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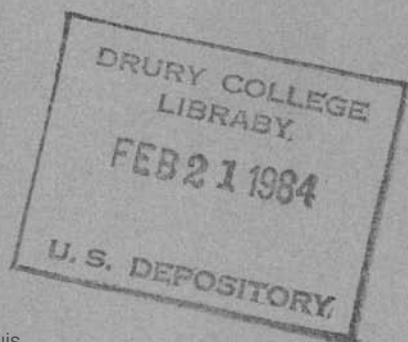
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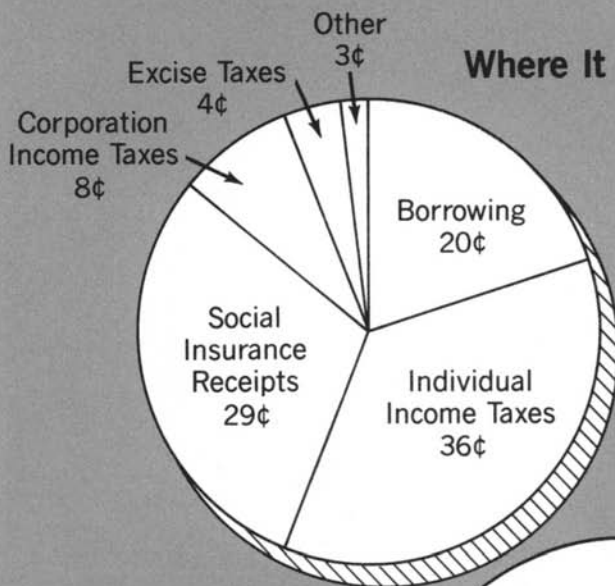
budget in brief

FY 1985



The Budget Dollar

Fiscal Year 1985 Estimate



Where It Goes . . .

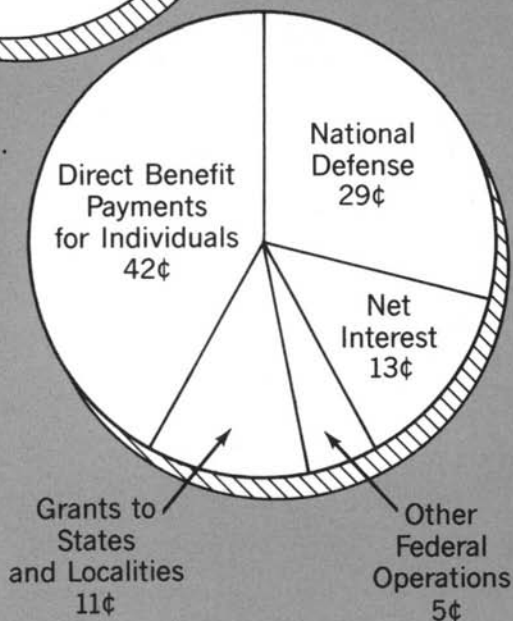
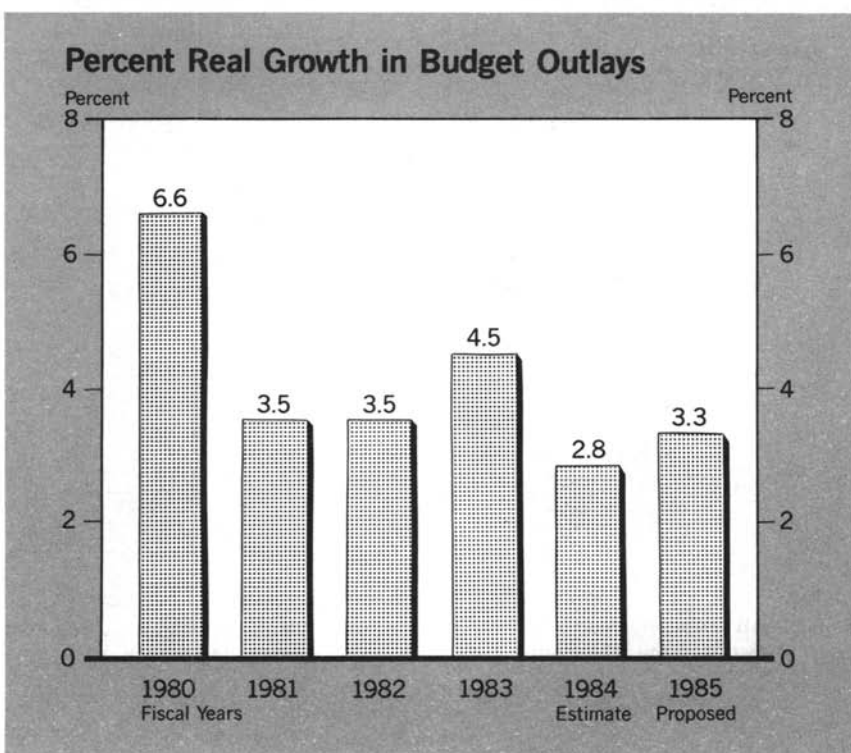
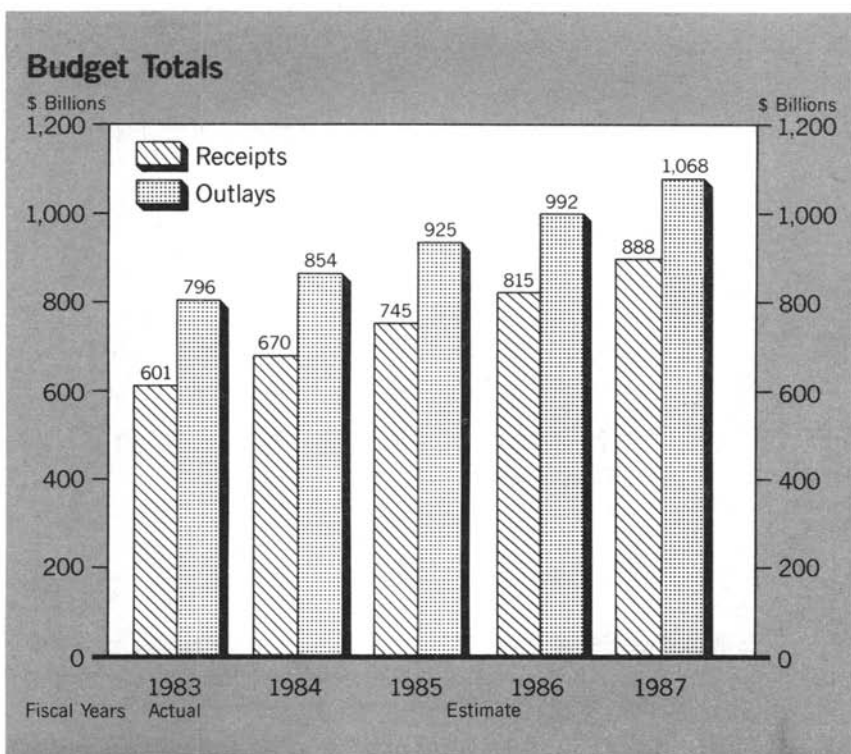


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GENERAL NOTES

1. All years referred to are fiscal years, unless otherwise noted.
2. Detail in the tables, text, and charts of this volume may not add to the totals because of rounding.



FROM THE BUDGET MESSAGE OF THE PRESIDENT

To the Congress of the United States:

In the past year, the Nation's prospects have brightened considerably. The economy has grown strongly—beyond expectation. Inflation has been reduced to its lowest rate in 16 years. Unemployment has declined faster than at any other time in 30 years. We are well on our way to sustained long-term prosperity without runaway inflation.

Our national security is being restored. Our domestic programs are being streamlined to reflect more accurately the proper scope of Government responsibility and intervention in our lives. Government operations are being made more effective and efficient, as steps are taken to reduce costs.

These developments are the result of the program I proposed 3 years ago to correct the severe economic and political problems caused by previous short-sighted and misguided policies and priorities. That program focused on long-range real growth. My tax proposals were designed to provide badly needed incentives for saving and productive investment. I supported the Federal Reserve in its pursuit of sound monetary policy. I worked with the Congress to reverse the growth of Government programs that had become too large or had outlived their usefulness, and as a result, domestic programs, which had been growing rapidly for 3 decades, have finally been contained. I worked to eliminate or simplify unnecessary or burdensome regulations.

To the Nation's great good fortune, the preceding Congress appreciated the fundamental soundness of this program and joined with my administration in helping to make it a reality. Frequently, because of entrenched constituency special interests, the political risks involved in doing so were great. I thanked Members then, and continue to be grateful, for the crucial support my program received. The Nation is now beginning to reap the solid fruits of our joint perseverance and foresight.

The economy's response has fully vindicated my economic program. During the past 2 years the percentage rise in consumer price index has been no more than it was during the first 6 months of 1980. Economic recovery has been vigorous during the past year,

with real GNP rising over 6% and industrial production by 16%. Unemployment, though still unacceptably high, has declined by a record 2½ percentage points in a single year. Capacity utilization in American plants has risen dramatically. Business investment in new plant and equipment has risen 11½% in the past year, in real terms. American productivity, stagnant from 1977 to 1981, climbed 3.7% between the third quarter of 1982 and the third quarter of 1983. Interest rates declined substantially in mid-1982, followed by a major, sustained rally of the stock market that added half a trillion dollars to the net financial worth of American households. Real disposable personal income rose 5.1% in 1983. After a substantial decline, the U.S. dollar has rallied powerfully to its highest level in more than a decade.

We are not, however, out of the woods yet. Despite our success in reducing the rate of growth of nondefense spending in the last three budgets, spending in 1985 will exceed 1981 levels by 41%, reflecting continued increases in basic entitlement programs, essential increases in defense spending, and rapid growth of interest costs. Clearly, much remains to be done. The task of rebuilding our military forces to adequate levels must be carried to completion, and our commitment to provide economic and military support to small, poor nations that are struggling to preserve democracy must be honored. At the same time, further action is required to curb the size and growth of many programs and to achieve managerial efficiencies throughout Government, wherever the opportunity is present.

THREE YEARS OF ACCOMPLISHMENT

Last year, I reviewed the dramatic improvements during the preceding 2 years in Government operations, and in the way they affect the economy. I am happy to report that these improvements continued through a third year.

- Where the growth rate of spending was almost out of control at 17.4% a year in 1980, it will decline to 7.3% this year.
- Where spending grew 64% over the 4 years from 1977 to 1981, it will rise by only 41% over the 4-year period from 1981 to 1985, despite legislated cost-of-living adjustments and the needed defense buildup.
- The Federal tax system has been significantly restructured. Marginal income tax rates have been substantially reduced, greatly improving the climate for saving and investment. Depreciation reform has been enacted, restoring the value of depreciation allowances eroded by inflation. Tax loopholes have been closed, making the tax structure more equitable. Efforts have been made to shift to financing Government

programs through user fees commensurate with benefits and services provided.

- Our military strength is being restored to more adequate levels.
- Domestic spending, which grew nearly 3-fold in real terms in a little more than 2 decades, will actually be lower this year than it was in 1981.
- The rapid growth of means-tested entitlement programs has been curbed. Eligibility criteria have been tightened to target benefits more to the truly needy, and significant steps have been taken to improve the efficiency and effectiveness of these programs. Unnecessarily frequent cost-of-living adjustments were pared back.
- The social security system has been rescued from the threat of insolvency raised by rampant inflation, excessive liberalizations, and lagging growth of its tax base.
- Unnecessary or excessive Federal credit activities have been eliminated or cut back. Improvements in the management and control of Federal credit activities are being pursued. The administration has supported the basic intent of proposed legislation that would move off-budget lending onto the unified budget, in order to provide better budgetary control over Federal lending.
- Proliferation of regulations and red tape has been stopped. The number of new Federal rules has fallen by over a quarter during the past three years, and hundreds of unnecessary old rules have been eliminated. For the first time, the *Federal Register* of new regulatory actions has grown shorter for three consecutive years; it is now one-third shorter than in 1980. Federal paperwork requirements have been cut by well over 300 million hours annually, and will be reduced even further in 1984. This has saved the American public over 150,000 work-years that had been spent every year filling out unnecessary Federal forms and reports. Our regulatory reform efforts to date will save individual citizens, businesses, and State and local governments over \$150 billion over the next decade.
- Major management improvement initiatives are underway that will fundamentally change the way the Federal Government operates. The President's Council on Integrity and Efficiency has reported \$31 billion in cost reductions or funds put to better use.
- The Federal nondefense work force has been reduced by 71,000 employees since I took office.

These are impressive accomplishments—accomplishments to be proud of and to build on. And together we can build on them. With this budget I call on all Members of the Congress once again for

additional steps to ensure the firmness of our foundations and overcome the Nation's budget problem.

MAINTAINING ECONOMIC RECOVERY

Before us stands the prospect of an extended era of peace, prosperity, growth, and a rising standard of living for all Americans. What must we do to ensure that that promise shall be realized, and enjoyed in the years to come? What must we do to ensure that the high price of adjustment to this new era paid by the Nation in recent years shall not have been paid in vain?

All signs point to continued strong economic growth, vigorous investment, and rising productivity, without renewed inflation—all but one. Only the threat of indefinitely prolonged high budget deficits threatens the continuation of sustained noninflationary growth and prosperity. It raises the specter of sharply higher interest rates, choked-off investment, renewed recession, and rising unemployment.

This specter must be laid to rest: just as fears of rampant inflation and its attendant evils are being laid to rest; just as fears of helplessness before growth in Soviet military might and all it threatens are being laid to rest; just as fears that the Nation's social security system would "go under" have been laid to rest. A number of actions will be required to lay it to rest. This budget requests these actions of Congress; it calls for measures to continue to curb the upward momentum of Federal spending and to increase Federal receipts. Other actions involve such fundamental reform of our fiscal procedures that they will require that the Constitution be amended.

Congress has each year enacted a portion of my budget proposals, while ignoring others for the time being. It is moving slowly, year by year, toward the full needed set of budget adjustments. I urge the Congress to enact this year not only the proposals contained in this budget, but also constitutional amendments providing for a line-item veto and for a balanced budget—rather than the fitful policy of enacting a half-hearted reform this year, another one next year, and so on.

Where Congress lacks the will to enforce upon itself the strict fiscal diet that is now necessary, it needs the help of the Executive Branch. We need a constitutional amendment granting the President power to veto individual items in appropriations bills. Forty-three of the fifty States give this authority to their governors. Congress has approved a line item veto for the District of Columbia, Puerto Rico, and the trust territories. It is now time for Congress to grant this same authority to the President. As Governor of California, I was able to use the line-item veto as a powerful tool against wasteful government spending. It works, and works well, in

State government. Every number in this document bears testimony to the urgent need for the Federal Government to adopt this fundamental fiscal reform.

Let us also heed the people and finally support a constitutional amendment mandating balanced Federal budgets and spending limits. I encourage our citizens to keep working for this at the grassroots. If you want to make it happen, it will happen.

We must seek a bipartisan basis for fundamental reforms of Government spending programs. We need to reexamine just what, how, and how much the Federal Government should be doing—given our need for security and well-being and our desire to leave power and resources with the people.

To those who say we must raise taxes, I say wait. Tax increases pile unfair burdens on the people, hurt capital formation, and destroy incentives for growth. Tax cuts helped sustain the recovery, leading to faster growth and more jobs. Rather than risk sabotaging our future, let us go forward with an historic reform for fairness, simplicity, and growth. It is time to simplify the entire tax code so everyone is on equal footing.

The tax system must be made simpler and fairer; honest people should not pay for cheaters; the underground economy should come back into the sunlight; and everyone's tax rates should be reduced to spark more savings, investment, and incentives for work and economic growth. This is the blueprint for a brighter future and a fairer tax system. Therefore, I am directing the Department of the Treasury to complete a study with recommendations by the end of the year.

With these changes completed and the necessary fiscal tools in place, I am confident that we can devise a sweeping set of fiscal policy changes designed to reduce substantially the persistent Federal deficits that cloud our otherwise bright economic future. The plan must be based on these cardinal principles:

- It must be bipartisan. Overcoming the deficits and putting the Government's house in order will require everyone's best efforts.
- It must be fair. Just as all Americans will share in the benefits that are coming from recovery, all should share fairly in the burden of transition to a more limited role of Government in our society.
- 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. Government spending will not be curbed by wishful thinking.

In the meantime, the proposals in this budget provide important additional steps toward reducing the deficit.

CONTROLLING FEDERAL CREDIT PROGRAMS

Federal credit in all its forms imposes costs on the U.S. economy that must be weighed against its benefits. Federal intervention through guarantees and direct loans may misdirect investment and preempt capital that could be used more efficiently by unsubsidized, private borrowers. Because federally assisted borrowers are frequently less productive than private borrowers, large Federal credit demands, and the degree of subsidy involved in Federal credit activity, must be reduced if we are to improve prospects for economic growth.

The administration continues its strong commitment to control Federal direct loans and loan guarantees. It has supported the basic intent of proposed legislation to move off-budget Federal lending into the unified budget. It seeks other basic reforms in the way in which direct loans and loan guarantees are presented and controlled.

In the coming year, my administration will issue a directive establishing Government-wide policies on credit. This directive will be both an explicit statement of the administration's goals in providing credit assistance and a means of controlling the manner in which that assistance is provided.

REGULATORY REFORM

Federal regulation grew explosively throughout the 1970's. Whether well or poorly designed, whether aimed at worthy or dubious objectives, these rules have one thing in common: they "tax" and "spend" billions of dollars entirely within the private, economy, unconstrained by public budget or appropriations controls.

My administration has taken steps to correct this problem. Under Executive Order 12291, all Federal regulations must be reviewed by the Office of Management and Budget before being issued to determine whether their social benefits will exceed their social costs. As a result of this review process, we have reversed the rate of growth of Federal regulations. Hundreds of ill-conceived proposals have been screened out, and hundreds of existing rules have been stricken from the books because they were unnecessary or ineffective. Equally important, numerous existing regulations have been improved, and new rules have been made as cost-effective as possible within statutory limits. We are steadily winding down economic controls that regulate prices, form barriers to entry for new firms, and other anti-competitive regulations. At the same time we are increasing the effectiveness of our programs promoting health, safety, and environmental quality.

Our regulatory reform program has been open and public. New rules and changes to existing rules now require public notice and comment. My Executive Order requires regulatory agencies to consider the interests of the general public as well as special interest groups in rulemaking proceedings. The Task Force on Regulatory Relief and the Office of Management and Budget have issued regular reports detailing the progress of regulatory reform efforts. *The Unified Agenda of Federal Regulations*, issued twice each year, describes all planned and pending regulatory changes in virtually all Federal agencies. the administration's *Regulatory Policy Guidelines*, published in August 1983, is the first comprehensive statement of regulatory policy ever to be issued.

I believe it is time the policies and procedures of Executive Order 12291 were enacted into law. Individual regulatory decisions will always be contentious and controversial, but surely we can all agree on the general need for regulatory reform. Making each Government rule as a cost-effective as possible benefits everyone and strengthens the individual regulatory statutes. Regulation has become such an important role of the Federal Government that strong and balanced central oversight is becoming a necessity and a bi-partisan objective. The Laxalt-Leahy Regulatory Reform Act, which passed the Senate unanimously in 1982, would have accomplished this reform. I strongly urge the Congress to take up and pass similar legislation this year. In addition, my administration continues to support measures to deregulate financial institutions.

IMPROVING THE EFFICIENCY OF GOVERNMENT

It is important to continue to reduce the size of Government. It is equally important to use the remaining resources as efficiently and effectively as possible. My administration has begun to make great strides in doing exactly that.

During the past 3 years, we have initiated several Government-wide management improvement efforts under the guidance of the Cabinet Council on Management and Administration. They are:

- Reform 88;
- Personnel management reform;
- Federal field structure reform; and
- The President's Private Sector Survey on Cost Control.

These management improvement and cost reduction programs focus on 4 objectives:

- Reducing fraud, waste, and mismanagement;
- Improving agency operations;
- Developing streamlined Federal Government management systems; and
- Improving the delivery of services.

Reducing fraud, waste, and mismanagement.—This objective seeks better use of appropriated dollars. The President's Council on Integrity and Efficiency (PCIE) was formed in early 1981 and is made up of 18 department and agency Inspectors General. They recently reported \$8.4 billion in cost reductions or funds put to better use in the last 6 months of 1983 and a total of \$31 billion since they were appointed.

The PCIE also found that enormous waste was occurring because the Federal Government had never established an effective cash management system—despite the fact that it handles almost a trillion dollars in cash annually. This is currently being corrected by installing sophisticated, up-to-date systems that the Department of the Treasury estimates could save as much as \$3½ billion a year.

When my administration came to office we found delinquent debt owed the Government rising at a rate of over 40% per year—with a total debt outstanding of over \$240 billion. After only 2 years' effort, this annual growth rate has been reduced to 2%. A credit pre-screening system is now being put in place, and automated collection centers are being installed.

Federal procurement involves annual expenditures of \$170 billion. Procurement was an overly complex process with only 50% of our contract dollars awarded under competitive bid. My administration has replaced three sets of regulations with one, and we are now setting up a new pro-competitive policy to cut costs.

We have extended our fight to reduce waste and mismanagement to a direct attack on that nemesis that has always characterized the Federal Government: red tape and paperwork. We have already reduced the paperwork burden placed on the private sector by the Federal Government by well over 300 million hours. In this current fiscal year we intend to reduce the burden by another 130 million hours.

Further savings and improvements are possible. The President's Private Sector Survey on Cost Control (Grace Commission) developed numerous recommendations for savings and cost avoidance. These recommendations range from reducing costs of Federal employee retirement programs to upgrading the Government's seriously outdated and inefficient management and administrative systems. I have already included many of these ideas in this budget and will include more in future budgets.

Improving agency operations.—I am directing Federal agencies to coordinate their administrative activities so that they reduce their current operating costs immediately, rather than wait for future improvements in systems and technologies. Savings resulting from these efforts are reflected in this budget.

Developing streamlined Federal Government management systems.—As we are reducing the size of Government and reducing fraud, waste, and abuse, we also need to change fundamentally the way the Federal Government is managed. When I came into office, we found that the Federal Government lacked a well-planned compatible management process, so we set about developing one. Without this effort, the Federal Government would continue to operate in an inefficient manner that does not serve our citizens well.

Improving the delivery of services.—My administration is looking seriously at the way the delivery of Federal services is handled across the country. The objective of this effort is to achieve improved service at lower cost, through improved technology and management techniques such as prescreening, computer matching, adjusted payment schedules, contractor and grantee performance incentives, and a streamlined field structure.

All of these efforts are being planned and coordinated centrally as part of the budget process. The results of these efforts will be reported to the Congress together with resulting savings and proposals to upgrade management of the Federal Government.

CONCLUSION

Vigorous, noninflationary economic recovery is well underway. The long winter of transition from the misguided policies of the past, with their inflationary and growth-deadening side-effects, is now yielding to a new springtime of hope for America. The hope of continued recovery to long-term noninflationary prosperity can be realized if we are able to work together on further deficit reduction measures. Bold, vigorous fiscal policy action to break the momentum of entrenched spending programs, together with responsible and restrained monetary policy, is essential to keep the recovery on track; essential to the Nation's future economic health and vitality. Limited measures to increase receipts will also be necessary to make our tax system fairer and more efficient. But it is important—*crucial*—to get the mix of spending restraint and receipts increases right. There must be substantial reductions in spending and strictly limited increases in receipts.

I call urgently upon the Congress, therefore, to take the actions proposed in this budget. Far too much is at stake to permit casual dismissal of these essential belt-tightening measures. The Nation has paid a high price for the prospect of a secure, prosperous, noninflationary future; that prospect must not be sacrificed to a sense of complacency, to an expedient ducking of the issues.

With confidence in the ultimate beneficial effects of our actions, let us seize the high ground and secure, for ourselves and our posterity, a bright and prosperous future—a future in which the glory that was America is again restored.

RONALD W. REAGAN

Part I

ECONOMIC ASSUMPTIONS AND THE BUDGET OUTLOOK

This section discusses the budget outlook and the economic assumptions that form the basis for that outlook. The first part presents economic assumptions for calendar years 1984 through 1989. The second part discusses several aspects of the budget outlook.

Economic Assumptions

The economy and the budget are interrelated. Budget receipts and outlays depend directly on the level of economic activity, inflation, interest rates, unemployment, and other economic factors. Likewise, both budget outlays and the tax structure have substantial effects on the state of the economy—output, employment, and interest rates. In estimating budget receipts and outlays for future years, therefore, the economic assumptions underlying the estimates must be clearly specified.

The accompanying two tables show the economic assumptions that underlie the estimates in this budget. The first table shows the short-range economic forecast through 1985; the second table shows the long-range assumptions underlying the 4-year budget projections. The common practice is followed in showing these assumptions for calendar years, rather than fiscal years.

The full results of the administration's economic policies started to become evident in 1983. The economy grew rapidly, as it usually does in the first year of recovery, but inflation continued to moderate. In fact, 1983 was one of the best years in the postwar period in terms of achieving the combined objectives of output growth, job creation, and control of inflation. Real GNP growth of 6.1% from the fourth quarter of 1982 to the fourth quarter of 1983 was faster than in 18 of the previous 20 years. The 4.1% increase in the implicit price deflator for GNP was the lowest in 16 years. Responding to the rapid rise in output, the labor market rebounded impressively. Civilian employment grew at a faster rate last year

than in 19 of the past 20 years, as 4.0 million more Americans found jobs. The 2.5 percentage point fall in the unemployment rate was the largest 1-year decline since 1951.

While last year was one of economic recovery, 1984 should be one of solid expansion. Real GNP is expected to grow 4.5% during the four quarters of 1984, not significantly different from the Blue Chip consensus forecast of 4.3%. For 1985, real growth is forecast to moderate to 4.0%.

The total unemployment rate, which fell sharply in the second half of 1983, is expected to decline steadily, though less rapidly, during 1984 as output growth settles to a more sustainable pace. The forecast shows the unemployment rate at 7.7% in the final quarter of this year.

Short-term interest rates, as measured by the 91-day Treasury bill rate, are projected to decline moderately. This reflects a lowering of inflationary expectations in response to the demonstrated resolve of the administration and the Federal Reserve to keep money growth and inflation under control.

