borrowers who do not receive assistance, and increases the interest rate to these borrow-

ers. However, the guarantee does not always change the allocation of credit to such a large degree. Some beneficiaries of loan guarantee programs would have been able to secure the funds privately, without Government support. For example, guaranteed mortgage credit might be used to finance, at a lower cost, a house that would have been purchased anyway.

Many of the guarantee programs operated by the Federal Government began in efforts to revive the economy during the depression of the 1930's. The Reconstruction Finance Corporation, created in 1932, was the forerunner of the Export-Import Bank, the Small Business Administration, and other credit programs. The Nation's single largest credit program, the Federal Housing Administration's (FHA) home mortgage insurance program, was created in 1934 to stimulate housing purchases.

During the 1950s and 1960s housing credit dominated Federal credit activities. The home mortgage programs of the FHA and Veterans Administration accounted for 81% of the total volume of new commitments for guaranteed loans in 1956. As the chart below shows, the range of activities financed with Federal guarantees has widened since that time. Guarantees are now offered for business, agriculture, energy, and education, though housing continues to



dominate. For the 1985 budget, home mortgage programs account for 57% of all new guaranteed loan commitments. Assistance for public housing accounts for 15%, and aid to business accounts for 17%. The remaining 11% is primarily for the guaranteed student loan program and for agriculture.

Because loan guarantees are not included in the outlay totals or, usually, in the budget authority totals, they were formerly excluded as well from normal budget discipline. In January 1980 a central control system for Federal credit was instituted to subject guaranteed and direct loans to greater scrutiny throughout the budget process. This system consisted of the Federal credit budget and appropriations bill limitations. The credit budget covers all direct and guaranteed loans by Federal agencies, whether on- or off-budget. Control is effected through appropriations bill limitations, which cover 46% of all new guaranteed loan commitments to be extended in 1985. (See Part 5 for a discussion of credit programs by function, Part 7 for a more complete description of the credit budget and credit control system, and Special Analysis F, "Federal Credit Programs," for a detailed discussion of Federal credit activities.)

Taxation and tax expenditures.—Taxation provides the Government with receipts, which withdraw purchasing power from the private sector in order to finance direct Government expenditure. The structure of the tax system that raises these receipts has important effects on the allocation of resources among private uses and the distribution of income among individuals. These effects are caused by the choice of taxes and by the structural characteristics of each different tax—for example, by the rate schedules, exemptions, deductions, and exclusions of the individual income tax. The effects of taxation on resource allocation and income distribution are analogous to the effects of outlays.

Some features of the tax system have been defined as "tax expenditures" and receive special attention in the budget. Tax expenditures are defined as amounts attributable to provisions of the Federal income tax laws that allow a special exclusion, exemption, or deduction from gross income or that provide a special credit, a preferential rate of tax, or a deferral of tax liability. The Congressional Budget Act requires that estimates of tax expenditures be published in the budget.

Tax expenditures are so designated because they are one means by which the Federal Government pursues public policy objectives, and because in many cases they can be regarded as an alternative means of achieving the same objectives as direct expenditures. They can also be regarded as an alternative means of achieving the same objectives as other instruments of Government policy, such as

loan guarantees, regulations, and provisions of the tax law other than those provisions that cause tax expenditures. There are numerous examples of the similarity in objective between tax expenditures and direct outlays. For instance, the cost of buying ships built in U.S. shipyards is reduced both by construction subsidies and by the deferral of tax on the income of shipping companies that is used to buy new ships; and the cost of borrowing by eligible persons and businesses is reduced both by direct loans at subsidized interest rates and by tax exemption for bonds. Similarly, State and local governments benefit both from direct grants and from the ability to borrow funds at tax-exempt rates; and individuals benefit both from social security payments and from the tax exemption of most of these payments.

Tax expenditures ordinarily result from permanent legislation and therefore are not submitted to the Congress each year and do not routinely receive a formal and systematic annual review. In this sense they share a legislative status with entitlement programs, such as social security, which do not require annual appropriations. However, tax expenditures, other provisions of the income tax, and other tax laws are generally reviewed whenever fiscal policy decisions are considered regarding the overall level of tax receipts. During the last three years the Administration and the Congress have reviewed entitlement programs, tax expenditures, and other provisions of tax law. Part of this work led to the Tax Equity and Fiscal Responsibility Act of 1982, which changed a number of tax expenditures and other tax law provisions.

The classification of certain provisions of law as resulting in tax expenditures requires some baseline tax structure against which the actual tax law can be compared. Deviations of the law from this standard are deemed to cause tax expenditures. The Congressional Budget Act does not provide an exact specification of the baseline against which tax expenditures are measured.

The baseline used in the budget is intended to consist of the general provisions of the Internal Revenue Code. For the individual income tax, the baseline in the 1983 and 1984 budgets included those provisions that exist under current law for the definition of taxpaying units (including the separate corporation income tax), graduated rate schedules, personal exemptions, zero-bracket amounts (standard deductions), and basic accounting rules. The baseline before 1983 was similar but in addition required that the time pattern of depreciation deductions approximate the useful life of assets and that all cash transfers from government be included in taxable income. By definition, characteristics of the tax structure included in the baseline do not give rise to tax expenditures.

The use of many of the general provisions of the Internal Revenue Code for defining both of these baseline tax structures makes

it clear that listing an item as a tax expenditure does not imply that it is either a desirable or an undesirable provision. When different provisions of the Code are considered to be in the baseline, the list of tax expenditures is different and the amounts of particular tax expenditures may also be different. For example, in contrast with the baseline used in earlier years, the baseline in the 1983 and 1984 budgets included the accelerated cost recovery system (ACRS) as the general method for depreciating assets, and it excluded public assistance payments from baseline income. Therefore, under this standard, neither the use of ACRS nor the exclusion of public assistance benefits from adjusted gross income gave rise to tax expenditures. This year's tax expenditure estimates show tax expenditures relative to both of these baselines.

The baselines used for the 1983-84 budgets and for earlier years are not the only baselines that might be used. In particular, a baseline tax structure might reflect a normative judgment about a fully comprehensive income tax base or consumption tax base. A fully comprehensive income tax base, among other changes, would adjust incomes for the effects of inflation; would integrate the individual and corporation income taxes rather than regarding the separate tax treatment of individuals and corporations as part of the baseline tax structure; would include imputed income, such as the consumption benefits received from owner-occupied homes; and would tax income when it was accrued instead of when it was realized. Thus, for example, the failure under present law to take account of inflation in measuring capital gains and interest income would be regarded as negative tax expenditures. Alternatively, under a consumption tax base, income would not be taxed until consumed. However, the proceeds of loans and of withdrawals from savings accounts would be taxable if they were used for consumption. Under either of these alternative baseline structures, the list of tax expenditures and their estimated amounts would be different than they are now.

Regardless of how the baseline is defined, the provisions of tax law that do not result in tax expenditures deserve as much scrutiny as the provisions of tax law that do. This is because the other provisions also have major effects on the allocation of resources and the distribution of income, and because these other provisions may be alternative means of achieving the same objectives or analogous objectives as tax expenditures achieve. For example, investment in equipment may be stimulated by either an increase in the investment tax credit or a decrease in the corporation income tax rate; the former is a change in a tax expenditure, but the latter is not. Similarly, income support may be provided by either the exclusion of social security benefits from taxable income

or by the zero-bracket amount (standard deduction); the former causes a tax expenditure, but the latter does not.

Tax expenditures are estimated in two steps. First, the revenue loss of a tax provision is estimated, i.e., the difference between tax receipts and what tax receipts would be if the tax law were different. If removing a tax provision would increase taxable income, for example, the revenue loss is estimated as the increase in taxable income multiplied by the tax rate that would be paid on the additional income.

The revenue loss is then adjusted to an outlay equivalent, i.e., the amount of outlays that would be required to provide an equal after-tax income to the taxpayer (and thereby an equal incentive) as the special tax provision provides. In many cases the required outlays are greater than the revenue loss, because taxpayers would have to pay taxes on the higher income derived from the outlays. For example, one tax expenditure provision is the exclusion from taxable income of the value of housing and meals supplied to military personnel. If the Government were to repeal this tax exclusion and instead pay higher salaries, the increase in salaries would be taxed. Consequently, if the Government were to use taxable direct expenditures rather than tax expenditures and were to provide the same total after-tax compensation, the increase in direct outlays for higher salaries would have to be greater than the revenue loss under the special tax provision. The Federal deficit would be the same in either case, however, because higher outlays would be required only to the extent needed to make up the difference caused by higher tax receipts.

This adjustment makes the tax expenditures more comparable with direct outlays than the revenue loss would be and therefore more useful in analyzing Federal programs. For some tax expenditures, though, the revenue loss is equivalent to a direct outlay without any adjustment. Special Analysis G, "Tax Expenditures," presents estimates of both tax expenditures and revenue losses, but for program analysis in this budget only the outlay equivalent estimates are used.

The size of a particular tax expenditure depends not only on the tax provision in question but also on the interaction of this provision with the rest of the tax structure. The reductions in the income tax rate schedule enacted in 1981, for example, automatically decreased many tax expenditures below what they otherwise would have been. A tax rate reduction decreases the amount of receipts that would be gained by repealing deductions, exemptions, and exclusions, because lower tax rates are applied to the increase in taxable income.

The interaction among tax provisions means that special calculations are generally needed to add tax expenditures together. For

example, if more than one exclusion from individual income were ended, the gain in receipts would generally be greater than the sum of the separate tax expenditures, because some taxpayers would move into higher tax rate brackets. If more than one personal deduction were ended, the gain in receipts would generally be smaller than the sum of the separate tax expenditures, because some taxpayers would switch to using the zero-bracket amount (standard deduction). Consequently, adding together separate tax expenditures would usually be misleading, and they are not aggregated in this budget except for specially computed totals by functional category.

Tax expenditures are presented at two places in the budget. Part 5, "Meeting National Needs: the Federal Program by Function," discusses the major tax expenditures in each functional category, together with outlays and guaranteed loans, in order to describe more fully the Government's policy. Special Analysis G, "Tax Expenditures," analyzes the concept and measurement of tax expenditures and presents a complete list of tax expenditure estimates for 1983-85.

As discussed in Part 4 of this volume, "Budget Receipts," several tax laws were enacted last year. The bipartisan Social Security Amendments of 1983 included changes in the payroll tax and the individual income tax that helped to ensure the financial solvency of the social security trust funds. One of these changes affected tax expenditures. Part of the social security benefits received by people whose incomes are above specified levels is now subject to tax, which reduces the tax expenditures from not including any social security benefits in adjusted gross income.

The Administration is proposing a number of tax changes in the present budget. Several new or expanded tax expenditures would serve diverse purposes. These tax expenditures include a higher maximum annual contribution to an individual retirement account that is established by a working person for himself or herself and for a spouse who does not receive compensation; a larger tax credit for dependent care expenses paid by low income individuals; a group of incentives for the redevelopment of depressed areas designated as "enterprise zones"; a tuition tax credit for students at private elementary and secondary schools; and education savings accounts for college and university expenses. Other tax expenditures would be reduced. Health insurance premiums that employers pay as part of the compensation of their employees would be included in employees' adjusted gross incomes to the extent they exceeded specified levels; and the use of private purpose tax-exempt bonds, including industrial development bonds, would be limited. The tax expenditure for income from exports would be

altered, several expiring tax expenditures would be extended, and other measures would affect receipts but not tax expenditures.

BUDGET FUNDS AND THE FEDERAL DEBT

The budget consists of two major groups of funds: Federal funds and trust funds.

The Federal funds are derived mainly from taxes and borrowing and are used for the general purposes of the Government. Most of these funds are not restricted by law to any specific Government program. The trust funds, on the other hand, collect certain taxes and other receipts for specified purposes, such as paying social security and unemployment insurance benefits.

BUDGET TOTALS BY FUND GROUP

(In billions of dollars)

	1983 actual	1984 estimate	1985 estimate	1986 estimate	1987 estimate
Budget receipts:					
Federal funds	382.4	420.0	464.2	507.2	552.6
Trust funds	317.4	331.5	393.5	428.7	465.1
Interfund transactions	−99.2	−81.4	−112.6	−121.0	−129.9
Total, budget receipts	600.6	670.1	745.1	814.9	887.8
Budget outlays:					
Federal funds	600.9	628.8	687.2	737.9	797.5
Trust funds	294.3	306.4	350.8	375.2	400.6
Interfund transactions	−99.2	−81.4	−112.6	−121.0	−129.9
Total, budget outlays	796.0	853.8	925.5	992.1	1,068.3
Budget surplus or deficit (−):					
Federal funds	−218.5	−208.8	−223.0	−230.6	−245.0
Trust funds	23.1	25.1	42.6	53.5	64.5
Total, budget surplus or deficit (−)	**−195.4**	**−183.7**	**−180.4**	**−177.1**	**−180.5**
Addendum:					
Deficit (−), off-budget Federal entities[1]	*−12.4*	*−16.2*	*−14.8*	*−8.8*	*−7.2*
Total, surplus or deficit (−) including off-budget Federal entities	**−207.8**	**−199.9**	**−195.2**	**−185.9**	**−187.7**

[1] No off-budget Federal entities collect governmental receipts, so receipts are not adjusted when on and off-budget totals are consolidated. The off-budget outlays would be classified as Federal funds outlays if they were included in the budget.

The budget includes the receipts and outlays of both the Federal funds and the trust funds and, as shown in the table above, deducts the various transactions that occur between them. The budget totals for receipts and outlays therefore generally display the net transactions of the Federal Government with the public. The budget does not, however, include the net transactions with the public of the Federal Financing Bank and the other off-budget Federal entities, which have been excluded from the budget under provisions of law.

Thus, as shown in the following table, the combined deficit or surplus of the budget and the off-budget entities is the principal

BUDGET FINANCING AND CHANGE IN DEBT OUTSTANDING [1]

(In billions of dollars)

Description	1983 actual	1984 estimate	1985 estimate	1986 estimate	1987 estimate
Budget surplus or deficit (−)	**−195.4**	**−183.7**	**−180.4**	**−177.1**	**−180.5**
Deficit (−) of off-budget Federal entities	**−12.4**	**−16.2**	**−14.8**	**−8.8**	**−7.2**
Total, surplus or deficit (−)	−207.8	−199.9	−195.2	−185.9	−187.7
Means of financing other than borrowing from the public:					
Decrease or increase (−) in cash and other monetary assets	−9.7	17.1	.....	.....	.....
Increase or decrease (−) in liabilities for:					
Checks outstanding, etc	2.5	−1.0	1.5	.....	.....
Deposit fund balances	2.1	.3	.1	.....	.....
Seigniorage on coins	.5	.5	.6	.8	.8
Total, means of financing other than borrowing from the public	−4.6	16.9	2.2	.8	.8
Total, requirements for borrowing from the public	−212.3	−183.0	−193.0	−185.2	−186.9
Change in debt held by the public	**212.3**	**183.0**	**193.0**	**185.2**	**186.9**
Change in Federal agency investments in Federal debt:					
Federal funds	.7	2.6	3.4	.....	.....
Trust funds [2]	21.3	24.8	42.0	53.5	64.5
Off-budget Federal entities	−.3	−1.3	−.9	.....	.....
Deposit funds [3]	.9	.6	−.7	.....	.....
Total, change in Federal agency investments in Federal debt	22.6	26.7	43.8	53.5	64.5
Change in gross Federal debt	**234.9**	**209.7**	**236.8**	**238.7**	**251.4**

*$50 million or less.
[1] Several amounts have been assumed to be zero in 1986 and 1987 because they are usually small and cannot be estimated accurately.
[2] Estimates for 1986 and 1987 are equal to the total trust fund surplus.
[3] Certain deposit funds only.

determinant of the change in the Federal debt held by the public.[11] The budget and off-budget deficits, together with the other factors noted in this table, are estimated to increase the Federal debt held by the public from $1,141.8 billion at the end of 1983 to $1,517.8 billion at the end of 1985, with the increase in 1985 being about the same as in 1984. Borrowing is projected on a basis consistent with the economic assumptions that are explained in Part 2 of this volume.

Gross Federal debt is the sum of the debt held by the public and the debt held by the Government itself, which includes such investments as the Treasury debt held by the social security and other trust funds. At the end of 1985 gross Federal debt is estimated to be $1,828.4 billion, of which debt held by the Government itself is

[11] Table 13 in Part 9 of this *Budget* contains more detail on budget financing through 1985 and shows the levels of debt from 1982 to 1985. Federal debt is discussed further in Special Analysis E, "Borrowing and Debt."

$310.6 billion. Thus, gross Federal debt is much larger than the Federal debt held by the public.

Gross Federal debt is estimated to rise by $236.8 billion during 1985. As indicated in the lower section of the previous table, $43.8 billion of this increment will be held in trust funds and other Federal accounts. This is mainly due to the investment of trust fund surpluses in Treasury debt.

