

CHAPTER 1 OVERVIEW

Introduction

The 1983 Budget underscores the redirection of economic policy and fiscal priorities announced by President Reagan a year ago. In his first major address to the Congress in February of 1981, the President announced a Program for Economic Recovery to create a solid foundation for sustained economic growth and prosperity by limiting the size and scope of Government, strengthening the private sector and the free market economy, and reducing inflation and interest rates.

In the Budget Message submitted to the Congress in February of 1982, the President reasserted his firm resolve and unwavering adherence to the four policy fundamentals of his economic recovery plan:

- Reduced personal and business tax rates to stimulate saving, investment, work effort, and productivity,
- Firm control over the growth of overall Federal spending, borrowing, and credit demand,
- Decreased Federal regulatory burden where the Federal Government has intruded excessively and unnecessarily,
- In cooperation with the independent Federal Reserve Board, a steady and moderate growth in the money supply to reduce inflation.

During 1981, the Administration worked with the Congress to take major steps toward implementing this program:

- Congress passed the Economic Recovery Tax Act, the largest tax cut in history for businesses and individuals.
- In the Omnibus Budget Reconciliation Act, Congress reformed entitlement and other programs, saving \$130 billion over the 1982–84 period.

The 1983 Budget will continue to diminish the rate of growth of Federal spending and to shrink the Government's share of GNP. The era of rapidly expanding budgets has come to an end. As a result, resources will remain permanently in the more productive private sector.

Major Themes

The changes proposed in the 1983 Budget are not short-term policies devised solely to reduce the deficit. Rather they are motivated by fundamental convictions about the relationships between the Federal Government and the State and local governments, the Federal Government and the private sector, and the United States and other nations, and about the management of the Federal Government itself. These convictions are:

- The governments closest to the people — the State and local governments — are more responsive to the needs and desires of their citizens than is the Federal Government.
- The most efficient means of allocating resources and meeting the needs of nearly all people is the free enterprise marketplace. The Federal Government's role in the marketplace should be one of creating incentives for growth and opportunity.
- A stronger and more modern defense capability is essential to deter attack and coercion, to protect vital U.S. interests, and to lay the groundwork for negotiating mutual force reductions.
- The Federal Government is the taxpayer's steward. It has the obligation to ensure that the resources surrendered to advance the public welfare are put to the most effective and proper uses.

Each of these convictions addresses fundamental imbalances that have built up over several decades of misguided public policies. Each calls for basic structural reforms, major policy changes, and the establishment of a long-term, stable policy framework.

FEDERALISM

The most important of the President's new initiatives is aimed at reducing Federal involvement in matters that are more properly conducted by State and local governments. His long-term proposal sorts out responsibilities between the Federal Government and the States. This new Federalism Initiative is motivated by: (1) a desire to restore the constitutional balance between Federal and State governments, (2) a need to reduce the growing number of categorical Federal grants, which are encumbered with too many conditions, regulations, and staffing requirements, and (3) a belief that State and local governments are more responsive to the needs of both benefit recipients and taxpayers.

The President's proposal will increase the effectiveness of State and local governments by giving them more control over services that are more appropriately conducted at their levels, and it will provide the resources to pay for them.

REFORMING ENTITLEMENT PROGRAMS

The President has established a National Commission on Social Security Reform to develop a bipartisan consensus on measures to ensure the long-term financial stability of the Social Security system. Thus, the 1983 Budget proposes no major changes to the Social Security system.

However, the growth of other entitlement spending has far outstripped increases in basic indicators of need and cost — the relevant population, the number of participants, and the general rate of inflation or the cost of particular goods and services. This explosion in entitlements points to the need for major legislative reforms to reduce work disincentives and inequities, eliminate overlapping and excessive benefits, retarget resources to those most in need, and provide new incentives and requirements to promote more efficient program administration.

DISCRETIONARY SPENDING

Much inappropriate Federal spending occurs in discretionary programs — those programs that are subject to annual Congressional appropriations or discretionary actions. The Administration has thoroughly reviewed such programs in search of unwarranted subsidies to businesses or individuals, spending that is more appropriate to State and local governments, and unnecessary public sector capital improvement projects. The result of the review is a number of significant proposals to reduce spending.

NATIONAL SECURITY

One of the most important tasks of the Federal Government is to ensure protection of national interests and security. Since the 1970's the United States has allowed its military power to decline relative to its expanding national interests and the growth in military power of the Soviet Union. President Reagan's defense program will reverse this unfavorable trend.

To meet national security and defense objectives, the Administration's program strengthens the U.S. military posture in the high priority areas of strategic forces, combat readiness, force mobility, and conventional force modernization.

CONTROLLING FEDERAL CREDIT

Unprecedented Federal demand for credit by the Government saps the vitality of credit markets and hampers their performance in the critical task of allocating resources to the most productive uses. This credit burden includes direct borrowing by the Government to finance the budget deficit and

off-budget spending, as well as individual or institutional borrowing through the use of Government guaranteed loans, and borrowing by Government-sponsored enterprises.

The proliferation of credit demands has left interest rates exposed to continued upward pressure, while the misdirection of investment resources has seriously weakened economic growth and productivity. This year for the first time the credit budget was used to impose systematic discipline and policy control on the growth of Federal credit.