SHORT-RANGE ECONOMIC FORECAST

(Calendar years; dollar amounts in billions)

Item	Actual 1982	Forecast		
		1983 ¹	1984	1985
Gross national product:				
Current dollars:				
Amount	3,073	3,309	3,642	3,974
Percent change, fourth quarter over fourth quarter	2.6	10.4	9.8	8.9
Constant (1972) dollars:				
Amount	1,485	1,535	1,616	1,682
Percent change, fourth quarter over fourth quarter	-1.7	6.1	4.5	4.0
Incomes (current dollars):				
Personal income	2,579	2,742	2,978	3,224
Wages and salaries	1,568	1,664	1,802	1,946
Corporate profits	174	205	255	292
Price level (percent change, fourth quarter over fourth quarter):				
GNP deflator	4.4	4.1	5.0	4.7
Consumer Price Index ²	4.5	2.9	4.5	4.7
Unemployment rates (percent):				
Total: fourth quarter ³	10.5	8.4	7.7	7.5
Insured, annual average ⁴	4.7	3.8	3.3	3.3
Federal pay raise (percent) ⁵	4.0		3.5	3.5
Interest rate, 91-day Treasury bills (percent) ⁶	10.7	8.6	8.5	7.7

¹ Preliminary actual data.

² CPI for urban wage earners and clerical workers. Two versions of the CPI are now published. The index shown here is that currently used, as required by law, in calculating automatic cost-of-living increases for indexed Federal programs. The manner in which this index measures housing costs will change significantly in 1985.

³ Percent of total labor force, including armed forces residing in the U.S.

⁴ This indicator measures unemployment under State regular unemployment insurance as a percentage of covered employment under that program. It does not include recipients of extended benefits under that program.

⁵ In 1984 and 1985, general schedule and military pay raises occur in January. The military pay raises are 4.0% and 5.5% respectively. An October 1985 pay raise of 5.6% (military and general schedule) is projected.

⁶ Average rate on new issues within period, on a bank discount basis. These projections assume, by convention, that interest rates decline with the rate of inflation. They do not represent a forecast of interest rates.

In contrast to the near-term economic forecast for 1984 and 1985, the long-range assumptions for the 1986-1989 period are not forecasts of future economic conditions. Instead, they are trend projections, consistent with the economic policies and economic policy objectives of the administration, that assume steady progress in sustaining economic growth and in reducing inflation, interest rates, and unemployment. It is assumed that the rate of growth of the money supply will gradually decline and that the administration's 1985 fiscal policy proposals, and future deficit-reduction measures, will be enacted.

Real GNP is projected to grow at a 4.0% annual rate from 1986 through 1988, but to moderate to 3.8% in 1989. Consistent with this trend growth of real output, the total unemployment rate is expected to fall gradually and to reach 5.7% in 1989. Inflation, as measured by the GNP deflator, is forecast to increase somewhat, to 5.0% in 1984 (on a fourth-quarter to fourth-quarter basis), and is projected to decline gradually to 3.5% by 1989. These long-range assumptions are consistent with historical experience.

LONG-RANGE ECONOMIC ASSUMPTIONS

(Calendar years; dollar amounts in billions)

Item	Assumptions			
	1986	1987	1988	1989
Gross national product:				
Current dollars:				
Amount	4,319	4,681	5,059	5,445
Percent change, fourth quarter over fourth quarter	8.6	8.3	8.0	7.4
Constant (1972) dollars:				
Amount	1,750	1,820	1,892	1,966
Percent change, fourth quarter over fourth quarter	4.0	4.0	4.0	3.8
Incomes (current dollars):				
Personal income	3,503	3,782	4,055	4,358
Wages and salaries	2,108	2,296	2,496	2,708
Corporate profits	318	355	377	391
Price level (percent change, fourth quarter over fourth quarter):				
GNP deflator	4.4	4.1	3.8	3.5
Consumer Price Index ¹	4.4	4.1	3.8	3.5
Unemployment rates (percent):				
Total, fourth quarter ²	7.2	6.5	5.8	5.7
Insured, annual average ³	3.2	2.8	2.4	2.2
Federal pay raise, October (percent) ⁴	5.8	5.5	5.3	5.1
Interest rate, 91-day Treasury bills (percent) ⁵	7.1	6.2	5.5	5.0

¹ CPI for urban wage earners and clerical workers. Two versions of the CPI are now published. The index shown here is that currently used, as required by law, in calculating automatic cost-of-living increases for indexed Federal programs.

² Percent of total labor force, including armed forces residing in the U.S.

³ This indicator measures unemployment under State regular unemployment insurance as a percentage of covered employment under that program. It does not include recipients of extended benefits under that program.

⁴ General schedule pay raises normally become effective in October—the first month of the fiscal year. Thus, the October 1986 pay raise will set new pay scales that will be in effect during fiscal year 1987.

⁵ Average rate on new issues within period, on a bank discount basis. These projections assume, by convention, that interest rates decline with the rate of inflation. They do not represent a forecast of interest rates.

Budget Program and Trends

The President's 1985 budget embodies four major elements:

- a continued freeze on real domestic spending growth and further progress in the remarkable reduction in domestic spending relative to GNP that has been under way since 1981;
- continued realignment of national budget priorities toward defense, international security, and other core purposes of Government;
- modest further domestic programmatic budget savings totaling \$62 billion over 1985-89 that can and should be adopted by this Congress; and
- a total spending burden on the U.S. economy (share of GNP) that is coming down from the recession peaks, but which is still *too high* and which defines the spending control challenge for 1985 and beyond.

The Dramatic Halt in Domestic Spending Growth.¹—After three budget rounds, the explosive domestic budget growth of the three decades prior to 1980 has clearly been contained. Constant dollar domestic spending doubled between 1954 and 1961; doubled again by 1971; and nearly doubled again by 1981. But after completion of most congressional action on the 1984 budget, real domestic spending now stands *lower* than in 1981. And if the policies proposed in the President's 1985 budget are adhered to, there will be essentially *no growth* in real terms through 1989. Thus, after an era in which the real cost of government *doubled three times* in less than three decades, the shift in national policy inaugurated by the Reagan administration will result in a *decade-long domestic real spending freeze*.

Moreover, this abrupt halt to the runaway growth momentum of domestic government is now built into the structure of the budget—even if the modest additional savings proposed for 1985 and out-years are not fully implemented by Congress. The current services budget² for domestic programs will rise only 6% in constant dollars between 1981 and 1989.

No domestic spending growth means declining burden on an expanding economy.—During the years from 1954 to 1981, real domestic spending grew at an average rate of more than 5 percentage points per year faster than the real growth in goods and services (GNP) produced by the American people. As a consequence the domestic spending share of GNP skyrocketed from 4.0% to 15.0%—more than tripling in less than three decades.

¹ Domestic spending refers to all non-interest outlays except the Department of Defense—military and certain national interest programs; defense spending refers to Department of Defense—military only. All spending figures include off-budget outlays unless otherwise noted. Where nominal dollars are adjusted for inflation and converted to constant dollars, they are deflated by the GNP deflator (fiscal year 1985=100).

² The "current services" concept provides a measure of the budget outlook assuming no changes in policy and is a useful base against which budgetary alternatives may be assessed.

By contrast, the Federal Government's success in achieving domestic spending control since the late 1970's means that the economy (real GNP) is now growing faster than domestic spending. Consequently, the economic burden of domestic government is at long last heading down. This reversal is nearly without precedent among major industrial democracies.

*Non-entitlement domestic outlays*³ *have been cut 24% in real terms and will decline by 40% under the President's 1985 budget.*—Between 1954 and 1978, constant dollar domestic spending excluding entitlements increased *five-fold*. Due to the sweeping retrenchment in domestic programs since 1981, real domestic discretionary spending has already receded to nearly its 1974 level (down 24% from its 1978 peak), and under the President's proposed 1985 budget will be more than 40% lower than the 1978 level by 1989. In short, the continued restraint embodied in the President's 5-year budget plan, if adhered to, would shrink the constant dollar size of domestic government, excluding entitlements, to nearly its 1971 level.

Domestic discretionary share of GNP: declining to post-Korean War levels.—When measured relative to GNP, the progress achieved and proposed for the future is even more dramatic. Non-entitlement domestic spending approved by Congress for 1984 will amount to only 4.2% of GNP. This means that since 1978, the economic burden of financing domestic government excluding entitlements has dropped by one-third. Moreover, the proposed 1985 budget would further reduce the burden of domestic non-entitlement spending to 4.0% of GNP—with continued shrinkage to 2.7% by 1989. Even without the additional savings proposed in the 1985 budget for this category of domestic spending, the 1989 current services spending projection at 3.0% of GNP would be only slightly higher than in 1954.

Low-income benefit reforms have stopped the massive growth of welfare costs.—Between 1954 and 1981 the constant dollar cost of Federal means-tested benefit programs increased *eleven-fold*—from \$6 billion to \$68 billion. Although Congress has not adopted all of the reforms proposed by the administration, estimated 1984 current law real costs will be lower than 1981, as will the means-tested budget share of GNP. Moreover, even on a current services basis, both constant dollar costs and the GNP share will be nearly *stable* for the remainder of the 1980's. Again, the turnaround could not be more dramatic: after increasing over 1,000% in real terms between 1954 and 1981, the outlook through 1989 is for virtually no further real cost growth at all. Contrary to the claims of some critics, the social safety net is as strong today as it was in 1981 as measured by constant dollars of budget resources: the difference is that unus-

³ All domestic spending except social insurance and low-income benefit programs.

tainable, unnecessary, and socially counterproductive expansion has been stopped.

Due to bipartisan reform the rapid growth of social insurance programs has finally slowed.—Nearly the entire growth in the Federal budget relative to the national economy from 1954 to 1981 is accounted for by the sustained expansion and evolution of the Nation's social insurance system. Over these 27 years, the constant dollar cost of social security, unemployment insurance, medicare, Federal pensions, and related smaller programs grew from \$26 billion to \$267 billion or over *ten-fold*. The social insurance spending claim on GNP likewise surged from less than 2% to 7.6%.

Beginning about 1977, however, a bipartisan recognition that the various social insurance programs were rapidly approaching both unaffordability and insolvency generated successive benefit reform and financial improvement bills. These included the 1977, 1980 and 1983 social security bills, and various medicare, unemployment insurance, and railroad retirement solvency and cost control measures. Since most of these legislative changes were prospective in nature, the fiscal effects will materialize in the mid-to-late 1980's. This can be seen in the dramatic decline in the annual real growth rate from 8.8% over 1954–1983 to only 2.3% under current services for the 1983–1989 period. Consequently, after peaking at 8.6% of GNP in the recession year of 1983, the social insurance budget will steadily fall relative to the economy's capacity to support it in the years ahead.

Defense and national interest programs: return of budget commitment to post-war mid-point relative to GNP.—Critics of the administration's defense and security-related budget build-up frequently compare current and proposed budget levels to those which prevailed in the late 1970's and allege that administration policies have resulted in inordinate budget growth. But this represents a cramped and misleading view of defense and national interest funding requirements, as well as failure to consider the longer trend of post-war budgetary history.

The programs in the aggregation addressed in this section embody core purposes of the Federal Government: Department of Defense—military (DOD) expenditures; defense related spending for weapons development and production (Department of Energy); the conduct of foreign policy and the economic and security assistance expenditures required by it; leadership in space and science (NASA); the servicing and policing of our vast coastal borders (Coast Guard); and the national defense and strategic petroleum stockpiles. While constant dollar budget resources have risen strongly since 1980, the fact remains that enacted real funding for 1984 barely exceeds peak expenditures recorded in 1968. The 1968 level reflected the coincident fiscal pressures of the Vietnam War, the Apollo moon-shot, and substantial commitments to economic and security assistance for areas of national interest around the world. Moreover,

relative to GNP, 1984 spending for these programs is actually 33% lower than what the national economy proved capable of sustaining in 1968.

Thus, it is clear that the needed defense catch-up and modernization programs launched on a bipartisan basis by Congress in 1980 and accelerated during the Reagan administration, along with expenditures for other national interest programs, do not come close to imposing the burden on the U.S. economy experienced during earlier periods when equally critical national interests were at stake. The widespread misconception on this score stems from a failure to appreciate the degree to which the low expenditure burden for defense and national interest programs experienced during the mid-1970's represented a transient and aberrant historic interlude. The resulting fiscal windfall was unsustainable because these depressed funding levels were inconsistent with stated national security, foreign policy, and international leadership objectives—objectives that have remained broadly continuous throughout the post-war period.

Between 1968 and the low point in 1976, constant dollar defense and national interest expenditures plummeted by 32%. Likewise, the GNP share fell from 11.0% to 6.1%, or by over two-fifths.

This massive drop occurred because, for reasons of both short-run national policy trends and happenstance, all major categories within this budget sector were declining simultaneously. The space program was then between the Apollo mission and the build-up of the shuttle program; DOD expenditure declines reflected operational cost reductions attributable to the withdrawal from Vietnam and the large mid-70's decline in end-strength; and strategic and conventional weapons programs were allowed to slacken substantially during this period.

Thus, when the 1970-1980 valley in defense and national interest spending trends is accounted for, a decidedly different picture emerges regarding the necessary rise in these expenditures that has been achieved thus far and that is planned for future years. Constant dollar expenditures for DOD and national interest programs have risen by 36% since 1980. The President's proposed budget would continue this trend during the remainder of the 1980's.

Yet, as substantial as these increases appear to be, they will result in a claim on GNP that is lower than that which prevailed during the entire 1954-1970 period. Devotion of 8% of GNP to the fundamental purposes of government and, most particularly, to the Nation's military security in a difficult and threatening world can hardly be considered excessive. Indeed, it represents no more than a mid-point between the normal burden prior to 1970 and the temporarily depressed levels of the mid and late 1970's.

Reordering the Nation's fiscal priorities.—Vast changes in the Federal budget's structure occur over time. The re-direction of policy inaugurated by the Reagan administration is such a change.

Measuring budget changes from any given year, however, can confuse as easily as enlighten. Nevertheless, the budget structure of 1971 stands out as perhaps an equilibrium point in post-war budgetary history: it represents the mid-point between the high defense/low domestic budget structure of the immediate post-Korean war period and the low defense/high domestic budget composition of the late 1970's. Neither extreme is compatible with the requirements and realities of the 1980's. The low defense level of the later 1970's was unsustainable and has been abandoned. The low domestic level of the 1950's has been surpassed by history and settled national commitments.

By contrast, defense spending was still at a healthy level in 1971 and much of the modern structure of domestic spending commitments had already emerged. In particular, the Great Society domestic programs had been well established and the Nation's social insurance system had been expanded to include most of its current protections, including disability, medicare, and extended unemployment benefits. Significantly, however, the large across-the-board benefit increases enacted in the 1970's and the impact of excessive indexing and policy errors in entitlement programs had not yet occurred.

The fiscal course charted by the administration for the 1980's essentially seeks a restoration of the *1971 status quo ante*. Substantial progress in this direction has already been realized. Unfortunately, the reduction in the domestic spending claim has proceeded more slowly than the rise in defense and other national interest outlays—resulting in a slight increase in the total non-interest Federal spending claim on GNP since 1980. Nevertheless, if the policies embodied in the President's 1985 budget are faithfully adhered to, the *1971 status quo ante* as between domestic and defense/national interest spending claims on GNP will have been nearly restored by the end of the decade. Overall, this shift in composition would result in less than a 1% rise in the total programmatic spending burden.

Decomposition of the domestic spending component of the budget highlights the strong challenge posed by the path embodied in the 1985 budget. First, achieving the 11.6% of GNP overall domestic target for 1989 depends crucially on four conditions:

- that constant dollar cost of the means-tested safety net programs will remain between \$65 and \$70 billion—implying no real benefit or caseload expansion or contraction—thereby permitting the GNP share to fall slowly in the context of an expanding economy;

- that no additional domestic discretionary program commitments beyond those embodied in the 1984 budget baseline will be undertaken during the remainder of the decade unless existing programs of equal cost are eliminated;
- that annually appropriated funding levels for discretionary programs and periodic re-authorizations for programs like highway building and price supports will be consistently constrained below the cumulative inflation rate in order to cause continued erosion in real program levels, as has been the policy since 1980; and
- that the economy will remain on a steady path of sustained real growth and low inflation throughout the 1980's. The latter condition is essential in order to avoid periodic legislative pressures for "real funding catch-ups" for appropriated programs subsequent to a rising inflation trend. The former is required to avoid recession-induced caseload growth in means-tested entitlements and legislated liberalizations in response to short-term social distress.

The path charted in the 1985 budget assumes that these 4 conditions will be fulfilled. This permits the total domestic spending share of GNP to fall nearly to its 1971 level, despite the fact that the social insurance claim remains substantially higher than in 1971 and that the policy of a stable constant dollar means-tested safety net results in a higher GNP claim even by 1989 than was the case in 1971. Stated differently, the high real cost of even the restrained social insurance and low income entitlement structure that has emerged after three budget rounds during the Reagan administration requires the steady withering of other domestic spending if the total domestic budget burden is to be restored to the 1971 level.

Thus, attainment of fiscal equilibrium by the end of the decade is totally incompatible with new large-scale domestic policy initiatives now being advanced in some quarters. Such initiatives would virtually guarantee the need for a major general tax increase. Given the nearly 8% of GNP required for social insurance, the other components of the domestic budget must continue to shrink relative to GNP—an outcome that cannot be achieved if significant new program commitments are undertaken. Thus, a major increase in Federal aid to education, an expensive national industrial policy, a significant restoration of pre-1982 constant dollar Federal spending for health, training, and social service programs, or major increases in domestic infrastructure investment, if combined with full current services funding of existing commitments, would push total domestic spending back into a range of 13–14% of GNP. When combined with the 8% of GNP required for defense and national interest programs and additional requirements for debt service, the permanent total spending burden range would exceed 24% of GNP.

Conversely, the minimization of potential future tax increases will require additional steps to lower domestic spending to below the 1989 goal of 11.6% of GNP now embodied in the proposed budget. Among other things, this would likely involve accelerating the decline that will occur in the mid and late 1980's under current law in the social insurance share of GNP. Given the pending solvency crisis in medicare, excessive annuity levels embodied in Federal pensions, and the potential for further reform of benefit indexing mechanisms, it is apparent that opportunities for such savings do exist. If a bipartisan consensus can be obtained, these reforms could reduce social insurance spending to 7.0% of GNP by the late 1980's.

Thus, meeting the current domestic budget goal of 11.6% of GNP by 1989, and reducing it to below 11% in future budget plans in order to minimize the threat of major tax increases will require ceaseless restraint and significant further retrenchment in all parts of the domestic budget. Yet, this is achievable if the policy climate of 1981-1984 can be maintained throughout the remainder of the decade. The essential dynamics of the 1981-84 domestic budget shrinkage have been four-fold:

- no entitlement liberalizations or repeal of prior reforms;
- no new substantial discretionary spending commitments of the type that proliferated during the 1970's;
- declining real budget resources for discretionary appropriations and operating agencies; and
- steady reform and retrenchment of existing entitlement program features—particularly social insurance.

In the context of a stable economy, a domestic fiscal policy that remains anchored to these premises can reduce total Federal spending excluding interest to the 1971 *status quo ante*—19% of GNP. But, a policy that abandons one or more of these conditions is both doomed to failure and is a recipe eventually for massive general tax increases.

The debt service problem.—The previous sections demonstrate that the fiscal course charted by the Reagan administration is compatible with returning the programmatic spending share of GNP to below 20% by the end of the decade, and to the 1971 *status quo ante* (19%) with additional reforms, mainly in the social insurance budget, in future years. This leaves for consideration the funding requirement for debt service.

In the context of the generally stable and low-inflation economic environment that prevailed prior to the late 1960's, debt service averaged an almost constant 1.3% of GNP each year over the course of two decades (1954-1974). But subsequently, under the pressure of rising nominal interest rates, as well as significantly larger average annual deficits, the debt service claim on GNP rose steadily until it reached 2.0% in 1980. The recent period of high

interest rates and recession-fueled high deficits that accompanied the monetary and economic correction of 1981-83 pushed debt service costs still higher.

It is currently estimated that constant dollar debt service costs in 1984 will be triple 1971 levels and that the GNP share will reach 3.0%—or more than double its 1971 claim.

This staggering rise in the debt service burden, which has been building continuously for more than a decade, accounts in considerable part for the elevated and unprecedented total Federal spending claims on GNP that have been recorded since 1980. During the recession/recovery cycle years of 1975-1977 programmatic spending averaged 20.8% of GNP—a level only slightly below the 21.7% average for the comparable years 1982-84. But the net interest claim was nearly double in the latter period, contributing 60% of the overall rise in the spending claim on GNP between 1975-77 and 1982-84.

A similar comparison of the proposed 1985 budget with the 1971 *status quo ante* highlights the degree to which the attainment of fiscal equilibrium by the end of the 1980's depends on further progress both in reducing the present level of nominal interest rates and in achieving a reduction in the domestic spending claim on GNP that exceeds that charted in the 1985 budget plan.

For 1985, debt service payments are projected to remain at their historic high (3.0% of GNP) while programmatic spending will decline slightly from the 1984 level, resulting in a total spending claim on GNP that remains above 24% of GNP for the fourth successive year. However, if the 1985 budget plan is adhered to, the debt service claim on GNP would steadily decline. This declining path is a consequence of the gradual fall of proposed programmatic spending and deficit claims relative to GNP and the forecast assumption that the 91-day Treasury bill rate will drop from 8.6% in fiscal year 1984 to 5.1% by 1989. With the further assumption that future policy action will constrain programmatic spending to 19% of GNP, the interest burden would fall to around 2% by the end of the decade. Under these conditions, fiscal equilibrium could be attained with total Federal spending in a range between 20-21% of GNP.

Failure to achieve these economic and policy conditions, however, would have seriously adverse consequences. The current services programmatic spending level projected for 1989 is \$44 billion or about 1% of GNP higher than the severely constrained spending path proposed in the 1985 budget. In the event that any combination of defense and non-defense spending were permitted to drift toward the current services level, debt service would remain at 3% through 1987, resulting in total spending staying above 23% of GNP through 1989.

More critically, if, in addition, the declining interest rate path assumed in these projections is not achieved, the debt service claim could rise above even the 3% level that now obtains. For example, if the Treasury bill rate is assumed to remain at current levels (9%) and the trend real GNP growth rate falls to 3% per year, then debt service rises to 4.4% of GNP by the end of the decade. This represents a claim on the national economy *3.5 times* larger than the pre-1974 equilibrium. While programmatic spending would be similar to the 1985 level (21.1%), the total spending burden would surge to 25-26% of GNP.

Thus, adherence to both the spending policy plan and the economic forecast path assumed in the 1985 budget is imperative if the current historically-unprecedented debt service claim on GNP is to be reduced, and the total Federal spending claim is to recede toward the 1971 *status quo ante* (20.4% of GNP).

The 1985 Spending Restraint Program.⁴—The table entitled “1985 Budget Totals and Savings” summarizes changes to the current services baseline for major components of the budget. Outlays would be reduced by \$19 billion in 1985—with savings rising to \$46 billion by 1989. Measures to strengthen the revenue base and adjust certain unwarranted or no longer justifiable features of the Internal Revenue Code boost receipts by \$8 billion in 1985 and \$75 billion over the period. Overall, the 1985 budget proposes specific steps to reduce the deficit by \$226 billion over 1985-1989.

1985 BUDGET TOTALS AND SAVINGS

(Dollars in billions)

	1985	1986	1987	1988	1989	Total
Outlays:						
Current services.....	945	1,019	1,094	1,163	1,230	5,451
Defense savings (DOD).....	-13	-13	-6	-7	-14	-53
Non-DOD savings.....	-5	-10	-12	-16	-20	-62
Debt services savings.....	-2	-5	-7	-10	-12	-36
Subtotal, outlay savings.....	-19	-27	-26	-33	-46	-151
Budget proposal.....	925	992	1,068	1,130	1,184	5,300
Receipts:						
Current services.....	737	803	874	960	1,037	4,411
Receipt increases.....	8	12	14	18	23	75
Budget proposal.....	745	815	888	978	1,060	4,487
Budget deficit (—).....	-180	-177	-180	-152	-123	-813
Percent of GNP:						
Budget outlays.....	23.8%	23.4%	23.3%	22.8%	22.1%	23.1%
Budget receipts.....	19.2	19.3	19.3	19.7	19.8	19.5
Budget deficit (—).....	-4.6	-4.2	-3.9	-3.1	-2.3	-3.6

⁴ The spending figures through the rest of Part 1 exclude off-budget outlays to maintain consistency with program and budget totals displayed elsewhere.

In a number of critical areas, the 1985 budget proposes policy increases for selected programs that net against savings proposed throughout the remainder of the budget. As shown in the table entitled "Selected Nondefense Programmatic Increases," these additions to the current services baseline total \$4.5 billion in 1985 and \$47.5 billion over five years.

SELECTED NONDEFENSE PROGRAMMATIC INCREASES

(Dollar amounts in billions)

	1985	1986	1987	1988	1989	Total
Development aid/Central America	+1.0	+0.6	+0.6	+0.4	+0.3	+2.8
Space program	+0.3	+1.0	+1.9	+2.7	+3.1	+8.9
Security assistance/FMS	+2.2	+3.5	+3.8	+3.7	+3.5	+16.6
State Department/USIA	+0.3	+0.4	+0.5	+0.5	+0.5	+2.1
DOE weapons program and preparedness	+0.7	+1.5	+2.3	+2.8	+3.1	+10.5
NSF and energy science	+0.1	+0.2	+0.2	+0.3	+0.3	+1.1
Law enforcement	+0.1	+0.1	+0.2	+0.2	+0.2	+0.8
Veterans programs	-0.1	+0.5	+0.6	+0.8	+0.8	+2.6
Airways/airports	-0.1	+0.5	+0.6	+0.6	+0.4	+2.0
Total proposed increases	+4.5	+8.2	+10.7	+11.9	+12.2	+47.5

By contrast, savings proposed elsewhere in the budget total \$110 billion over 1985-1989, representing a 4% reduction from current services. Nondefense program savings (net of the proposed increases in the table above) equal \$62.3 billion. On a net basis, then, 43% of the savings from current services proposed throughout the budget are needed to offset the selected increases.

NET NONDEFENSE PROGRAM SAVINGS

(Dollar amounts in billions)

	1985	1986	1987	1988	1989	Total
Commercial and financial programs	-0.9	-1.6	-2.1	-2.6	-3.0	-10.2
Social insurance and pensions	-2.1	-4.7	-6.8	-9.2	-11.9	-34.6
Low-income benefit programs	-2.8	-3.5	-3.8	-4.1	-4.4	-18.7
Education, training, health and social services	-1.8	-3.1	-4.2	-5.1	-6.0	-20.2
Agricultural and rural programs	*	-2.2	-2.1	-2.1	-2.2	-8.6
Public infrastructure	-0.6	-0.2	-0.3	-0.6	-0.9	-2.5
General government	-0.7	-1.5	-2.2	-2.8	-3.2	-10.5
National interest and veterans (increases)	+4.3	+7.3	+9.5	+10.8	+11.2	+43.0
Total net nondefense program savings	-4.6	-9.6	-12.0	-15.7	-20.4	-62.3

* \$50 million or less.