The gross Federal debt consists almost entirely of securities issued by the Treasury Department. However, a few Government agencies are authorized to issue their own debt instruments to the public or to other Government agencies and funds. These securities are part of the gross Federal debt. At the end of 1983 the public held $3.6 billion of agency debt, most of which was issued some years ago. The greater part consists of revenue bonds issued by the Tennessee Valley Authority and participation certificates in pools of loans issued by the Government National Mortgage Association on behalf of several agencies. Agency debt is expected to fall by small amounts each year as existing agency debt matures and most new agency borrowing is from the Federal Financing Bank (FFB). The FFB finances its purchases of agency debt by borrowing from Treasury, which in turn borrows from the public. To prevent double counting, FFB's holdings of agency debt are not included in gross Federal debt.

FEDERAL FUNDS FINANCING AND CHANGE IN DEBT SUBJECT TO LIMIT

(In billions of dollars)

Description	1983 actual	1984 estimate	1985 estimate
Federal funds surplus or deficit (−)	−218.5	−208.8	−223.0
Deficit (−) of off-budget Federal entities	−12.4	−16.2	−14.8
Total, amount to be financed	−230.8	−225.0	−237.8
Means of financing other than borrowing:			
Decrease or increase (−) in cash and monetary assets	−9.7	17.1	.....
Increase or decrease (−) in liabilities for:			
Checks outstanding, etc	4.3	−.7	2.0
Deposit fund balances	2.1	.3	.1
Seigniorage on coins	.5	.5	.6
Total, means of financing other than borrowing	−2.8	17.2	2.8
Decrease or increase (−) in investments in Federal debt by Federal funds, off-budget entities, and deposit funds [1]	−1.3	−1.9	−1.8
Increase or decrease (−) in Federal funds and off-budget entity debt not subject to limit	−.1	−.1	−.1
Total, requirements for borrowing subject to debt limit	−235.0	−209.8	−236.9
Change in debt subject to limit	**235.0**	**209.8**	**236.9**

* $50 million or less.

[1] Certain deposit funds only.

Almost all Treasury securities are covered by a general statutory debt limitation. The present limit is $1,490 billion. However, the debt subject to limit is estimated to rise to $1,587.8 billion by the end of 1984. Therefore, to permit the Federal Government to meet its obligations, the limit will have to be raised during 1984.

Debt subject to the general statutory limit, like gross Federal debt, includes debt held internally within the Government, such as the Treasury issues held by the social security trust funds. Debt subject to the statutory limit is therefore much larger than the debt held by the public and is nearly as large as gross Federal debt. It is a little less than gross Federal debt primarily because most agency debt is excluded from the general statutory limitation.

Since trust fund surpluses for the most part have been invested in debt securities, rather than being held as cash assets, the Federal funds deficit and the deficit of the off-budget Federal entities must be financed primarily by selling Federal debt. This debt is almost entirely subject to the statutory limit. As shown in the previous table, the Federal funds deficit plus the off-budget deficit was $230.8 billion in 1983, and the increase in debt subject to statutory limit was $235.0 billion. Thus, these deficits approximately accounted for the increase in the debt subject to limit.

THE INCREASE IN TOTAL 1983 OUTLAYS OVER THE INITIAL BUDGET ESTIMATE

Budget outlays for 1983 were $796.0 billion, which is $38.3 billion higher than the initial estimate made by the Administration in its budget transmitted to Congress in February 1982. The actual outlays in recent years have consistently exceeded the initial budget estimate. The difference, however, has declined steadily from 9.0% in 1980 to 7.0% in 1981, 5.4% in 1982, and 5.1% in 1983. This section reviews the major causes of the 1983 increase.

The following table compares the initial outlay estimate and the actual total in current and constant dollars and as a percent of GNP. Constant dollar outlays were 7.5% above the initial estimate. The table also compares defense and nondefense outlays in current dollars. The actual outlays for defense were 4.8% below the initial

1983 OUTLAY DIFFERENCES

(Dollars in billions)

	February 1982 estimate	Actual	Percent change
Budget outlays:			
Current dollars	757.6	796.0	5.1
National defense	221.1	210.5	−4.8
Nondefense	536.5	585.5	9.1
Constant (fiscal year 1972) dollars	329.9	354.5	7.5
As a percent of GNP	22.1	24.7	11.8
Off-budget outlays (current dollars)	15.7	12.4	−21.0

estimate. Outlays for nondefense programs were 9.1% higher than the estimate.

Chronology of outlay increases.—The Administration's initial outlay estimate for 1983 was $757.6 billion. As shown on the table below, this was revised several times. In April 1982, the estimate increased $9.4 billion due primarily to changes in agricultural market conditions. This increase was partly offset in July for several reasons, the most important of which was changes made by Congress in the First Congressional Budget Resolution that were endorsed by the Administration. In February 1983, the outlay estimate increased $43.7 billion, with upward revisions for unemployment compensation and farm price supports accounting for 70% of this increase. Estimated outlays increased an additional $4.6 billion due to revisions in April and July 1983, largely because of congressional action on the 1983 jobs bill and the Social Security Amendments of 1983. Actual outlays were $13.9 billion below the July 1983 estimates due to lower than anticipated spending by most Government agencies. The largest shortfalls occurred in the Department of Defense and the farm price support program.

CHRONOLOGY OF THE 1983 OUTLAY INCREASE

(In billions of dollars)

February 1982	757.6
Changes:	
April 1982 (April Update): The largest changes were a $4.9 billion increase in farm price supports, a $1.9 billion increase in net interest, and a $1.1 billion decrease in offsetting receipts from the Outer Continental Shelf	9.4
July 1982 (Mid-Session Review): A $2.5 billion increase in net interest was more than offset by a $2.1 billion decrease in unemployment compensation and a $4.1 billion decrease to adjust for action in the first Congressional Budget Resolution	−5.5
February 1983 (1984 Budget): The largest increases were in unemployment compensation ($14.3 billion), farm price supports ($16.4 billion), and food and nutrition assistance ($4.1 billion)	43.7
April 1983 (April Update): A $5.4 billion decrease in unemployment compensation was more than offset by a $3.0 billion increase in farm price supports and increases due to the 1983 jobs bill ($2.1 billion) and the Social Security Amendments of 1983 ($1.0 billion)	3.3
July 1983 (Mid-Session Review): The largest increase was a $1.1 billion technical reestimate in the Social Security program	1.3
October 1983 (Year-End Statement): The largest decreases were for the Department of Defense ($3.9 billion) and farm price supports ($3.0 billion)	−13.9
Total increase	38.3
Actual	796.0

Major causes of the increase.—The following table shows the approximate distribution of the increase in budget outlays according to three categories: (1) policy changes, (2) economic conditions that were different from the original assumptions, and (3) estimating and other differences.[12]

Changes in policy explain approximately $18.7 billion of the total increase. The net effect of changes in economic conditions was an increase of $3.0 billion. Estimating differences and other changes account for the remainder.

SUMMARY OF REASONS FOR DIFFERENCES IN 1983 OUTLAYS

(in billions of dollars)

	Total
Reasons for difference (net):	
Policy changes	18.7
Economic conditions	3.0
Estimating differences and other changes	16.6
Total	38.3

Policy changes to the 1983 budget proposals were a result of both revised Administration proposals and congressional action that differed from the initial Administration proposals. The net increase due to policy changes was approximately $18.7 billion. Outlays for national defense programs were $8.8 billion lower than proposed, while outlays for nondefense programs were $27.5 billion higher. Policy changes were much more important than in the two previous years; they accounted for a $5.7 billion increase in 1981 and a $0.9 billion outlay decrease in 1982.

Policy changes for discretionary programs accounted for $1.4 billion, or only 7 percent of the total policy increase. This includes increases enacted in the 1983 jobs bill and in both regular and supplemental appropriations bills. Congress reduced outlay levels for annually funded defense-related programs by $5.3 billion from the Administration's request.

Outlays for entitlement programs were about $12.1 billion above the Administration's proposal due to policy changes. Three-quarters of this increase is accounted for by changes affecting unemployment compensation, railroad retirement, and food stamps. Outlays for the unemployment compensation program were $5.8 billion above the original proposal due to congressional enactment of the Federal supplemental compensation program, revision of the program for unemployment compensation for ex-service members, and failure to enact $0.1 billion in proposed savings. Railroad retirement ($2.0 billion) and food stamps ($1.7 billion) increased as a

[12] The amounts in the first two categories account for only the major items, and the third category is a residual. The figures, therefore, are approximations.

result of Congress's failure to enact savings proposed by the Administration.

Policy changes for other mandatory programs and for several of the user fee proposals also increased outlays. For the Commodity Credit Corporation, policy changes of $3.5 billion were composed of several items, including increases in grain reserve loan rates, increased donations of dairy products owned by the Commodity Credit Corporation, and acreage diversion payments and export promotion subsidies mandated by the Omnibus Budget Reconciliation Act of 1982.

Economic conditions differed from those forecast in February 1982 as shown in the following table. Growth in real GNP was 4.7 percentage points lower than projected for 1982 but slightly higher for 1983. Inflation was lower than projected for both 1982 and 1983, whether measured by the GNP deflator or by the Consumer Price Index. The unemployment rate was 0.7 percentage points higher than projected in 1982 and 1.6 percentage points higher in 1983. Interest rates, as measured by the 91-day Treasury bill rate, were 1.0 percentage point lower than estimated for 1982 and 1.9 percentage points lower in 1983.

COMPARISON OF FEBRUARY 1982 ECONOMIC ASSUMPTIONS AND ACTUAL ECONOMIC PERFORMANCE

(Calendar years)

	February 1982 estimate		Actual		Difference	
	1982	1983	1982	1983	1982	1983
Percent change:						
GNP (constant 1972 dollars): 4th quarter over 4th quarter	3.0	5.2	−1.7	6.1	−4.7	0.9
Inflation (4th quarter over 4th quarter):						
GNP deflator	7.2	5.5	4.4	4.1	−2.8	−1.4
Consumer Price Index (CPI)	6.6	5.1	4.5	2.9	−2.1	−2.2
Civilian unemployment rate (annual average)	8.9	7.9	9.6	9.5	0.7	1.6
Interest rate (91-day bills, annual average)	11.7	10.5	10.7	8.6	−1.0	−1.9

The difference between economic assumptions and economic performance resulted in a net increase in outlays of $3.0 billion. The following table shows the major effects of differences between the initial economic forecast and the actual performance of the economy. Lower inflation reduced outlays for indexed programs by $4.6 billion. Higher unemployment increased outlays by $5.6 billion; more than half of the increase was for unemployment benefits. The net effect of lower interest rates and higher borrowing decreased outlays by $4.1 billion. Receipts from sales and leases on the Outer Continental Shelf were $6.0 billion lower than initially estimated due primarily to changes in economic conditions in world oil markets.

EFFECT OF DIFFERENCES BETWEEN ESTIMATED AND ACTUAL ECONOMIC CONDITIONS ON 1983 OUTLAYS

(In billions of dollars)

	Difference
Price differences:	
Cost of living adjustments:	
Social security	−2.3
Federal retirement	−0.6
Food and nutrition assistance	−0.3
Other	−0.4
Medical prices:	
Medicare and medicaid	−1.0
Subtotal, price differences	−4.6
Unemployment rate differences:	
Unemployment compensation	3.0
Other	2.6
Subtotal, unemployment rate differences	5.6
Interest differences:	
Net interest: [1]	
Interest rates	−10.3
Differences in borrowing	6.7
Guaranteed student loans	−0.5
Subtotal, interest differences	−4.1
Receipts from the Outer Continental Shelf and other adjustments	6.1
Total	3.0

*$50 million or less.
[1] Includes effects of differences in borrowing for all reasons, including reasons other than economic assumptions.

Estimating differences and other changes increased 1983 outlays by $16.6 billion. The largest estimating adjustment was for the Commodity Credit Corporation, which spent $13.5 billion more than originally estimated for the support of agricultural commodity prices. This increase was primarily a result of unexpectedly high levels of farm crop production. Outlays for interest were reduced $2.8 billion because more interest than estimated was received on loans made by the Commodity Credit Corporation. Outlays also increased as a result of the failure to achieve some of the savings proposed for management initiatives.

COMPARISON OF RELATIVELY UNCONTROLLABLE OUTLAYS AND OF RECEIPTS

The Congressional Budget Act requires that the budget contain two comparisons between the initial budget estimates and the actual amounts for the last completed fiscal year: a comparison of the differences in relatively uncontrollable outlays by major program, and a comparison of the differences in receipts by major source. These comparisons are made in the following two sections

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for the 1983 budget, which was submitted in February 1982 for the fiscal year ending on September 30, 1983.

Comparison of relatively uncontrollable outlays.—Outlays in any one year are considered to be relatively uncontrollable when the program level is determined by existing statutes or by contracts or other obligations. Outlays for these programs generally depend on factors that are beyond administrative control under existing law at the start of the fiscal year. For example, the definition of beneficiaries eligible for programs like medicaid and social security is established by law. Prior-year contracts and obligations are also legally binding.

Relatively uncontrollable outlays are grouped into two major categories: open-ended programs and fixed costs, for which outlays are generally mandated by law; and payments from prior-year contracts and obligations, for which outlays are required because of previous action, such as entering into contracts. Budget estimates of relatively uncontrollable outlays do not include the effects of proposed legislation.

For a number of reasons, the amounts estimated in the budget may differ from the actual outlays that are subsequently realized. For example, legislation may change benefit rates or coverage; the actual number of beneficiaries may differ from the number estimated; and economic conditions (such as interest rates) may differ from what was assumed in making the estimates.

The following table shows the differences between actual outlays for relatively uncontrollable programs in 1983 and the amounts estimated in the 1983 budget. The list of programs is the same as in table 20 (Controllability of Budget Outlays) in Part 9. Beginning in this budget, the administrative costs of relatively uncontrollable payments for individuals, which are controlled through limitations, are classified as relatively controllable in table 20. However, for the purpose of making a comparison to the original estimates in the 1983 budget, this table uses the old classification.

Actual outlays for relatively uncontrollable programs in 1983 were $600.7 billion, which is $15.2 billion, or 2.6%, higher than the estimates based on existing law in February 1982. Outlays for open-ended programs and fixed costs were $16.2 billion above the initial estimate, and outlays from prior-year contracts and obligations were $1.0 billion lower.

Payments for individuals, which are essentially income transfers, were 76% of all open-ended programs and fixed costs in 1983. Actual outlays for this grouping were $6.1 billion higher than estimated. This increase was the net effect of legislative action, differences between actual and assumed economic conditions, and the number of beneficiaries.

RELATIVELY UNCONTROLLABLE OUTLAYS FOR 1983

(In billions of dollars)

Relatively uncontrollable under present law	February 1982 estimate (existing law)	Actual	Change
Open-ended programs and fixed costs:			
Payments for individuals: [1]			
Social security and railroad retirement	175.6	174.1	−1.5
Federal employees' retirement and insurance	48 7	47.3	−1.4
(Military retired pay)	16.6	15.9	−0.6
(Other)	32.1	31.4	−0.7
Unemployment compensation	22.7	31.5	8.8
Medical care	76.0	75.8	−0.2
Assistance to students	5.1	4.4	−0.7
Food and nutrition assistance	3.0	3.3	0.3
Public assistance and related programs	21.1	21.7	0.7
All other relatively uncontrollable payments for individuals	2.8	2.9	*
Subtotal, payments for individuals	354.9	361.0	6.1
Other open-ended programs and fixed costs:			
Net interest	96.8	89.8	−7.0
General revenue sharing	4.6	4.6	*
Farm price supports (CCC)	1.9	18.9	17.0
Other open-ended programs and fixed costs	−2.2	−2.2	*
Subtotal, other open-ended programs and fixed costs	101.0	111.0	10.0
Total, open-ended programs and fixed costs	455.8	472.0	16.2
Outlays from prior-year contracts and obligations:			
National defense	70.2	68.3	−1.9
Civilian programs	59.5	60.4	0.9
Total, outlays from prior-year contracts and obligations	129.7	128.7	−1.0
Total, relatively uncontrollable outlays	585.5	600.7	15.2

* $50 million or less.

[1] Beginning in this budget, the administrative costs of relatively uncontrollable payments for individuals, which are controlled through limitations, are classified as relatively controllable. However, for the purpose of making a comparison to the original estimates in the 1983 budget, this table uses the old classification.

Outlays for social security and railroad retirement, the largest category of payments for individuals, were $1.5 billion lower than estimated. The original estimate assumed automatic benefit increases (based on inflation as measured by the Consumer Price Index) of 8.1% in July 1982 and 6.5% in July 1983. The actual increase in July 1982 was 7.4%. As a result of the Social Security Amendments of 1983 there was no automatic increase in 1983. Instead, the adjustment was delayed from July 1983 to January 1984. The original estimate also assumed that 36.3 million people would collect social security benefits in 1983. Instead the program was making payments to 35.9 million individuals.

Outlays for Federal employees' retirement and disability insurance programs were $1.4 billion below the budget estimate. These programs consist of military retired pay, civilian employee retirement and disability, and veterans service-connected compensation.

Except for veterans service-connected compensation, these benefits are indexed to the consumer price index. Outlays for the indexed programs were below the initial estimate primarily due to lower than expected inflation in 1983.