USER FEES

The Federal Government provides many services that directly benefit clearly identifiable groups of business and private users. Last September, President Reagan announced that the Administration would apply uniform principles of cost recovery to the current patchwork of user fees for Federal services. The President directed all Federal agencies to determine the extent to which benefits accrue to clearly identifiable users and to recover the cost of providing these benefits through specific fees instead of continuing the burden on the general taxpayer. User fees have several important advantages — including greater economic efficiency and equity — over general revenue financing for the provision of Government services.

MANAGEMENT INITIATIVES

In keeping with his commitment to stewardship, the President has made several proposals designed to reduce the Federal Government to an appropriate size and to ensure that it is managed effectively, efficiently, and productively. Included in the 1983 Budget are proposals to abolish the Departments of Energy and Education, reduce Federal employment, dispose of underused land held by the Federal Government, and improve the collection of debts owed the Federal Government.

CHAPTER I

OVERVIEW

In his State of the Union Address, the President spoke of the criteria used in developing the 1984 Budget.

- It must be bipartisan. Overcoming the deficits and putting the Government's house in order will require the best efforts of all of us.
- It must be fair. Just as we all will share in the benefits that will come from recovery, all should share fairly in the burden of transition.
- It must be prudent. The strength of our national defense must be restored so that we can pursue prosperity in peace and freedom, while maintaining our commitment to the truly needy.
- Finally, it must be realistic. We cannot rely on hope alone.

Application of these principles leads to the four major elements of the 1984 budget:

- A freeze on Federal spending. Taken as a whole, the budget will increase no more than the rate of inflation. The bipartisan National Commission on Social Security Reform recommendation for a 6-month freeze on cost of living adjustments will be applied to other Government benefit programs. A one year freeze will also be applied to Federal civilian and military pay.
- Specific measures to control the growth of the "uncontrollable" spending programs.
- \$55 billion in defense savings over the next 5 years; and,
- A stand-by tax, limited to no more than 1% of GNP, to start in fiscal year 1986 and to last no more than 3 years. The tax is contingent upon Congressional enactment of the President's proposed budget.

The principles of bipartisanship, fairness, prudence and realism were also applied to specific programmatic proposals. As shown below, the 1984 changes in the budget can be organized according to themes. This perspective yields a useful grouping of programs by purpose, and changes by rationale.

INCOME SECURITY AND HEALTH

The President has endorsed the bipartisan National Commission on Social Security Reform's proposed solution to the social security crisis.

Reforms in the means-tested programs, such as food stamps and AFDC, are aimed at reducing administrative costs, while preserving benefits for those individuals who must depend on the Federal Government for their welfare. Housing reforms replace costly inefficient subsidy programs with programs that serve more eligible households at substantially lower costs.

To slow the skyrocketing cost of Federal health care provisions, the Administration will introduce a number of incentives and constraints into the Medicare and Medicaid systems. By reducing some of the inflationary pressures in the nation's health care system, these reforms will benefit all. The President also proposes that the Government provide catastrophic coverage for Medicare beneficiaries.

OTHER NON-DEFENSE SPENDING

The 1984 Budget contains a number of initiatives designed to improve the nation's infrastructure. Investment in human capital is also stressed, with several initiatives and program increases targeted at helping workers find jobs, more effectively providing financial assistance to needy students, and creating incentives for teachers in math and science.

The Administration also proposes a number of changes in programs designed to assist special groups. The initiatives range from increasing the Federal fiscal commitment to providing State and local government with more resources and responsibilities to relying more on the private sector.

The Federal Government will also increase its investment in research and development (R&D), including a 29% increase in Department of Defense R&D and a 10% increase in support of basic research through the National Science Foundation and other agencies.

Finally, the Administration is continuing its efforts to focus agency resources more efficiently on services that the taxpayers want the most and that the Federal government can best provide.

NATIONAL SECURITY

The 1984 Budget continues the President's policy of strengthening our military capability, a capability that declined substantially throughout the 1970's. A sustained commitment to reduce any significant imbalance will not only strengthen our deterrent capabilities but will also improve prospects for agreements on arms control and reductions.

CREDIT

During the last decade, the rapid growth of Federal credit assistance has had serious effects on the Nation's financial markets. Federal intervention through direct and guaranteed lending preempts capital that could be used more efficiently by unsubsidized, private borrowers; and since federally assisted borrowers are frequently less productive than private borrowers, Federal credit activity diminishes economic efficiency.

The Administration is committed to controlling the growth of Federal credit assistance, and upon assuming office, the Administration took immediate steps to reverse previous growth trends. These efforts will continue in 1984.

FEDERALISM

The President continues his effort to devolve to State and local government the responsibility for those programs for which Federal administration and rules are too cumbersome. Several new block grants and consolidations will increase the ability of citizens to direct collective resources to those areas where they will be most effectively used.

FEDERAL PERSONNEL POLICY

The dramatic growth in Federal personnel expenditures over the past decade has forced this Administration to carefully scrutinize several of the factors that drive up these costs.

The proposed reforms for 1984 deal directly with controlling costs of salary, retirement and health insurance benefits. The pay freeze is short-term in nature, while the changes proposed for the Federal retirement and health benefit programs represent substantial structural reforms.

REFORM '88

One of the highest Administration priorities is significant and lasting improvement in the management of the Federal Government. The Administration will maintain its efforts to reduce fraud, waste and abuse. At the same time it will initiate or expand several activities to modernize and restructure the management and administrative systems with which the Government operates.