Additional savings of even greater magnitude will be needed in future years to ensure the continuation of economic recovery. But the measures outlined in the 1985 budget offer the essential first steps toward the restoration of budget balance over the longer-run.

Part II

BUDGET RECEIPTS

This section describes the major sources of budget receipts and the legislative proposals and administrative actions affecting them. The economic assumptions underlying the estimates are in Part I.

Summary

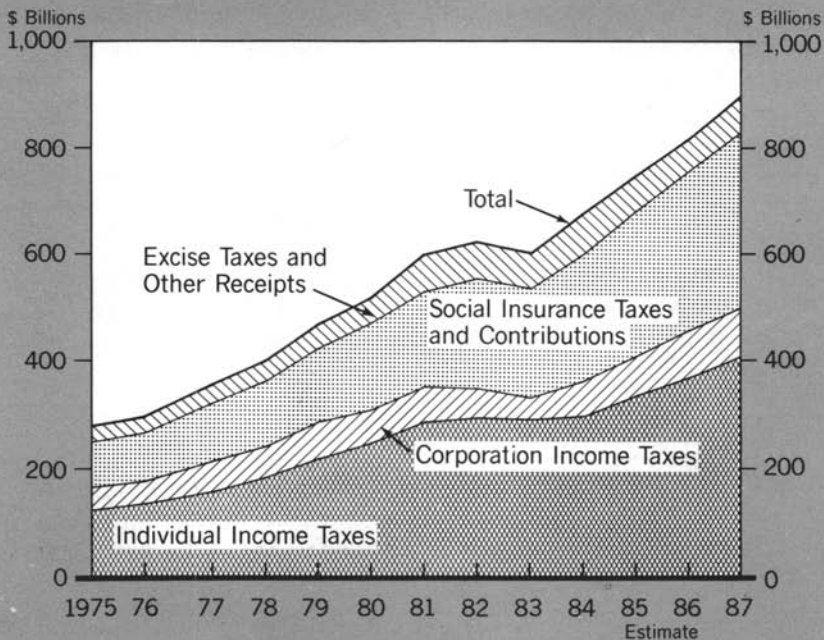
Total budget receipts in 1985 are estimated to be \$745.1 billion, an increase of \$75.1 billion from the \$670.1 billion estimated for 1984. Receipts in 1986 and 1987 are estimated to be \$814.9 billion and \$887.8 billion, respectively.

Composition of budget receipts.—The Federal tax system relies predominantly on income and payroll taxes. In 1985:

- Income taxes paid by individuals and corporations are estimated at \$328.4 billion and \$76.5 billion, respectively. Combined, these sources account for 54.3% of total 1985 budget receipts.
- Social insurance taxes and contributions—composed largely of payroll taxes levied on wages and salaries, most of which are paid equally by employers and employees—will yield an estimated \$270.7 billion, 36.3% of the total.
- Excise taxes, including the crude oil windfall profit tax, are expected to provide \$38.4 billion, 5.2% of the total.
- Estate and gift taxes, customs duties and miscellaneous receipts are estimated at \$31.1 billion, the remaining 4.2% of the total.

Under the tax policy and economic assumptions presented in this budget, the income tax share of total receipts is projected to rise to 56.3% by 1987, 2.0 percentage points more than for 1985. This rise is the combined effect of a 1.2 percentage point rise in the individual income tax share and a 0.8 percentage point rise in the corporation income tax share. Social insurance taxes and contributions are projected to rise as a share of total receipts from 36.3% in 1985 to 36.5% in 1987. The projected share of all other receipts declines by 2.1 percentage points between 1985 and 1987.

Budget Receipts



Enacted Legislation

Several major tax laws have been enacted since the administration took office in January 1981. The first, the Economic Recovery Tax Act of 1981 (ERTA), provides incentives for work, saving, and investment. The major provisions of this Act include an across-the-board reduction in individual income tax rates and other reductions in individual income taxes; the annual adjustment of the zero bracket amount, the personal exemption, and individual income tax brackets for inflation, beginning in 1985; and the accelerated cost recovery of capital expenditures.

The second major tax law, the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA), improves the fairness of the tax system while preserving the incentives for work, saving, and investment enacted in 1981. This Act increases receipts primarily by eliminating unintended benefits and obsolete incentives, increasing taxpayer compliance, and improving collection techniques.

The Highway Revenue Act of 1982 is the third major tax law enacted since January 1981. This Act increases the excise tax on gasoline and diesel fuel by 5 cents a gallon and restructures other highway related taxes.

Three laws affecting receipts were enacted during 1983: the Social Security Amendments of 1983, the Interest and Dividends Tax Compliance Act of 1983, and the Railroad Retirement Revenue Act of 1983. The first, the Social Security Amendments of 1983, assures the future solvency of the social security trust funds through a combination of revenue increases and benefit reductions.

The Interest and Dividends Tax Compliance Act of 1983 repeals the withholding of taxes on interest and dividend income provided in TEFRA.

The tax increases provided in the Railroad Retirement Revenue Act of 1983, together with the benefit reductions provided in the Railroad Retirement Solvency Act of 1983, are designed to place the railroad retirement program on a sound financial basis.

As a result of these legislated changes, taxes have been reduced by \$595.4 billion over the 1983-1987 period relative to pre-1981 tax law.

EFFECT OF ENACTED LEGISLATION ¹

(In billions of dollars)

	1983	1984	1985	1986	1987	1983-1987
Economic Recovery Tax Act of 1981	-91.1	-133.6	-165.0	-207.7	-248.5	-845.9
Tax Equity and Fiscal Responsibility Act of 1982	16.6	35.4	39.7	49.3	60.7	201.8
Highway Revenue Act of 1982	1.5	4.1	4.2	4.4	4.5	18.7
Social Security Amendments of 1983		6.2	8.8	9.3	11.4	35.8
Interest and Dividends Tax Compliance Act of 1983	-0.1	-2.6	-2.4	-2.1	-1.7	-8.8
Railroad Retirement Revenue Act of 1983	*	0.2	0.7	1.1	1.1	3.1
Net tax reduction	-73.0	-90.3	-113.8	-145.7	-172.6	-595.4

*\$50 million or less.

¹ These estimates are based on the direct effect only of legislative changes at a given level of economic activity. Induced effects are taken into account for forecasting incomes, however, and in this way affect the receipts estimates in total.

Receipts Proposals

Taxation of health insurance premiums.—The administration proposes that employer-paid premiums in excess of \$175 per month for a family plan (\$70 for a single plan) be taxed.

Structural reform.—Several structural reforms, including restrictions on tax-exempt leasing, changes in the taxation of life insurance companies, and restrictions on industrial development bonds, are being proposed.

Curtailement of tax shelter, accounting, and corporate tax abuse.—A number of changes that will curtail transactions that generate unintended tax benefits or form the basis for tax shelter schemes are being proposed.

Petroleum overcharge restitution fund.—Legislation is being proposed to establish a special fund to hold monies recovered from petroleum pricing and allocation violations. The money deposited in the fund will be used to finance energy assistance programs.

Other.—The administration also proposes that:

- as part of its women's initiative, several tax changes that improve the structure of the tax system and its impact upon women be enacted;
- employee contributions to civil service retirement be increased;
- earnings on savings deposited in special accounts to pay future higher education expenses be exempt from tax;
- a tuition tax credit be provided for a portion of tuition expenses paid to qualified private elementary and secondary schools;
- special tax incentives be provided economically depressed areas designated as "enterprise zones;"
- regular Federal/State unemployment insurance coverage be extended to railroad employment; and
- several temporary provisions scheduled to expire under present law be extended.

EFFECT OF PROPOSALS ON RECEIPTS ¹

(In billions of dollars)

	1984	1985	1986	1987
Taxation of health insurance premiums.....		3.9	6.5	8.0
Structural reform.....	0.8	1.1	2.2	3.7
Curtailment of tax abuse.....	0.8	3.2	4.3	4.7
Petroleum overcharge restitution fund.....	2.0			
Women's initiative.....		-0.3	-0.9	-0.9
Contributions to civil service retirement.....		0.7	1.4	1.5
Higher education tax incentive.....		—*	-0.1	-0.3
Tuition tax credit.....		-0.3	-0.6	-0.9
Enterprise zone tax incentives.....		-0.1	-0.4	-0.8
Railroad unemployment insurance coverage.....		0.1	0.1	0.1
Extension of temporary provisions.....	-0.1	-0.3	-0.8	-1.1
Other.....	—*	*	—*	0.1
Total	3.5	7.9	11.6	14.2
Addendum				
Effect of proposals on receipts by source:				
Individual income taxes.....	0.8	5.0	6.4	7.2
Corporation income taxes.....	0.7	1.1	1.9	3.1
Social insurance taxes and contributions.....		1.8	3.3	3.9
Other.....	2.0	*	*	*
Total	3.5	7.9	11.6	14.2

*\$50 million or less.

¹ These estimates are based on the direct effect only of legislation changes at a given level of economic activity. Induced effects are taken into account for forecasting incomes, however, and in this way affect the receipts estimates by major source and in total.

Part III

MEETING NATIONAL NEEDS: THE FEDERAL PROGRAM BY FUNCTION

This section discusses the budget in terms of functions, which are broad categories of programs that provide a coherent basis for analyzing and understanding the budget. The programs are grouped into functions to permit similar Federal activities to be considered in terms of the national needs being addressed. To the extent feasible, these activities are classified in the functional structure according to the primary purpose of the activities, regardless of which agencies are responsible for carrying them out. These categories are used to display the President's budget, and the Congress also uses them in developing its resolutions on the budget.

Three functions—net interest, allowances, and undistributed off-setting receipts—do not address specific national needs, but are necessary to cover the entire budget.

Efforts are made to maintain stability in the functional structure from budget to budget. However, changing conditions frequently require modifications. For example, the Social Security Amendments of 1983 required that the 1985 budget contain a new function called social security and medicare. Whenever these or smaller changes are made, the historical data base is revised to conform to the new usage so that budget users can compare program trends over time without discontinuities caused by changes in classification or accounting conventions.

Another major change caused by legislation is that, starting in 1985, the military retired pay will be funded on a basis roughly similar to the funding of civil service and other civilian pensions. In the years up through 1984 the cash benefits are shown as payments directly from the Defense Department (in the national defense function) to the retirees. Starting in 1985 the Defense Department will be charged for the cost of retirement benefits earned each year (accruals) by the personnel currently in active service. The accruals plus other payments will finance a trust fund that will pay the cash benefits to the retirees; these benefits will be in the income security function (in the subfunction "Federal em-

ployee retirement and disability"). Since the accruals charged to the national defense function will be payments from the Government to itself, they will be offset by deductions in the category "employer share, employee retirement" under undistributed offsetting receipts to avoid overstating the Government's outlays.

Introduction of this new funding mechanism creates major discontinuities in the data base when comparing the outlays before 1985 with outlays for 1985 and later. This discontinuity occurs in the national defense and the income security functions and in the undistributed offsetting receipts. While this discontinuity is shown in Tables 3 and 4, an alternative set of data is also shown that reconstructs the pre-1985 data as comparably as feasible to match the new usage. Only the revised data set is used in Table 2, since the unrevised data would create misleading comparisons.

While budget outlays are the most obvious measure of the Federal Government's use of resources, some Federal activities are not covered by the budget outlay totals. These include outlays of off-budget Federal entities, loan guarantees, regulation, tax expenditures, and other provisions of the tax laws. Wherever significant, these activities are described in the functional (national needs) discussions that follow.

Off-budget Federal entities are federally owned and controlled, but their transactions are excluded from the budget totals under provisions of law. Their spending is part of total Federal spending, and Treasury borrowing to finance their outlays adds to the Federal debt. Spending by these entities (primarily for loans) does not differ in nature or effect from other Federal spending. Outlays for off-budget entities are shown near the end of this section.

Guaranteed loans are loans for which the Government guarantees the payment of the principal or interest in whole or in part. Loan guarantees may significantly affect resource allocation in the economy by diverting private credit from one activity to another. Most guarantees support housing, although they are also used for many other purposes. Loan guarantees do not generally result in budget outlays unless a default occurs. Through the credit budget, the administration proposes limitations on guaranteed loans and direct loans. For 1985, the credit budget is proposed to be \$130.5 billion, a 3.5% decrease from 1984.

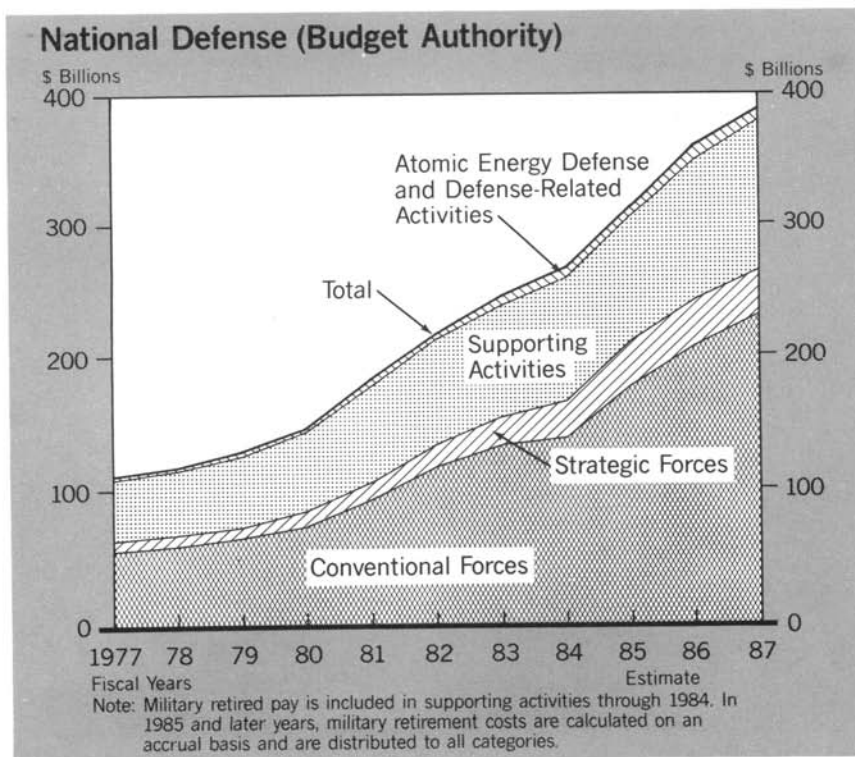
Tax expenditures are provisions of the individual and corporation income tax laws that allow a special exclusion, deduction, or exemption from computing taxable income; a preferential rate of tax; a special credit; or a deferral of tax liability. Nearly all tax expenditures are intended either to encourage particular economic activities or to reduce the taxes of persons in special circumstances. Tax expenditures are discussed at the end of this section.

NATIONAL DEFENSE

This function includes activities directly related to the defense and security of the United States. To meet the need for strengthened military capabilities, the administration requests an increase in budget authority for national defense from \$265.3 billion in 1984 to \$313.4 billion in 1985. Outlays are estimated to be \$237.5 billion in 1984, rising to \$272.0 billion in 1985.

Conventional forces.—Conventional forces are required to deter nonnuclear aggression and to respond to aggression if deterrence should fail. The major elements supporting these forces are pay and benefits for military personnel; purchase, operation and maintenance of conventional arms such as ships and aircraft; procurement of ammunition and spare parts; and training. Budget authority of \$178.7 billion is requested for these forces in 1985. Major acquisitions include new helicopters and M-1 tanks for the Army, new Navy ships, and various Air Force aircraft.

Strategic forces.—Strategic forces are required to deter Soviet conventional or nuclear attack against the United States and its allies. The budget includes proposals that continue the administra-



tion's plan for modernizing strategic forces with the Peacekeeper (MX), a new intercontinental ballistic missile; procuring Trident submarines (which carry ballistic missiles); and developing and purchasing air-launched cruise missiles and the B-1B, a new manned bomber. The strategic program also calls for developing an advanced technology (stealth) bomber; modernizing warning and strategic defense systems; and developing and procuring reliable command, control, and communication systems.

Supporting activities.—Supporting defense activities include research and development, training and medical services, central supply and maintenance, and other overhead and logistic activities. Budget authority of \$94.7 billion is requested for these activities in 1985. Defense research and development programs are intended to devise new and better weapons systems to meet changing military needs. They involve a broad range of activities, from basic research to construction of full-scale prototypes of weapons systems.

Atomic energy defense and defense-related activities.—The national defense function includes development, testing, and production of nuclear weapons and reactors for nuclear-powered ships. Budget authority of \$7.8 billion is requested for this work in 1985.

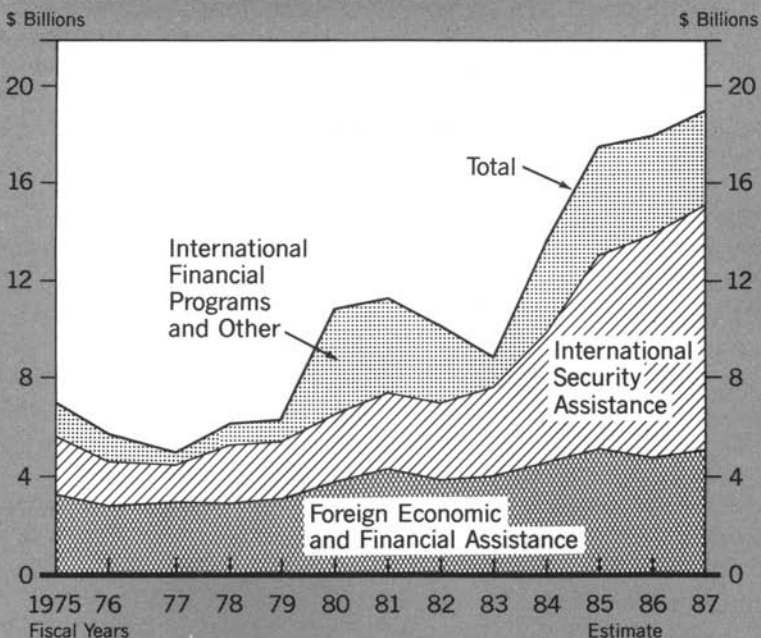
Other defense-related activities include stockpiling strategic materials, developing civil defense plans, and maintaining a stand-by selective service system.

INTERNATIONAL AFFAIRS

The Federal Government is responsible for protecting the interests of the United States and its people in international affairs. U.S. foreign policy is directed toward achieving a peaceful world environment, built on international security and prosperity, in which individuals may enjoy political and economic freedom. Outlays for international affairs programs are estimated to increase from \$13.5 billion for 1984 to \$17.5 billion for 1985.

Foreign aid.—Outlays for *international security assistance* programs are estimated to increase from \$5.5 billion for 1984 to \$7.8 billion for 1985. These programs serve to strengthen allied and friendly governments where the United States has special security concerns. In the face of increasing challenges to U.S. interests, the budget provides for a substantial increase in security assistance, both military and economic, and an improvement in the financial terms on which it is provided. Major programs in this area are the economic support fund, with estimated outlays of \$3.0 billion for 1985, and foreign military sales credit, with estimated outlays of \$3.0 billion in 1985, reflecting the placement on-budget of most

Outlays for International Affairs



foreign military sales credit activities previously accounted for off-budget. Also, \$500 million for 1984 and \$750 million for 1985 in budget authority is proposed for new assistance to Central America, pending administration review of the report of the National Bipartisan Commission on Central America.

Outlays for *foreign economic and financial assistance* programs are estimated to increase from \$4.6 billion for 1984 to \$5.2 billion for 1985. Programs include both multilateral and bilateral assistance to help meet the development and humanitarian needs in poorer countries and to encourage the expansion of a market-oriented international economic system.

Multilateral development assistance is provided through the World Bank group and regional development banks, the United Nations, and other international organizations. Bilateral development assistance programs are largely carried out by the Agency for International Development (AID). The estimated outlays for AID of \$1.9 billion for 1985 support economic growth in developing countries through projects in agriculture, population, health, education and energy. U.S. participation in a new sub-Saharan African development program is requested for 1985. Public Law 480 food aid

supports security assistance, export market development, and humanitarian relief.

International financial programs.—The Export-Import Bank provides direct loans and loan guarantees to encourage the export of U.S. goods and services. New direct loan obligations are proposed to be \$3.8 billion for 1985. The budget includes estimated outlays of \$1.4 billion for 1985 for all international financial programs.

Other.—Estimated outlays of \$2.1 billion for 1984 and \$2.2 billion for 1985 are proposed for the *conduct of foreign affairs*. Emphasis continues to be placed by the Department of State on improving its effectiveness with additional officers and staff and improved automated information and communications systems.

Foreign information and exchange activities are also scheduled to increase. The U.S. Information Agency will continue the expansion and modernization of Voice of America radio facilities. Administration proposals include funds for Radio Marti, the National Endowment for Democracy, and new efforts to use television to increase foreign policy effectiveness. Outlays of \$770 million for 1984 and \$911 million for 1985 are estimated for all foreign information and exchange activities.

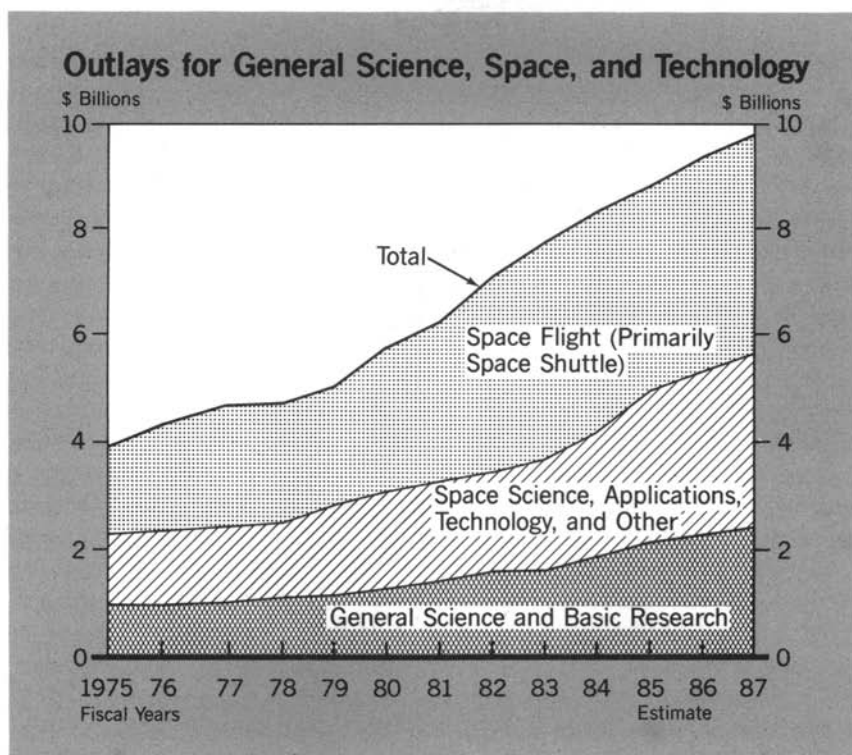
GENERAL SCIENCE, SPACE, AND TECHNOLOGY

The programs in this function seek to ensure the long-term scientific and technological strength of the Nation. This need is met by funding basic research, supporting space research and technology, and developing a space transportation system based on the space shuttle. Estimated outlays are expected to increase from \$8.3 billion in 1984 to \$8.8 billion in 1985.

General science and basic research.—Outlays are estimated to increase from \$1.9 billion in 1984 to \$2.1 billion in 1985 for scientific and engineering research supported by the National Science Foundation and for general science programs supported by the Department of Energy. This increase reflects the administration's commitment to support basic research for the advancement of science and the training of future scientists and engineers.

The proposed increase also emphasizes increased access by academic scientists to advanced computers and the support of engineering research at universities.

All space programs.—The Federal civilian space programs are primarily the responsibility of the National Aeronautics and Space Administration (NASA). The administration is committed to making the space shuttle fully operational and cost effective in



providing routine access to space. New activities for 1985 include the design and definition of a space station, planned for launch in the early 1990's.

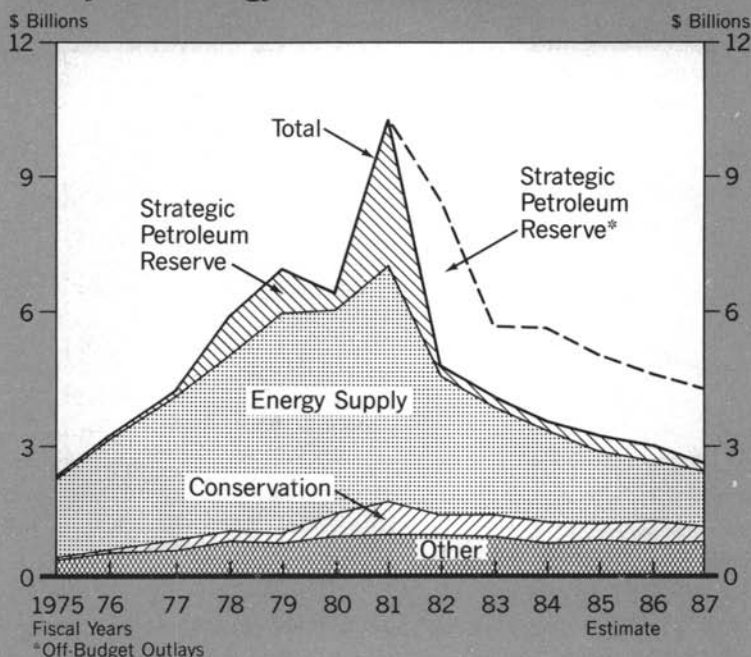
Increased funding is proposed for other space activities. New programs include the Mars orbiter, a spacecraft to study the Earth's atmosphere from space, and space technology to measure wind patterns on the oceans' surface. Increased funding is also proposed for further work on the space telescope program and for other ongoing activities. Outlays for all space programs are estimated to be \$6.7 billion in 1985.

ENERGY

The programs in this function seek to encourage efficient energy production and use, and limit the Federal Government's role to such responsibilities as support for long-term research and the strategic petroleum reserve. The administration believes that sound public policy does not require large amounts of Federal spending, but rather recognizes that the private sector makes most of the key decisions about using and producing energy.

Total outlays for energy are estimated to be \$3.1 billion in 1985, a 9% decrease from 1984 levels. The decrease results primarily

Outlays for Energy



from a reduction in Federal borrowing requirements to finance construction of new electric power plants in the Tennessee Valley Authority. The outlay reductions also result from completing ongoing electric transmission construction projects at the Federal power marketing agencies.

Energy supply.—Programs in this category include energy research and development, direct energy production programs, and subsidies for private investment in synthetic fuels production.

The administration seeks to continue support for basic and other longer-term research that private industry lacks the incentive to finance. Such research provides the basis for subsequent technology development useful to energy and other industries. Outlays for energy supply research and development in 1985 are estimated at \$2.4 billion.