Outlays for unemployment compensation programs were $8.8 billion above the initial estimate. This increase was the result of a higher than assumed rate of unemployment and enacted legislation. Higher unemployment raised outlays by $3.0 billion; enactment of the Federal Supplemental Compensation Act, changes in unemployment compensation for ex-service members, and failure to enact $0.1 billion in proposed savings raised outlays $5.8.

Outlays for medical care were $0.2 billion lower than estimated. Medicare outlays were $0.2 billion below the initial estimate. Outlays for the medicaid program were $0.1 above the initial estimate.

Assistance to students consists of GI bill benefits and the guaranteed student loan program. Outlays for the guaranteed student loan program were $0.8 billion below the estimate due to the net effect of lower than expected interest rates and participation, and higher than expected interest subsidies reflecting recent changes in borrowing patterns. Use of GI benefits was $0.1 billion greater than anticipated.

Food and nutrition assistance includes the child nutrition and special milk programs. Outlays for these programs were $0.3 billion higher than estimated because a greater number of meals were served than initially anticipated.

Public assistance and related programs include public assistance payments, supplemental security income, outlays for earned income tax credits, and veterans non-service-connected pensions. Outlays for these programs were $0.7 billion above the estimate. The largest change occurred in public assistance payments.

Uncontrollable outlays for all other payments for individuals were only slightly higher than estimated, due primarily to higher than expected payments for black lung disabilities.

Open-ended programs and fixed costs other than payments for individuals account for 66% of the difference between estimated and actual relatively uncontrollable outlays. Outlays for net interest were $7.0 billion—or 7.2%—lower than the original estimate. This decrease was due in part to lower interest rates than anticipated, which were offset, to some extent, by more Federal borrowing than expected. The budget estimate assumed an 11.1% interest rate on 91-day Treasury bills for fiscal year 1983 whereas the actual rate averaged 8.6%. Another portion of the decrease, $2.8 billion, was a result of more interest than estimated being received on loans made by the Commodity Credit Corporation.

Outlays for farm price supports (Commodity Credit Corporation) were $17.0 billion above the initial estimate. This change was due to policy changes as well as unanticipated increases in farm production.

Outlays for prior-year contracts and obligations for civilian and national defense programs were $1.0 billion below the initial estimate. National defense outlays were $1.9 billion—or 2.7%—below the estimate because of slower than anticipated spending. Outlays for civilian programs were $0.9 billion, or 1.5%, above the initial estimate. The largest decreases in civilian programs occurred for Federal aid to highways and training and employment services.

Comparison of actual and estimated receipts.—Budget receipts in 1983 were $600.6 billion, which is $65.6 billion less than the February 1982 estimate of $666.1 billion.

Lower than anticipated incomes, oil prices, and interest rates reduced 1983 receipts by $64.2 billion below the budget estimate. Changes in collection patterns and effective tax rates reduced receipts by an additional $8.1 billion. These decreases were offset to a very small extent by differences in tax law and administrative actions from the changes proposed in the budget, which increased 1983 receipts by $6.7 billion. These legislative and administrative differences consisted of modifications of the proposals reflected in the 1983 budget and of changes that were not proposed at that time.

COMPARISON OF ACTUAL 1983 BUDGET RECEIPTS WITH THE FEBRUARY 1982 ESTIMATES

(In billions of dollars)

	February 1982 estimate	Differences in tax law and administrative actions from 1982 proposals	Different economic conditions	Technical factors	Net change	Actual
Individual income taxes	304.5	0.7	−24.4	8.1	−15.6	288.9
Corporation income taxes	65.3	−1.2	−17.2	−9.9	−28.2	37.0
Social insurance taxes and contributions	222.5	3.2	−12.7	−4.0	−13.5	209.0
Excise taxes	41.7	4.0	−7.8	−2.6	−6.4	35.3
Estate and gift taxes	5.9	.....	−0.3	0.4	0.1	6.1
Customs duties	9.4	*	−0.4	−0.3	−0.7	8.7
Miscellaneous receipts	16.8	*	−1.4	0.2	−1.2	15.6
Total	666.1	6.7	−64.2	−8.1	−65.6	600.6

*$50 million or less.

A variety of tax changes designed to eliminate abuses and remove obsolete incentives, together with several improvements in tax collection and enforcement, were proposed in the 1983 budget. These proposals were estimated to increase 1983 receipts by $12.7 billion. Other proposals, which were estimated to increase 1983

receipts by a net $0.1 billion, included modification of the railroad retirement system; the extension of social security hospital insurance taxes to Federal employees; and increases in passport, visa, and airport and airway user fees. Together, the February 1982 proposals were estimated to increase 1983 receipts by $12.8 billion.

Two major tax laws were enacted during 1982 that affected 1983 receipts. The first, the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA), included a number of provisions that were modifications of budget proposals. This Act increased 1983 receipts primarily by eliminating unintended benefits and obsolete incentives, providing mechanisms to increase taxpayer compliance and improve collection techniques, and revising existing excise and employment taxes. The second major tax law, the Highway Revenue Act of 1982, included a number of changes in highway-related taxes that had not been proposed in the 1983 budget. The main revenue provision of this Act affecting 1983 receipts increased the excise tax on gasoline and diesel fuel to 9 cents a gallon effective April 1, 1983. These two Acts and several minor legislative and administrative changes increased 1983 receipts by $6.7 billion more than the Administration had proposed.

Individual income taxes were $288.9 billion in 1983, $15.6 billion less than the budget estimate of $304.5 billion. Lower than anticipated personal incomes reduced individual income taxes by $24.4 billion. This reduction was partially offset by different collection patterns and effective tax rates than had been assumed, which increased individual income tax receipts by $8.1 billion. Differences in tax law from the changes proposed in February 1982 increased individual income taxes by an additional $0.7 billion.

Corporation income taxes were $28.2 billion below the budget estimate, in large part due to lower than anticipated corporate profits and different collection patterns and effective tax rates, which reduced receipts by $17.2 billion and $9.9 billion, respectively. Substitution of TEFRA for the tax code revisions and the improvements in collection and enforcement proposed in February 1982 reduced corporation income taxes by an additional $1.1 billion. The major provisions of TEFRA that affected 1983 corporation income taxes included the acceleration of corporation income tax payments, changes in the taxation of life insurance companies, and modifications of leasing rules and the completed contract method of accounting. Several minor legislative changes that were not proposed in February 1982 accounted for the remaining $0.1 billion decrease in corporation income tax receipts.

Social insurance taxes and contributions (which are composed of employment taxes and contributions, unemployment insurance receipts, and other retirement contributions) were $13.5 billion less than the February 1982 estimate of $222.5 billion. Lower than

anticipated wages and salaries and self-employment earnings reduced these receipts by $12.7 billion. This decline was partially offset by congressional inaction on the proposed privatization of the railroad retirement system and by the changes in the Federal unemployment insurance tax rate and base provided in TEFRA, which increased receipts by $1.7 billion and $1.5 billion, respectively.

Lower than estimated collections of the windfall profit tax, due in large part to the unanticipated decline in oil prices, reduced 1983 excise taxes by $11.2 billion. This was partially offset by a $4.8 billion increase in other excise taxes. Substitution of the excise tax increases provided in TEFRA and the Highway Revenue Act of 1982 for the changes proposed in February 1982 accounted for $4.0 billion of the rise in other excise tax receipts.

Estate and gift taxes were $0.1 billion above the February 1982 estimate, and customs duties were $0.7 billion lower. An overestimate of imports was in large part responsible for the decrease in customs duties receipts.

A decrease in deposits of earnings by the Federal Reserve System, primarily reflecting lower interest rates than anticipated, accounted for most of the $1.2 billion decline in miscellaneous receipts.

ALLOCATION OF WINDFALL PROFIT TAX RECEIPTS

Section 102 of the Crude Oil Windfall Profit Tax Act of 1980 requires that each year the President propose the allocation of net receipts from the tax in his budget.

This act establishes a Windfall Profit Tax Account in the Treasury "for accounting purposes only." After the Secretary of the Treasury has determined the amount of net receipts from the tax, they are to be allocated to the Windfall Profit Tax Account. Since the Conference Report accompanying the act stated explicitly that the net receipts from the tax "shall not be earmarked or invested separately from general revenues . . .", the allocations referred to in section 102 cannot be interpreted as earmarking funds for specific purposes.

The method for these allocations is prescribed by three formulas in subsections b(1), b(2), and b(3) of section 102. The allocations for 1985 are compared in the following table with the amounts included in this budget for the functional categories referred to in the formula.

ALLOCATION OF WINDFALL PROFIT TAX, NET RECEIPTS, 1985

(In millions of dollars)

	Section 102 Formula	1985 Budget
Total net receipts	4,120	4,120
Allocation:		
Low-income assistance	1,030	[1] 20,605
Energy and transportation programs	618	[2] 21,775
Income tax reductions	2,472	.....
Total	4,120	42,380

[1] This amount is the total outlays for the other income security subfunction (609).
[2] This amount is the total outlays for all programs in the energy function (270) and the ground transportation subfunction (401).

PERSPECTIVES ON THE BUDGET

This part of the budget explains several topics that help to interpret the budget totals and to place the budget in perspective:

- the relationship of budget authority to outlays;
- limitations on the availability of funds;
- fiscal activities outside the Federal budget:
  - —outlays of the off-budget Federal entities (which are proposed to be included on-budget),
  - —Government-sponsored enterprises,
  - —loan guarantees, and
  - —tax expenditures;
- Federal debt and the relationship of budget funds to changes in Federal debt;
- the difference between the initial 1984 budget estimate and the actual outcome for:
  - —total outlays,
  - —outlays of relatively uncontrollable programs,
  - —total receipts, and
  - —the total deficit;
- military retirement accruals; and
- the allocation of windfall profit tax receipts.

RELATIONSHIP OF BUDGET AUTHORITY TO OUTLAYS

The Congress must usually provide budget authority, which is generally in the form of appropriations, before Federal agencies can obligate the Government to make outlays. For 1986, $1,060.0 billion of new budget authority is proposed for the Federal Government.[1]

Of this total new budget authority, $544.6 billion will require congressional action. New budget authority of $708.0 billion will be available through permanent appropriations under existing law. This consists mainly of trust fund receipts, which in most trust fund programs are automatically appropriated under existing law, and interest on the public debt, for which budget authority is automatically provided under a permanent appropriation enacted in 1847. This gross amount of new budget authority is partially offset by $192.6 billion of deductions for offsetting receipts, which

[1] Budget authority is discussed further in Part 7 of this volume.

consist of transactions within the Government and proprietary receipts from the public.

BUDGET AUTHORITY

(In billions of dollars)

Description	1984 actual	1985 estimate	1986 estimate	1987 estimate	1988 estimate
Available through current action by the Congress:					
Enacted and pending appropriations [1]	544.9	548.4			
Proposed in this budget:					
Appropriations			552.1	608.0	664.5
Supplemental requests		8.3	3.5		
Rescission proposals		−1.7			
To be requested separately:					
Upon enactment of proposed legislation		0.2	−11.1	−5.8	−7.4
Allowances:					
Civilian agencies [2]		*	*	0.8	1.8
Department of Defense—Military [3]				3.0	7.8
Other allowances [4]		1.5			
Subtotal, available through current action by the Congress	544.9	556.8	544.6	605.9	666.8
Available without current action by the Congress (permanent appropriations):					
Trust funds (existing law)	358.1	417.6	442.5	469.0	518.8
Interest on the public debt	153.8	180.3	199.4	215.1	223.7
Other	60.9	93.4	66.2	50.2	49.0
Subtotal, available without current action by the Congress	572.8	691.3	708.0	734.2	791.5
Deductions for offsetting receipts	−168.0	−183.2	−192.6	−197.1	−205.3
Total, budget authority	949.8	1,064.9	1,060.0	1,143.0	1,253.0

* $50 million or less.
[1] Includes an imputed amount in 1984 ($16.5 billion) for accruals for military retirement contributions in order to adjust data for comparability with the military retirement presentation that begins in 1985. Deductions for offsetting receipts in 1984 include an amount equal to the imputed accruals.
[2] Allowance for civilian agency pay raises and Coast Guard military pay raises.
[3] Includes allowances for civilian and military pay raises for Department of Defense—Military.
[4] Allowance for contingencies and other requirements.

Not all of the new budget authority for 1986 will be obligated or spent in that year: [2]

- Budget authority for most trust funds comes from the authority of these funds to spend their receipts. Any balances remain available to these trust funds indefinitely in order to finance benefits and other purposes specified by law.
- Budget authority for most major construction and procurement projects covers the entire cost estimated when the projects are initiated, even though work will take place and outlays will be made over a period extending beyond the year for which the budget authority is enacted. Some exceptions

[2] This subject is also discussed in a separate OMB report, "Balances of Budget Authority," which can be purchased from the National Technical Information Service shortly after the budget is transmitted.

are made to this convention, notably for water resource programs.

- Government enterprises are occasionally given budget authority for standby reserves that will be used only in the event of special circumstances.
- Budget authority for the subsidized housing programs is equal to the Government's estimated obligation to pay subsidies under contracts, which may extend for periods of up to 40 years.
- Budget authority for most other long-term contracts also covers the estimated maximum obligation of the Government.
- Budget authority for many direct loan programs provides financing for a number of years; budget authority for many insurance and loan guarantee programs consists of amounts to be used only in the event of defaults or other contingent claims made upon the programs.

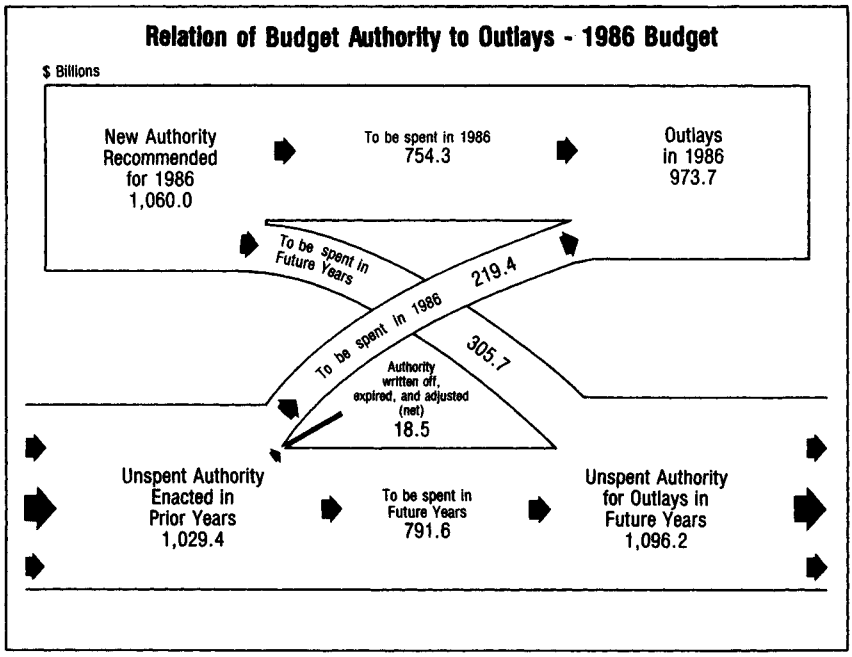
As a result of these factors, a substantial amount of budget authority carries over from one year to the next. Most of this is earmarked for specific uses and is not available for new programs. A small part may never be obligated or spent, because it is primarily for contingencies that do not occur or reserves that never have to be used.

As shown in the chart on the next page, $219.4 billion of the budget outlays in 1986 (23% of the total) will be made from budget authority enacted in previous years. At the same time, $305.7 billion of the new budget authority proposed for 1986 (29% of the total amount proposed) will not lead to budget outlays until future years. Thus, the total budget authority for a particular year is not useful for the analysis of that year's outlays, since it combines various types of budget authority that have different short-term and long-term implications for budget obligations and outlays. The relationship between budget authority, obligations, and outlays is discussed further in Part 7 of this volume and displayed in table 9 of Part 9.

LIMITATIONS ON THE AVAILABILITY OF FUNDS

Limitations on the availability of funds are a control mechanism that supplements the use of appropriations or other budget authority discussed in the previous section. Limitations on the availability of funds generally are not the source of authority to incur obligations; rather, they place a special ceiling on the use of authority by limiting the amount that can be obligated or committed for a specific purpose. These limitations are established most often through the appropriations process.

Some limitations establish stricter control over amounts provided by appropriations or other acts by limiting the amount to be allo-



cated for specific purposes within an appropriation or fund account.

- Many appropriation accounts provide funding for several activities. A limitation can single out and restrict the amount of obligations for one or more of these activities within the overall budget authority provided for the account. For example, the 1985 appropriation of $896 million for Operation of Indian programs in the Department of the Interior includes language specifying that an amount not to exceed $56 million is available for higher education scholarships and assistance to public schools.
- A limitation can be established on the amount that can be used for a particular type of expense, such as the purchase of passenger vehicles, travel, consultants, or publications. These limitations can apply to (1) a single account; (2) all amounts within a single appropriations act; or (3) amounts in more than one appropriations act or amounts provided in substantive law.

