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EXECUTIVE OFFICE OF
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OFFICE OF MANAGEMENT
AND BUDGET

THE
UNITED STATES
BUDGET
IN BRIEF

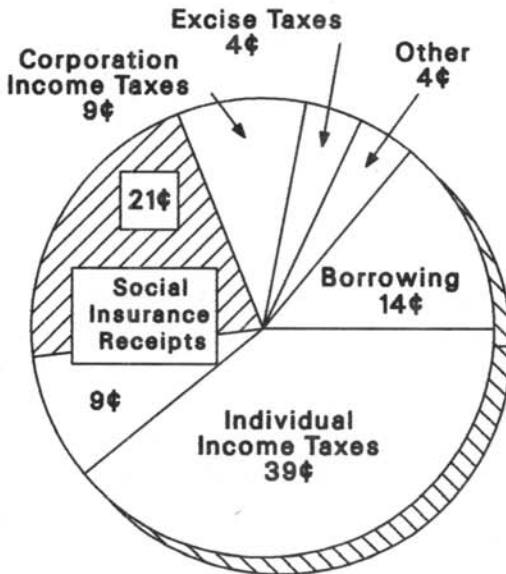
FISCAL YEAR

1987

The Federal Government Dollar

Fiscal Year 1987 Estimate

Where It Comes From ...



Where It Goes ...

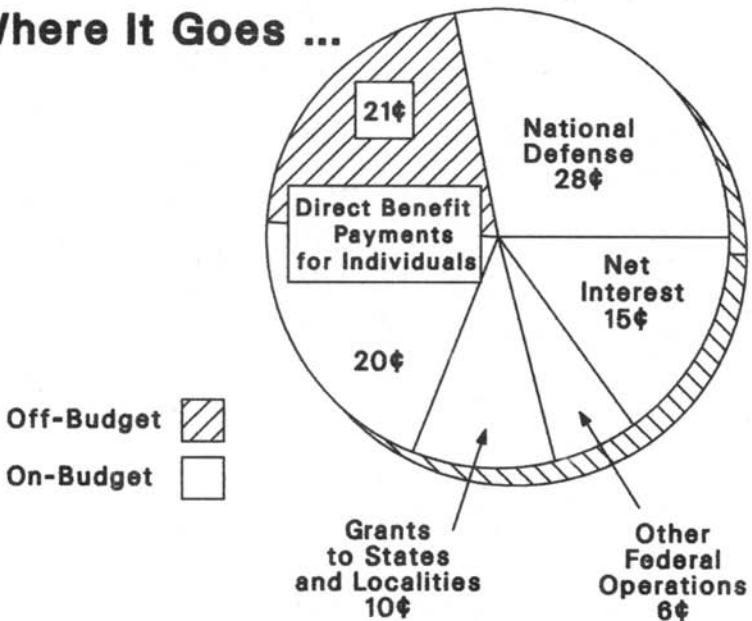


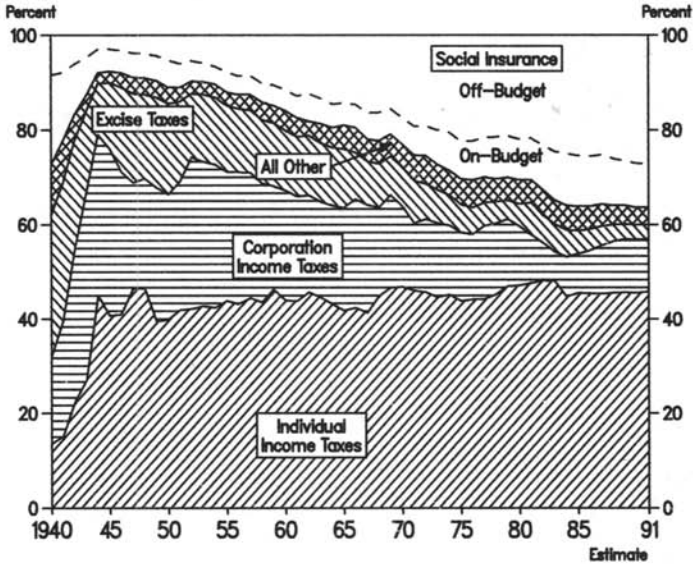
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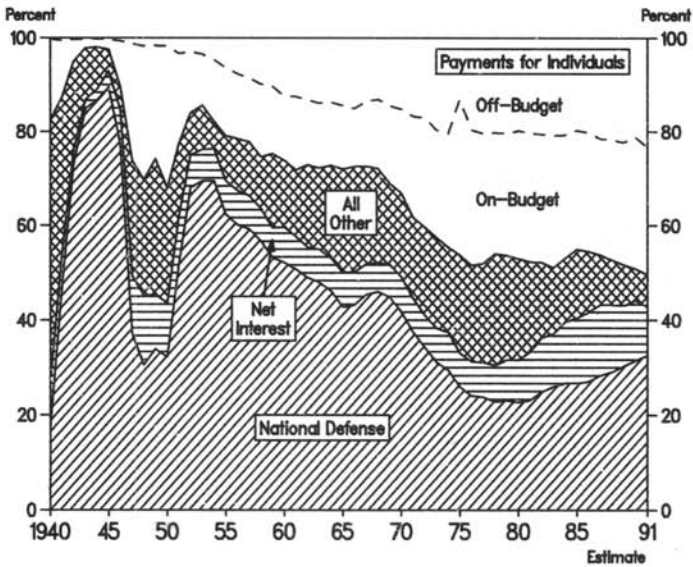
GENERAL NOTES