The Federal Government directly produces and sells enriched uranium for nuclear power plants; oil from Government-owned fields in California and Wyoming; and electricity through the Tennessee Valley Authority and five regional power marketing agencies. Net outlays from these direct production programs are expected

ed to be \$0.4 billion less in 1985 than in 1984, due largely to the reduced construction activity noted above.

The program designed to provide for the permanent disposal of nuclear waste is financed by a user fee paid by operators of nuclear power plants. In 1985, this program will show a small, temporary surplus of receipts over outlays.

Legislation is proposed in the budget to fund the administrative costs of the Rural Electrification Administration (REA) with user fees and to provide REA direct loans at the cost of Treasury borrowing. This would reduce the subsidy now given under the current 5% interest rates and eliminate taxpayer financing of administrative costs.

Energy conservation.—The unfettered play of market forces represents the most promising way to achieve the economically efficient use of energy. However, a limited Federal role does exist in supporting research and development that seeks to improve energy use in industrial processes, buildings, and transportation. Outlays in 1985 are estimated to be \$0.2 billion for these activities. Additional outlays of \$0.2 billion are estimated from several State and local energy conservation grant programs. Beginning in 1985, the budget proposes that these grant programs be paid for by funds recovered as settlements from petroleum pricing violation cases in instances where the overcharged parties cannot be identified and compensated.

Emergency energy preparedness.—Although the administration relies primarily on market forces to allocate oil supplies, it recognizes that the Government can play a helpful role during periods of severe supply disruptions by developing a strategic petroleum reserve. The reserve is expected to contain 429 million barrels of oil by the end of 1984, and 482 million barrels by the end of 1985. Off-budget outlays for oil acquisition are estimated at \$1.7 billion in 1985. On-budget outlays in 1985 for construction of reserve storage facilities are estimated to be \$0.4 billion.

Other.—Outlays for other energy programs in 1985 are estimated to be \$0.8 billion, approximately the same amount as in 1984. These programs include the operating expenses of the Nuclear Regulatory Commission, and the information, policy, and regulation activities of the Department of Energy.

NATURAL RESOURCES AND ENVIRONMENT

The programs in this function are designed to ensure the responsible management and conservation of the Nation's natural resources. Outlays are estimated to be \$11.3 billion in 1985, a \$1.0 billion decrease from 1984 that is in large part due to the growth of offsetting receipts, as shown in the accompanying table.

Pollution control.—Outlays for pollution control are estimated to be \$4.2 billion in 1985. Outlays dedicated to cleaning up abandoned hazardous waste sites and chemical spills are estimated to be \$535 million in 1985, 57% more than in 1984. The administration is proposing budget authority of \$55 million for the Government-wide acid rain research effort, a 100% increase over 1984.

New budget authority of \$2.4 billion is requested for 1985 to assist States and localities with the construction of sewage treatment systems.

OUTLAYS FOR NATURAL RESOURCES AND ENVIRONMENT

(In billions of dollars)

	Pollution control			Water resources			Conservation, Recreation and Other			Total outlays
	Outlays	Receipts	Total	Outlays	Receipts	Total	Outlays	Receipts	Total	
1975.....	2.5	—*	2.5	2.7	—0.1	2.6	3.2	—1.0	2.2	7.3
1976.....	3.1	—*	3.1	2.8	—0.1	2.7	3.4	—1.1	2.4	8.2
1977.....	4.3	—*	4.3	3.3	—0.1	3.2	4.0	—1.5	2.5	10.0
1978.....	4.0	—*	4.0	3.5	—0.1	3.4	4.9	—1.3	3.6	11.0
1979.....	4.7	—*	4.7	3.9	—0.1	3.9	5.4	—1.9	3.6	12.1
1980.....	5.5	—*	5.5	4.3	—0.1	4.2	6.2	—2.0	4.1	13.9
1981.....	5.2	—*	5.2	4.3	—0.2	4.1	6.4	—2.2	4.3	13.6
1982.....	5.0	—*	5.0	4.1	—0.2	3.9	6.3	—2.2	4.0	13.0
1983.....	4.3	—*	4.3	4.0	—0.1	3.9	6.4	—1.9	4.5	12.7
1984 estimate.....	3.9	—*	3.9	4.4	—0.2	4.2	6.8	—2.7	4.2	12.3
1985 estimate.....	4.2	—0.1	4.2	4.2	—0.4	3.8	6.5	—3.1	3.3	11.3
1986 estimate.....	4.1	—0.1	4.0	4.2	—0.4	3.7	6.3	—3.4	2.9	10.6
1987 estimate.....	3.9	—0.1	3.8	4.4	—0.4	3.9	6.3	—3.8	2.5	10.2

* \$50 million or less.

Water resources.—The Federal Government plans, constructs, and maintains water resource projects such as dams, navigation channels, and reservoirs. Sufficient funds are proposed to maintain the construction schedule for all current projects. In addition, two new construction starts are included for the Corps of Engineers and two for the Bureau of Reclamation. User fees are included for capital and operating expenses of port and waterway projects and Corps of Engineers recreation facilities.

Conservation, recreation, and other.—Programs in this category provide for management of surface resources on public lands, and of federally owned mineral deposits. They are also to maintain and

operate national parks, recreation areas, historic sites, and wildlife refuges.

Outlays for conservation and land management are estimated to be \$0.3 billion in 1985, a decrease of \$0.5 billion from 1984. The decrease is in part due to higher offsetting receipts expected from the sale of timber and minerals on Federal lands. Changes in these programs reflect the administration's efforts to improve the management and productivity of the national forests and public lands, to streamline mineral leasing programs, and to place maximum responsibility with the States for regulating and reclaiming surface coal mines.

Outlays for recreational resources are estimated to be \$1.5 billion in 1985. Though the administration's first priority is to improve and maintain existing recreation resources, budget authority of \$158 million is proposed for acquisition of additional park and refuge lands.

Legislation will again be proposed to increase National Park Service, Forest Service, and Corps of Engineers fees for use of recreational facilities.

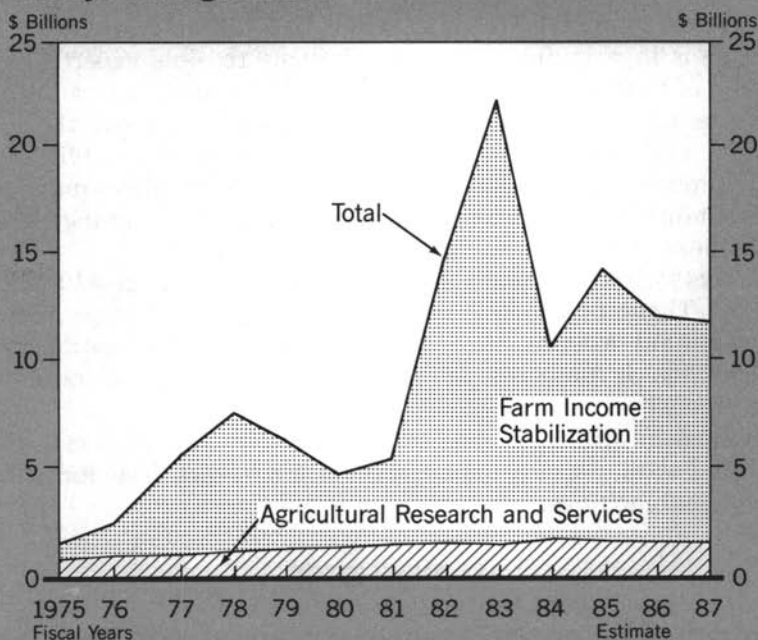
AGRICULTURE

The goal of Federal agricultural price support, credit, and insurance programs is to promote economic stability in the farm sector. Agricultural productivity is enhanced further through research and other services assisted by the Federal Government. Total outlays for agriculture in 1985 are expected to be \$14.3 billion, an increase of \$3.6 billion from 1984.

Farm income stabilization.—Price support is provided to producers of agricultural commodities through loans, purchases, payments, and other activities of the Commodity Credit Corporation. Federal crop insurance is the Government's primary means of alleviating harm to producers from crop losses caused by adverse weather conditions. The agricultural credit insurance fund also makes direct loans available to farmers, primarily for disaster relief.

Outlays for farm income stabilization programs are expected to decline from \$20.6 billion in 1983 to \$8.9 billion in 1984. This is a result of higher crop prices and net farm cash income, which will enable farmers to repay loans and will result in lower target price deficiency (income support) payments. Increased outlays of \$12.6 billion are estimated for 1985, however, as increased cash payments are made to meet target prices set by law. The administration has proposed legislation to eliminate the automatic increase in target prices for wheat, feed grains, cotton, and rice for the 1985 crop year. This legislation would reduce price support outlays by more

Outlays for Agriculture



than \$6 billion over 5 years, beginning in 1985. In 1985, \$3.2 billion of special credit assistance will be offered for the relatively small portion of export sales that would otherwise not occur.

Agricultural research and services.—Agricultural research programs help to increase productivity by developing new knowledge about crops and animals. Federal agricultural research will continue to place higher priority on long-term basic research with potential for high payoff. Short-term applied research and development, more appropriately financed by private industry, will receive reduced Federal aid. Estimated outlays for agricultural research and extension programs in 1985 are \$1.05 billion, down from \$1.07 billion in 1984.

Agricultural services include marketing, animal and plant health inspection programs, and the collection and distribution of economic data. Most agricultural marketing services are now provided on a user fee basis. Outlays for agricultural services are estimated to be \$671 million in 1985, compared to \$695 million in 1984.

COMMERCE AND HOUSING CREDIT

Programs in this function channel commerce and housing credit resources to those not adequately served by private credit markets; insure bank, thrift, and credit union deposits; and provide a subsidy, through the Postal Service, to certain classes of mail. Outlays for this function are estimated to be \$1.1 billion in 1985.

Mortgage credit insurance.—The two most pressing needs of both the housing industry and homebuyers are the advancement of economic growth with stable and reasonable interest rates, and the efficient allocation of the Nation's credit resources. The administration has promoted both of these goals through reduction in Federal expenditures and taxes and through greater reliance on the private market as the most effective and efficient method for the allocation of available credit.

The Federal Government insures and guarantees home mortgages for individuals not adequately served by the private market. For 1985, the administration has proposed a loan guarantee limitation of \$50.9 billion for the Federal Housing Administration specifically for this purpose. The Government also supports direct loans and subsidies to finance housing for the elderly, the handicapped, and the poor. The administration also supports a package of regulatory and tax changes to ensure that the private sector has the opportunity to compete with Government and Government-sponsored enterprises in the secondary mortgage market.

Outlays for mortgage credit are estimated at \$1.6 billion in 1985, \$1.7 billion less than in 1984. Most credit assistance in this function guarantees private loans instead of increasing budget outlays.

Bank, thrift, and credit union deposit insurance.—An important stabilizing influence on our Nation's economy is the provision of deposit insurance, whereby individual accounts at member institutions are insured up to \$100,000. These insurance programs are operated by the Federal Deposit Insurance Corporation, the Federal Savings and Loan Insurance Corporation, and the National Credit Union Administration.

Receipts are estimated to exceed costs for these insurance funds by \$2.2 billion in 1984 and by \$2.8 billion in 1985, further adding to the strength of their reserves.

Other advancement of commerce.—The budget continues to propose the elimination of nearly all Small Business Administration (SBA) subsidized on-budget direct loans—except for minority enterprise small business investment companies—and to reduce off-budget direct loans guaranteed by SBA by \$60 million from the estimated 1984 level. Priority for the SBA guaranteed credit assist-

OUTLAYS FOR COMMERCE AND HOUSING CREDIT

(In billions of dollars)

	Mortgage credit and thrift insurance	Postal Service	Other advance- ment of commerce	Total
1975.....	2.8	1.9	0.9	5.6
1976.....	1.2	1.7	0.9	3.8
1977.....	-3.3	2.3	1.1	0.1
1978.....	0.2	1.8	1.3	3.3
1979.....	-0.7	1.8	1.5	2.6
1980.....	3.7	1.7	2.4	7.8
1981.....	0.7	1.3	2.0	4.0
1982.....	1.2	0.7	1.9	3.9
1983.....	2.1	0.8	1.5	4.4
1984 estimate.....	1.1	0.9	1.9	3.8
1985 estimate.....	-1.2	0.7	1.6	1.1
1986 estimate.....	-1.5	0.4	1.7	0.6
1987 estimate.....	-1.1	0.4	1.8	1.2

ance will be given to minority, handicapped, and first-time borrowers. Outlays for this category are expected to be \$1.6 billion in 1985, \$0.3 billion less than in 1984.

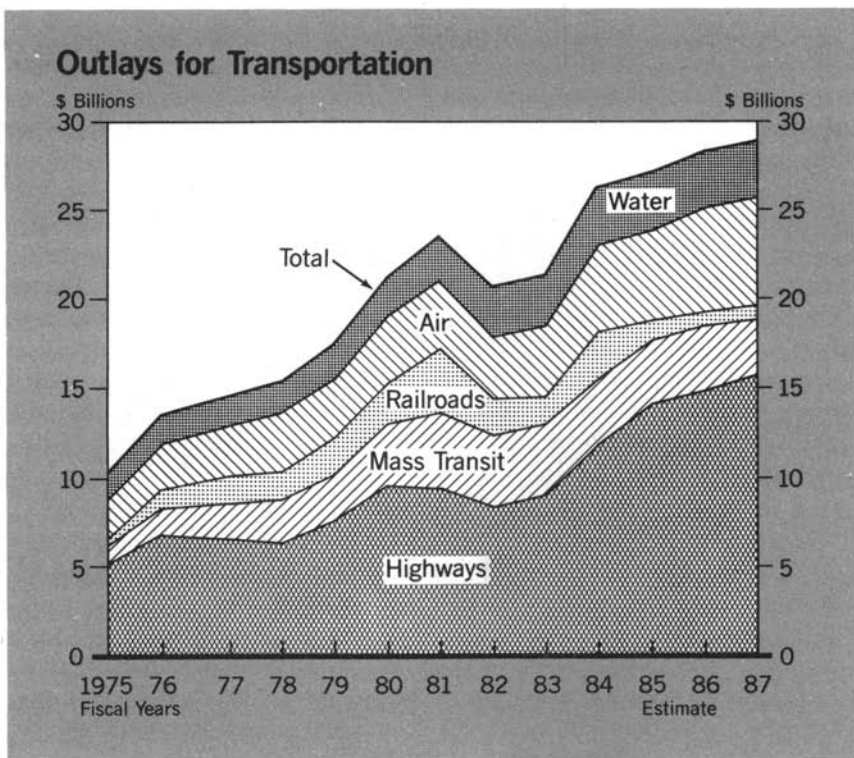
Postal Service.—The U.S. Postal Service is an independent Federal entity and its spending and receipts are not part of the Federal budget. The Federal budget does, however, subsidize certain preferred-rate mailers. The administration is proposing to reduce this subsidy by \$0.3 billion in 1985, because these postage costs should be paid by the mailers who incur them, not the taxpayer. The proposal will not affect the mail subsidy for the blind and handicapped.

Outlays for the subsidy to the Postal Service are estimated to be \$0.7 billion in 1985.

TRANSPORTATION

Federal transportation programs support State and local governments and private enterprise in providing safe, efficient movement of people and distribution of goods and services. Outlays for transportation are estimated to be \$27.1 billion in 1985, \$0.9 billion more than in 1984. The administration's budget stresses the Federal Government's role in safety while continuing to advance the policy that those who benefit from Federal transportation programs should pay their cost through user charges. It also reflects the continued effort to simplify Federal regulations and reduce the Federal role in commercial transportation where appropriate.

Highways.—The Surface Transportation Assistance Act of 1982 established the basic framework for a much enhanced Federal



highway program, financed by a motor fuels tax and other highway user taxes. The budget adheres to the act by providing for the completion and rehabilitation of the interstate highway system, and for the rehabilitation of primary highways and bridges. Outlays for highways and highway safety are expected to rise from \$11.6 billion in 1984 to \$13.5 billion in 1985.

Mass transit.—Outlays for mass transit, which are estimated at \$4.0 billion in 1985, are to be used primarily for capital projects. One cent per gallon of the existing motor fuels tax is dedicated to mass transit capital assistance.

The administration continues to believe that the general taxpayer should not pay for the cost of operating public transit systems, and is proposing the phaseout of Federal operating subsidies over the next 5 years.

Railroads.—Outlays for railroads are estimated to decline from \$2.6 billion in 1984 to \$1.1 billion in 1985, reflecting completion of a one-time Federal loan repayment in 1984 for the National Railroad Passenger Corporation (Amtrak), completion of the Northeast corridor improvement program, and elimination of several Federal as-

sistance programs. These reductions are being made in conjunction with the increased ability of the industry to be self-supporting.

Air transportation.—Federal funds for air transportation are used to operate, maintain, and improve the national airspace system, enhance aviation safety, and promote aeronautical research and technology. Estimated outlays for air transportation programs of \$5.1 billion in 1985 include funding for the third year of the Federal Aviation Administration's capital modernization program.

Water transportation.—The budget includes \$3.1 billion in estimated outlays in 1985 to maintain a safe, reliable, and efficient marine transportation system, and to meet the need for a competitive U.S. Merchant Marine.

The budget request for the Coast Guard would improve the efficiency of its operations and equipment by commissioning several new cutters and modernizing the existing fleet, replacing patrol boats, adding new search planes and helicopters, and rebuilding shore facilities.

Since the administration continues to support the policy that U.S.-flag ship operators be permitted to build or acquire vessels abroad, no construction subsidies are being proposed. The budget includes funding for operating subsidies to meet the Government's obligations on existing contracts; no new contracts are anticipated.

COMMUNITY AND REGIONAL DEVELOPMENT

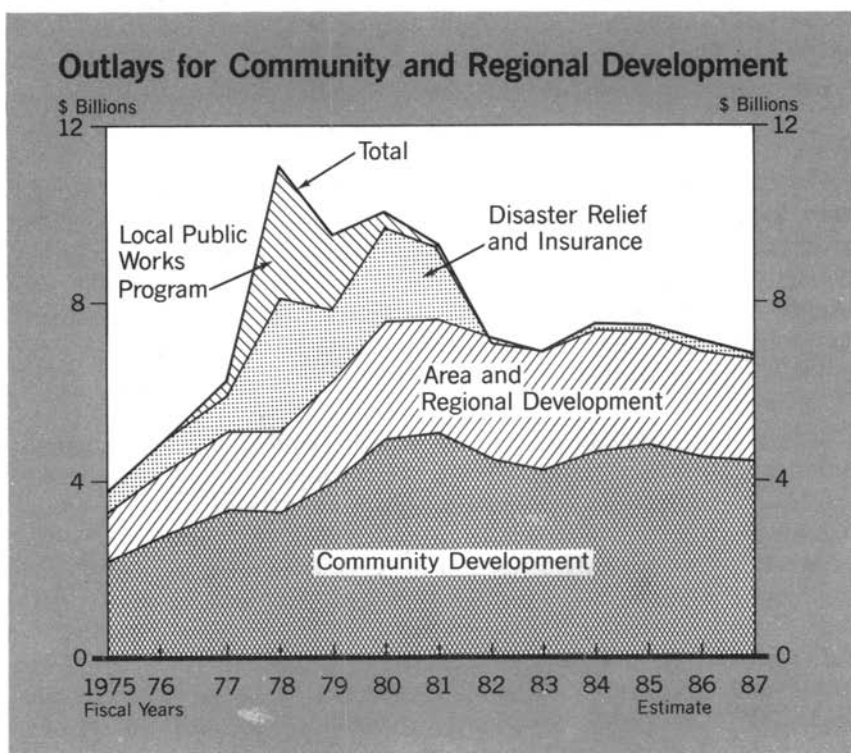
Federal policy for community and regional development is directed toward promoting economic and social growth of urban and rural neighborhoods, communities, and regions. This policy recognizes that private, State, and local decisions and resources should have the primary role in community and regional development. Total outlays are estimated to be \$7.6 billion in 1985, the same as in 1984.

Community development.—Community development block grants and urban development action grants, both administered by the Department of Housing and Urban Development, are the major programs in this category. Community development block grants help localities undertake projects such as housing rehabilitation and public facility improvement. Urban development action grants are awarded competitively to distressed localities for economic development projects that would not proceed without Federal assistance. These funds, together with private, State, and local funds, promote private investment and jobs in selected areas. Total out-

lays for community development block grants and urban development action grants are estimated at \$4.4 billion in 1985.

In 1984 the administration proposes funding a program enacted in 1983 to help States and localities rehabilitate properties for low- and moderate-income renters. Outlays for this program are estimated to be \$75 million in 1985.

The administration strongly supports the creation of enterprise zones as an experimental, free-market approach to revitalizing distressed urban areas. The administration will again seek this legislation that will reduce tax and regulatory burdens in clearly delineated areas to stimulate private investment and employment.



Area and regional development.—This category is comprised of grants and loans for rural development, programs for American Indian tribal governments, and programs for multi-State regional development. Total outlays for area and regional development are estimated to be \$2.6 billion in 1985.

The administration believes that the primary responsibility for economic development should rest with State and local governments and the private sector. Assistance provided by the Economic Development Administration and the Appalachian Regional Commission is, therefore, again proposed for termination by 1985. Com-

munity development will continue to be promoted through the use of other block grants, while the Appalachian development highway system program is proposed to be funded for 1985 in the Department of Transportation. Rural community and economic development will continue to be promoted through loans and grants from the Farmers Home Administration.

Disaster relief and insurance.—The Federal Government provides disaster relief and insurance to supplement private, State, and local assistance when necessary. Major programs in this category include Small Business Administration disaster loans, the Federal disaster assistance program, and the national flood insurance fund. Outlays for disaster relief and insurance are estimated to be \$179 million in 1985.

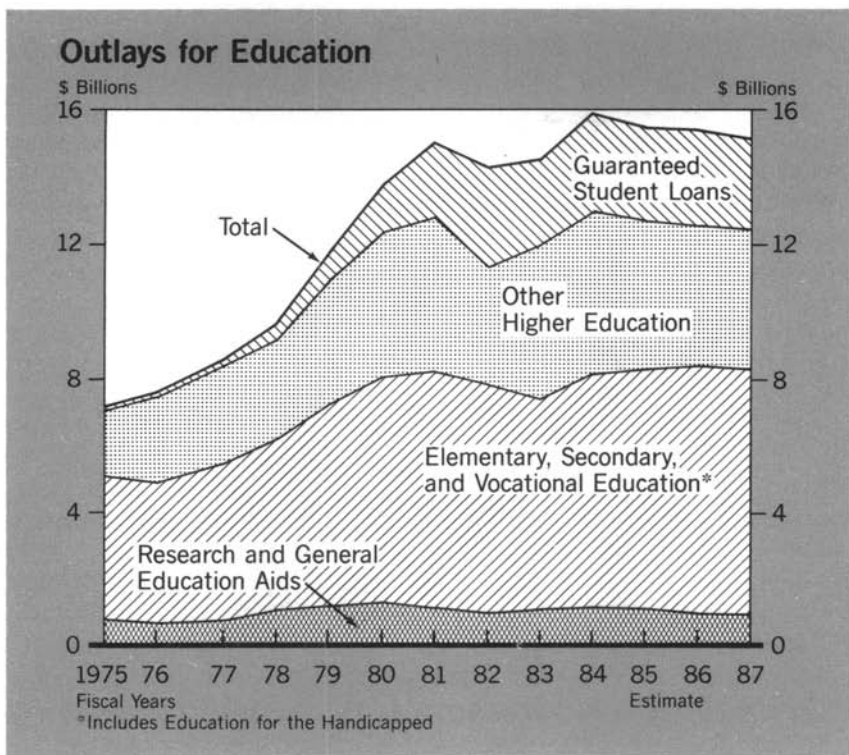
EDUCATION

The administration's budget and supporting legislative proposals have consistently reflected the belief that control over education policy must be primarily the responsibility of States, local school districts, and parents. Federal funds and programs should not become a vehicle for Federal prescription of State and local education policy. Federal outlays are estimated to be \$15.9 billion in 1984 and \$15.5 billion in 1985.

Elementary, secondary, and vocational education.—The budget includes a 50% increase in 1985 in the resources available to States and localities through the existing block grant and the discretionary fund. In 1985, \$0.5 billion in outlays from these funds are expected to be used by States and local school districts to plan and implement strategies to improve the quality of education without Federal prescription or interference.

In addition, \$6.6 billion in outlays is estimated to be used by States and localities to provide education to those with special needs, such as the educationally disadvantaged and the handicapped. The budget would maintain current spending levels in the major elementary and secondary school grant programs while reducing some of the smaller grant and direct Federal programs. The administration will again support legislation to provide greater flexibility and control to States, local school districts, and parents in compensatory and vocational education programs and through a new tuition tax credit. The administration will also continue to support legislation to improve and increase training for science and mathematics teachers.

Higher education.—Estimated outlays for higher education are \$7.2 billion in 1985. The administration will again propose policies



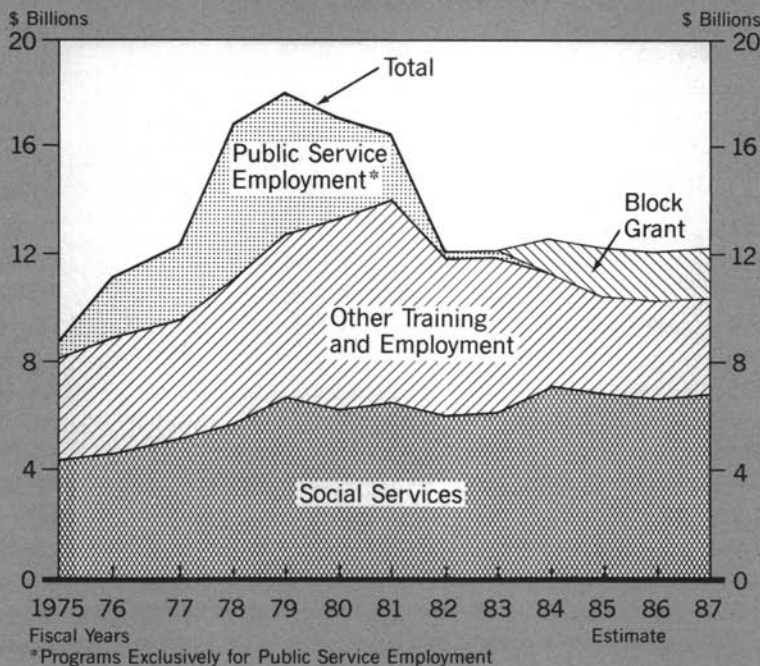
that would restore responsibility for financing postsecondary education to the family and to the student by requiring a minimum contribution from the student or the family as a condition of receipt of a Federal self-help grant. The budget also includes proposals to subject all applicants for the guaranteed student loan program to a need assessment and to provide tax advantages for those who save and use the savings exclusively for the costs of higher education.