Other limitations can affect the total level—not just the composition—of obligations and spending. They are used to control funds that would otherwise become available under relatively broad authority provided in substantive law without Appropriations Committee action. In most cases these limitations apply either 1) to

trust fund activities, which are normally financed through earmarked receipts, like the payroll tax receipts for the social security trust funds; 2) to revolving funds, which finance business-type operations that generate their own income to pay their expenses; or 3) to other accounts for which substantive law provides spending authority.

Under the credit control system, limitations on Federal direct loan obligations and guaranteed loan commitments are the principal method of controlling the allocation of Federal credit.[3] These limitations provide a mechanism for annual Congressional review of the gross level of new loan activity including the loan activity that affects outlays. All direct lending and all loan guarantees that result in direct loans by the Treasury Department's Federal Financing Bank will result in outlays. The other guaranteed loans, though also important because of effects of loan guarantees generally on the credit market and the economy, ordinarily do not lead to Government spending except in the event of default.

Certain Federal program levels in addition to credit activities are also constrained through the use of limitations on operating and administrative expenses. For example, the use of the budget authority of the highway and the airport and airway trust funds is controlled by limitations on the agencies' ability to obligate the Federal Government to make payments. Non-loan, business-type activities that are controlled through limitations include the Federal buildings fund and the national defense stockpile transaction fund; both are controlled through limitations on the use of receipts.

For many trust funds, all receipts of the fund automatically become budget authority and are available for spending. The Congress exercises control over the benefits that are paid from these funds through the use of eligibility criteria and benefit levels established in substantive law. Through the use of limitations, the Congress can also exercise control over the administrative expenses of these trust funds. Such limits apply, for example, to the old-age and survivors insurance trust fund, the hospital insurance trust fund, and the unemployment insurance trust fund.

SELECTED LIMITATIONS THAT AFFECT OUTLAYS

(In billions of dollars)

	1984 enacted	1985 estimate	1986 estimate
Direct loans:			
Direct loan obligations	11.9	12.3	2.0
Guaranteed loan commitments resulting in direct loans by the FFB	8.8	2.6	0.3
Program levels (other than loans)	16.9	17.9	16.8
Administrative expenses of trust funds	27.7	24.3	23.7
Total, selected limitations	65.3	57.1	42.8

[3] The credit control system is discussed further in Part 7 of this volume and in Special Analysis F, "Federal Credit Programs."

The preceding table summarizes some of the major limits on the availability of funds that affect budget spending. The amounts identified do not include all limitations, especially for credit programs, but they illustrate that there can be significant spending changes without changing budget authority.

FISCAL ACTIVITIES OUTSIDE THE FEDERAL BUDGET

The budget does not include a number of activities of the Federal Government that result in spending similar to budget outlays. These activities, nevertheless, channel economic resources toward particular uses in ways that are analogous to the effects of budget spending.

In previous years the outlays of the off-budget Federal entities were a major exclusion from the budget. This year, however, the Administration proposes to put these entities into the budget, so that they will no longer be exceptions to the principle of a unified budget. Accordingly, the data for the entities that are off-budget under current law have been included in the budget for all years. The reasons for this proposal, and the activities and background of these entities, are discussed in some detail below.

This is followed by a discussion of fiscal activities that are properly outside the scope of the unified budget. The Government-sponsored enterprises are outside the budget because of their private ownership. Loan guarantees allocate economic resources toward particular uses by making credit available to borrowers at more favorable terms than would otherwise be available in the private market. Taxation and tax expenditures, which also have significant allocative effects on the economy, are discussed subsequently.

The regulation of economic activity changes resource allocation in different ways. Some types of regulation have economic effects that in certain respects are similar to budget outlays by requiring the private sector to make expenditures for specified purposes such as safety and pollution control. The effects of this spending are very important, but many of them have not been quantified satisfactorily and therefore cannot be clearly related to the budget.

Outlays of off-budget Federal entities.—The Federal Government has used the unified budget concept as the foundation for its budgetary analysis and presentation since the 1969 budget. Starting in 1971, however, laws were enacted under which several Federal entities were removed from the budget or created outside of the budget. The off-budget Federal entities are federally owned and controlled, but their transactions were excluded from the budget

totals under these provisions of law. Thus, they have been exceptions to the principle of a unified budget.

In the past few years the trend toward steadily increasing the number of off-budget Federal entities has been changed. Several entities were put on-budget in a series of legislative actions. The executive and the Congress have on several occasions expressed concern about the practice of excluding some Federal outlays from the budget and have taken steps to control off-budget spending. In particular, this Administration has been very concerned about the effects of off-budget direct loans in allocating credit toward specific uses and about the necessity of financing these loans by additional Federal borrowing from the public. Last year the Administration supported the basic intent of the bills before the Congress that would have included the outlays of the Federal Financing Bank in the budget. These outlays comprise most of the spending that is off-budget under current law.

Legislative proposal.—The Administration proposes that all the off-budget Federal entities be placed on-budget, and thus that the principles of the President's Commission on Budget Concepts be adhered to. The Commission, whose recommendations underlie the concept of the unified budget, declared: "Following from the definition of a budget as a basic part of a comprehensive financial plan, the budget should include all programs of the Federal Government and its agencies." [4] The unified budget concept, therefore, measures the Government's net fiscal transactions with the public.

The Administration believes that the comprehensive coverage of the unified budget concept is needed for the budget of the United States Government. Comprehensive coverage is necessary:

- to inform the public of the full extent of how much the Government is spending both in total and for particular purposes;
- to make rational and informed choices between public and private activities;
- to establish priorities in allocating the Government's resources among alternative programs; and
- to understand and thereby influence the impact of Government spending on the economy.

Therefore, the Administration is proposing legislation to restore the complete coverage of the unified budget by shifting the off-budget entities into the budget. In order to be consistent with this proposal, the present budget volume and the other budget documents treat the entities that are off-budget under current law as though they were on-budget. Thus, in the present budget documents, unlike the ones for previous years, the spending of these

[4] *Report of the President's Commission on Budget Concepts* (Washington: U.S. Government Printing Office, 1967), p. 7. Also see the further discussion on pp. 24-25.

entities is reflected in both budget outlays and the budget deficit; and the appropriations requests and permanent budget authority for their programs are included in the totals of budget authority for the budget. This treatment extends throughout all schedules and other presentations.[5] [6] The actual budget data for 1984 and all previous years were revised to include the entities that are off-budget under current law, so that the year-to-year comparisons and historical series would be as accurate and consistent as possible.

This change in treatment does not affect Federal borrowing or debt. As shown in the table on page 6-26, the outlays of the off-budget entities have always had to be added to the on-budget deficit to derive the total Government deficit, which, for the most part, must be financed by borrowing from the public. When off-budget outlays are financed by Treasury borrowing, as is usual, the additional debt is subject to the statutory debt limitation; when financed by the entities' own borrowing, it is not. In either case the additional debt is part of the gross Federal debt and adds to the Federal debt held by the public.

The proposed treatment does not change the nature of the transactions recorded in the budget. Most of the outlays of the off-budget Federal entities are incurred in order to carry out direct loan programs. These programs have the same economic, financial, and accounting characteristics as the direct loan programs in the budget under current law, such as those of the foreign military sales credit program and the housing for the elderly or handicapped fund. The outlays of the direct loan programs, whether on-budget or off-budget under current law, are approximately equal to the difference between the new loans disbursed and the repayments of principal. Of the remaining off-budget outlays, some are incurred for the Postal Service, which is a public enterprise fund, analogous in its business-type operations to the Tennessee Valley Authority. Finally, some off-budget outlays are for the strategic petroleum reserve account to buy oil. This purchase is similar in nature to the purchases of goods from the private sector by the Department of Defense, the General Services Administration, and most other Federal agencies. Thus, the outlays that are off-budget under current law, like the outlays that are on-budget, are designed to allocate economic resources toward particular purposes of the Federal Government.

Background and current operations.—The first departure from the unified budget concept occurred in August 1971, when the Export-Import Bank was excluded by statute from the budget. Fur-

[5] Financial statements for those entities that are off-budget under current law are published in the *Appendix, Budget of the United States Government, Fiscal Year 1986,* Part I.

[6] The Board of Governors of the Federal Reserve System is a Federal organization. It is excluded from the budget and from this discussion and the legislative proposals. Financial statements are published in the *Appendix,* Part V, "Government-Sponsored Enterprises."

ther departures followed in the next few years under various statutes. The Postal Service fund, the Rural Telephone Bank, the lending transactions that became the Rural Electrification and Telephone revolving fund, and the Housing for the Elderly or Handicapped fund were removed from the budget. The Federal Financing Bank, the U.S. Railway Association, and the Pension Benefit Guaranty Corporation were established off-budget. The Exchange Stabilization Fund had always been outside the unified budget, although it was initially classified as a deposit fund instead of an off-budget Federal entity.

In subsequent years the trend toward steadily increasing the number of off-budget Federal entities was changed. The Export-Import Bank, the Housing for the Elderly or Handicapped fund, and the Pension Benefit Guaranty Corporation were put on-budget by statute in different years. The operations of the Exchange Stabilization Fund were put on-budget in a series of legislative and administrative actions. Most of the transactions of the U.S. Railway Association were brought into the budget by legislation that required its purchases of Conrail securities to be included in the budget. Whenever a former off-budget entity was put on-budget, the budget outlays and deficits of previous years were revised to include the entity to the extent feasible so that the historical series measuring budget transactions would be as accurate and consistent as possible.

Despite these reversals, two new off-budget Federal entities were established to carry out energy programs. The Synthetic Fuels Corporation was created outside of the budget in 1980, although all of its funding is provided in the budget totals of the Treasury Department. The cost of purchasing oil for the strategic petroleum reserve was put off-budget beginning in 1982. The costs of operations, maintenance, construction, and administration, however, remain in the budget.

Notwithstanding the exclusion of the off-budget entities from the budget, some of the outlays related to their operations were nonetheless included in the budget totals. The budget totals included the funding of the Synthetic Fuels Corporation, certain expenses of the strategic petroleum reserve, the Federal payment to the Postal Service fund, the administrative expenses of the U.S. Railway Association, and the administrative expenses and appropriations to reimburse losses of the Rural Electrification Administration lending programs. Moreover, while the budget authority and outlays of off-budget Federal entities were excluded from the budget totals, some of their activities were subject to other methods of Presidential and congressional review. For example, the credit budget, discussed on page 6-20 and in Part 7 of this volume, includes the direct loans and guaranteed loans of off-budget entities as well as on-budget agencies;

and the outstanding debt and annual borrowing of the Postal Service are limited by statute.

Within Congress, the budget resolutions for 1980 recommended that the congressional budget process should accurately relate off-budget activities to the budget. Following this procedural recommendation, the budget resolutions beginning in 1981 have included targets for credit that covered the obligations for new direct loans made by the off-budget Federal entities.

Part 5 of the *Budget,* "Meeting National Needs: the Federal Program by Function," shows the outlays of the off-budget Federal entities by function and discusses some of their more significant activities. As the following table shows, the Federal Financing Bank (FFB) accounts for most of the outlays that are off-budget under current law. The only other off-budget entities with comparatively large outlays are, in some years, the strategic petroleum reserve account and the Postal Service fund. The outlays of the Postal Service fund and the Synthetic Fuels Corporation are calculated net of offsets for the payments that they receive from accounts in the budget. These offsets are estimated to be $1.4 billion and $0.3 billion, respectively, in 1986. The payment to the Postal Service fund is lowered in 1986 because of the proposal to abolish the payment for revenue forgone from carrying certain mail at free or reduced rates; this is an estimated $0.8 billion in 1985. The payment to the Synthetic Fuels Corporation is to fund its entire operations.

OFF-BUDGET OUTLAYS UNDER CURRENT LAW [1]

(In billions of dollars)

Entity	1984 actual	1985 estimate	1986 estimate	1987 estimate	1988 estimate
Federal Financing Bank	7.3	10.4	0.1	−3.3	−4.1
Rural Electrification and Telephone revolving fund	−*				−.3
Rural Telephone Bank	*	.1	.1	.1	.1
Strategic Petroleum Reserve account	2.3	1.6	.1		
Postal Service fund	.4	.3	1.2		
U.S. Railway Association	−*	−*			
Synthetic Fuels Corporation					
Total	**10.0**	**12.5**	**1.5**	**−3.2**	**−4.3**

*$50 million or less.

[1] Proposed to be included on-budget.

The Federal Financing Bank does not operate programs itself. Rather, the FFB finances other programs within the Government by purchasing their debt securities, making direct loans on their behalf, or purchasing their loan assets. FFB obtains the funds for these transactions by borrowing an equal amount from Treasury. The operation of the assisted programs remains with the agencies that FFB finances.

FFB purchases of agency debt securities do not increase FFB outlays. An agency incurs outlays when it spends the proceeds of its borrowing from the FFB, so FFB outlays must exclude this borrowing transaction in order to prevent double counting.

In contrast, FFB outlays are generated by its direct loans and its purchases of loan assets. Both types of transactions are connected with loan guarantees by another agency. FFB makes direct loan disbursements to the public upon the request of an agency, with the repayment of the loan to the FFB being guaranteed by that agency. These direct loans are outlays outside the budget under current law but would be on-budget outlays under proposed legislation.

FFB purchases loan assets from various agencies, also upon agency request. Loan assets are loans that an agency has made to the public and for which repayments are still owed. The agency guarantees the loan assets sold to the FFB, which ensures that the FFB will be paid in the event of default. Loan asset sales are offsets to the outlays of the agency that sells them, regardless of whether they are sold to the FFB or the public. Sales thus reduce the size of an agency's outlays immediately rather than over the normal course of time during which the loans that are sold would be repaid. Therefore, if the selling agency's outlays are included in the budget, the budget outlays caused by its direct loans are offset by the amount of its sales of loan assets. As a result, when the FFB buys loan assets, under current law it effectively converts direct loans that have already been made by another agency into off-budget direct loans of the FFB. Putting the FFB on budget will have the effect that these transactions between two Federal agencies will not reduce the budget totals.

According to law, the category of loan assets also includes certificates of beneficial ownership issued by the Farmers Home Administration and the Rural Electrification and Telephone revolving fund. These certificates are securities backed by loans that the agencies continue to hold and service, and they comprise almost all of the loan assets bought by FFB. The President's Commission on Budget Concepts recommended that the sale of such securities (also known as participation certificates) be treated as borrowing, since as a means of financing outlays there is little difference between an agency selling securities labeled "certificates of beneficial ownership," the same agency selling securities labeled "debt," and the Treasury selling securities labeled "debt." [7]

The remainder of FFB outlays consists of the interest that it pays on its borrowings from Treasury, its administrative expenses, and its payment of surplus income to the general fund, the sum of

[7] See *Report of the President's Commission on Budget Concepts*, pp. 8, 47-48 and 54-55.

which is offset by the interest that it receives on its holdings of loans and debt. Under current policy, the net interest received (less administrative expenses) is paid in the same year to the general fund. Therefore, this remainder is approximately zero, and FFB outlays approximately equal direct loan disbursements to the public plus purchases of loan assets from other agencies, less repayments.

Since the FFB finances other programs within the Government, rather than operating programs itself, the Administration's proposal for putting the FFB in the budget would charge its outlays to the agencies that use the FFB to finance their programs. This proposal is consistent with the basic intent of several bills that have been introduced in the Congress. This method of putting the FFB in the budget would improve the review and control of Federal outlays by both the Congress and the executive branch. At the same time, the proposed legislation would prevent agencies from avoiding the budgetary control process by financing their programs through fully guaranteed obligations of the type ordinarily financed in the investment securities market. Thus, this change would improve budgetary control while maintaining the principle of efficient debt management that was the purpose for setting up the FFB. For transition purposes only, however, in this budget the outlays of the FFB are charged to the Treasury Department, in which the FFB is organizationally located, rather than the agencies that use the FFB to finance their programs.

Because of this transition treatment, in several places the budget documents attribute the FFB outlays that are made on behalf of an agency to that agency itself. This is done so as to present the effects of the FFB's transactions for different programs. The table on the next page summarizes this attribution, showing the direct loans to the public or purchases of loan assets, less repayments, for selected agencies and programs. The FFB outlays are attributed by function in the tables throughout Part 5 and elsewhere, and a complete attribution by both agency and function is given in Part 8 in the section for the Treasury Department that displays the FFB.

As shown in this table, FFB finances a wide variety of programs. FFB outlays for these programs reached a peak of $21.0 billion in 1981 but have declined every year since then, falling to $7.3 billion in 1984. Although FFB outlays are estimated to rise in 1985, they are estimated to fall very sharply in 1986 and to become negative amounts of increasing size in 1987 and subsequent years. This occurs primarily for two reasons: several lending programs financed by FFB are proposed to be terminated, and FFB will continue to receive repayments of principal on loans made in previous years. These effects show up most strongly for the Farmers Home Administration, which has accounted for a little over half of all

ATTRIBUTION OF FEDERAL FINANCING BANK OUTLAYS

(In millions of dollars)

Description	1984 actual	1985 estimate	1986 estimate	1987 estimate	1988 estimate
Outlays from loans, by agency or program:					
Farmers Home Administration: certificates of beneficial ownership	2,820	4,099	−904	−4,248	−4,141
Rural Electrification and Telephone revolving fund:					
Certificates of beneficial ownership	69	447	253	53	.....
Direct loans to public	1,648	2,685	2,222	1,700	1,490
Foreign military sales credit	2,818	2,340	282	−693	−1,001
Energy	366	353	14	−1	−105
Housing and Urban Development:					
Community development grants	31	42	25	23	−59
Low-rent public housing	112	−32	−35	−37	−39
Transportation: Railroad programs	−904	−5	−9	−10	−12
National Aeronautics and Space Administration	8	−67	−107	−112	−98
Small Business Administration	254	500	−1,735	−10	−10
Tennessee Valley Authority: Seven States Energy Corporation	137	90	87	73	−40
Other	−22	−9	−16	−45	−46
Subtotal, outlays from loans	7,336	10,442	77	−3,306	−4,063
Interest, administrative expenses, and payment of surplus income	−60	.....	.....	.....	.....
Total, FFB outlays	**7,277**	**10,442**	**77**	**−3,306**	**−4,063**

FFB outlays since FFB began operation. The Farmers Home Administration direct loan programs are proposed for termination or major reduction in this budget. In addition, FFB outlays for the foreign military sales credit program decline beginning in 1985 because new obligations for direct loans are financed independently from FFB; and outlays for the Small Business Administration are a large negative amount in 1986 because of a proposed transfer of these loans to a separate account in the Treasury Department before being sold to the public. By 1988 the only program with a large amount of new direct loans financed by the FFB is the Rural Electrification and Telephone revolving fund.

Since the Farmers Home Administration is on-budget, FFB's purchase of its certificates of beneficial ownership reduces total on-budget outlays under current law as well as Farmers Home outlays. The total outlays of the Federal Government are not affected, since the decrease in on-budget outlays under current law is exactly offset by the increase in off-budget outlays. Under the legislative proposal to include FFB in the budget, the budget outlays of the Federal Government will also not be affected by the FFB's transactions with the Farmers Home Administration. FFB's purchase of certificates of beneficial ownership from the off-budget Rural Electrification and Telephone revolving fund reduces the outlays of this

COMPARISON OF TOTAL FEDERAL OUTLAYS WITH CLASSIFICATION UNDER CURRENT LAW AND WITH GOVERNMENT-SPONSORED ENTERPRISES

(In billions of dollars)

Fiscal year	Federal Government			Government-sponsored enterprises [3]
	Total budget	Classification under current law		
		On-budget [1]	Off-budget [2]	
1970	195.7	195.7	.....	9.6
1971	210.2	210.2	.....	*
1972	230.7	230.7	.....	4.4
1973	245.7	245.6	0.1	11.4
1974	269.4	267.9	1.4	14.5
1975	332.3	324.2	8.1	7.0
1976	371.8	364.5	7.3	4.6
TQ	96.0	94.2	1.8	2.3
1977	490.2	400.5	8.7	9.7
1978	458.7	448.4	10.4	24.5
1979	503.5	491.0	12.5	25.9
1980	590.9	576.7	14.2	25.3
1981	678.2	657.2	21.0	33.4
1982	745.7	728.4	17.3	42.4
1983	808.3	796.0	12.4	34.3
1984	851.8	841.8	10.0	44.7
1985 estimate	959.1	946.6	12.5	44.3
1986 estimate	973.7	972.2	1.5	43.2
1987 estimate	1,026.6	1,029.9	−3.2	(4)
1988 estimate	1,094.8	1,099.1	−4.3	(4)

*$50 million or less.

[1] The 1972–80 data have been revised to include the Export-Import Bank, the Housing for the Elderly or Handicapped fund, and the Pension Benefit Guaranty Corporation as on-budget instead of off-budget. The administrative expenses and interest collections of the Exchange Stabilization Fund are included on-budget beginning in 1976, and the actual profits and losses realized from foreign exchange transactions are included beginning in 1979. Earlier data for the ESF are not available on a comparable basis.

[2] Proposed to be included on-budget.

[3] To prevent double counting, outlays of Government-sponsored enterprises exclude loans to other Government-sponsored enterprises and loans to or from all Federal entities.

[4] Not available.

fund to a very small amount, as shown in the preceding table on the outlays of off-budget entities. The purchase reduces this fund's outlays and augments the outlays of the FFB by an equal amount.

The table above compares total Federal outlays with the outlays that are on-budget and off-budget under current law.[8] The outlays of the entities that are off-budget under current law were negligible in 1973 but grew rapidly afterwards for several years and reached a peak of $21.0 billion in 1981. This was 3.1% of total Federal outlays. The loan programs financed by the Federal Financing Bank were the primary reason for this growth. After 1981, however, the off-budget outlays fell sharply, and by 1984 they had approximately halved. They are estimated to decrease sharply

[8] The historical data for on-budget outlays under current law include Federal entities that are off-budget under current law for any period when they were in the budget, and include the present Government-sponsored enterprises for periods when they had any Government ownership. The outlays of former off-budget entities are included in the on-budget totals for all years to the extent practicable.

again after 1985 and to become sizable negative amounts in 1987 and later years.

Government-sponsored enterprises.—Several Government-sponsored enterprises have been established and chartered by the Federal Government to perform specialized credit functions. The earlier enterprises were all created with partial or full Government ownership and with direct Government control. In time, however, they were converted to private ownership and some new enterprises were created as privately owned institutions.

The rule governing the budget treatment of these enterprises was established in 1967 in accordance with a recommendation by the President's Commission on Budget Concepts. The Commission basically recommended that the budget exclude those Government-sponsored enterprises that are entirely privately owned. However, the Commission recommended that financial statements of their operations be included in the budget documents, because the enterprises carry out federally designed programs and receive benefits from their close association with the Government.[9] [10]

These benefits differ from one enterprise to another and from one type of debt security to another. In most cases, but not all, they include such advantages as the following: their debt securities can be held by federally regulated financial institutions under circumstances where other private securities or State and local securities are not eligible; they are exempt from Federal income taxation; the interest on their debt securities is exempt from State and local income taxation; and the enterprises are perceived by the securities market to have a special relationship with the Federal Government. Because of these benefits, the Government-sponsored enterprises can borrow at interest rates only slightly higher than the interest rates paid by Treasury on Federal debt. Consequently, this budget proposes that fees for this privilege be imposed on new borrowings (including mortgage-backed securities) of the Government-sponsored enterprises.

The Federal Land Banks and Federal Home Loan Banks had both become entirely privately owned a number of years before the unified budget was adopted and therefore have always been excluded from the unified budget. The Federal National Mortgage Association, the Banks for Cooperatives, and the Federal Intermediate Credit Banks became wholly privately owned by repaying their Federal equity capital late in calendar year 1968 and were accordingly removed from the budget for all later periods. The Federal Home Loan Mortgage Corporation and the Student Loan

[9] *Report of the President's Commission on Budget Concepts*, pp. 29-30.

[10] Financial statements for the Government-sponsored enterprises are published in the *Appendix*, Part V, "Government-Sponsored Enterprises." Their borrowing and lending are discussed in Special Analysis E, "Borrowing and Debt," and Special Analysis F, "Federal Credit Programs."

Marketing Association were later established with full private ownership. The Federal Home Loan Mortgage Corporation is not privately operated, however, because its board of directors consists entirely of members of the Federal Home Loan Bank Board, who are Federal Government officials appointed by the President.

The Government-sponsored enterprises were all created to carry out loan programs, either lending their funds directly for specifically authorized purposes, or buying loans originated by the private groups that they were established to assist. The loans of these enterprises primarily support housing, but also support agriculture and higher education. As shown in the previous table, their outlays have grown considerably—from relatively moderate amounts through the middle 1970's to over $20 billion in 1978 and over $30 billion each year since 1981.

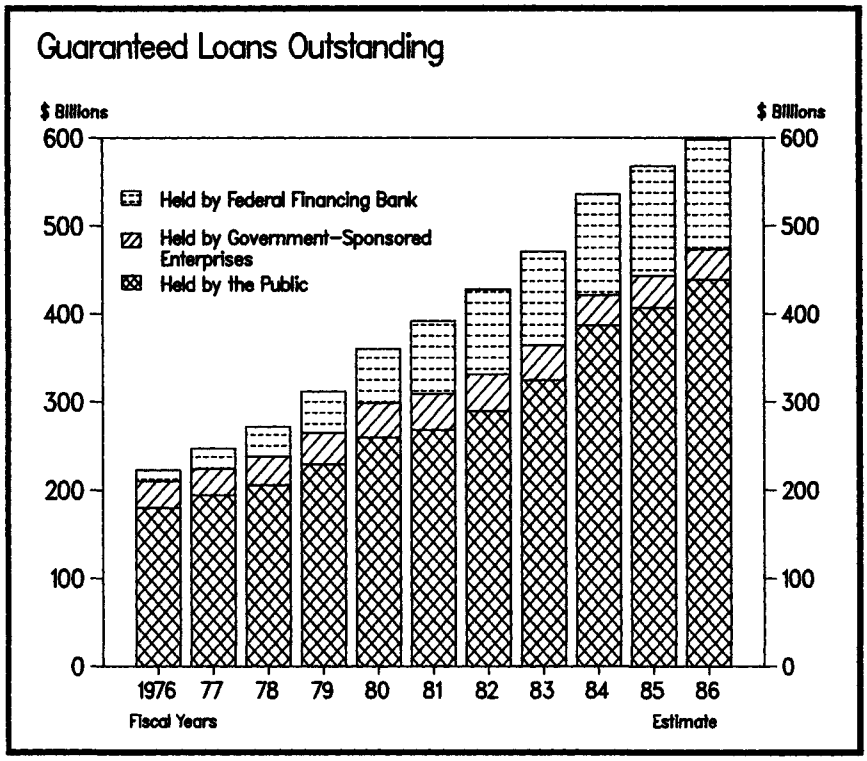
The operations of the Government-sponsored enterprises are not subject to the Federal budget review process, and the economic assumptions on which their estimates are based are not necessarily the same as the Administration's economic assumptions shown in Part 3. These enterprises estimate that they will spend $43.2 billion in 1986, which equals 4.4% of total Federal outlays in that year. The following table shows the total amounts of Government-sponsored loans outstanding and net loans (i.e., the change in loans outstanding) during 1984–86, in billions of dollars: [11]

	1984 actual	*1985 estimate*	*1986 estimate*
Loans outstanding, end of year	314.1	360.1	405.9
Net loans	53.1	46.0	45.8

Loan guarantees.—Government-guaranteed loans are loans for which the Government guarantees the payment of the principal and the interest in whole or in part in the event of borrower default. Loan guarantees are contingent liabilities of the Federal Government. They generally do not result in budget outlays except in case of default.

Guaranteed loans may be made to many types of borrowers, including individuals, businesses, State and local governments, and foreign governments. The guarantees may be full or partial, and in some programs, such as the guaranteed student loan program, they are supplemented by explicit subsidies or other forms of assistance. Most guaranteed loans are made by banks or other private institutional lenders, and may take the form of mortgages or bank loans. Others are sold in securities markets. In 1984, 27.5% of total guaranteed loan commitments were used to guarantee direct loans disbursed or purchased by the Federal Financing Bank, which is described above on pages 6–11 to 6–15. An additional amount of guaranteed loans originally made by private institutions is pur-

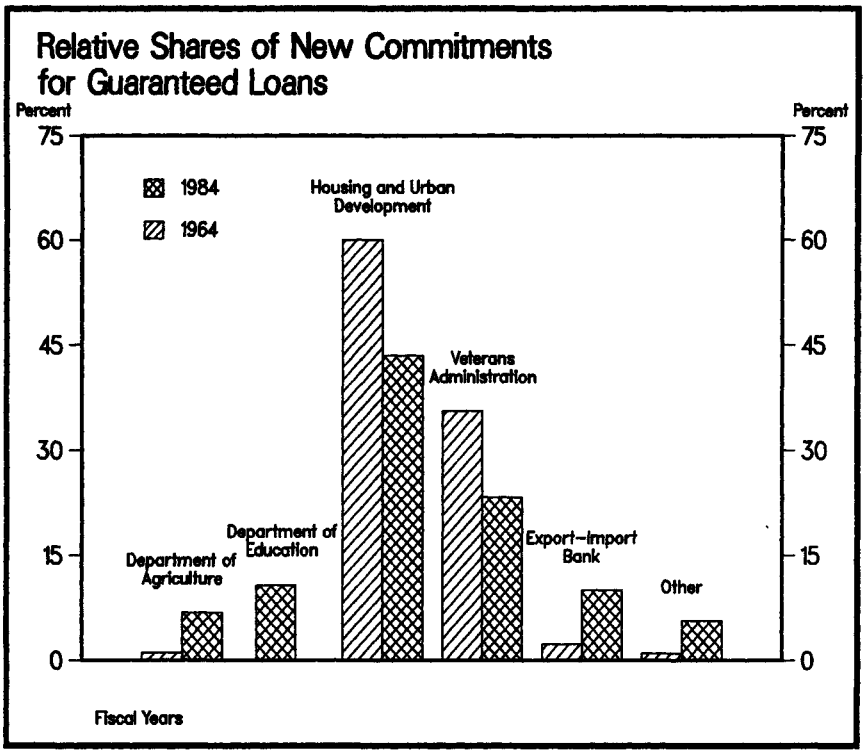
[11] In order to prevent double counting in adding Government-sponsored loans to Federal direct loans and guaranteed loans, this table excludes loans from one Government-sponsored enterprise to another, loans from the Federal Government, and guaranteed loans acquired.



chased and held by privately owned, Government-sponsored enterprises, as the chart above shows.

A loan guarantee transfers some or all of the default risk of the loan from the private lender to the Government. Where the Government guarantees timely payment of 100% of the loan principal and interest, it transforms a private loan into a near-government loan financed by a near-government security. The guaranteed loan will not have all the attributes of a Government loan, since private lenders will negotiate different financial terms and conditions (e.g., fees) than would a Government agency. Nor will the guaranteed loan have all of the attributes of a U.S. Treasury security. It will be less liquid and may involve higher transaction costs.

Loan guarantees are designed to allocate economic resources to particular uses by providing credit at more favorable terms than are otherwise available in the private market. If loan guarantee recipients are not sufficiently creditworthy to borrow without Federal assistance, the subsidy provided by the guarantee is large and the guarantee will directly reallocate credit toward federally selected uses, thereby increasing the total volume of credit channeled into these uses. This leaves a smaller supply of credit to be allocated to those potential borrowers who do not receive assistance, and increases the interest rate to these borrowers. However, the guarantee does not always change the allocation of credit to such a



large degree. Some beneficiaries of loan guarantee programs would have been able to secure the funds privately, without Government support. For example, guaranteed mortgage credit might be used to finance, at a lower cost, a house that would have been purchased anyway.

Many of the guarantee programs operated by the Federal Government began in efforts to revive the economy during the depression of the 1930s. The Reconstruction Finance Corporation, created in 1932, was the forerunner of the Export-Import Bank, the Small Business Administration, and other credit programs. The Nation's single largest credit program, the Federal Housing Administration's (FHA) home mortgage insurance program, was created in 1934 to stimulate housing purchases.

During the 1950s and 1960s housing credit dominated Federal credit activities. The home mortgage programs of the FHA and Veterans Administration accounted for 95.6% of the total volume of new commitments for guaranteed loans in 1964. As the chart above shows, the range of activities financed with Federal guarantees has widened since that time. Guarantees are now offered for business, agriculture, energy, and education, though housing continues to dominate. For the 1986 budget, home mortgage programs

account for 62.4% of all new guaranteed loan commitments. Aid to international business accounts for 15.8%. The remaining 21.8% is primarily for the guaranteed student loan program and for agriculture.

Because loan guarantees are not included in the outlay totals, they were formerly excluded as well from normal budget discipline. In January 1980 a central control system for Federal credit was instituted to subject guaranteed and direct loans to greater scrutiny throughout the budget process. This system consisted of the Federal credit budget and appropriations bill limitations. The credit budget covers all direct and guaranteed loans by Federal agencies. Control is effected through appropriations bill limitations, which cover 63% of all new guaranteed loan commitments to be extended in 1986 and 33% of new direct loan obligations. (See Part 5 for a discussion of credit programs by function, Part 7 for a more complete description of the credit budget and credit control system, and Special Analysis F, "Federal Credit Programs," for a detailed discussion of Federal credit activities.)

Taxation and tax expenditures.—Taxation provides the Government with receipts, which withdraw purchasing power from the private sector in order to finance direct Government expenditure. The structure of the tax system has important effects on the allocation of resources among private uses and the distribution of income among individuals. These effects are caused by the choice of taxes and by the structural characteristics of each different tax—for example, by the rate schedules, exemptions, deductions, and exclusions of the individual income tax. The effects of taxation on resource allocation and income distribution are analogous to the effects of outlays.

Some features of the tax system have been defined as "tax expenditures" and receive special attention in the budget. Tax expenditures are defined as amounts attributable to provisions of the Federal income tax laws that allow a special exclusion, exemption, or deduction from gross income or that provide a special credit, a preferential rate of tax, or a deferral of tax liability. The Congressional Budget Act requires that estimates of tax expenditures be published in the budget.