TRAINING, EMPLOYMENT AND SOCIAL SERVICES

A number of programs try to improve the operation of the labor market, enhance individuals' long-term employment and earnings prospects, and provide social services to needy individuals. Estimated outlays for these activities in 1985 are \$12.4 billion, a decrease of \$0.4 billion from 1984.

Training and employment.—Training and employment programs provide training to develop work skills and support the cost of job search, recruitment, and placement services to facilitate matching workers and jobs. The major activities are financed through grants

Outlays for Training, Employment, and Social Services



to States. In addition, the Federal Government contracts for some programs, such as the Job Corps.

For 1985, \$1.9 billion in outlays are estimated, which will provide training to over 1 million people, under the block grants to States for training. Approximately 718,000 summer jobs for youth will be subsidized in 1984 and 1985. Over \$0.2 billion will be spent to help experienced workers permanently displaced from their jobs find new employment, and \$0.3 billion to provide part-time jobs for older Americans. The Job Corps will continue to provide approximately 40,000 years of service.

The administration continues to urge a reduction in the minimum wage for youth during the summer months to stimulate demand for their labor. The administration will also propose extending the targeted jobs tax credit for one year past the current expiration date of December 31, 1984.

Social services.—The Federal Government makes grants to States and to local public and private institutions for a variety of social services for individuals with special needs. Outlays for social service programs are expected to decrease from \$7.0 billion in 1984 to \$6.8 billion in 1985.

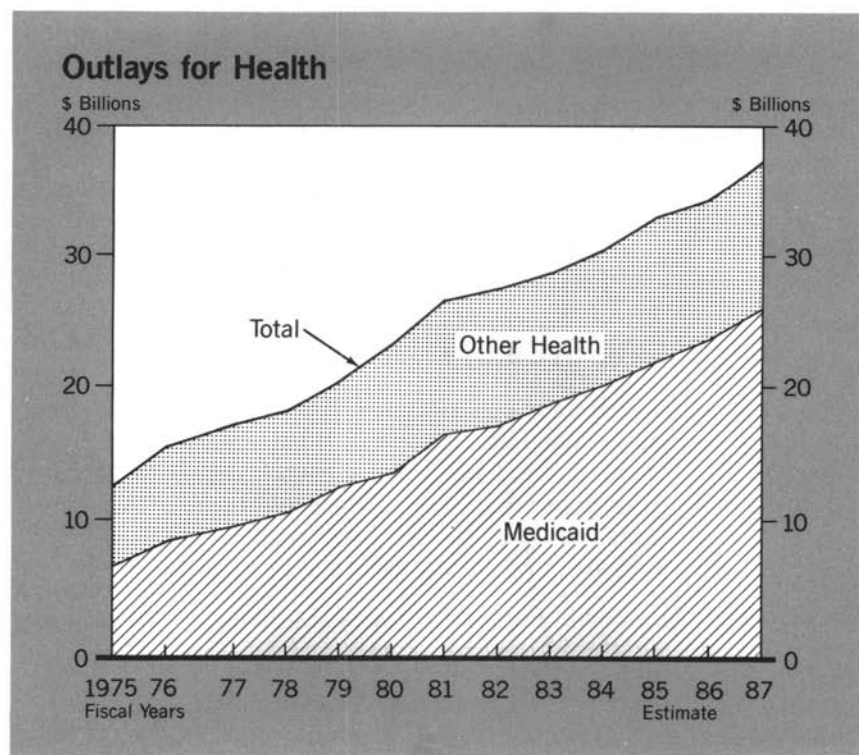
Outlays for the social services block grant, and for rehabilitation services are expected to be \$2.8 billion and \$1.1 billion, respectively. Outlays for services to special groups such as the elderly and children are expected to be \$2.0 billion.

To enhance use of foster care as an explicitly short term solution, the administration will propose a foster care incentive system, which will encourage States to resolve children's problems quickly and return them to permanent homes. Increased budget authority is requested for services for children, youth and families.

HEALTH

The Federal Government contributes to meeting national health care needs by financing and providing health care services, promoting disease prevention nationally, and supporting research and training. Federal outlays for these programs are estimated to increase from \$30.7 billion in 1984 to \$32.9 billion in 1985.

Medicaid.—More than 67% of Federal outlays for health in this function is devoted to medicaid. Estimated Federal medicaid outlays of \$22.1 billion in 1985 and an additional \$19 billion provided by States are expected to finance care for 22.9 million low-income Americans. Since 1981, the administration has successfully pro-



posed a number of medicaid reforms. For 1985, the administration is again proposing two major reforms proposed in 1984. These would encourage States to meet medicaid expenditure targets and require States to set nominal co-payments by recipients on medicaid services.

Other health programs.—Programs in this category include health block grants to States, the Indian Health Service and the National Health Service Corps. In addition, the Federal Government provides a substantial amount of the total funds devoted to health research in the Nation; estimated outlays for research will be \$4.8 billion in 1985. Estimated outlays for health education and training are \$410 million in 1985, a \$32 million decrease from 1984, because the supply of many health care professionals is now adequate. Estimated outlays of \$1.2 billion in 1985 will help protect consumers from unsafe and defective products, and workers from occupational hazards.

The administration has proposed that the Federal employees health benefits program be modified to increase competition and reduce costs. Under the proposal, employees would be given a wider range of choices among health benefits plans and would be encouraged to choose low-cost plans through a system of rebates. The administration's proposal is expected to result in outlay savings of \$240 million in 1986.

The other major health proposal resubmitted this year would limit tax deductions for employer-paid health insurance premiums to \$175 for a family plan and \$70 for an individual plan. The current tax subsidy artificially increases the value of this fringe benefit. This, in turn, has stimulated excessive health insurance coverage and contributed to higher health care costs.

Other programs that provide health services to individuals are discussed in the social security and medicare function and the veterans benefits and services function.

SOCIAL SECURITY AND MEDICARE

The Federal Government contributes to the income security and health of aged and disabled Americans through social security and medicare. Social security and medicare together represent 28% of estimated Federal outlays in 1985. They provide benefits to one in every six Americans. As required by the Social Security Amendments of 1983, they are now shown together in a single function.

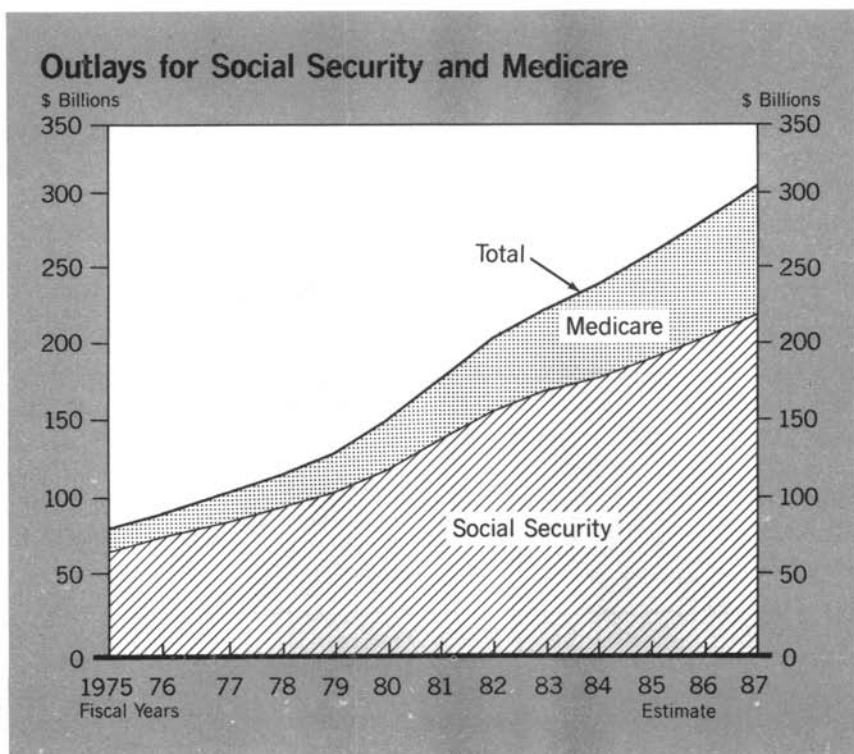
Social security.—Social security touches the lives of virtually all Americans, either through benefits received or through payroll taxes deducted from earnings. Outlays for social security old-age, survivors, and disability insurance programs are estimated to increase from \$179.2 billion in 1984 to \$190.6 billion in 1985 because

of the higher numbers of beneficiaries and the cost-of-living increases scheduled for January 1984 and 1985.

In order to address serious problems in financing social security, significant changes were enacted in the Social Security Amendments of 1983. The more important changes extend social security coverage to new Federal workers, tax a portion of benefits paid to higher income beneficiaries, and shift automatic increases in benefits to a calendar year basis. The Amendments also reschedule social security taxes, make self-employment tax rates equal to the combined employee-employer tax rate, and gradually raise the age of eligibility beginning in the year 2000. These reforms create safeguards to stabilize and restore the solvency of the program.

Medicare.—Medicare outlays are estimated to be \$69.7 billion in 1985 including savings of \$1.05 billion. These outlays are expected to finance services for more than 28 million aged and 3 million disabled Americans.

Since 1981, the administration has proposed and Congress has enacted a series of major medicare reforms, including the establishment of a prospective payment system for hospital insurance. The 1985 budget builds on these achievements and repropose measures that have not yet been enacted. The most significant proposals would increase supplementary medical insurance premiums and deductibles, and temporarily freeze physician reimbursements.

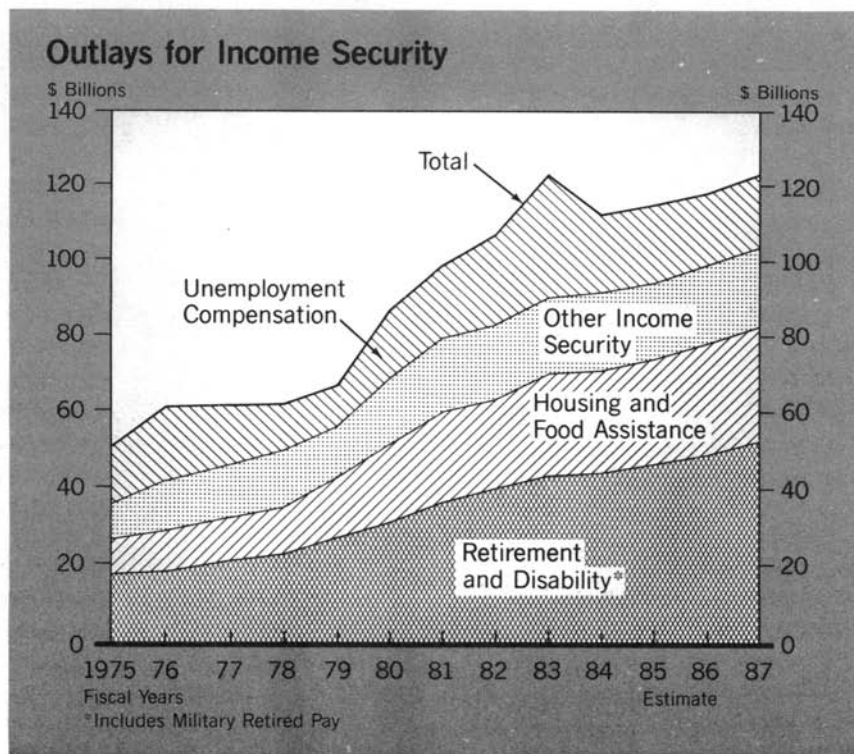


INCOME SECURITY

Income security benefits are paid to the aged, the disabled, the unemployed, and low-income families. Total outlays are estimated to be \$114.4 billion in 1985.

Retirement and disability.—In 1985, estimated outlays of \$45.7 billion will go to retired or disabled Federal workers, railroad employees, and coal miners, and their dependents and survivors. Benefits for retired military personnel, previously included in the national defense function, are now included in the income security function. Social security, which in the past has appeared in this function, is now shown in a new function for social security and medicare.

The budget includes a set of reforms of the Federal civilian employee retirement. This system is one of the most generous in the United States, and employees now pay only about 20% of total costs. Major reforms would shift the timing of cost-of-living adjustments to January of each year, calculate benefits based on the employee's 5 highest salary years (rather than the highest 3 years), and increase employee and agency contributions for retirement costs. The change in timing for cost-of-living adjustments would also apply to military retirement.



Housing and food assistance.—The Federal Government provides assistance for housing and food to low-income households and individuals. In 1985, an estimated 4.0 million households will receive housing aid and estimated monthly food stamps participation will be 20 million individuals.

Outlays for subsidized housing programs are estimated to increase from \$10.0 billion in 1984 to \$10.9 billion in 1985 due to proposed expansions of housing assistance and commitments from prior years. The budget proposes greater use of housing vouchers as an alternative to existing Federal subsidized housing programs. Eligible households can use the voucher to find their own private rental housing. Tenants retain the savings if they rent less expensive housing units.

Estimated food stamp outlays are \$11.6 billion in 1985, compared to \$12.1 billion for 1984. This decrease is largely due to legislative proposals to reduce erroneous payments and to direct aid to the neediest individuals. This includes a proposed requirement that States adopt "community work experience" programs in which employable food stamp recipients must participate in work-related activities as a condition of eligibility. In addition, 1985 caseloads will be lower than 1984 levels due to projected reductions in unemployment levels.

Outlays for child nutrition and other food programs are estimated to be \$5.5 billion in 1985. Legislation is proposed to consolidate the child care and summer feeding programs into a non-school food program grant for the States.

Other income security.—Outlays for the supplemental security income (SSI) program, which pays benefits to an estimated 4 million needy aged, blind or disabled individuals, are estimated to be \$9.3 billion in 1985. Federal outlays for aid to families with dependent children (AFDC) and child support enforcement (CSE) are estimated to be \$8.1 billion in 1984 and \$7.7 billion in 1985. Approximately 3.6 million low-income families are estimated to receive AFDC benefits in 1985. A number of legislative reforms in AFDC and CSE, including "community work experience" programs, are proposed. These changes will better target benefits on those in greatest need. Other income security programs include the earned income tax credit and low-income home energy assistance.

Unemployment compensation.—Outlays for unemployment compensation are estimated to decrease from \$20.7 billion in 1984 to \$20.1 billion in 1985 as a result of a decline in the projected average unemployment rate from 8.0% in 1984 to 7.6% in 1985. About 2.8 million individuals per week are estimated to receive benefits in 1985. The number of weeks an unemployed worker can receive unemployment benefits is extended in States where the unemployment rate is unusually high. The administration proposes legislation to include unemployment compensation coverage for rail workers within the Federal-State system.

VETERANS BENEFITS AND SERVICES

Benefits and services provided to veterans meet the Nation's obligation to veterans of military service. Outlays for this function are expected to be \$26.7 billion in 1985.

Hospital and medical care.—The Veterans Administration (VA) operates the Nation's largest medical care system. The budget requests funds to maintain, renovate, modernize and systematically replace aging VA medical structures and to provide health care for the growing number of elderly veterans. Outlays for hospital and medical care are estimated to rise from \$9.0 billion in 1984 to \$9.6 billion in 1985.

Compensation.—Compensation benefits are provided to an estimated 2.6 million veterans with service-connected disabilities and survivors of such veterans. Outlays for veterans compensation benefits are estimated to increase from \$10.0 billion in 1984 to \$10.3 billion in 1985. These estimates reflect a pending 3.5% cost-of-living increase expected to be effective in April 1984, and an administration proposal to provide an additional 4.3% increase in compensation benefits effective in April 1985.

Pensions.—Pensions are provided to needy veterans with war-time service and to needy survivors of deceased veterans. Outlays for pension benefits are estimated at \$3.9 billion in 1984 and \$4.0 billion in 1985.

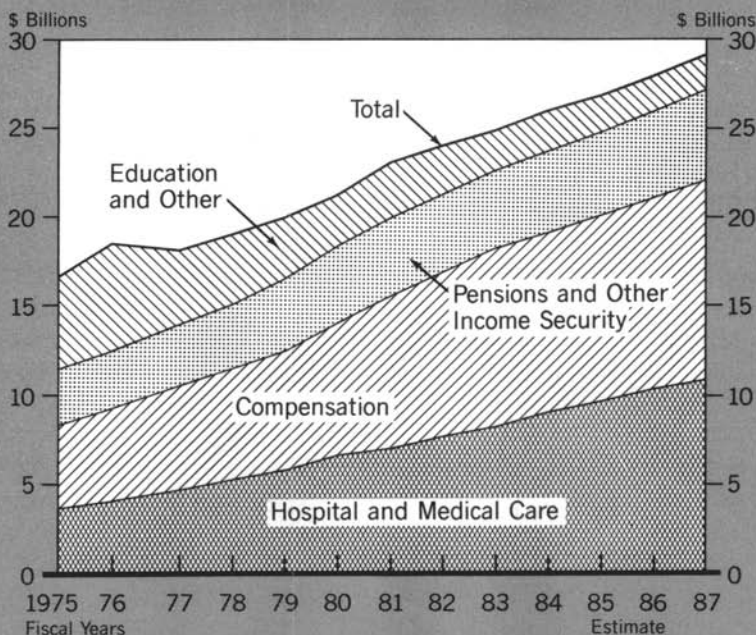
Education, training, and rehabilitation.—The GI bill provides education benefits designed primarily to help veterans adjust to civilian life. A 15% increase in these benefits, which would help offset cost increases since GI bill benefits were last raised in 1981, is proposed to become effective in January 1985.

Veterans whose earnings have been impaired by the recent recession are eligible for benefits under a temporary jobs training program.

Outlays in 1985 for this mission are estimated at \$1.3 billion, a decline of \$85 million from 1984. This decrease reflects the continued decline in the number of eligible GI bill beneficiaries.

Other.—The VA provides additional assistance to veterans through housing loan guarantees. New guaranteed loan commitments are expected to rise from \$13.4 billion in 1984 to \$15.0 billion in 1985, reflecting an anticipated increase in demand for housing as the economy continues to improve. Direct loan programs are available to veterans eligible for special housing.

Outlays for Veterans Benefits and Services



ADMINISTRATION OF JUSTICE

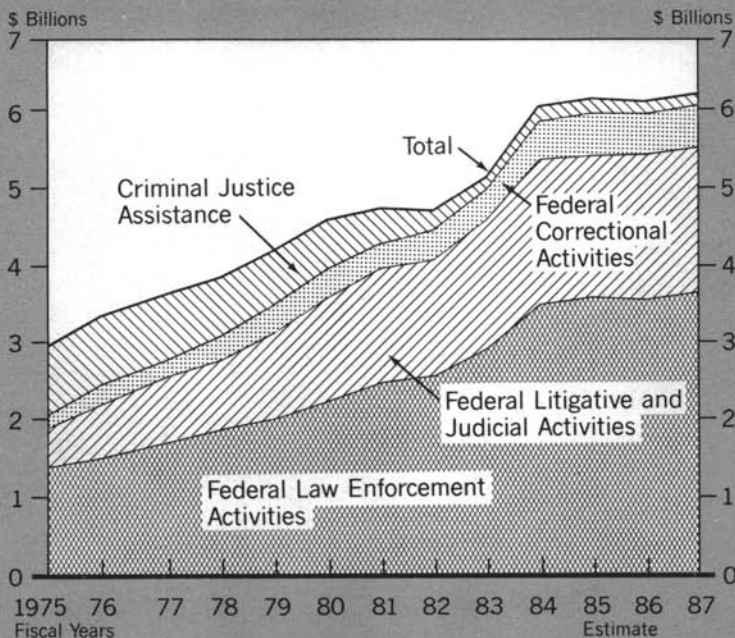
One of the fundamental responsibilities of the Government is to provide a means to ensure the safety of the people and to resolve disputes peacefully and fairly. Federal activities in this function include law enforcement, criminal justice assistance to State and local governments, and providing prisons for Federal inmates. Outlays for these activities are estimated at \$6 billion in 1985.

Federal law enforcement activities.—More than one-half of outlays for programs in this function are for law enforcement activities. Outlays for this purpose are estimated to be \$3.5 billion in 1985.

A major initiative is the strengthening of border enforcement activities of the Immigration and Naturalization Service. For 1985, the administration proposes an increase of 1,000 enforcement positions.

Another high priority in this category is combating illegal drug trafficking by organized crime. The Justice Department, the Drug Enforcement Administration and the Federal Bureau of Investigation (FBI) work together through 12 regional Organized Crime

Outlays for Administration of Justice



Drug Enforcement task forces. In 1985, a 13th task force will be initiated in Florida.

The FBI enforces a broad range of criminal statutes, and works with other Federal, State and local law enforcement authorities. Additional resources are being requested for two of its top priorities—foreign counterintelligence and organized crime.

Federal litigative and judicial activities.—Among the administration's priorities in this area are the establishment of a Federal tax enforcement initiative, as well as the identification and seizure of the assets and profits of illegal drug trafficking organizations.

The budget does not include any funds for the Legal Services Corporation, created to assist State and local agencies that provide free civil legal assistance to the poor. The administration's social services block grants are sufficient to fund legal services that States wish to provide for their citizens.

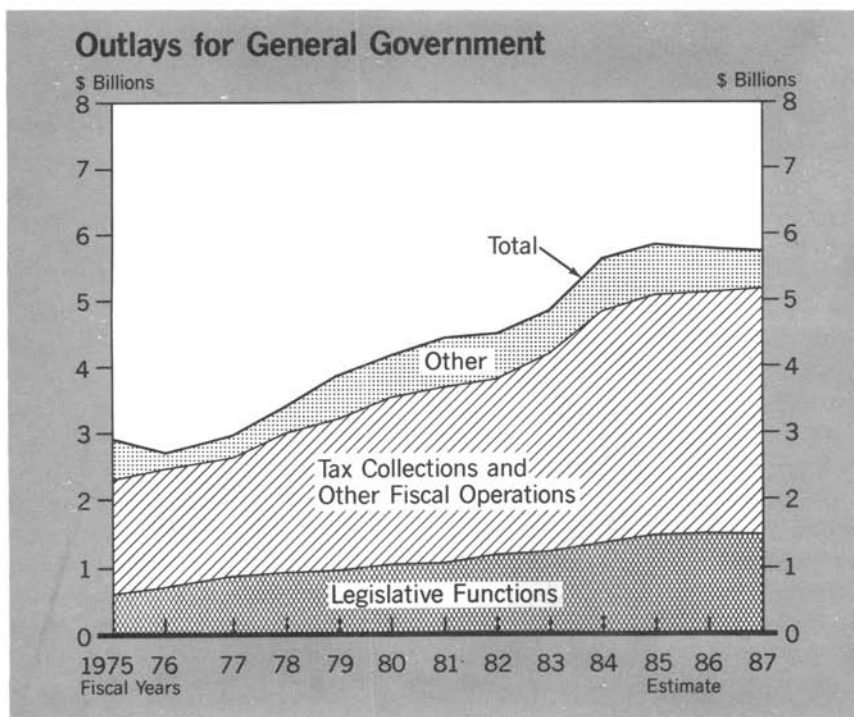
Federal correctional activities.—The Federal Government is responsible for the care and custody of prisoners charged with or convicted of violating Federal laws. In response to the growing Federal prison population, funds are requested for additional prison facilities. Outlays for correctional activities in 1985 are estimated to be slightly under \$0.6 billion.

Criminal justice assistance.—The administration is not requesting any new budget authority for juvenile justice and delinquency prevention programs. The primary objective of these programs—the separation of juvenile from adult offenders—has largely been accomplished. Resources to deal with serious juvenile offenders will be available through a new criminal justice assistance program expected to be enacted in 1984, which provides training, technical assistance, and financial assistance to State and local agencies.

GENERAL GOVERNMENT

This function comprises central government activities for both the legislative branch and the Executive Office of the President. It also includes tax collection by the Internal Revenue Service (IRS), general property and records management activities of the General Services Administration (GSA), and central personnel management activities. Outlays for general government are estimated to be \$5.7 billion in 1985.

Administration initiatives include expanded efforts to identify and collect unpaid taxes. The IRS will continue to modernize and streamline its operations, with full implementation of new tax processing equipment and automation of collection of unpaid tax liabilities. Greater emphasis on audits and increased litigation of tax shelter cases are expected to enhance voluntary compliance with the tax laws.

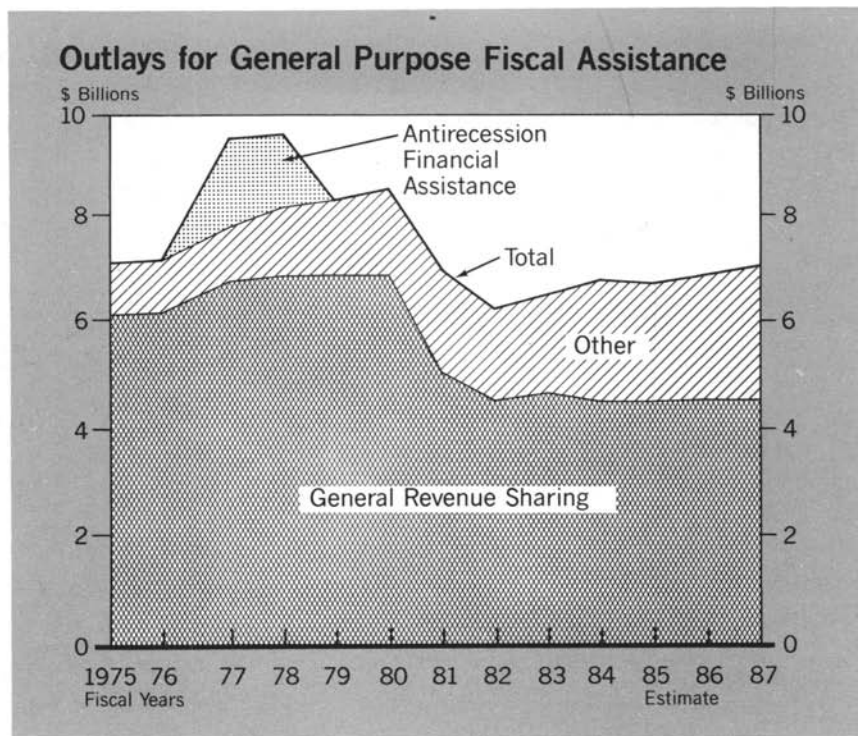


GENERAL PURPOSE FISCAL ASSISTANCE

General purpose fiscal assistance provides Federal aid to State and local governments without major restrictions or matching requirements. This assistance can generally be used for State or local services, construction, debt retirement, and other purposes of general government. Total outlays for this assistance are estimated to be \$6.7 billion in 1985.