Tax expenditures are so designated because they are one means by which the Federal Government pursues public policy objectives, and because in many cases they can be regarded as an alternative means of achieving the same objectives as direct expenditures. They can also be regarded as an alternative means of achieving the same objectives as other instruments of Government policy, such as loan guarantees, regulations, and provisions of the tax law other than those provisions that cause tax expenditures. There are numerous examples of the similarity in objective between tax expend-

itures and direct outlays. For instance, the cost of buying ships built in U.S. shipyards is reduced both by construction subsidies and by the deferral of tax on the shipping company income used to buy new ships; and the cost of borrowing by eligible persons and businesses is reduced both by direct loans at subsidized interest rates and by tax exemption for bonds. Similarly, State and local governments benefit both from direct grants and from the ability to borrow funds at tax-exempt rates; and individuals benefit both from social security payments and from the tax exemption of most of these payments.

Tax expenditures ordinarily result from permanent legislation. They therefore are not submitted to the Congress each year and do not routinely receive a formal and systematic annual review. In this sense they share a legislative status with entitlement programs, such as social security, which do not require annual appropriations. However, tax expenditures, other provisions of the income tax, and other tax laws are generally reviewed whenever fiscal policy decisions are considered regarding the overall level of tax receipts. Many tax expenditures and other tax law provisions were changed in the revenue acts of the last four years; and during the past year the Treasury Department comprehensively reviewed the income tax law including both its tax expenditures and its other provisions.

The classification of certain provisions of law as resulting in tax expenditures requires some baseline tax structure against which the actual tax law can be compared. Deviations of the law from this baseline are deemed to cause tax expenditures. The Congressional Budget Act does not provide an exact specification of the baseline against which tax expenditures are to be measured.

The baseline used in the budget is intended to consist of the general provisions of the Internal Revenue Code. For the individual income tax, the baseline in the budgets since 1983 has included those provisions that exist under current law for the definition of taxpaying units (including the separate corporation income tax), graduated rate schedules, personal exemptions, zero-bracket amounts (standard deductions), and basic accounting rules. The baseline before 1983 was similar but in addition required that the time pattern of depreciation deductions approximate the useful life of assets and that all cash transfers from government be included in taxable income. By definition, characteristics of the tax structure included in the baseline do not give rise to tax expenditures.

The use of many of the general provisions of the Internal Revenue Code for defining both of these baseline tax structures makes it clear that listing an item as a tax expenditure does not imply that it is either a desirable or an undesirable provision. When different provisions of the Code are considered to be in the base-

line, the list of tax expenditures is different and the amounts of particular tax expenditures may also be different. For example, in contrast with the baseline used in earlier years, the baseline used in the budgets since 1983 has considered the accelerated cost recovery system (ACRS) to be the general method for depreciating assets and therefore has included ACRS as part of the baseline; this baseline has also excluded public assistance payments from baseline income. Therefore, under this baseline, unlike the pre-1983 baseline, tax expenditures do not arise from either the use of ACRS or the exclusion of public assistance benefits from adjusted gross income. This year's tax expenditure estimates show tax expenditures relative to both of these baselines.

These two baselines are not the only ones that might be used. In particular, a baseline tax structure might reflect a normative judgment about a fully comprehensive income tax base or consumption tax base. A fully comprehensive income tax base, among other changes, would adjust incomes for the effects of inflation; would integrate the individual and corporation income taxes rather than regarding the separate tax treatment of individuals and corporations as part of the baseline tax structure; would include imputed income, such as the consumption benefits received from owner-occupied homes; and would tax income when it was accrued instead of when it was realized. Thus, for example, the failure under present law to take account of inflation in measuring capital gains, depreciation, and interest income would be regarded as negative tax expenditures. Alternatively, under a consumption tax base, income would not be taxed until consumed. However, the proceeds of borrowing and of withdrawals from savings accounts would be taxable if they were used for consumption. Under either of these alternative baseline structures, the list of tax expenditures and their estimated amounts would be different than they are now.

Some of the items listed as tax expenditures under one or both of the present baselines can be regarded to some degree as inexact but practicable adjustments to correct for departures of the baseline from a fully comprehensive tax base. For example, the exclusion of 60 percent of long-term capital gains from taxable income may be regarded as a method of adjusting for the overstatement of real income from capital gains during a period of inflation. Similarly, the use of more accelerated depreciation methods than economic life—which is a tax expenditure under the pre-1983 baseline—may be regarded as a means of offsetting the failure to adjust depreciation deductions for increases in the price level.

Regardless of how the baseline is defined, the provisions of tax law that do not result in tax expenditures deserve as much scrutiny as the provisions of tax law that do. This is because the other provisions also have major effects on the allocation of resources

and the distribution of income, and because these other provisions may be alternative means of achieving the same objectives or analogous objectives as tax expenditures achieve. For example, investment in equipment may be stimulated by either an increase in the investment tax credit or a decrease in the corporation income tax rate; the former is a change in a tax expenditure, but the latter is not. Similarly, income support may be provided by either the exclusion of social security benefits from taxable income or by the zero-bracket amount (standard deduction); the former causes a tax expenditure, but the latter does not.

Tax expenditures are estimated in two steps. First, the revenue loss of a tax provision is estimated, i.e., the difference between tax receipts and what tax receipts would be if the tax law conformed to a specified baseline. If removing a tax provision would increase taxable income, for example, the revenue loss is estimated as the increase in taxable income multiplied by the tax rate that would be paid on the additional income.

The revenue loss is then adjusted to an outlay equivalent, i.e., the amount of outlays that would be required to provide an equal after-tax income to the taxpayer (and thereby an equal incentive) as the special tax provision provides. In many cases the required outlays are greater than the revenue loss, because taxpayers would have to pay taxes on the higher income derived from the outlays. For example, one tax expenditure provision is the exclusion from taxable income of the value of housing and meals supplied to military personnel. If the Government were to repeal this tax exclusion and instead pay higher salaries, the increase in salaries would be taxed. Consequently, if the Government were to use taxable direct expenditures rather than tax expenditures and were to provide the same total after-tax compensation, the increase in direct outlays for higher salaries would have to be greater than the revenue loss under the special tax provision. The Federal deficit would be the same in either case, however, because higher outlays would be required only to the extent needed to make up the difference caused by higher tax receipts.

This adjustment makes the tax expenditures more comparable with direct outlays than the revenue loss would be and therefore more useful in analyzing Federal programs. For some tax expenditures, though, the revenue loss is equivalent to a direct outlay without any adjustment. Special Analysis G, "Tax Expenditures," presents estimates of tax expenditures defined both as outlay equivalents and as revenue losses, but for program analysis in this budget only the outlay equivalent estimates are used.

The size of a particular tax expenditure depends not only on the tax provision in question but also on the interaction of this provision with the rest of the tax structure. The reductions in the

income tax rate schedule enacted in 1981, for example, automatically decreased many tax expenditures below what they otherwise would have been. A tax rate reduction decreases the amount of receipts that would be gained by repealing deductions, exemptions, and exclusions, because lower tax rates are applied to the increase in taxable income.

The interaction among tax provisions means that special calculations are generally needed to add tax expenditures together. For example, if more than one exclusion from individual income were ended, the gain in receipts would generally be greater than the sum of the separate tax expenditures, because some taxpayers would move into higher tax rate brackets. If more than one personal deduction were ended, the gain in receipts would generally be smaller than the sum of the separate tax expenditures, because some taxpayers would switch to using the zero-bracket amount (standard deduction). Consequently, adding together separate tax expenditures would usually be misleading, and they are not aggregated in this budget except for the specially computed totals by functional category.

Tax expenditures are presented at two places in the budget. Part 5, "Meeting National Needs: the Federal Program by Function," discusses the major tax expenditures in each functional category, together with outlays and guaranteed loans, in order to describe more fully the Government's policy. Special Analysis G, "Tax Expenditures," analyzes the concept and measurement of tax expenditures and presents a complete list of tax expenditure estimates for 1984-86. The discussion in Part 5 and the functional totals are based on the pre-1983 baseline.

As discussed in Part 4 of this volume, "Budget Receipts," the Deficit Reduction Act of 1984 increased tax receipts significantly. Some of its provisions repeal or reduce tax expenditures. For example, the Act repealed the exclusion of a limited amount of net interest income that had been scheduled to begin in 1985, and it limited the amount of tax-exempt, private purpose industrial development bonds. At the same time, the Act also extended or increased a few tax expenditure provisions, such as continuing the tax-exemption for mortgage subsidy bonds through 1987.

The Administration is proposing a number of tax changes in the present budget. Several new, expanded, or continued tax expenditures would serve diverse purposes. These tax expenditures include a three-year extension of the tax credit for increasing research and experimentation expenditures; a larger tax credit for dependent care expenses paid by low income individuals; a group of incentives

for the redevelopment of depressed areas designated as "enterprise zones"; a tuition tax credit for students at private elementary and secondary schools; and education savings accounts for college and university expenses. Other proposed measures would change receipts but not tax expenditures.

BUDGET FUNDS AND THE FEDERAL DEBT

The budget consists of two major groups of funds: Federal funds and trust funds. The Federal funds are derived mainly from tax receipts and borrowing and are used for the general purposes of the Government. Most of these funds are not restricted by law to any specific Government program. The trust funds, on the other hand, collect certain taxes and other receipts for specified purposes, such as paying social security and unemployment insurance benefits.

BUDGET TOTALS BY FUND GROUP

(In billions of dollars)

	1984 actual	1985 estimate	1986 estimate	1987 estimate	1988 estimate
Budget receipts:					
Federal funds	418.1	459.3	493.5	537.9	588.9
Trust funds	338.1	396.5	421.3	447.4	496.1
Interfund transactions	−89.7	−118.9	−121.1	−123.7	−134.6
Total, budget receipts	666.5	736.9	793.7	861.7	950.4
Budget outlays:					
Federal funds [1]	636.3	731.6	734.9	772.7	827.8
Trust funds	305.2	346.4	359.9	377.6	401.5
Interfund transactions	−89.7	−118.9	−121.1	−123.7	−134.6
Total, budget outlays	851.8	959.1	973.7	1,026.6	1,094.8
Budget surplus or deficit (−):					
Federal funds [1]	−218.2	−272.3	−241.4	−234.8	−238.9
Trust funds	32.9	50.1	61.4	69.8	94.5
Total, budget surplus or deficit (−)	**−185.3**	**−222.2**	**−180.0**	**−164.9**	**−144.4**

[1] Includes the outlays of the off-budget Federal entities, which have been excluded from the budget under current law but are proposed to be included on-budget. In previous years they were shown as a grouping separate from Federal funds or trust funds.

The budget includes the receipts and outlays of both the Federal funds and the trust funds and, as shown in the table above, deducts the various transactions that occur between them. The budget totals for receipts and outlays therefore generally display the net transactions of the Federal Government with the public. Under proposed legislation the budget includes the net transactions with the public of the Federal Financing Bank and the other off-budget Federal entities, which have been excluded from the budget under provisions of law. The outlays that are off-budget under current law are classified as Federal funds outlays when included in the

BUDGET FINANCING AND CHANGE IN DEBT OUTSTANDING [1]

(In billions of dollars)

Description	1984 actual	1985 estimate	1986 estimate	1987 estimate	1988 estimate
Budget surplus or deficit (—)	—185.3	—222.2	—180.0	—164.9	—144.4
(On-budget under current law)	*(—175.4)*	*(—209.8)*	*(—178.5)*	*(—168.2)*	*(—148.7)*
(Off-budget under current law; proposed to be included on-budget)	*(—10.0)*	*(—12.5)*	*(—1.5)*	*(3.2)*	*(4.3)*
Means of financing other than borrowing from the public:					
Decrease or increase (—) in Treasury operating cash balance	6.6	10.4	.....	.....	.....
Increase or decrease (—) in:					
Checks outstanding, etc	5.4	9.4	9.4	.....	.....
Deposit fund balances	1.9	.5	—2.5	.....	.....
Seigniorage on coins	.5	.6	.5	.7	.8
Total, means of financing other than borrowing from the public	14.5	20.8	7.4	.7	.8
Total, requirements for borrowing from the public	—170.8	—201.4	—172.6	—164.2	—143.6
Change in debt held by the public	170.8	201.4	172.6	164.2	143.6
Change in Federal agency investments in Federal debt:					
Federal funds [2]	2.5	2.2	.8	.....	.....
Trust funds [3]	20.7	60.3	62.3	69.8	94.5
Deposit funds [4]	.8	.5	—2.5	.....	.....
Total, change in Federal agency investments in Federal debt	24.0	63.0	60.5	.....	.....
Change in gross Federal debt	**194.9**	**264.3**	**233.2**	**234.0**	**238.1**

*$50 million or less.

[1] Several amounts have been assumed to be zero in 1987 and 1988 because they are usually small and cannot be estimated accurately.
[2] Includes the off-budget Federal entities, which have been excluded from the budget under current law but are proposed to be included on-budget.
[3] Estimates for 1987 and 1988 are equal to the total trust fund surplus.
[4] Only those deposit funds classified as Government accounts.

budget and are therefore shown as Federal funds outlays in this table.[12]

Thus, as shown in the table above, the budget deficit or surplus is the principal determinant of the change in the Federal debt held by the public.[13] The budget deficit, together with the other factors noted in this table, is estimated to increase the Federal debt held by the public from $1,312.6 billion at the end of 1984 to $1,686.6 billion at the end of 1986, with the increase in 1986 being less than in 1985. Borrowing is projected on a basis consistent with the economic assumptions that are explained in Part 3 of this volume.

[12] Special Analysis C, "Funds in the Budget," discusses further the two major groups of funds and the effect on the accounts of shifting the off-budget Federal entities into the budget.

[13] Table 12 in Part 9 of this *Budget* contains more detail on budget financing through 1986 and shows the levels of debt from 1983 to 1986. Federal debt is discussed further in Special Analysis E, "Borrowing and Debt." Historical data since 1940 are published in *Historical Tables, Budget of the United States Government, FY 1986.*

Gross Federal debt is the sum of the debt held by the public and the debt held by the Government itself, which includes such investments as the Treasury debt held by the social security and other trust funds. At the end of 1986 gross Federal debt is estimated to be $2,074.2 billion, of which debt held by the Government itself is $387.6 billion. Thus, gross Federal debt is much larger than the Federal debt held by the public.

Gross Federal debt is estimated to rise by $233.2 billion during 1986. As indicated in the lower section of the previous table, $60.5 billion of this increment will be held in trust funds and other Government accounts. This is mainly due to the investment of trust fund surpluses in Treasury debt.

The gross Federal debt consists almost entirely of securities issued by the Treasury Department. However, a few Government agencies are authorized to issue their own debt instruments to the public or to other Government agencies and funds. These securities are part of the gross Federal debt. At the end of 1984 the public held $3.4 billion of agency debt, most of which was issued some years ago. The greater part consists of revenue bonds issued by the Tennessee Valley Authority and participation certificates in pools of loans issued by the Government National Mortgage Association on behalf of several agencies. Agency debt is expected to fall by small amounts each year as existing agency debt matures and most new agency borrowing is from the Federal Financing Bank (FFB). The FFB finances its purchases of agency debt by borrowing from Treasury, which in turn borrows from the public. To prevent double counting, FFB's holdings of agency debt are not included in gross Federal debt.

Almost all Treasury securities are covered by a general statutory debt limitation. The present limit is $1,823.8 billion. However, the debt subject to limit is estimated to rise to $1,837.4 billion by the end of 1985. Therefore, to permit the Federal Government to meet its obligations, the limit will have to be raised during 1985.

Debt subject to the general statutory limit, like gross Federal debt, includes debt held internally within the Government, such as the Treasury issues held by the social security trust funds. Debt subject to the statutory limit is therefore much larger than the debt held by the public and is nearly as large as gross Federal debt. It is a little less than gross Federal debt primarily because most agency debt is excluded from the general statutory limitation.

Since trust fund surpluses for the most part have been invested in debt securities, rather than being held as cash assets, the Federal funds deficit must be financed primarily by borrowing. This debt is almost entirely subject to the statutory limit. As shown in the table on the next page, the Federal funds deficit was $218.2 billion in 1984, and the increase in debt subject to statutory limit was $195.0

FEDERAL FUNDS FINANCING AND CHANGE IN DEBT SUBJECT TO LIMIT

(In billions of dollars)

Description	1984 actual	1985 estimate	1986 estimate
Federal funds surplus or deficit (−)	−218.2	−272.3	−241.4
(On-budget under current law)	*(−208.3)*	*(−259.9)*	*(−239.9)*
(Off-budget under current law; proposed to be included on-budget)	*(−10.0)*	*(−12.5)*	*(−1.5)*
Means of financing other than borrowing:			
Decrease or increase (−) in Treasury operating cash balance	6.6	10.4	.....
Increase or decrease (−) in:			
Checks outstanding, etc	17.7	−.8	8.5
Deposit fund balances	1.9	.5	−2.5
Seigniorage on coins	.5	.6	.5
Total, means of financing other than borrowing	26.7	10.7	6.5
Decrease or increase (−) in investments in Federal debt by Federal funds and deposit funds [1]	−3.4	−2.7	1.7
Increase or decrease (−) in Federal funds debt not subject to limit	−.1	−.1	−.1
Total, requirements for borrowing subject to debt limit	−195.0	−264.4	−233.3
Change in debt subject to limit	**195.0**	**264.4**	**233.3**

*$50 million or less.