General revenue sharing.—General revenue sharing provides assistance to nearly 39,000 local governments. These funds are allocated on the basis of population, per capita income, and general tax effort. Outlays for the program, which was reauthorized in 1984, are estimated to remain at \$4.6 billion in both 1985 and 1986.

Other general purpose fiscal assistance.—This category includes payments to the District of Columbia and other general payments to States, localities, and territories. Some jurisdictions receive payments from the Federal Government based on receipts generated from the sale of timber, mineral leases, grazing permits and other activities on Federal property. Outlays for other general purpose fiscal assistance are estimated to be \$2.2 billion in 1984 and \$2.1 billion in 1985.

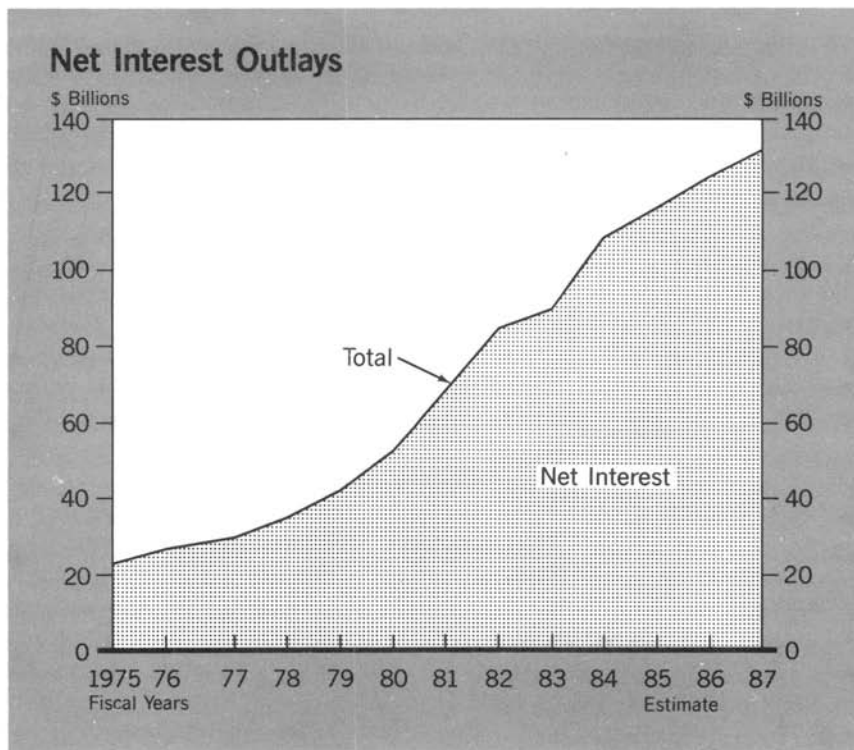


NET INTEREST

Interest costs associated with borrowing to finance the public debt combined with collections of interest payments from Government trust funds and from the public comprise net interest outlays.

Despite the projected decline in interest rates, larger borrowing requirements cause an expected increase in net interest outlays from \$108.2 billion in 1984 to \$116.1 billion in 1985.

The Federal Reserve System owns Government securities in order to carry out monetary policy. Most of the interest the System receives on these securities is paid to the Treasury as budget receipts. Deducting these receipts from net interest outlays shows the net effect of interest transactions with the public. As shown in the table, this effect is estimated to be \$93.9 billion in 1984 and \$101.3 billion in 1985.



NET INTEREST

(In billions of dollars)

	1983 actual	1984 estimate	1985 estimate	1986 estimate	1987 estimate
Interest on the public debt.....	128.6	149.5	164.7	177.9	188.6
Interest received by trust funds.....	-17.1	-19.4	-22.6	-26.2	-30.2
Other interest.....	-21.7	-21.9	-26.0	-27.5	-27.6
Net interest outlays	89.8	108.2	116.1	124.2	130.9
Deposits of earnings by the Federal Reserve System ¹	14.5	14.4	14.8	15.0	15.0
Net effect of interest transactions with the public	75.3	93.9	101.3	109.2	115.9

¹ Shown as budget receipts.

ALLOWANCES

Allowances cover certain transactions that are expected to occur, but that are not included in the program details shown in the preceding functions. As these transactions take place, the outlays, savings, or receipts are classified in the appropriate functions.

Included is an assumed pay increase for civilian agencies of 3.5% in January 1985. Annual pay increases are estimated to match those granted to private sector employees in 1986 and 1987.

The administration has proposed increasing the contributions made by both Federal employees and Federal agencies towards Federal employee retirement. Employee and agency contributions would rise from the current 7% of salary to 8% in 1985 and 9% in 1986. An allowance of \$0.5 billion in 1985 covers the full amount of the increased contribution by employing agencies.

UNDISTRIBUTED OFFSETTING RECEIPTS

Offsetting receipts are generally deducted from agency and sub-function totals, but in two instances they are deducted from the budget totals as undistributed offsetting receipts.

Agency contributions for employee retirement are counted as agency outlays. In order to measure the Government's transactions with the public, these payments are deducted as undistributed offsetting receipts. Totals for this activity are estimated to be \$8.8 billion in 1984 and \$27.9 billion in 1985. The increase primarily reflects establishment of a military retirement trust fund. In addition, the totals include the increased employer contributions to civil service retirement trust funds that are estimated to result from the administration proposal to reform civil service retirement, as described in the income security section.

Payments to the Government for rents and royalties on the Outer Continental Shelf (OCS) are large, and their inclusion in a particular function would distort the display of program outlays.

Offsetting collections for OCS are estimated to be \$8.7 billion in 1984 and \$7.4 billion in 1985.

OFF-BUDGET FEDERAL ENTITIES

Some Federal spending is excluded from the budget totals under provisions of law. The off-budget outlays are added to the budget deficit to derive the total Federal deficit that must be financed by borrowing from the public or by other means. One off-budget Federal entity, the Federal Financing Bank (FFB), accounts for most off-budget outlays. The FFB's outlays do not come from programs that the FFB operates itself, but from loans it makes or purchases at the request of other Federal entities. The outlays of the FFB do not include its purchase of Federal agency debt securities.

Off-budget outlays are estimated to be \$14.8 billion in 1985, 9% lower than in 1984.

OFF-BUDGET OUTLAYS

(In billions of dollars)

	1983 actual	1984 estimate	1985 estimate	1986 estimate	1987 estimate
Federal Financing Bank (FFB):					
National defense	*	*	*	*	*
International affairs.....	2.9	3.6	2.0	-0.3	-1.0
General science, space and technology	0.2	0.1	.....	—*	-0.1
Energy.....	3.7	4.6	4.0	4.4	2.9
Agriculture	0.7	1.5	0.2	0.1	0.1
Commerce and housing credit.....	1.9	2.8	2.3	1.6	1.4
Transportation.....	*	-0.9	—*	—*	—*
Community and regional development.....	0.6	0.8	0.6	0.1	*
Health	—*	—*	—*	—*	—*
Income security.....	0.4	0.2	1.2	1.1	1.1
General government	*	—*	—*	—*	—*
Subtotal, FFB.....	10.4	12.7	10.2	6.9	4.4
Other off-budget:					
Energy:					
Rural electrification and telephone revolving fund.....	—*	.....	.....	.....	.....
Strategic petroleum reserve acquisitions	1.6	2.2	1.7	1.6	1.7
Synthetic Fuels Corporation.....	.....	.....	.....	.....	.....
Commerce and housing credit:					
Postal Service	0.3	1.2	2.8	0.1	1.0
Transportation:					
U.S. Railway Association.....	-0.1	-0.1	.....	.....	.....
Community and regional development:					
Rural telephone bank	0.1	0.2	0.2	0.2	0.2
Total, off-budget outlays.....	12.4	16.2	14.8	8.8	7.2

* \$50 million or less.

TAX EXPENDITURES

Tax expenditures are features of the individual and corporation income tax laws that provide special benefits or incentives in comparison with what would be permitted under the general provisions of the Internal Revenue Code. They arise from special exclusions, exemptions, or deductions from gross income, or from special credits, preferential tax rates, or deferrals of tax liability.

Tax expenditures are so designated because they are one means by which the Federal Government carries out public policy objectives; in many cases, they can be considered as alternatives to direct expenditures. For example, investment in capital equipment is encouraged by the investment tax credit; a program of direct capital grants could also achieve this objective. Similarly, State and local governments benefit from both direct grants and the ability to borrow funds at tax-exempt rates.

Because tax expenditures can be viewed as alternatives to direct Federal spending programs, it is desirable that estimates of tax expenditure items be comparable to outlay programs. Thus, tax expenditures are generally shown as outlay equivalents, that is, the amount of budget outlays required to provide the same level of after-tax benefits by substituting a direct spending program for the tax expenditure. The accompanying table displays estimates of tax expenditures classified by function. Special Analysis G contains more detailed estimates and explanation.

TAX EXPENDITURES ESTIMATED AS OUTLAY EQUIVALENTS

(In billions of dollars)

Function	1983	1984	1985
National defense.....	2.3	2.4	2.6
International affairs.....	4.4	4.4	4.7
General science, space, and technology.....	2.6	2.4	1.9
Energy.....	4.4	4.0	4.5
Natural resources and environment.....	3.0	3.3	3.6
Agriculture.....	1.2	1.3	1.3
Commerce and housing credit.....	170.6	184.0	206.2
Transportation.....	0.2	0.2	0.2
Community and regional development.....	0.9	1.0	1.0
Education, training, employment, and social services.....	23.2	25.7	29.8
Health.....	27.7	31.4	35.7
Social security and medicare.....	19.2	17.6	17.7
Income security.....	97.1	101.6	111.6
Veterans benefits and services.....	2.6	2.6	2.6
General government.....	0.3	0.3	0.3
General purpose fiscal assistance.....	32.0	33.3	36.7
Net interest.....	0.7	0.7	0.8

Part IV

THE BUDGET PROCESS

The Federal Government allocates resources between the private and public sectors of the economy through both taxing and spending. Within the Federal Government, the allocation of budget resources among individual spending programs reflects the national priorities determined by the executive branch and the Congress.

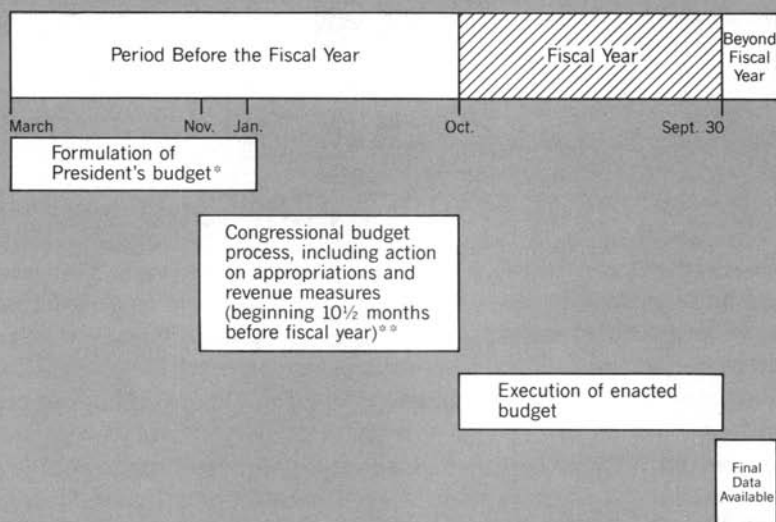
Executive formulation and transmittal.—The budget sets forth the President's financial plan of operation for the Federal Government. The President's transmittal of budget proposals to the Congress is the result of many months of planning and analysis throughout the executive branch. Formulation of the 1985 budget began in mid-1983.

First, policy issues are identified, budget projections are made, and preliminary program plans are presented to the President. The President reviews the budget projections in light of the economic outlook, and establishes general budget and fiscal policy guidelines for the fiscal year that begins more than a year later. Under the multi-year budget planning system, the President's guidelines also cover the four fiscal years beyond the budget year. Tentative policy decisions for the budget year and planning ceilings for the following four years are then given to the agencies as guidelines for preparing their budgets.

In the summer, agencies and departments prepare their budget requests, which are reviewed in detail in the fall by the Office of Management and Budget and presented to the President. The budget sent to the Congress at the beginning of each calendar year reflects the President's recommendations for existing and proposed tax and spending policies, as well as total outlay and receipt levels consistent with the economic assumptions used in the budget.

By law, the President must update this budget on or before April 10 and again by July 15, taking into account newly enacted legislation, the administration's latest economic assumptions, and any new recommendations and revised estimates.

Major Steps in the Budget Process



*The President's budget is transmitted to the Congress within fifteen days after the Congress convenes.

**If appropriation action is not completed by Sept. 30, the Congress enacts temporary appropriations (i.e., a continuing resolution).

The law also requires the President to transmit current services estimates annually. These estimates are the budget authority and outlays required to continue Federal programs in subsequent fiscal years without any policy changes, thereby providing a base with which to compare proposed changes. Current services estimates for 1985 and the following four years accompany the 1985 budget.

Congressional action.—Before enacting budget authority, which permits agencies to spend money, the Congress enacts legislation to authorize the program and provide guidance on funding levels. Some spending, such as for social security and interest on the public debt, is authorized indefinitely or for several years. Programs such as space exploration, nuclear energy, defense procurement, foreign affairs, and some construction projects require annual authorizing legislation.

Budget authority is usually provided separately in appropriations bills after the program authorizing legislation has been enacted. In many cases, budget authority becomes available each year only as voted by the Congress. In other cases, the Congress has voted permanent budget authority, under which funds become available annually without further congressional action.

Under procedures established by the Congressional Budget Act of 1974, the Congress considers budget totals prior to beginning action on individual appropriation bills. The act requires that congressional committees send reports on budget estimates to the House and Senate Budget Committees by March 15. The budget committees are to report out a budget resolution by April 15.

The Congress is scheduled to adopt by May 15 the first budget resolution, which sets overall targets for receipts, outlays and budget authority. A second resolution, which sets a binding ceiling on total budget authority and outlays and a floor for receipts, may be adopted in the fall. The Congress may decide for the first resolution to be binding. Either resolution can contain a reconciliation directive calling on various committees to cut spending or increase receipts by specified amounts. In three of the last four years, the Congress has enacted omnibus reconciliation legislation in response to the reconciliation directives.

Congressional consideration of requests for appropriations and for changes in revenue laws are considered first in the House of Representatives, where the Ways and Means Committee reviews proposed revenue measures and the Appropriations Committee studies the appropriation requests. These committees then recommend the action to be taken by the House of Representatives. After the appropriation and tax bills are approved by the House, they are forwarded to the Senate, where a similar process is followed. In case of disagreement between the two Houses of the Congress, a conference committee (consisting of Members of both bodies) resolves the issues and submits a report to both Houses for approval.

After approval, measures are transmitted to the President for approval or veto. When appropriations are not enacted by the beginning of the fiscal year, the Congress enacts a continuing resolution to provide authority so that the affected agencies may continue operations until a specific date or until their regular appropriations are approved.

Budget execution and control.—Once approved, the budget becomes the basis for the financial operations of agencies during the fiscal year. Most budget authority and other budgetary resources are made available by the Office of Management and Budget under an apportionment system designed to ensure the effective and orderly use of available authority.

Amounts may be withheld by the President for policy and other reasons. However, the Impoundment Control Act of 1974 provides that the executive branch, in regulating the rate of spending, must report to the Congress any administrative action to postpone or eliminate spending authorized by law.

Deferrals, which are temporary withholdings of budget authority, may be overturned by an act of the Congress at any time. Rescis-

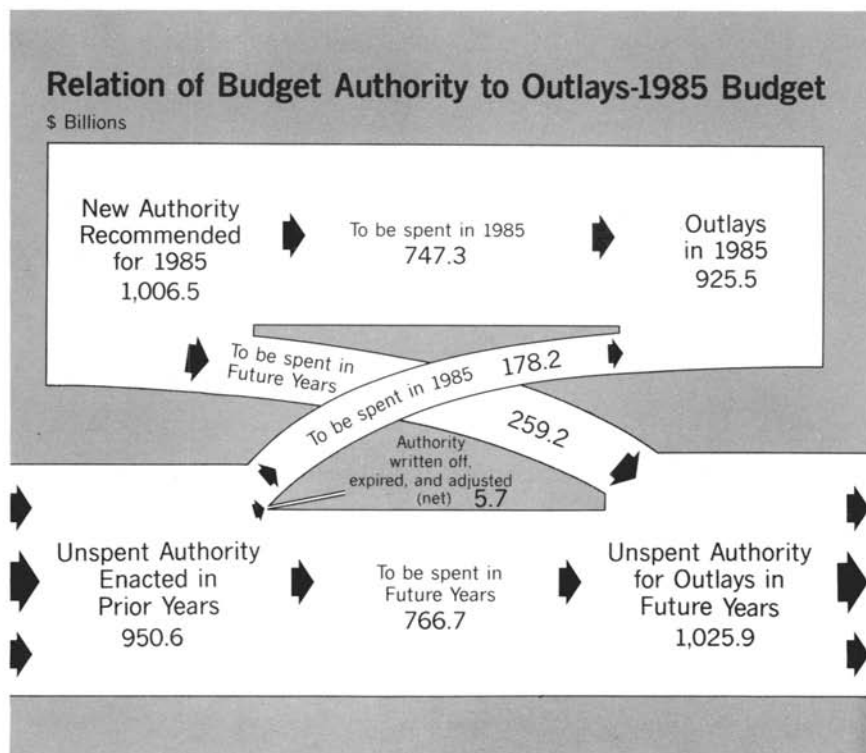
sions, which permanently cancel existing budget authority, must be approved by the full Congress within 45 days of continuous session. Otherwise, the withheld funds must be made available for spending.

Relation of Budget Authority to Outlays

Not all of the new budget authority for 1985 will be obligated or spent in that year.

- Budget authority for most major trust funds arises from their receipts and is used over time as needed for purposes specified by law.
- Budget authority for most major construction and procurement programs covers the estimated full cost of projects at the time they are started.
- Budget authority for many loan and guarantee (or insurance) programs provides financing for a period of years or is a backup that may be used only in the event of defaults.

As a result of these factors, a large amount of budget authority carries over from one year to the next. Most is earmarked for specific uses and is not available for any other program.



Part V

BUDGET TABLES

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NOTES

- Supporting data for charts in this book can be obtained from the Office of Management and Budget, Washington, D.C. 20503.
- More detailed budget tables are published in Part 9 of the *Budget of the United States Government, 1985*.

Table 1. BUDGET RECEIPTS, OUTLAYS, AND DEBT, 1975-87

(In billions of dollars)

Description	Actual										Estimate			
	1975	1976	TQ ¹	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
Receipts:														
Federal funds.....	187.5	201.1	54.1	241.3	270.5	316.4	350.9	410.4	409.3	382.4	420.0	464.2	507.2	552.6
Trust funds.....	116.7	131.8	31.5	150.6	165.6	187.0	210.9	239.4	268.4	317.4	331.5	393.5	428.7	465.1
Interfund transactions.....	-25.1	-34.8	-4.4	-36.3	-36.5	-40.1	-44.7	-50.6	-59.9	-99.2	-81.4	-112.6	-121.0	-129.9
Total budget receipts.....	279.1	298.1	81.2	355.6	399.6	463.3	517.1	599.3	617.8	600.6	670.1	745.1	814.9	887.8
Outlays:														
Federal funds.....	240.1	269.9	65.1	295.8	332.0	362.4	419.2	475.2	526.1	600.9	628.8	687.2	737.9	797.5
Trust funds.....	109.3	129.3	33.5	141.1	152.9	168.7	202.1	232.6	262.2	294.3	306.4	350.9	375.2	400.6
Interfund transactions.....	-25.1	-34.8	-4.4	-36.3	-36.5	-40.1	-44.7	-50.6	-59.9	-99.2	-81.4	-112.6	-121.0	-129.9
Total budget outlays.....	324.2	364.5	94.2	400.5	448.4	491.0	576.7	657.2	728.4	796.0	853.8	925.5	992.1	1,068.3
<i>Off-budget outlays.....</i>	<i>(8.1)</i>	<i>(7.3)</i>	<i>(1.8)</i>	<i>(8.7)</i>	<i>(10.4)</i>	<i>(12.5)</i>	<i>(14.2)</i>	<i>(21.0)</i>	<i>(17.3)</i>	<i>(12.4)</i>	<i>(16.2)</i>	<i>(14.8)</i>	<i>(8.8)</i>	<i>(7.2)</i>
<i>Total outlays, including off-budget.....</i>	<i>(332.3)</i>	<i>(371.8)</i>	<i>(96.0)</i>	<i>(409.2)</i>	<i>(458.7)</i>	<i>(503.5)</i>	<i>(590.9)</i>	<i>(678.2)</i>	<i>(745.7)</i>	<i>(808.3)</i>	<i>(870.0)</i>	<i>(940.3)</i>	<i>(1,000.9)</i>	<i>(1,075.5)</i>
Surplus or deficit (-):														
Federal funds.....	-52.6	-68.8	-11.0	-54.4	-61.5	-46.0	-68.4	-64.7	-116.9	-218.5	-208.8	-223.0	-230.6	-245.0
Trust funds.....	7.4	2.4	-2.0	9.5	12.7	18.3	8.8	6.8	6.3	23.1	25.1	42.6	53.5	64.5
Budget surplus or deficit (-).....	-45.2	-66.4	-13.0	-44.9	-48.8	-27.7	-59.6	-57.9	-110.6	-195.4	-183.7	-180.4	-177.1	-180.5
<i>Deficit (-), off-budget.....</i>	<i>(-8.1)</i>	<i>(-7.3)</i>	<i>(-1.8)</i>	<i>(-8.7)</i>	<i>(-10.4)</i>	<i>(-12.5)</i>	<i>(-14.2)</i>	<i>(-21.0)</i>	<i>(-17.3)</i>	<i>(-12.4)</i>	<i>(-16.2)</i>	<i>(-14.8)</i>	<i>(-8.8)</i>	<i>(-7.2)</i>
<i>Federal entities.....</i>	<i>(-8.1)</i>	<i>(-7.3)</i>	<i>(-1.8)</i>	<i>(-8.7)</i>	<i>(-10.4)</i>	<i>(-12.5)</i>	<i>(-14.2)</i>	<i>(-21.0)</i>	<i>(-17.3)</i>	<i>(-12.4)</i>	<i>(-16.2)</i>	<i>(-14.8)</i>	<i>(-8.8)</i>	<i>(-7.2)</i>
<i>Surplus or deficit (-) including off-budget.....</i>	<i>(-53.2)</i>	<i>(-73.7)</i>	<i>(-14.7)</i>	<i>(-53.6)</i>	<i>(-59.2)</i>	<i>(-40.2)</i>	<i>(-73.8)</i>	<i>(-78.9)</i>	<i>(-127.9)</i>	<i>(-207.8)</i>	<i>(-199.9)</i>	<i>(-195.2)</i>	<i>(-185.9)</i>	<i>(-187.7)</i>
Debt outstanding, end of year:														
Gross Federal debt.....	544.1	631.9	646.4	709.1	780.4	833.8	914.3	1,003.9	1,147.0	1,381.9	1,591.6	1,828.4	2,067.0	2,318.4
Held by the public.....	396.9	480.3	498.3	551.8	610.9	644.6	715.1	794.4	929.4	1,141.8	1,324.8	1,517.8	1,702.9	1,889.8

¹ In calendar year 1976, the Federal fiscal year was converted from a July 1-June 30 basis to an Oct. 1-Sept. 30 basis. The TQ refers to the transition quarter from July 1 to Sept. 30, 1976.

Table 2. COMPOSITION OF BUDGET OUTLAYS IN CURRENT AND CONSTANT (FISCAL YEAR 1972) PRICES: 1965-87

(In billions of dollars)

Fiscal year	Current prices							Constant (fiscal year 1972) prices						
	Total budget outlays	National defense	Nondefense					Total budget outlays	National defense	Nondefense				
			Total non-defense	Payments for individuals	Net interest	Other	Undistributed offsetting receipts			Total non-defense	Payments for individuals	Net interest	Other	Undistributed offsetting receipts
1965.....	118.4	50.6	67.8	33.7	8.6	31.4	-5.9	166.9	74.1	92.9	43.4	11.5	47.1	-9.0
1966.....	134.7	58.1	76.5	37.8	9.4	35.8	-6.5	183.0	81.3	101.7	47.6	12.2	51.4	-9.5
1967.....	157.6	71.4	86.2	44.9	10.3	38.3	-7.3	207.5	96.8	110.7	55.0	12.9	53.0	-10.3
1968.....	178.1	81.9	96.2	50.8	11.1	42.3	-8.0	224.6	105.7	118.8	60.3	13.5	55.8	-10.8
1969.....	183.6	82.5	101.1	57.8	12.7	38.6	-8.0	220.2	101.6	118.6	65.7	14.7	48.3	-10.1
1970.....	195.7	81.7	114.0	66.1	14.4	42.1	-8.6	220.2	94.0	126.2	71.8	15.8	48.8	-10.1
1971.....	210.2	78.9	131.3	82.1	14.8	44.4	-10.1	222.6	84.9	137.7	85.4	15.5	47.8	-11.0
1972.....	230.7	79.2	151.5	94.8	15.5	50.8	-9.6	230.7	79.2	151.5	94.8	15.5	50.8	-9.6
1973.....	245.6	76.7	169.0	106.6	17.3	58.4	-13.4	233.3	71.8	161.4	102.4	16.6	54.9	-12.5
1974.....	267.9	79.3	188.6	122.8	21.4	61.1	-16.7	236.7	69.6	167.2	109.1	19.1	53.8	-14.8
1975.....	324.2	86.5	237.7	156.8	23.2	71.3	-13.6	260.1	69.2	190.9	127.0	18.9	55.7	-10.7
1976.....	364.5	89.6	274.9	184.1	26.7	78.4	-14.4	274.2	67.0	207.3	140.6	20.3	57.0	-10.6
1977.....	400.5	97.2	303.3	200.8	29.9	87.5	-14.9	280.7	67.3	213.4	143.5	21.2	58.6	-10.0
1978.....	448.4	104.5	343.9	215.8	35.4	108.4	-15.7	293.8	67.2	226.6	145.0	23.6	68.0	-10.0
1979.....	491.0	116.3	374.7	237.9	42.6	111.6	-17.5	297.1	69.5	227.6	147.2	26.1	64.8	-10.5
1980.....	576.7	134.0	442.7	283.1	52.5	127.0	-19.9	316.6	71.3	245.3	159.2	29.6	67.6	-11.1
1981.....	657.2	157.5	499.7	330.4	68.7	128.6	-28.0	327.6	74.6	253.0	170.3	35.3	60.9	-13.5
1982.....	728.4	185.3	543.1	363.7	85.0	120.4	-26.1	339.1	80.0	259.0	176.2	40.7	54.1	-11.9
1983.....	796.0	209.9	586.1	402.5	89.8	127.8	-34.0	354.5	85.9	268.6	186.9	41.2	55.4	-15.0
1984 estimate.....	853.8	237.5	616.2	413.2	108.2	128.8	-34.0	364.4	93.9	270.4	183.9	47.7	53.3	-14.4
1985 estimate.....	925.5	272.0	653.5	440.6	116.1	132.0	-35.3	376.3	102.8	273.5	186.9	48.8	52.0	-14.2
1986 estimate.....	992.1	310.6	681.5	469.2	124.2	130.9	-42.9	384.1	111.2	272.9	190.3	49.9	49.2	-16.5
1987 estimate.....	1,068.3	348.6	719.7	500.7	130.9	134.0	-45.8	395.3	118.9	276.4	194.7	50.4	48.2	-16.9

Note: Beginning in 1985, the budget reflects establishment of a military retirement trust fund. Amounts for previous years are shown on a comparable basis.