[1] Only those deposit funds classified as Government accounts.

billion. Thus, the Federal funds deficit roughly accounted for the increase in the debt subject to limit.

THE DECREASE IN TOTAL 1984 OUTLAYS FROM THE INITIAL BUDGET ESTIMATE

Total outlays for 1984 were $851.8 billion, which is $10.7 billion less than the initial estimate made by the Administration in its budget transmitted to Congress in January 1983. Outlays that are on-budget under current law account for $6.7 billion of this decrease, while outlays that are off-budget under current law account for the remaining $4.0 billion. This is the first budget in recent years to record a shortfall in spending and continues the trend since 1980 of continually narrower differences between the initial budget estimate and actual outlays. Although actual outlays exceeded the initial estimate in each of the preceding four years, the percentage difference declined steadily from 9.3% in 1980 to 4.5% in 1983. This section reviews the major causes of the 1984 decrease. It includes the outlays of Federal entities that are off-budget under current law in order to be consistent with the Administration's proposal to move them on-budget.

The following table compares the initial outlay estimate with the actual outlay total in current and constant dollars and as a percent of GNP. Current dollar outlays were 1.2% below the initial estimate, while constant dollar outlays were 0.8% higher. The table also compares defense with nondefense outlays in current dollars.

1984 OUTLAY DIFFERENCES

(Dollars in billions)

	January 1983 estimate	Actual	Percent change
Total outlays:			
Current dollars	862.5	851.8	−1.2
National defense	245.3	227.4	−7.3
Nondefense	617.2	624.4	+1.2
Constant (fiscal year 1972) dollars	363.5	366.3	+0.8
As a percent of GNP	24.7	23.8	−3.6
Classification under current law:			
On-budget under current law	848.5	841.8	−0.8
Off-budget under current law [1]	14.0	10.0	−29.0

[1] Proposed to be included on-budget.

Actual outlays for defense were 7.3% below the initial estimate, while outlays for nondefense programs were 1.2% higher.

Chronology of outlay decrease.—The Administration's initial outlay estimate for 1984 was $862.5 billion. The table below shows subsequent revisions to this estimate. In April 1983, the estimate decreased by $4.2 billion, largely as a result of a stronger than forecast economic recovery, changes in agricultural market conditions, and lower projections of inflation. This decrease was mostly offset by a $3.8 billion increase in July 1983. Higher than expected

CHRONOLOGY OF THE 1984 OUTLAY DECREASE

(In billions of dollars)

January 1983	862.5
Changes:	
April 1983 (April Update): A $2.3 billion increase due to the 1983 jobs bill and a $1.9 billion decrease in offsetting receipts from the Outer Continental Shelf were more than offset by a $2.5 billion decrease in farm price supports, a $4.2 billion net decrease in unemployment compensation, and a $1.1 billion decrease in social security	−4.2
July 1983 (Mid-Session Review): A $3.0 billion decrease for the Department of Defense and a $2.8 billion decrease in unemployment compensation were more than offset by a $4.1 billion increase in farm price supports, a $1.3 billion increase in mortgage credit and thrift insurance, a $1.0 billion increase in social security, and a $1.2 billion increase in net interest	+3.8
February 1984 (1985 Budget): Decreases of $4.7 billion in the Department of Defense and $4.2 billion in farm price supports were more than offset by increases in many programs including $1.3 billion in social security, $1.6 billion in medicare, $1.4 billion in food and nutrition assistance programs, and $1.7 billion in net interest, and a $1.5 billion decrease in offsetting receipts from the Outer Continental Shelf	+7.9
April 1984 (April Update): The largest decreases were in farm price supports ($1.5 billion) and unemployment compensation ($1.4 billion)	−4.3
August 1984 (Mid-Session Review): A $1.7 billion increase in FDIC was more than offset by a $3.9 billion decrease in the Department of Defense, a $1.4 billion decrease in medicare, and $0.8 billion decrease in unemployment compensation	−7.7
October 1984 (Year-End Statement): Increases of $1.0 billion in farm price supports, $1.4 billion in FHA, $1.0 billion in low-rent housing funds, and $1.7 billion in net interest were more than offset by decreases of $6.2 billion for the Department of Defense, $1.5 billion in medicare, and $2.7 billion for the Federal Financing Bank	−6.2
Total decrease	−10.7
Actual	851.8

payments for farm price supports under the payment-in-kind program were the largest increase. In February 1984, the outlay estimate increased by $7.9 billion due to increases in many programs that more than offset outlay decreases of $4.7 billion in the Department of Defense due to Congressional action on appropriations bills and a $4.2 billion upward reestimate of outlays for farm price supports. Estimated outlays fell by $12.0 billion overall in April and August 1984, with the largest reestimates due to defense outlays and unemployment compensation. Lower than anticipated spending by many agencies caused actual outlays to be $6.2 billion below the August 1984 estimate. The largest shortfalls occurred in the Department of Defense, medicare, and the Federal Financing Bank.

Major causes of the decrease.—Actual 1984 outlays were $10.7 billion below the original estimate. The following table shows the distribution of this decrease according to three categories: (1) policy changes, (2) economic conditions, and (3) estimating and other differences. The amounts in the first two categories account for only the major items while the third category is a residual. The figures, therefore, are approximations.

Policy changes to the 1984 budget proposals were a result of revised Administration proposals and congressional action that differed from the initial Administration proposals. The net increase due to policy changes was $13.8 billion. Outlays for national defense programs were $5.3 billion lower than proposed, whereas outlays for nondefense programs were $19.1 billion higher. A similar pattern also occurred for the two previous budget estimates.

Outlays for nondefense discretionary programs were about $9 billion above the Administration's proposals due to policy changes. This includes increases in regular and supplemental appropriations bills and the 4% pay raise for Federal civilian workers in January 1984. The 1984 budget assumed no increase in pay.

Outlays for benefit payments to individuals were also about $7 billion above the Administration's proposals due to policy changes. About 70% of this increase is accounted for by changes affecting medicare, unemployment compensation, food stamps, and aid to families with dependent children. Outlays for these programs were $5.3 billion above the Administration's proposals primarily due to the failure of Congress to enact many of the Administration's cost saving reforms. However, Congress did adopt most of the reforms proposed by the bipartisan National Commission on Social Security Reform and recommended by the Administration for the social security program.

Policy changes for other mandatory programs and inaction on several user fee proposals also increased outlays. Outlays increased

SUMMARY OF REASONS FOR DIFFERENCE IN 1984 OUTLAYS

(In billions of dollars)

	Total
Reasons for difference (net):	
Policy changes	+13.8
Economic conditions	−17.0
Estimating differences and other changes	−7.5
Total	−10.7

by $1.7 billion because of increases in direct export credit and the failure of Congress to enact the Administration's proposal to freeze target prices at 1983 crop levels for Commodity Credit Corporation programs. Failure of the Congress to enact several proposed user fees, including navigation user fees and Pension Benefit Guaranty Corporation premium increases, raised outlays by almost $1.0 billion.

Economic conditions differed from those forecast in January 1983 as shown in the following table. Growth in real GNP exceeded the growth projected by 3.2 percentage points in 1983 and by 1.3 percentage points in 1984. Inflation, as measured by both the GNP deflator and the Consumer Price Index, was lower than projected for both 1983 and 1984. The total unemployment rate also was lower than anticipated in both years, by 0.9 percentage point in 1983 and 2.1 percentage points in 1984. Conversely, interest rates, as measured by the 91-day Treasury bill rate, were 0.6 percentage points higher than projected in 1983 and 1.7 percentage points higher in 1984.

COMPARISON OF JANUARY 1983 ECONOMIC FORECAST AND ACTUAL ECONOMIC PERFORMANCE

(Calendar years)

	January 1983 estimate		Actual		Difference	
	1983	1984	1983	1984	1983	1984
Percent change:						
GNP (constant 1972 dollars): 4th quarter over 4th quarter	3.1	4.0	6.3	5.3	3.2	1.3
Inflation (4th quarter over 4th quarter):						
GNP deflator	5.6	5.0	3.8	3.7	−1.8	−1.3
Consumer Price Index (CPI)	5.0	4.4	2.9	3.6	−2.1	−0.8
Total unemployment rate (annual average)	10.4	9.5	9.5	7.4	−0.9	−2.1
Interest rate (91-day bills, annual average)	8.0	7.9	8.6	9.6	0.6	1.7

The difference between the economic forecast and economic performance resulted in a net outlay decrease of $17.0 billion. Estimates of the major components of this decrease are shown in the following table. Lower than anticipated unemployment accounts for almost all of the total net decrease, most of which was for

unemployment compensation. Lower inflation reduced outlays by $9.0 billion. Most of this decrease was for defense purchases, primarily because of lower than anticipated fuel costs; social security and medical care programs account for most of the remainder. Outlays increased by $1.8 billion due to the net effect of higher interest rates and the lower borrowing requirements associated with changes in economic conditions that reduced the deficit below its initial estimate. Conversely, receipts for rents and royalties on the Outer Continental Shelf were $5.2 billion lower than initially estimated due to changes in economic conditions in world oil markets.

EFFECT OF DIFFERENCES BETWEEN ESTIMATED AND ACTUAL ECONOMIC CONDITIONS ON 1984 OUTLAYS

(In billions of dollars)

	Difference
Unemployment rate differences:	
Unemployment compensation	−12.9
Other	−3.5
Subtotal, unemployment rate differences	−16.4
Price differences:	
Cost of living adjustments:	
Social security	−1.2
Other	−0.4
Medical prices:	
Medicare and medicaid	−0.8
Defense purchases	−6.6
Subtotal, price differences	−9.0
Interest differences:	
Net interest:	
Interest rates	+3.0
Differences in borrowing [1]	−1.7
Guaranteed student loans	+0.5
Subtotal, interest differences	+1.8
Receipts from the Outer Continental Shelf	+5.2
Other adjustments	+1.4
Total	−17.0

[1] Includes only the effect of differences in borrowing associated with differences in economic conditions.

Estimating differences and other changes account for a $7.5 billion decrease in 1984 outlays. The largest estimating adjustment, $5.3 billion, was for the Federal Financing Bank (FFB). The largest changes for FFB include a $3.0 billion decrease in the Rural Electrification Administration's loan programs due to a reduction in the rate of growth in the demand for electricity that lowered the demand for loans for new electrical power generation, and a $1.4 billion decrease

in the foreign military sales credit program because of delayed military purchases by foreign governments. The second largest estimating adjustment was for farm price supports. Crop production was lower than estimated due to weather conditions, resulting in an outlay decrease of over $4.0 billion. This was offset in part by increased outlays for subsidizing greater tobacco and dairy production.

COMPARISON OF RELATIVELY UNCONTROLLABLE OUTLAYS AND OF RECEIPTS

The Congressional Budget Act requires that the budget contain two comparisons between the initial budget estimates and the actual amounts for the last completed fiscal year: a comparison of the differences in relatively uncontrollable outlays by major program, and a comparison of the differences in receipts by major source. These comparisons are made in the following two sections for the 1984 budget, which was submitted in January 1983 for the fiscal year ending on September 30, 1984.

Comparison of relatively uncontrollable outlays.—Outlays in any one year are considered to be relatively uncontrollable when the program level is determined by existing statutes or by contracts or other obligations. Outlays for these programs generally depend on factors that are beyond administrative control under existing law at the start of the fiscal year. For example, the definition of beneficiaries eligible for programs like medicaid and social security is established by law. Prior-year contracts and obligations are also legally binding.

Relatively uncontrollable outlays are grouped into two major categories: open-ended programs and fixed costs, for which outlays are generally mandated by law; and payments from prior-year contracts and obligations, for which outlays are required because of previous action, such as entering into contracts. Budget estimates of relatively uncontrollable outlays do not include the effects of proposed legislation.

A number of factors may cause differences between the amounts estimated in the budget and the actual outlays. For example, legislation may change benefit rates or coverage; the actual number of beneficiaries may differ from the number estimated; and economic conditions (such as interest rates) may differ from what was assumed in making the estimates.

The following table shows the differences between actual outlays for relatively uncontrollable programs in 1984 and the amounts

estimated in the 1984 budget. The list of programs is the same as in Table 18 (Controllability of Budget Outlays) in Part 9. None of the activities that are off-budget under current law and proposed to be on-budget are included in these totals, because the data are not identified by controllability classification. Actual outlays for relatively uncontrollable programs in 1984 were $624.1 billion, which is $19.6 billion or 3.0% lower than the estimate based on existing law in January 1983. Outlays for open-ended programs and fixed costs were $11.3 billion below the initial estimate, while outlays from prior-year contracts and obligations were $8.4 billion lower.

RELATIVELY UNCONTROLLABLE OUTLAYS FOR 1984

(In billions of dollars)

Relatively uncontrollable under present law	January 1983 estimate (existing law)	Actual	Change
Open-ended programs and fixed costs:			
Payments for individuals: [1]			
Social security and railroad retirement	183.3	179.3	−4.0
Federal employees' retirement and insurance	50.5	49.0	−1.5
(Military retired pay)	17.1	16.5	−0.6
(Other)	33.4	32.6	−0.9
Unemployment compensation	26.8	16.9	−9.9
Medical care	85.0	79.9	−5.0
Assistance to students	3.7	4.8	1.1
Food and nutrition assistance	3.3	3.6	0.3
Public assistance and related programs	19.5	21.0	1.6
Other	2.8	2.9	0.1
Subtotal, payments for individuals	374.8	357.4	−17.4
Other open-ended programs and fixed costs:			
Net interest	105.8	111.1	5.2
General revenue sharing	4.6	4.6	−*
Farm price supports (CCC) [2]	9.6	7.3	−2.2
Other	−4.8	−1.6	3.1
Subtotal, other open-ended programs and fixed costs	115.2	121.3	6.1
Total, open-ended programs and fixed costs	490.0	478.7	−11.3
Outlays from prior-year contracts and obligations:			
National defense	85.9	79.5	−6.4
Civilian programs	67.8	65.8	−2.0
Total, outlays from prior-year contracts and obligations	153.7	145.3	−8.4
Total, relatively uncontrollable outlays	643.7	624.1	−19.6

*$50 million or less.

[1] Beginning in the 1985 budget, the administrative costs of relatively uncontrollable payments for individuals, which are controlled through limitations, are classified as relatively controllable. In addition, there were some changes in the treatment of interest payments for interfund borrowing. The January 1983 estimates were adjusted to be consistent with these changes.

[2] The initial estimate of farm price supports was adjusted to reflect savings from the payment-in-kind program, which was implemented administratively before the beginning of 1984.

Payments for individuals, which are essentially income transfers, were 75% of all open-ended programs and fixed costs in 1984. Actual outlays for this grouping were $17.4 billion lower than

originally estimated. This decrease was the net effect of legislative action, differences between actual and assumed economic conditions, differences between the anticipated and actual number of beneficiaries, and technical reestimates.

Outlays for social security and railroad retirement, the largest category of payments for individuals, were $4.0 billion lower than estimated. Outlays for these programs were lower primarily because of the enactment of the Social Security Amendments of 1983 and the Railroad Retirement Solvency Act of 1983, which delayed automatic cost-of-living adjustments. Outlays also decreased because lower than anticipated inflation reduced the size of the cost-of-living adjustment.

Outlays for Federal employees' retirement and disability insurance programs were $1.5 billion below the budget estimate. These programs consist of military retired pay, civilian employee retirement and disability, and veterans service-connected compensation. Except for veterans service-connected compensation, these benefits are automatically indexed to the consumer price index. Outlays for the indexed programs were below the initial estimates by $1.6 billion primarily due to lower than expected inflation and six-month delays in applying cost-of-living adjustments. Outlays for veterans' compensation were $0.1 billion above the original estimate due to the net effect of congressional enactment of a cost-of-living adjustment and a lower caseload than anticipated.

Outlays for unemployment compensation programs were $9.9 billion below the initial estimate. This decrease was the result of a lower than forecast rate of unemployment offset partially by increases due to enacted legislation. Lower unemployment reduced outlays by $12.9 billion; an extension of Federal supplemental unemployment compensation raised 1984 outlays by $3.0 billion.

Outlays for medical care were $5.0 billion lower than estimated. Medicare outlays were $4.1 billion below the initial estimate as a result of lower than anticipated medical prices and technical reestimates related to the new prospective payment system. Outlays for the medicaid program were $0.9 billion below the initial estimate.

Assistance to students consists of GI bill benefits and the guaranteed student loans program. Outlays for the guaranteed student loans program were $1.1 billion above the estimate due primarily to the effect of higher than expected interest rates, loan volume, and default rates.

Food and nutrition assistance includes the child nutrition and special milk programs. Outlays for these programs were $0.3 billion higher than estimated because a greater number of meals were served than originally anticipated.

Public assistance and related programs include public assistance payments, supplemental security income, outlays for earned income tax credits, and veterans non-service-connected pensions. Outlays for these programs were $1.6 billion above the estimate. The largest change, $1.0 billion, occurred in the supplemental security income program. This change was the net effect of a greater number of beneficiaries and higher average benefits than anticipated, a delay in the cost-of-living adjustment, and legislation that allowed a $20 monthly deduction from income used to calculate benefit awards.

Relatively uncontrollable outlays for all other payments to individuals were $0.1 billion higher than estimated, due primarily to higher than expected payments for black lung disabilities.

Open-ended programs and fixed costs other than payments for individuals were 25% of all open-ended programs and fixed costs in 1984. Outlays for net interest were $5.2 billion or 4.9% higher than the original estimate. This increase is the net effect of higher than anticipated interest rates and less Federal borrowing than expected. The budget estimate assumed an 8.0% interest rate on 91-day Treasury bills for fiscal year 1984, whereas the actual rate averaged 9.5%.

Outlays for farm price supports (Commodity Credit Corporation) were $2.2 billion below the initial estimate. A large drop in crop production due to a drought accounts for a decrease of $3.7 billion in outlays. This was partially offset by a $1.4 billion increase in outlays for export credit.

Outlays for prior-year contracts and obligations for civilian and national defense programs were $8.4 billion below the initial estimate. National defense outlays were below the estimate because of slower than anticipated spending. Outlays for civilian programs were also lower than the initial estimate.

Comparison of actual and estimated receipts.—Budget receipts in 1984 were $666.5 billion, which is $6.8 billion greater than the January 1983 estimate of $659.7 billion.

Differences in economic assumptions—higher than anticipated incomes and interest rates, and lower than expected oil prices—accounted for a net increase in 1984 receipts of $21.4 billion above the budget estimate. This increase was partially offset by changes in collection patterns and effective tax rates, which reduced receipts by $7.6 billion. Differences in tax law from the legislation proposed in the budget reduced 1984 receipts by an additional $7.0 billion. These legislative differences consisted of congressional inaction on, or modification of, the proposals in the 1984 budget, and of changes in law that were not proposed at that time.

A bipartisan social security plan, designed to ensure the future solvency of the social security trust funds, was proposed in the 1984

budget. This plan was estimated to increase 1984 receipts by $8.2 billion. Other proposals, which were estimated to increase 1984 receipts by a net $2.9 billion, included the taxation of employer-paid health insurance premiums in excess of a specified level, increases in contributions to civil service retirement, tax incentives for the redevelopment of economically distressed areas, a tuition tax credit, and a jobs tax credit for the long-term unemployed. Altogether, the January 1983 proposals were estimated to increase 1984 receipts by $11.2 billion.

Four major laws affecting 1984 receipts were enacted after January 1983: the Social Security Amendments of 1983, the Interest and Dividends Tax Compliance Act of 1983, the Railroad Retirement Revenue Act of 1983, and the Deficit Reduction Act of 1984. These four Acts, together with several minor legislative changes, increased 1984 receipts by a net $4.2 billion, which is $7.0 billion less than the $11.2 billion in increases that the administration had proposed.

Many of the provisions of the Social Security Amendments of 1983 were modifications of the recommendations of the bi-partisan National Commission on Social Security Reform, which were reflected in the January budget. The other major laws affecting 1984 receipts generally contained provisions that were not proposed in January 1983. The primary feature of the Interest and Dividends Tax Compliance Act of 1983 repealed the withholding of taxes on interest and dividend income provided in the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA). The Railroad Retirement Revenue Act of 1983 included increases in railroad retirement taxes, which—together with the benefit reductions provided in the Railroad Retirement Solvency Act of 1983—were designed to place the railroad retirement program on a sound financial basis. The major revenue provisions of the Deficit Reduction Act of 1984 (DEFRA) affecting 1984 receipts reduced the tax benefits available to those who lease property to governments and other tax-exempt entities, restricted the use of tax-straddles to avoid tax, and reformed the taxation of life insurance companies.

Individual income taxes were $296.2 billion in 1984, $0.6 billion more than the budget estimate of $295.6 billion. Higher than anticipated personal incomes increased individual income taxes by $5.9 billion. This increase was partially offset by different collection patterns and effective tax rates than had been assumed, which reduced individual income tax receipts by $1.4 billion. Substitution of the Social Security Amendments of 1983 for the bi-partisan social security plan reflected in the 1984 budget, and repeal of the withholding of taxes on interest and dividend income, reduced individual income taxes by $0.8 billion and $2.6 billion, respectively. The Railroad Retirement Revenue Act and DEFRA, together

COMPARISON OF ACTUAL 1984 BUDGET RECEIPTS WITH THE JANUARY 1983 ESTIMATES

(In billions of dollars)

	January 1983 estimate	Differences in tax law from 1983 proposals	Different economic conditions	Technical factors	Net change	Actual
Individual income taxes	295.6	−3.9	5.9	−1.4	0.6	296.2
Corporation income taxes	51.8	0.6	11.8	−7.3	5.1	56.9
Social insurance taxes and contributions	242.9	−3.4	3.5	−1.4	−1.3	241.7
Excise taxes	40.4	−0.3	−1.7	−1.0	−3.0	37.4
Estate and gift taxes	5.9	−*	*	0.1	0.1	6.0
Customs duties	9.1	*	0.8	1.4	2.2	11.4
Miscellaneous receipts	14.0	−*	1.1	1.9	3.0	17.0
Total	659.7	−7.0	21.4	−7.6	6.8	666.5

*$50 million or less.

with congressional inaction on several administration proposals, reduced individual income taxes by a net $0.5 billion.

Corporation income taxes were $5.1 billion above the budget estimate. Higher than anticipated corporate profits increased receipts by $11.8 billion. This increase was partially offset by different collection patterns and effective tax rates than had been assumed, which reduced receipts by $7.3 billion. Differences in tax law from the changes proposed in January 1983 increased corporation income taxes by $0.6 billion.

Social insurance taxes and contributions (which are composed of employment taxes and contributions, unemployment insurance receipts, and other retirement contributions) were $1.3 billion less than the January 1983 estimate of $242.9 billion. Higher than anticipated wages and salaries and self-employment earnings increased these receipts by $3.5 billion. This increase was partially offset by a technical overestimate of collections of $1.4 billion. In addition, substitution of the Social Security Amendments of 1983 for the proposed bi-partisan social security plan reduced these receipts by $1.6 billion. Congressional inaction on the administration's proposals to increase contributions to civil service retirement and to tax a portion of employer-paid health insurance premiums reduced this category by $1.2 billion and $0.6 billion, respectively.

Lower than estimated collections of the windfall profit tax, due in large part to the unanticipated decline in oil prices, reduced 1984 excise taxes by $3.4 billion. This decline was partially offset by a $0.4 billion increase in other excise taxes.

Estate and gift taxes and customs duties were above the January 1983 estimates by $0.1 billion and $2.2 billion, respectively. Higher than expected imports, due primarily to the continued strength of the dollar relative to foreign currencies, were in large part responsible for the increase in customs duties receipts.

A $2.9 billion increase in deposits of earnings by the Federal Reserve System, primarily reflecting higher interest rates than anticipated in January 1983, accounted for most of the $3.0 billion increase in miscellaneous receipts.

THE DECREASE IN THE TOTAL 1984 DEFICIT FROM THE INITIAL BUDGET ESTIMATE

The preceding two sections discuss in detail the differences between the January 1983 budget estimates and the actual amounts of Federal Government receipts and outlays in 1984. This section summarizes the net impact of these differences on estimates of the total deficit. The total deficit is the difference between receipts and outlays, where outlays include the spending of Federal entities that are off-budget under current law but are proposed to be included on-budget.

The deficit for 1984 was originally estimated to be $202.8 billion; the actual deficit was $185.3 billion, a $17.5 billion decrease. The following table shows the approximate distribution of this difference according to three categories: (1) policy; (2) economic conditions that were different from the original forecast; and (3) estimating and other differences. Each category is subdivided to show the impact of receipts compared to outlays. An increase in receipts is shown as positive because it reduces the deficit, while an increase in outlays is shown as negative because it raises the deficit.

SUMMARY OF REASONS FOR THE DIFFERENCE IN THE TOTAL 1984 DEFICIT

(In billions of dollars)

January 1983 estimate of deficit (−)	−202.8
Changes:	
Policy:	
Receipts	−7.0
Outlays	−13.8
Subtotal, policy	−20.8
Economic conditions:	
Receipts	+21.4
Outlays	+17.0
Subtotal, economic conditions	+38.4
Estimating and other differences:	
Receipts	−7.6
Outlays	+7.5
Subtotal, estimating and other differences	−0.1
Total, changes	+17.5
Actual deficit (−)	−185.3
MEMORANDUM:	
Total change in receipts	+6.8
Total change in outlays	+10.7

The actual deficit was below the initial estimate due to both higher receipts and lower outlays. Changes in economic conditions account for a $38.4 billion decrease. Receipts were raised by higher than estimated incomes. Outlays were decreased by lower than forecast unemployment and inflation. This decrease was partially offset by policy changes, both revised Administration proposals and congressional action that differed from the Administration's original proposals. These increased the deficit by $20.8 billion. Technical reestimates, which decreased receipts and outlays, had the net effect of further increasing the deficit by $0.1 billion.

MILITARY RETIREMENT ACCRUALS

In the past, retirement benefits paid to former military personnel were direct charges to the current operating costs of the Department of Defense. The budget authority and outlays for this activity were included in the national defense function (subfunction 051: Department of Defense, Military). However, starting October 1, 1984, a new retirement system was placed in effect. Benefits are now paid from the newly created military retirement trust fund. This new trust fund is included in the civil activities administered by the Defense Department, and in the income security function (subfunction 602: Federal employee retirement and disability).

Sources of financing for the new trust fund.—The agencies that employ active duty military personnel pay a charge adequate to cover the anticipated future retirement benefits from the fund for those services currently rendered (the "accrual charge"). The total of the accruals paid over the service career of any cohort of military personnel, along with the accumulated interest on the balances, should be sufficient to finance all of the retirement benefits paid to these personnel and their dependents. While most military personnel and the associated accrual charges are financed from the Department of Defense, Military (and subfunction 051), some military personnel are employed in the Corps of Engineers, Civil program (subfunction 301), and some are on detail to other agencies. In each case, the agency and function responsible for paying the current military salary also pays for the accrual charges.

Since the accrual charge is a payment by the Government to itself, the collection is an offset against budget outlays. This offsetting collection is included in the agency and functional tables as undistributed offsetting receipts (subfunction 951 employer share, employee retirement).

The law establishing this new system also provided for an independent Board of Actuaries, which determines the appropriate percent of payroll charge for accruals. This Board will periodically review trends in military pay, personnel retirement, and related

factors in order to determine what changes—if any—must be made to the accrual charges to keep them consistent with this objective.

Prior to the establishment of this fund, military retirement benefits were not pre-funded. The current value of military retirement benefits that had been earned and will have to be paid out in subsequent periods (the "unfunded liability") was estimated to be approaching $0.5 trillion when the fund was established. Under terms of the law establishing this fund, the unfunded liability will be gradually paid off by the general fund over a period of decades. These payments are included in the Department of Defense, Civil portion of the budget (subfunction 054: other national defense); the offsetting collections arising from these payments are offset in the same agency and subfunction.

The income of the new trust fund is thus formed by the combination of the current accrual charges, the payments on the unfunded liability, and interest on balances invested in public debt securities. This income is significantly greater than the cost of current retirement benefits paid by the trust fund, so the trust fund is projected to accumulate large balances. As a normal rule virtually all of the balances are to be invested in public debt securities, so the fund will be partially financed from interest income. The payments of interest are made by the Treasury Department (subfunction 901, interest on the public debt). The offsetting interest income is included in undistributed interest received by trust funds in the agency presentation, and in net interest (subfunction 902; interest received by trust funds) in the functional presentation.

Restructuring the historical data for comparability.—This new system for financing military retired pay creates a severe discontinuity in the historical data base as between 1984 and 1985. It was possible, however, to reconstruct the pre-1985 data on a basis roughly comparable to the new system. The reconstruction was done to show the agency and functional totals approximately the way they would have appeared if the new system for paying for military retirement had been in effect for all years. The reconstruction was done by making the following calculations for each year:

—estimating the amount of accruals that had been earned in that year;

—imputing to (including in) the recorded costs of the Department of Defense, Military and of the national defense function an amount equal to these accruals, and imputing an equal amount of undistributed offsetting receipts (employer share, employee retirement); and

—shifting the current cash benefits (and budget authority for the benefits) from the Department of Defense, Military to the Department of Defense, Civil, and from subfunction 051 to subfunction 602.

COMPARISON OF 1984 OUTLAYS ON AN UNADJUSTED AND AN ADJUSTED BASIS WITH 1985 OUTLAYS

(In millions of dollars)

Subfunctional code and agency	Amounts		
	1984 unadjusted	1984 adjusted	1985 estimate
Department of Defense, Military			
051 Retired military personnel cash benefits (Federal funds)	16,471		
051 Imputed accruals for currently earned military retirement		16,503	
051 All other agency outlays	204,334	204,334	246,300
Total for agency	220,805	220,837	246,300
Department of Defense, Civil: Military Retirement			
602 Retired military personnel cash benefits (Federal funds) [1]		16,471	22
602 Military retirement trust fund [2]			15,838
054 Payment to military retirement fund (for unfunded liability)			9,551
054 Interfund transactions			−9,551
Total for agency		16,471	15,860
Offsetting receipts undistributed by agency: Interfund transactions			
902 Interest received by trust funds	−20,333	−20,333	−25,554
951 Employer share, employee retirement [2]	−8,760	−25,263	−26,994
Total interfund transactions	−29,093	−45,596	−52,548
Recapitulation of above data by subfunction			
051 Department of Defense, Military	220,805	220,837	246,300
054 Defense-related activities			
602 Federal employee retirement and disability [3]		16,471	15,860
902 Interest received by trust funds	−20,333	−20,333	−25,554
951 Employer share, employee retirement	−8,760	−25,263	−26,994
Total of above	191,712	191,712	209,612

[1] The 1985 estimate is a relatively small carry over from prior year obligations. There will be no remaining activity in this account in subsequent years.

[2] For 1984 and prior years, the military retired pay was and is included as Federal fund (rather than trust fund) outlays. Hence, for those years the offset for Federal employee retirement is included as a Federal intrafund receipt rather than as an interfund receipt.

[3] As a result of separate legislation, the monthly payments of benefits permanently slips one day starting in 1985—from the last day of the month to the first day of the next month. Hence, the decline from 1984 to 1985 is because 1985 has only 11 monthly payments.

These adjustments made the data for 1984 and earlier years as comparable as possible to the data for subsequent years. The table above shows the components of the agency and functional totals for 1984 that were affected by the adjustment for comparability, and it shows for comparison the estimates for 1985 on the new basis.

As can be seen for 1984, the adjustment for imputed accruals has virtually no effect on the totals for the Department of Defense, Military, either for the agency or for the subfunction (subfunction 051). The increase from adding imputed accruals is almost entirely offset by the decrease from deducting the cash benefits. However, the adjustment does substantially raise the military retirement components of the Department of Defense, Civil and subfunction 602 (Federal employee retirement and disability); it also causes large increases in the undistributed offsetting receipts, both by agency and by function (subfunction 951).

In the 1985 budget the historical data for 1984 and earlier years showed alternative series with and without the adjustment to accruals. This dual presentation is inevitably confusing and awkward. Hence, in the 1986 budget the affected data are shown only one way—adjusted to include the imputed accruals—so that for all years they are reasonably consistent with the current law and budgetary practice.

ALLOCATION OF WINDFALL PROFIT TAX RECEIPTS

Section 102 of the Crude Oil Windfall Profit Tax Act of 1980 requires that each year the President propose the allocation of net receipts from the tax in his budget.

This act establishes a Windfall Profit Tax Account in the Treasury "for accounting purposes only." After the Secretary of the Treasury has determined the amount of net receipts from the tax, they are to be allocated to the Windfall Profit Tax Account. Since the Conference Report accompanying the act stated explicitly that the net receipts from the tax "shall not be earmarked or invested separately from general revenues . . .", the allocations referred to in section 102 cannot be interpreted as earmarking funds for specific purposes.

The method for these allocations is prescribed by three formulas in subsections b(1), b(2), and b(3) of section 102. The allocations for 1986 are compared in the following table with the amounts included in this budget for the functional categories referred to in the formula.

ALLOCATION OF WINDFALL PROFIT TAX, NET RECEIPTS, 1986

(In millions of dollars)

	Section 102 Formula	1986 Budget
Total net receipts	2,528	2,528
Allocation:		
Low-income assistance	1,517	[1] 21 806
Energy and transportation programs	632	[2] 22,437
Income tax reductions	379	.....
Total	2,528	44,243

[1] This amount is the total outlays for the other income security subfunction (609).
[2] This amount is the total outlays for all programs in the energy function (270) and the ground transportation subfunction (401).