Table 3. BUDGET RECEIPTS BY SOURCE AND OUTLAYS BY FUNCTION, 1975-85

(In billions of dollars)

Description	Actual										Estimate	
	1975	1976	TQ ¹	1977	1978	1979	1980	1981	1982	1983	1984	1985
RECEIPTS BY SOURCE												
Individual income taxes.....	122.4	131.6	38.8	157.6	181.0	217.8	244.1	285.9	297.7	288.9	293.3	328.4
Corporation income taxes.....	40.6	41.4	8.5	54.9	60.0	65.7	64.6	61.1	49.2	37.0	66.6	76.5
Social insurance taxes and contributions:												
Employment taxes and contributions.....	75.2	79.9	21.8	92.2	103.9	120.1	138.7	163.0	180.7	185.8	211.7	240.4
Unemployment insurance.....	6.8	8.1	2.7	11.3	13.8	15.4	15.3	15.8	16.6	18.8	23.3	25.2
Other retirement contributions.....	2.6	2.8	0.7	3.0	3.2	3.5	3.7	4.0	4.2	4.4	4.5	5.1
Total social insurance taxes and contributions.....	84.5	90.8	25.2	106.5	121.0	138.9	157.8	182.7	201.5	209.0	239.5	270.7
Excise taxes:												
Alcohol.....	5.2	5.3	1.3	5.3	5.5	5.5	5.6	5.6	5.4	5.6	5.8	5.9
Tobacco.....	2.3	2.5	0.6	2.4	2.4	2.5	2.4	2.6	2.5	4.1	5.1	5.2
Highway.....	6.2	5.4	1.7	6.7	6.9	7.2	6.6	6.3	6.7	8.3	11.7	12.8
Airport and airway.....	1.0	0.9	0.3	1.2	1.3	1.5	1.9	*	0.1	2.2	2.6	2.8
Windfall profit tax.....							6.2	23.2	18.8	13.0	9.8	8.3
Other.....	1.8	2.8	0.6	2.0	2.2	2.0	1.5	3.1	2.7	2.1	3.2	3.4
Total excise taxes.....	16.6	17.0	4.5	17.5	18.4	18.7	24.3	40.8	36.3	35.3	38.2	38.4
Estate and gift taxes.....	4.6	5.2	1.5	7.3	5.3	5.4	6.4	6.8	8.0	6.1	5.9	5.6
Customs duties.....	3.7	4.1	1.2	5.2	6.6	7.4	7.2	8.1	8.9	8.7	9.1	9.4
Miscellaneous receipts.....	6.7	8.0	1.6	6.5	7.4	9.3	12.7	13.8	16.2	15.6	17.5	16.0
Total budget receipts.....	279.1	298.1	81.2	355.6	399.6	463.3	517.1	599.3	617.8	600.6	670.1	745.1

OUTLAYS BY FUNCTION												
National defense.....	85.6	89.4	22.3	97.5	105.2	117.7	135.9	159.7	187.4	210.5	237.5	272.0
International affairs.....	7.1	5.7	2.3	5.0	6.1	6.3	10.9	11.2	10.1	9.0	13.5	17.5
General science, space, and technology.....	4.0	4.4	1.2	4.7	4.7	5.1	5.7	6.4	7.1	7.7	8.3	8.8
Energy.....	2.2	3.1	0.8	4.2	5.8	6.9	6.3	10.3	4.7	4.0	3.5	3.1
Natural resources and environment.....	7.3	8.2	2.5	10.0	11.0	12.1	13.9	13.6	13.0	12.7	12.3	11.3
Agriculture.....	1.7	2.5	0.6	5.5	7.7	6.2	4.9	5.5	14.9	22.2	10.7	14.3
Commerce and housing credit.....	5.6	3.8	1.4	0.1	3.3	2.6	7.8	4.0	3.9	4.4	3.8	1.1
Transportation.....	10.4	13.4	3.3	14.6	15.4	17.5	21.1	23.4	20.6	21.4	26.1	27.1
Community and regional development.....	3.7	4.8	1.3	6.3	11.1	9.5	10.1	9.4	7.2	6.9	7.6	7.6
Education, training, employment, and social services.....	15.9	18.7	5.2	21.0	26.5	29.7	30.8	31.4	26.3	26.6	28.7	27.9
Health.....	12.9	15.7	3.9	17.2	18.5	20.5	23.1	26.9	27.4	28.7	30.7	32.9
Social security and medicare.....	77.5	89.7	24.0	104.4	116.6	130.6	150.6	178.7	202.5	223.3	240.2	260.3
Income security.....	43.9	53.5	13.0	52.8	52.3	56.1	74.5	85.5	92.1	106.2	96.0	114.4
Veterans benefits and services.....	16.6	18.4	4.0	18.0	19.0	19.9	21.2	23.0	24.0	24.8	25.8	26.7
Administration of justice.....	3.0	3.3	0.9	3.6	3.8	4.2	4.6	4.8	4.7	5.1	6.0	6.1
General government.....	2.9	2.7	0.8	2.9	3.4	3.9	4.1	4.4	4.4	4.8	5.7	5.7
General purpose fiscal assistance.....	7.2	7.2	2.1	9.5	9.6	8.4	8.6	6.9	6.4	6.5	6.7	6.7
Net interest.....	23.2	26.7	6.9	29.9	35.4	42.6	52.5	68.7	85.0	89.8	108.2	116.1
Allowances.....												0.9
Undistributed offsetting receipts.....	-6.4	-6.9	-2.3	-6.9	-7.2	-8.5	-9.9	-16.5	-13.3	-18.6	-17.5	-35.3
Total budget outlays.....	324.2	364.5	94.2	400.5	448.4	491.0	576.7	657.2	728.4	796.0	853.8	925.5
<i>Off-budget outlays.....</i>	<i>(8.1)</i>	<i>(7.3)</i>	<i>(1.8)</i>	<i>(8.7)</i>	<i>(10.4)</i>	<i>(12.5)</i>	<i>(14.2)</i>	<i>(21.0)</i>	<i>(17.3)</i>	<i>(12.4)</i>	<i>(16.2)</i>	<i>(14.8)</i>
Total outlays, including off-budget.....	(332.3)	(371.8)	(96.0)	(409.2)	(458.7)	(503.5)	(590.9)	(678.2)	(745.7)	(808.3)	(870.0)	(940.3)

*\$50 million or less.

¹ In calendar year 1976, the Federal fiscal year was converted from a July 1-June 30 basis to an Oct. 1-Sept. 30 basis. The TQ refers to the transition quarter from July 1 to Sept. 30, 1976.

Table 4. BUDGET OUTLAYS BY FUNCTION AND SUBFUNCTION, 1975-87

(In billions of dollars)

Function and subfunction	Actual										Estimate			
	1975	1976	TQ ¹	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
National defense:														
Department of Defense—Military:														
Military personnel ²	31.2	32.4	8.3	33.9	36.2	38.7	42.8	50.1	57.3	61.4	64.5	67.3	69.7	71.5
Operation and maintenance	26.3	27.8	7.2	30.6	33.6	36.4	44.8	51.9	59.7	64.9	68.5	76.9	86.6	95.9
Procurement	16.0	16.0	3.8	18.2	20.0	25.4	29.0	35.2	43.3	53.6	64.4	77.6	91.2	106.7
Research and development	8.9	8.9	2.2	9.8	10.5	11.2	13.1	15.3	17.7	20.6	25.2	30.5	34.7	37.0
Military construction and other	2.5	2.8	0.4	3.1	2.7	3.3	3.2	3.6	4.9	4.5	8.3	12.2	19.5	28.1
Subtotal, Department of Defense—Military	84.9	87.9	21.9	95.6	103.0	115.0	132.8	156.1	182.9	205.0	231.0	264.4	301.8	339.2
Atomic energy defense activities	1.5	1.6	0.4	1.9	2.1	2.5	2.9	3.4	4.3	5.2	6.0	7.1	8.2	8.7
Defense-related activities	—0.8	—*	—*	*	0.1	0.1	0.1	0.3	0.3	0.3	0.5	0.5	0.6	0.6
Total national defense	85.6	89.4	22.3	97.5	105.2	117.7	135.9	159.8	187.4	210.5	237.5	272.0	310.6	348.6
International affairs:														
Foreign economic and financial assistance	3.2	2.7	1.1	2.9	2.7	3.0	3.7	4.2	3.9	4.0	4.6	5.2	4.8	5.0
International security assistance	2.4	1.9	1.3	1.7	2.5	2.4	2.8	3.2	3.1	3.8	5.5	7.8	9.1	10.0
Conduct of foreign affairs	0.7	0.7	0.3	1.0	1.1	1.3	1.4	1.3	1.6	1.8	2.1	2.2	2.1	2.4
Foreign information and exchange activities	0.3	0.4	0.1	0.4	0.4	0.5	0.5	0.5	0.6	0.6	0.8	0.9	1.1	1.2
International financial programs	0.4	*	—0.5	—0.9	—0.6	—0.9	2.4	2.0	0.9	1.1	0.6	1.4	0.7	0.2
Total international affairs	7.1	5.7	2.3	5.0	6.1	6.3	10.9	11.2	10.1	9.0	13.5	17.5	17.9	18.8

General science, space, and technology:

General science and basic research	1.0	1.0	0.3	1.1	1.2	1.3	1.4	1.5	1.6	1.6	1.9	2.1	2.3	2.4
Space flight	1.7	2.0	0.5	2.3	2.3	2.2	2.6	3.1	3.5	4.1	4.1	3.9	4.0	4.2
Space science, applications, and technology	1.0	1.0	0.3	1.0	1.0	1.2	1.3	1.4	1.5	1.5	1.6	1.9	2.1	2.3
Supporting space activities	0.3	0.4	0.1	0.3	0.4	0.4	0.4	0.4	0.5	0.6	0.7	0.9	0.9	0.9

Total general science, space, and technology

4.0	4.4	1.2	4.7	4.7	5.1	5.7	6.4	7.1	7.7	8.3	8.8	9.4	9.8
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Energy:

Energy supply	1.7	2.5	0.6	3.2	3.9	4.8	4.5	5.3	3.1	2.4	2.0	1.6	1.4	1.2
Energy conservation	*	0.1	*	0.1	0.2	0.3	0.6	0.7	0.5	0.5	0.5	0.4	0.5	0.4
Emergency energy preparedness	*	0.1	*	0.1	0.9	1.0	0.3	3.3	0.2	0.2	0.2	0.4	0.3	0.2
Energy information, policy, and regulation	0.4	0.6	0.1	0.7	0.8	0.7	0.9	1.0	0.9	0.9	0.7	0.8	0.7	0.8

Total energy

2.2	3.1	0.8	4.2	5.8	6.9	6.3	10.3	4.7	4.0	3.5	3.1	2.9	2.5
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Natural resources and environment:

Water resources	2.6	2.7	0.8	3.2	3.4	3.8	4.2	4.1	3.9	3.9	4.2	3.8	3.7	3.9
Conservation and land management	0.7	0.6	0.2	0.6	1.0	0.8	1.0	1.2	1.1	1.5	0.9	0.3	*	-0.4
Recreational resources	0.8	0.9	0.2	1.0	1.4	1.5	1.7	1.6	1.4	1.5	1.6	1.5	1.4	1.4
Pollution control and abatement	2.5	3.1	1.1	4.3	4.0	4.7	5.5	5.2	5.0	4.3	3.9	4.2	4.0	3.8
Other natural resources	0.8	0.9	0.2	1.0	1.2	1.3	1.4	1.5	1.5	1.5	1.7	1.5	1.5	1.5

Total natural resources and environment

7.3	8.2	2.5	10.0	11.0	12.1	13.9	13.6	13.0	12.7	12.3	11.3	10.6	10.2
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Table 4. BUDGET OUTLAYS BY FUNCTION AND SUBFUNCTION, 1975-87—Continued

(In billions of dollars)

Function and subfunction	Actual										Estimate			
	1975	1976	TQ ¹	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
Agriculture:														
Farm income stabilization	0.8	1.6	0.3	4.5	6.6	4.8	3.5	4.0	13.3	20.6	8.9	12.6	10.4	10.3
Agricultural research and services	0.9	0.9	0.2	1.1	1.1	1.3	1.4	1.5	1.6	1.6	1.8	1.7	1.7	1.7
Total agriculture	1.7	2.5	0.6	5.5	7.7	6.2	4.9	5.5	14.9	22.2	10.7	14.3	12.0	11.9
Commerce and housing credit:														
Mortgage credit and thrift insurance	2.8	1.2	0.3	-3.3	0.2	-0.7	3.7	0.7	1.2	2.1	1.1	-1.2	-1.5	-1.1
Postal Service	1.9	1.7	0.9	2.3	1.8	1.8	1.7	1.3	0.7	0.8	0.9	0.7	0.4	0.4
Other advancement of commerce	0.9	0.9	0.2	1.1	1.3	1.5	2.4	2.0	1.9	1.5	1.9	1.6	1.7	1.8
Total commerce and housing credit	5.6	3.8	1.4	0.1	3.3	2.6	7.8	4.0	3.9	4.4	3.8	1.1	0.6	1.2
Transportation:														
Ground transportation	6.5	9.3	2.3	10.0	10.4	12.1	15.1	17.1	14.3	14.3	18.1	18.6	19.2	19.6
Air transportation	2.4	2.5	0.6	2.8	3.2	3.4	3.7	3.8	3.5	4.0	4.8	5.1	5.8	6.1
Water transportation	1.4	1.5	0.4	1.7	1.8	2.0	2.2	2.4	2.7	3.0	3.1	3.1	3.1	3.1
Other transportation	0.1	0.1	*	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total transportation	10.4	13.4	3.3	14.6	15.4	17.5	21.1	23.4	20.6	21.4	26.1	27.1	28.3	28.9
Community and regional development:														
Community development	2.3	2.8	0.9	3.4	3.3	4.0	4.9	5.0	4.6	4.3	4.7	4.8	4.6	4.5
Area and regional development	1.0	1.5	0.3	2.3	4.9	3.9	3.2	2.7	2.7	2.6	2.8	2.6	2.4	2.2
Disaster relief and insurance	0.4	0.5	0.1	0.6	2.9	1.6	2.0	1.7	-0.1	-*	0.1	0.2	0.2	0.1
Total community and regional develop- ment	3.7	4.8	1.3	6.3	11.1	9.5	10.1	9.4	7.2	6.9	7.6	7.6	7.1	6.8

Education, training, employment, and social services:

Elementary, secondary, and vocational education.....	4.2	4.2	1.1	4.6	5.1	6.0	6.7	7.1	6.8	6.3	7.0	7.1	7.3	7.4
Higher education.....	2.0	2.7	0.7	3.1	3.5	4.5	5.7	6.8	6.5	7.2	7.8	7.2	7.0	6.9
Research and general education aids.....	1.0	0.8	0.2	0.9	1.1	1.2	1.4	1.2	1.0	1.1	1.2	1.2	1.1	1.0
Training and employment.....	4.1	6.3	1.9	6.9	10.8	10.8	10.3	9.2	5.5	5.3	5.1	4.9	4.9	4.9
Other labor services.....	0.3	0.3	0.1	0.4	0.4	0.5	0.6	0.6	0.6	0.6	0.7	0.7	0.7	0.7
Social services.....	4.4	4.5	1.2	5.1	5.6	6.6	6.1	6.5	6.0	6.1	7.0	6.8	6.7	6.7

Total education, training, employment, and social services.....

	15.9	18.7	5.2	21.0	26.5	29.7	30.8	31.4	26.3	26.6	28.7	27.9	27.7	27.6
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Health:

Health care services	9.5	11.7	2.9	13.0	13.9	16.0	18.0	21.2	21.8	23.0	24.6	26.6	28.2	30.7
Health research	1.9	2.3	0.5	2.5	2.8	3.0	3.4	3.8	3.9	4.0	4.4	4.8	4.9	5.0
Education and training of health care work force.....	0.9	1.0	0.3	1.0	0.9	0.6	0.7	0.8	0.7	0.6	0.4	0.4	0.4	0.4
Consumer and occupational health and safety.....	0.6	0.7	0.2	0.7	0.8	0.9	1.0	1.0	1.0	1.1	1.1	1.2	1.2	1.2

Total health.....

	12.9	15.7	3.9	17.2	18.5	20.5	23.1	26.9	27.4	28.7	30.7	32.9	34.7	37.2
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Social security and medicare:

Social security	64.7	73.9	19.8	85.1	93.9	104.1	118.6	139.6	156.0	170.7	179.2	190.6	204.2	218.8
Medicare.....	12.9	15.8	4.3	19.3	22.8	26.5	32.1	39.1	46.6	52.6	61.1	69.7	76.5	84.8

Total social security and medicare.....

	77.5	89.7	24.0	104.4	116.6	130.6	150.6	178.7	202.5	223.3	240.2	260.3	280.7	303.7
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Table 4. BUDGET OUTLAYS BY FUNCTION AND SUBFUNCTION, 1975-87—Continued

(In billions of dollars)

Function and subfunction	Actual										Estimate			
	1975	1976	TQ ^a	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
Income security:														
General retirement and disability insurance	4.7	3.2	1.2	3.6	3.4	4.4	5.1	5.4	5.6	5.6	5.5	5.7	5.8	5.9
Federal employee retirement and disability ^a	7.0	8.2	2.3	9.5	10.7	12.4	14.7	17.5	19.4	20.6	21.6	40.0	42.6	45.4
	(13.2)	(15.5)	(4.3)	(17.7)	(19.9)	(22.7)	(26.6)	(31.3)	(34.3)	(36.5)	(38.1)			
Unemployment compensation	13.5	19.5	4.0	15.3	11.8	10.7	18.0	19.7	23.7	31.5	20.7	20.1	19.5	18.8
Housing assistance	2.1	2.5	0.7	3.0	3.7	4.4	5.5	6.9	8.0	9.6	10.0	10.9	11.3	12.0
Food and nutrition assistance	6.6	8.0	1.8	8.5	8.9	10.8	14.0	16.2	15.6	18.0	17.6	17.1	17.9	18.7
Other income security	10.1	12.2	3.1	13.0	13.9	13.4	17.2	19.7	19.8	21.1	20.5	20.6	20.7	21.2
Total income security	43.9	53.5	13.0	52.8	52.3	56.1	74.5	85.5	92.1	106.2	96.0	114.4	117.9	122.0
Veterans benefits and services:														
Income security for veterans	7.9	8.4	2.1	9.2	9.7	10.8	11.7	12.9	13.7	14.3	14.6	15.1	15.6	16.2
Veterans education, training, and rehabilitation	4.6	5.5	0.8	3.7	3.4	2.8	2.3	2.3	1.9	1.6	1.4	1.3	1.1	1.0
Hospital and medical care for veterans	3.7	4.0	1.0	4.7	5.3	5.6	6.5	7.0	7.5	8.3	9.0	9.6	10.2	10.8
Veterans housing	*	-0.1	—*	-0.1	*	0.2	—*	0.2	0.1	*	*	-0.1	*	0.2
Other veterans benefits and services	0.5	0.6	0.1	0.5	0.6	0.6	0.7	0.7	0.7	0.7	0.8	0.8	0.8	0.8
Total veterans benefits and services	16.6	18.4	4.0	18.0	19.0	19.9	21.2	23.0	24.0	24.8	25.8	26.7	27.8	28.9
Administration of justice:														
Federal law enforcement activities	1.3	1.5	0.4	1.7	1.8	2.0	2.2	2.4	2.5	2.9	3.4	3.5	3.5	3.5
Federal litigative and judicial activities	0.6	0.7	0.2	0.8	0.9	1.1	1.3	1.5	1.5	1.6	1.9	1.8	1.9	1.9
Federal correctional activities	0.2	0.2	0.1	0.2	0.3	0.3	0.3	0.4	0.4	0.4	0.5	0.6	0.5	0.5
Criminal justice assistance	0.9	0.9	0.2	0.8	0.7	0.7	0.7	0.5	0.3	0.2	0.2	0.2	0.2	0.1
Total administration of justice	3.0	3.3	0.9	3.6	3.8	4.2	4.6	4.8	4.7	5.1	6.0	6.1	6.1	6.2

General government:														
Legislative functions	0.6	0.7	0.2	0.8	0.9	0.9	1.0	1.0	1.2	1.2	1.3	1.4	1.5	1.5
Executive direction and management.....	0.1	0.1	*	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Central fiscal operations	1.7	1.8	0.4	1.8	2.1	2.3	2.5	2.5	2.6	3.0	3.5	3.6	3.6	3.7
General property and records management.....	0.4	0.1	0.1	0.1	0.2	0.2	0.3	0.2	0.2	0.2	0.4	0.2	0.2	0.3
Central personnel management.....	0.1	0.1	*	0.1	0.1	0.1	0.2	0.2	0.1	0.1	0.2	0.2	0.2	0.2
Other general government	0.4	0.4	0.2	0.4	0.4	0.5	0.6	0.7	0.5	0.8	0.6	0.6	0.5	0.4
Deductions for offsetting receipts	-0.4	-0.4	-0.2	-0.3	-0.4	-0.3	-0.5	-0.4	-0.3	-0.6	-0.4	-0.4	-0.4	-0.4
Total general government.....	2.9	2.7	0.8	2.9	3.4	3.9	4.1	4.4	4.4	4.8	5.7	5.7	5.7	5.7
General purpose fiscal assistance:														
General revenue sharing	6.1	6.2	1.6	6.8	6.8	6.9	6.8	5.1	4.6	4.6	4.6	4.6	4.6	4.6
Other general purpose fiscal assistance.....	1.1	1.0	0.5	2.7	2.8	1.5	1.7	1.7	1.8	1.8	2.2	2.1	2.2	2.4
Total general purpose fiscal assistance....	7.2	7.2	2.1	9.5	9.6	8.4	8.6	6.9	6.4	6.5	6.7	6.7	6.8	7.0
Net interest:														
Interest on the public debt	32.7	37.1	8.1	41.9	48.7	59.8	74.8	95.5	117.2	128.6	149.5	164.7	177.9	188.6
Interest received by trust funds.....	-7.7	-7.8	-0.3	-8.1	-8.5	-10.0	-12.0	-13.8	-16.1	-17.1	-19.4	-22.6	-26.2	-30.2
Other interest	-1.8	-2.6	-0.9	-3.9	-4.7	-7.3	-10.2	-13.0	-16.1	-21.7	-21.9	-26.0	-27.5	-27.6
Total net interest.....	23.2	26.7	6.9	29.9	35.4	42.6	52.5	68.7	85.0	89.9	108.2	116.1	124.2	130.9
Allowances:														
Civilian agency pay raises.....												0.4	3.0	5.1
Increased employing agency payments for employee retirement												0.5	1.1	1.1
Total allowances												0.9	4.0	6.3

Table 4. BUDGET OUTLAYS BY FUNCTION AND SUBFUNCTION, 1975-87—Continued

(In billions of dollars)

Function and subfunction	Actual										Estimate			
	1975	1976	TQ ¹	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
Undistributed offsetting receipts:														
Employer share, employee retirement ⁴	-4.0	-4.2	-1.0	-4.5	-5.0	-5.3	-5.8	-6.4	-7.0	-8.1	-8.8	-27.9	-31.6	-34.2
Rents and royalties on the Outer Continental Shelf	-2.4	-2.7	-1.3	-2.4	-2.3	-3.3	-4.1	-10.1	-6.2	-10.5	-8.7	-7.4	-11.3	-11.6
Total undistributed offsetting receipts	-6.4	-6.9	-2.3	-6.9	-7.2	-8.5	-9.9	-16.5	-13.3	-18.6	-17.5	-35.3	-42.9	-45.8
Total budget outlays	324.2	364.5	94.2	400.5	448.4	491.0	576.7	657.2	728.4	796.0	853.8	925.5	992.1	1,068.3
<i>Outlays of off-budget Federal entities:</i>														
International affairs	0.1	0.8	0.2	1.4	1.5	1.3	1.9	1.9	2.3	2.9	3.6	2.0	-0.3	-1.0
General science, space and technology				0.1	0.2	0.2	0.1	0.1	0.1	0.2	0.1		*	0.1
Energy	0.7	1.1	0.3	1.6	2.2	2.3	3.8	4.9	8.8	5.4	6.7	5.7	6.0	4.6
Agriculture	1.4	0.7	0.4	1.2	3.6	5.0	4.0	5.8	1.1	0.7	1.5	0.2	0.1	0.1
Commerce and housing credit:														
Postal Service	1.1	1.1	-0.7	-0.2	-0.5	-0.9	-0.4	0.1	-0.6	0.3	1.2	2.8	0.1	1.0
Mortgage credit and other	3.2	2.7	0.3	3.2	3.4	3.0	2.0	4.2	2.9	2.0	2.8	2.3	1.6	1.4
Subtotal, commerce and housing credit	4.3	3.8	-0.5	3.0	2.9	2.1	1.6	4.3	2.4	2.3	4.0	5.1	1.7	2.4
Transportation	0.5	0.3	0.1	0.2	0.1	0.1	0.2	*	0.1	-0.1	-0.9	*	*	*
Community and regional development	0.6	0.7	0.2	0.7	0.8	0.9	1.2	1.2	1.2	0.6	0.9	0.7	0.3	0.2
Education	0.1	0.2	*	0.1	0.2	0.5	1.1	2.0	0.7					
Health	0.1	0.1	*	0.1	*	*	*	*	*	*	*	*	*	*
Income security							0.1	0.8	0.7	0.4	0.2	1.2	1.1	1.1
General government	0.2	-0.2	-0.1	0.2	*	*	0.2	0.1	*	*	*	*	*	*
General purpose fiscal assistance			1.1	0.1	-1.2									
Off-budget outlays	8.1	7.3	1.8	8.7	10.4	12.5	14.2	21.0	17.3	12.4	16.2	14.8	8.8	7.2
Total outlays, including off-budget	332.3	371.8	96.0	409.2	458.7	503.5	590.9	678.2	745.7	808.3	870.0	940.3	1,000.9	1,075.5

* \$50 million or less.

¹ In calendar year 1976, the Federal fiscal year was converted from a July 1-June 30 basis to an Oct. 1-Sept. 30 basis. The TQ refers to the transition quarter from July 1 to Sept. 30, 1976.² Through 1984 the military personnel line includes the cash benefits for retired military personnel. Starting in 1985 the cash benefits are transferred to income security function and the military personnel line includes the accrual costs for retirement benefits currently earned by members of the armed forces. See the introduction to Part 5 of the Budget for more details.³ Starting in 1985 cash benefits for retired military personnel are included in the subfunction. The numbers in parentheses show the comparable numbers for the years before 1985. See the introduction to Part 5 of the Budget for more details.⁴ Starting in 1985 the budget reflects the establishment of a new military retirement trust fund in the income security function. Consistent with this new approach, the national defense function shows the current costs of retirement benefits earned in each year and these constitute employer payments for employee retirement. The data before 1985 therefore, are not comparable. See the introduction to Part 5 of the Budget for more details.

Table 5. BUDGET OUTLAYS BY AGENCY, 1983-89

(In billions of dollars)

	1983 actual	Estimate					
		1984	1985	1986	1987	1988	1989
Budget outlays by agency:							
Legislative branch.....	1.4	1.7	1.7	1.8	1.8	1.8	1.8
The Judiciary.....	.8	.9	1.0	1.1	1.1	1.2	1.2
Executive Office of the President.....	.1	.1	.1	.1	.1	.1	.1
Funds appropriated to the President.....	5.5	8.1	11.1	12.1	12.6	12.6	11.9
Agriculture.....	46.4	34.8	37.7	36.1	36.4	36.2	36.3
Commerce.....	1.9	2.2	2.0	1.8	1.8	1.9	2.0
Defense—Military: ¹							
Including accruals.....	(204.4)	(231.0)	264.4	301.8	339.2	369.8	398.8
Excluding accruals.....	205.0	231.0					
Defense—Civil:							
Including military retirees.....	(18.9)	(19.6)	20.0	21.1	22.5	23.9	25.2
Excluding military retirees.....	2.9	3.1					
Education.....	14.6	16.1	15.5	15.5	15.3	15.3	15.2
Energy.....	8.4	8.8	9.9	11.0	11.3	11.7	11.9
Health and Human Services.....	276.6	296.0	318.1	340.3	366.3	394.0	421.0
Housing and Urban Development.....	15.3	15.9	15.2	15.1	16.5	16.7	16.7
Interior.....	4.6	4.9	4.4	4.2	4.2	4.2	4.3
Justice.....	2.8	3.4	3.7	3.7	3.7	3.7	3.8
Labor.....	38.1	27.1	26.4	25.5	25.0	23.8	23.5
State.....	2.3	2.6	3.1	2.8	3.1	3.2	3.3
Transportation.....	20.6	25.3	26.2	27.4	28.0	27.9	27.8
Treasury.....	116.4	137.7	149.5	162.8	173.2	177.1	177.7
Environmental Protection Agency.....	4.3	4.0	4.2	4.0	3.8	3.7	3.6
General Services Administration.....	.2	.5	.3	.2	.3	.3	.3
National Aeronautics and Space Administration.....	6.7	7.1	7.4	7.8	8.1	8.6	9.0
Office of Personnel Management.....	21.3	22.6	23.7	25.2	26.9	28.6	30.2
Small Business Administration.....	.5	.4	.4	.4	.4	.3	.3
Veterans Administration.....	24.8	25.8	26.7	27.8	28.9	30.0	30.9
Other agencies.....	10.3	10.8	10.1	9.0	8.4	7.6	6.9
Allowances ².....			.9	4.0	6.3	8.5	10.9
Undistributed offsetting receipts:							
Including accrual offset.....	(-51.1)	(-53.4)	-58.3	-70.5	-76.9	-82.3	-91.1
Excluding accrual offset.....	-35.7	-36.9					
Total budget outlays.....	796.0	853.8	925.5	992.1	1,068.3	1,130.3	1,183.7
Budget surplus or deficit(—).....	-195.4	-183.7	-180.4	-177.1	-180.5	-152.0	-123.4

¹ Includes allowances for civilian and military pay raises for Department of Defense.² Includes allowances for civilian agency pay raises and increased employing agency payments for employee retirement.

Note.—Beginning in 1985, the budget reflects establishment of a military retirement trust fund. Entries in parentheses show amounts for 1983 and 1984 on a comparable basis.

Table 6. NEW DIRECT LOAN OBLIGATIONS BY AGENCY

(In millions of dollars)

Department or other unit	1983 actual	1984 estimate	1985 estimate
Funds Appropriated to the President	2,491	2,573	6,451
FFB direct loans	3,932	4,401	.....
Agriculture ¹	22,715	16,475	14,029
FFB direct loans	3,442	3,360	1,325
Commerce	15	12	.....
Education	724	874	795
Energy	4	10	40
FFB direct loans	100	.....	.....
Health and Human Services	15	26	6
Housing and Urban Development	2,914	2,769	2,401
FFB direct loans	61	225	.....
Interior	61	70	84
Labor	1	2	2
State	*	1	1
Transportation	387	1,126	70
FFB direct loans	15	20	.....
Environmental Protection Agency	42	.....	.....
National Aeronautics and Space Administration: FFB direct loans	189	131	.....
Small Business Administration	1,050	1,189	975
FFB direct loans	430	575	515
Veterans Administration	1,190	766	534
Other independent agencies:			
District of Columbia	295	115	.....
Export-Import Bank	845	2,580	3,830
Federal Home Loan Bank Board	19	2	3
National Credit Union Administration	220	312	456
Tennessee Valley Authority	41	85	89
FFB direct loans	161	165	88
Total	41,358	37,862	31,694

* \$500 thousand or less.

¹ Includes Rural Electrification Administration (REA) off-budget activities as follows: 1983, \$1,272 million; 1984, \$1,285 million; 1985, \$760 million. Agriculture FFB direct loans reflect REA activity exclusively.

Note: Loans guaranteed by Federal agencies and disbursed by the Federal Financing Bank are identified.

Table 7. NEW GUARANTEED LOAN COMMITMENTS BY AGENCY

(In millions of dollars)

Department or other unit	1983 actual	1984 estimate	1985 estimate
Funds Appropriated to the President	232	250	300
Agriculture	4,842	4,472	3,219
Commerce	27	57	.....
Education	7,262	7,593	7,907
Energy	45	.....	78
Health and Human Services	230	250	175
Housing and Urban Development	123,097	121,509	124,069
Interior	14	19	.....
Transportation	345	613	602
Small Business Administration	2,619	3,325	3,290
Veterans Administration	14,674	13,408	14,988
Other independent agencies:			
Export-Import Bank	8,524	10,000	10,000
National Credit Union Administration	34	28	10
Synthetic Fuels Corporation ¹ .....	.....	4,098	2,400
Subtotal, guaranteed loans (gross)	161,945	165,621	167,039
Less:			
Secondary guaranteed loans	—64,225	—68,250	—68,250
Guaranteed loans held as direct loans by GNMA	—500	.....	.....
Total	97,221	97,371	98,789

¹ The Synthetic Fuels Corporation is an off-budget Federal entity.

Note: Loans guaranteed by Federal agencies and disbursed by the Federal Financing Bank are excluded from these totals.

Table 8. FEDERAL FINANCES AND THE GROSS NATIONAL PRODUCT, 1966-87

(Dollar amounts in billions)

Fiscal year	Gross national product	Budget receipts		Outlays						Surplus or deficit (—)				Federal debt, end of year			
		Amount	Percent of GNP	Budget		Off-budget Federal entities		Total		Budget		Total (including off-budget) ¹		Total		Held by the public	
				Amount	Percent of GNP	Amount	Percent of GNP	Amount	Percent of GNP	Amount	Percent of GNP	Amount	Percent of GNP	Amount	Percent of GNP	Amount	Percent of GNP
1966	724.1	130.9	18.1	134.7	18.6	.....	.....	134.7	18.6	—3.8	.5	—3.8	.5	329.5	45.5	264.7	36.5
1967	777.3	148.9	19.2	157.6	20.3	.....	.....	157.6	20.3	—8.7	1.1	—8.7	1.1	341.3	43.9	267.5	34.5
1968	831.3	153.0	18.4	178.1	21.4	.....	.....	178.1	21.4	—25.2	3.0	—25.2	3.0	369.8	44.5	290.6	34.8
1969	910.6	186.9	20.5	183.6	20.2	.....	.....	183.6	20.2	3.2	.4	3.2	.4	367.1	40.3	279.5	30.7
1970	968.8	192.8	19.9	195.7	20.2	.....	.....	195.7	20.2	—2.8	.3	—2.8	.3	382.6	39.5	284.9	29.4
1971	1,031.5	187.1	18.1	210.2	20.4	.....	.....	210.2	20.4	—23.0	2.2	—23.0	2.2	409.5	39.7	304.3	29.5
1972	1,128.8	207.3	18.4	230.7	20.4	.....	.....	230.7	20.4	—23.4	2.1	—23.4	2.1	437.3	38.7	323.8	28.7
1973	1,252.0	230.8	18.4	245.6	19.6	.1	*	245.7	19.6	—14.8	1.2	—14.9	1.2	468.4	37.4	343.0	27.4
1974	1,379.4	263.2	19.1	267.9	19.4	1.4	.1	269.4	19.5	—4.7	.3	—6.1	.4	486.2	35.3	346.1	25.1
1975	1,479.9	279.1	18.9	324.2	21.9	8.1	.6	332.3	22.5	—45.2	3.1	—53.2	3.6	544.1	36.8	396.9	26.8
1976	1,640.1	298.1	18.2	364.5	22.2	7.3	.4	371.8	22.7	—66.4	4.0	—73.7	4.5	631.9	38.5	480.3	29.3
1977	1,862.8	355.6	19.1	400.5	21.5	8.7	.5	409.2	22.0	—44.9	2.4	—53.6	2.9	709.1	38.1	551.8	29.6
1978	2,091.3	399.6	19.1	448.4	21.4	10.4	.5	458.7	21.9	—48.8	2.3	—59.2	2.8	780.4	37.3	610.9	29.2
1979	2,357.7	463.3	19.7	491.0	20.8	12.5	.5	503.5	21.4	—27.7	1.2	—40.2	1.7	833.8	35.4	644.6	27.3
1980	2,575.8	517.1	20.1	576.7	22.4	14.2	.6	590.9	22.9	—59.6	2.3	—73.8	2.9	914.3	35.5	715.1	27.8
1981	2,882.0	599.3	20.8	657.2	22.8	21.0	.7	678.2	23.5	—57.9	2.0	—78.9	2.7	1,003.9	34.8	794.4	27.6
1982	3,057.3	617.8	20.2	728.4	23.8	17.3	.6	745.7	24.4	—110.7	3.6	—127.9	4.2	1,147.0	37.5	929.4	30.4
1983	3,228.8	600.6	18.6	796.0	24.7	12.4	.4	808.3	25.0	—195.4	6.1	—207.8	6.4	1,381.9	42.8	1,141.8	35.4
1984 estimate.....	3,558.7	670.1	18.8	853.8	24.0	16.2	.5	870.0	24.4	—183.7	5.2	—199.9	5.6	1,591.6	44.7	1,324.8	37.2
1985 estimate.....	3,890.1	745.1	19.2	925.5	23.8	14.8	.4	940.3	24.2	—180.4	4.6	—195.2	5.0	1,828.4	47.0	1,517.8	39.0
1986 estimate.....	4,231.3	814.9	19.3	992.1	23.4	8.8	.2	1,000.9	23.7	—177.1	4.2	—185.9	4.4	2,067.0	48.9	1,702.9	40.2
1987 estimate.....	4,589.3	887.8	19.3	1,068.3	23.3	7.2	.2	1,075.5	23.4	—180.5	3.9	—187.7	4.1	2,318.4	50.5	1,889.8	41.2

*0.05% or less.

¹ The off-budget deficits are equal to the off-budget outlays but with the opposite sign.

Table 9. FULL-TIME EQUIVALENT OF TOTAL FEDERAL CIVILIAN EMPLOYMENT IN THE EXECUTIVE BRANCH ¹

(Excluding the Postal Service)

	Fiscal year				
	1982 revised Budget estimate ²	1983 actual ³	1984 estimate	1985 estimate	1986 estimate
Agriculture	121,000	109,773	108,900	107,400	107,400
Commerce	36,300	32,715	33,505	32,507	33,095
Defense—civil functions	32,100	30,973	29,088	29,034	29,034
Education	6,600	5,360	5,189	4,979	4,749
Energy	18,700	16,984	16,757	16,042	15,711
Health and Human Services	154,000	141,715	137,321	130,445	127,184
Housing and Urban Development	15,700	13,779	12,878	12,442	12,073
Interior	81,700	73,451	73,232	72,826	72,826
Justice	54,400	55,686	58,748	60,473	61,488
Labor	21,600	18,968	19,246	18,634	18,697
State	22,900	23,786	24,759	25,442	25,744
Transportation	68,100	61,752	62,000	61,369	60,468
Treasury	124,300	118,507	125,526	122,522	122,400
Environmental Protection Agency	12,900	10,883	11,598	12,298	12,298
National Aeronautics and Space Administration	22,700	22,246	22,000	22,000	22,000
Veterans Administration	209,600	216,848	219,347	221,555	222,677
Other:					
Agency for International Development	5,600	5,169	5,201	5,108	4,983
General Services Administration	32,800	28,391	29,128	28,812	28,209
Nuclear Regulatory Commission	3,400	3,403	3,416	3,491	3,491
Office of Personnel Management	6,600	5,601	5,837	5,822	5,822
Panama Canal Commission	9,100	8,636	8,578	8,490	8,525
Small Business Administration	4,700	4,231	4,200	4,100	3,900
Tennessee Valley Authority	44,700	35,646	35,500	36,000	36,000
United States Information Agency	7,600	7,906	8,356	8,810	8,897
Miscellaneous	45,000	39,625	39,853	39,578	39,199
Contingencies	1,000				
Estimated nondefense lapse			—13,752	—8,176	—5,434
Subtotal	1,163,100	1,092,034	1,086,411	1,082,003	1,081,436
Defense—military functions ⁴	937,700	984,806	995,499	1,002,823	1,003,000
Total	2,100,800	2,076,840	2,081,910	2,084,826	2,084,436

¹ Excludes developmental positions under the Worker-Trainee Opportunity Program (WTOP) as well as certain statutory exemptions.

² As contained in the revised 1982 Budget, transmitted to the Congress in March 1981.

³ Data are estimated for portions of Defense-civil functions as well as for the Federal Reserve System, Board of Governors and the International Trade Commission.

⁴ Section 904 of the 1982 Defense Authorization Act (Public Law 97-86), exempts the Department of Defense from full-time equivalent employment controls. Data shown are estimated.

Table 10. BUDGET RECEIPTS AND OUTLAYS, 1789-1989¹ (in millions of dollars)

Fiscal year	Budget receipts	Budget outlays	Budget surplus or deficit (—)
1789-1849 ...	1,160	1,090	+ 70
1850-1900 ...	14,462	15,453	- 991
1901-1905 ...	2,797	2,678	+ 119
1906-1910 ...	3,143	3,196	- 52
1911-1915 ...	3,517	3,568	- 49
1916-1920 ...	17,286	40,195	- 22,909
1921.....	5,571	5,062	+ 509
1922.....	4,026	3,289	+ 736
1923.....	3,853	3,140	+ 713
1924.....	3,871	2,908	+ 963
1925.....	3,641	2,924	+ 717
1926.....	3,795	2,930	+ 865
1927.....	4,013	2,857	+ 1,155
1928.....	3,900	2,961	+ 939
1929.....	3,862	3,127	+ 734
1930.....	4,058	3,320	+ 738
1931.....	3,116	3,577	- 462
1932.....	1,924	4,659	- 2,735
1933.....	1,997	4,598	- 2,602
1934.....	3,015	6,645	- 3,630
1935.....	3,706	6,497	- 2,791
1936.....	3,997	8,422	- 4,425
1937.....	4,956	7,733	- 2,777
1938.....	5,588	6,765	- 1,177
1939.....	4,979	8,841	- 3,862
1940.....	6,361	9,456	- 3,095
1941.....	8,621	13,634	- 5,013
1942.....	14,350	35,114	- 20,764
1943.....	23,649	78,533	- 54,884
1944.....	44,276	91,280	- 47,004
1945.....	45,216	92,690	- 47,474
1946.....	39,327	55,183	- 15,856
1947.....	38,394	34,532	+ 3,862
1948.....	41,774	29,773	+ 12,001
1949.....	39,437	38,834	+ 603
1950.....	39,485	42,597	- 3,112
1951.....	51,646	45,546	+ 6,100
1952.....	66,204	67,721	- 1,517
1953.....	69,574	76,107	- 6,533
1954.....	69,719	70,890	- 1,170
1955.....	65,469	68,509	- 3,041
1956.....	74,547	70,460	+ 4,087
1957.....	79,990	76,741	+ 3,249
1958.....	79,636	82,575	- 2,939
1959.....	79,249	92,104	- 12,855
1960.....	92,492	92,223	+ 269
1961.....	94,389	97,795	- 3,406
1962.....	99,676	106,813	- 7,137
1963.....	106,560	111,311	- 4,751
1964.....	112,662	118,584	- 5,922
1965.....	116,833	118,430	- 1,596
1966.....	130,856	134,652	- 3,796
1967.....	148,906	157,608	- 8,702
1968.....	152,973	178,134	- 25,161
1969.....	186,882	183,645	+ 3,236
1970.....	192,807	195,652	- 2,845
1971.....	187,139	210,172	- 23,033
1972.....	207,309	230,681	- 23,373
1973.....	230,799	245,647	- 14,849
1974.....	263,224	267,912	- 4,688
1975.....	279,090	324,245	- 45,154
1976.....	298,060	364,473	- 66,413
TQ ²	81,232	94,188	- 12,956
1977.....	355,559	400,506	- 44,948
1978.....	399,561	448,368	- 48,807
1979.....	463,302	490,997	- 27,694
1980.....	517,112	576,675	- 59,563
1981.....	599,272	657,204	- 57,932
1982.....	617,766	728,375	- 110,609
1983.....	600,562	795,969	- 195,407
1984 est.....	670,071	853,760	- 183,689
1985 est.....	745,127	925,492	- 180,365
1986 est.....	814,940	992,072	- 177,132
1987 est.....	887,829	1,068,293	- 180,464
1988 est.....	978,303	1,130,335	- 152,032
1989 est.....	1,060,304	1,183,698	- 123,394
<i>Totals, including outlays of off-budget Federal entities ³</i>			
Fiscal year	Outlays of off-budget Federal entities	Total outlays	Total surplus or deficit (—)
1973.....	60	245,707	- 14,908
1974.....	1,447	269,359	- 6,135
1975.....	8,088	332,332	- 53,242
1976.....	7,307	371,779	- 73,719
TQ.....	1,785	95,973	- 14,741
1977.....	8,700	409,206	- 53,647
1978.....	10,359	458,726	- 59,166
1979.....	12,467	503,464	- 40,162
1980.....	14,245	590,920	- 73,808
1981.....	21,005	678,209	- 78,936
1982.....	17,331	745,706	- 127,940
1983.....	12,357	808,327	- 207,764
1984 est.....	16,196	869,956	- 199,884
1985 est.....	14,814	940,307	- 195,179
1986 est.....	8,789	1,000,861	- 185,922
1987 est.....	7,221	1,075,513	- 187,685
1988 est.....	7,631	1,137,967	- 159,664
1989 est.....	4,767	1,188,465	- 128,161

¹ Data for 1789-1939 are for the administrative budget; data for 1940 and all following years are for the unified budget.² In calendar year 1976, the Federal fiscal year was converted from a July 1-June 30 basis to an Oct. 1-Sept. 30 basis. The TQ refers to the transition quarter from July 1 to Sept. 30, 1976.³ Off-budget Federal entity outlays begin in 1973.

GLOSSARY

- AUTHORIZING LEGISLATION**—Legislation enacted by the Congress to set up or continue the operation of a Federal program or agency. Authorizing legislation is normally a prerequisite for subsequent appropriations, but does not usually provide budget authority (see below).
- BUDGET**—A plan of proposed receipts and spending for the coming fiscal year. By law the President's budget for the Federal Government must be transmitted to Congress within fifteen days after Congress convenes, which is usually in early January.
- BUDGET AMENDMENT**—A proposal that the President transmits to the Congress to revise his budget request after he formally transmits the budget but before the Congress has completed appropriations action.
- BUDGET AUTHORITY (BA)**—Authority provided by law to enter into obligations that will result in immediate or future outlays. It may be classified by the period of availability, by the timing of congressional action, or by the manner of determining the amount available. The basic forms of budget authority are:
- Appropriations*—Authority that permits Federal agencies to incur obligations and to make payments.
- Authority to borrow*—Authority that permits Federal agencies to incur obligations and to borrow money to make payments.
- Contract authority*—Authority that permits Federal agencies to enter into contracts or incur other obligations in advance of an appropriation.
- BUDGET RECEIPTS**—Money, net of refunds, collected from the public by the Federal Government through the exercise of its governmental or sovereign powers. Budget receipts also include gifts and contributions. Excluded are amounts received from strictly business-type transactions (such as sales, interest, or loan repayments) and payments between Government accounts. (See offsetting receipts.)
- BUDGET SURPLUS OR DEFICIT**—Difference between budget receipts and outlays.
- CONCURRENT RESOLUTION ON THE BUDGET**—A resolution passed by both Houses of the Congress, but not requiring the signature of the President, setting targets or binding Federal budget totals for the Congress.
- CONTINUING RESOLUTION**—Legislation enacted by the Congress to provide budget authority for specific ongoing activities when a regular appropriation for those activities has not been enacted by the beginning of the fiscal year.
- CREDIT BUDGET**—A plan of proposed direct loan obligations and guaranteed loan commitments. Budget authority and outlays associated with the credit budget are included in the Federal on- and off-budget totals.
- CURRENT SERVICES ESTIMATES**—Estimates of receipts, outlays and budget authority for coming fiscal years that assume no policy changes from the year in progress. The estimates include the effects of anticipated changes in economic conditions (such as unemployment or inflation), beneficiary levels, pay increases, and changes required under existing law.
- DEFERRAL**—Executive branch action that temporarily delays the obligation of budget authority. Deferrals may be overturned at any time by an act of the Congress.

- FEDERAL FUNDS**—Amounts collected and used by the Federal Government for the general purposes of the Government. There are four types of Federal fund accounts: the general fund, special funds, public enterprise revolving funds, and intragovernmental funds. The major Federal fund is the general fund, which is derived from general taxes and borrowing. The other form of Federal funds involves earmarked collections, such as those generated by and used to finance a continuing cycle of business-type operations.
- FISCAL YEAR**—The Federal Government's yearly accounting period, which begins on October 1 and ends on the following September 30. The fiscal year is designated by the calendar year in which it ends; e.g., fiscal year 1985 begins on October 1, 1984, and ends on September 30, 1985. (From 1844 to 1976 the fiscal year began on July 1 and ended on the following June 30.)
- IMPOUNDMENT**—Any action or inaction by an officer or employee of the Federal Government that precludes the obligation or expenditure of budget authority provided by the Congress (see deferral and rescission).
- OBLIGATIONS**—Amounts of orders placed, contracts awarded, services received, or similar legally binding commitments made by Federal agencies during a given period that will require outlays during the same or some future period.
- OFF-BUDGET FEDERAL ENTITIES**—Federal organizations or programs that belong in the budget under current budget accounting concepts but that have been excluded from the budget totals under provisions of law.
- OFFSETTING RECEIPTS**—Collections deposited in receipt accounts that are offset against budget authority and outlays rather than being counted as budget receipts. These collections are derived from Government accounts (intragovernmental transactions) or from the public (proprietary receipts) through activities that are of a business-type or market-oriented nature.
- OUTLAYS**—Payments, normally in the form of checks issued or cash disbursed. Outlays include interest accrued on the public debt, or other forms of payment, net of refunds, reimbursements and offsetting collections.
- RECONCILIATION**—A reconciliation directive is a provision in the concurrent resolution on the budget that calls on various committees of the Congress to recommend legislative changes that reduce outlays or increase receipts by specified amounts. A reconciliation bill contains these changes.
- RESCISSION**—A legislative action canceling budget authority previously provided by the Congress.
- SUPPLEMENTAL APPROPRIATION**—An appropriation enacted subsequent to a regular annual appropriation act. Supplemental appropriation acts provide additional budget authority for programs or activities (including new programs authorized after the date of the original appropriation act) for which the need for funds is too urgent to be postponed until the next regular appropriation.
- TAX EXPENDITURES**—Provisions of the Federal income tax laws that allow a special exclusion, exemption, or deduction from gross income or provide a special credit, preferential rate of tax, or deferral of tax liability. Tax expenditures frequently have results similar to spending programs, loan guarantees, or regulations.
- TRUST FUNDS**—Amounts collected and used by the Federal Government for carrying out specific purposes and programs according to a statute or trust agreement, such as the social security and unemployment trust funds. Trust funds are not available for the general purposes of the Government. Trust fund receipts that are not needed immediately are generally invested in Government securities and earn interest for the trust fund.

THE BUDGET DOCUMENTS

Budget of the United States Government, 1985 contains the Budget Message of the President and presents an overview of the President's budget proposals. It includes explanations of spending programs in terms of national needs, agency missions, and basic programs, and an analysis of receipts, including a discussion of the President's tax program. This document also contains a description of the budget system and various summary tables on the budget as a whole.

United States Budget in Brief, 1985 is designed for use by the general public. It provides a more concise, less technical overview of the 1985 budget than the above volume. Summary and historical tables on the Federal budget and debt are also provided, together with graphic displays.

Budget of the United States Government, 1985—Appendix contains detailed information on the various appropriations and funds that comprise the budget. The *Appendix* contains more detailed information than any of the other budget documents. It includes for each agency: the proposed text of appropriation language, budget schedules for each account, new legislative proposals, explanations of the work to be performed and the funds needed, and proposed general provisions applicable to the appropriations of entire agencies or groups of agencies. Supplementals and rescission proposals for the current year are presented separately. Information is also provided on certain activities whose outlays are not part of the budget-totals.

Special Analyses, Budget of the United States Government, 1985 contains analyses that are designed to highlight specified program areas or provide other significant presentations of Federal budget data. This document includes information about: alternative views of the budget, i.e., current services and national income accounts; economic and financial analyses of the budget covering Government finances and operations as a whole; and Government-wide program and financial information for Federal civil rights and research and development programs.

Instructions for purchasing copies of any of these documents are on the last two pages of this volume.