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.
3. Sequestration of budgetary resources in 1986 is required by the Balanced Budget and Emergency Deficit Control Act of 1985 (P.L. 99-177). All 1986 data shown in this volume incorporate the effects of sequestration, unless otherwise noted.

Percentage Composition of Federal Government Receipts



Percentage Composition of Federal Government Outlays



BUDGET MESSAGE OF THE PRESIDENT

To the Congress of the United States:

The economic expansion we are now enjoying is one of the most vigorous in 35 years. Family income is at an all-time high; production and productivity are increasing; employment gains have been extraordinary; and inflation, which raged at double-digit rates when I took office, has been reduced dramatically. Defense capabilities, which had been dangerously weakened during the 1970s, are being rebuilt, restoring an adequate level of national security and deterrence to war. Moreover, an insupportable growth in tax burdens and Federal regulations has been halted.

Let me give you a few highlights:

- Employment has grown by 9.2 million in the past three years, while the unemployment rate has fallen by 3.8 percentage points; during the three years preceding my administration, employment grew by only 5.5 million and the unemployment rate rose 0.8 percentage points.
- The highest proportion of our adult population (60%) is now at work, with more blacks and other minorities employed (14 million) than ever before.
- Inflation, which averaged 11.6% a year during the three years before I took office, has averaged only a third of that—3.8%—during the last three years.
- Real GNP has grown at a 4.5% annual rate during the past three years, compared with only a 2.2% annual rate during the last three years of the previous administration.
- The prime rate of interest, and other key interest rates, are less than half what they were when I took office.
- Some 11,000 new business incorporations are generated every week, and since early 1983, investment in plant and equipment has risen 44% in real terms.
- During the past three years, industrial production has risen by 25%.
- During the same period, corporate profits increased 117% and stocks nearly doubled in value.
- Federal tax revenues have returned to historic levels of approximately 18½% of GNP, as tax rates have been cut across-the-board and indexed for inflation.

- As a result of all of the above, real after-tax personal income has risen 10.6% during the last three years—an average increase of \$2,500 for each American household.

This dramatic improvement in the performance of our economy was no accident. We have put in place policies that reflect our commitment to reduce Federal Government intrusion in the private sector and have eliminated many barriers to the process of capital formation and growth. We continue to maintain a steadfast adherence to the four fundamental principles of the economic program I presented in February 1981:

- Reducing the growth of Federal spending;
- Limiting tax burdens;
- Relieving the economy of excessive regulation; and
- Supporting a sound and stable monetary policy.

Conditions are now in place for a sustained era of national prosperity. But, there is a major threat looming on the horizon: the Federal deficit. If this deficit is not brought under control, we risk losing all we've achieved—and more.

We cannot let this happen. Therefore, the budget I am presenting has as its major objective setting the deficit on a downward path to a balanced budget by 1991. In so doing, my budget meets or exceeds the deficit reduction targets set out in the Balanced Budget and Emergency Deficit Control Act, commonly known for its principal sponsors as Gramm-Rudman-Hollings.

BUDGET SUMMARY

(In billions of dollars)

	1985	1986	1987	1988	1989	1990	1991
Receipts	734.1	777.1	850.4	933.2	996.1	1,058.1	1,124.0
Outlays	946.3	979.9	994.0	1,026.8	1,063.6	1,093.8	1,122.7
Surplus or deficit (-)	-212.3	-202.8	-143.6	-93.6	-67.5	-35.8	1.3
Gramm-Rudman-Hollings deficit targets		-171.9	-144.0	-108.0	-72.0	-36.0	0.0
Difference		30.9	-0.4	-14.4	-4.5	-0.2	-1.3

Note.—Totals include social security, which is off-budget.

At the end of the last session of Congress there emerged a bipartisan consensus that something had to be done about the deficit. The result—Gramm-Rudman-Hollings—committed both the President and the Congress to a fixed schedule of progress. By submitting this budget, I am abiding by the law and keeping my part of the bargain.

This budget shows, moreover, that eliminating the deficit is possible *without* raising taxes, *without* sacrificing our defense preparedness, and *without* cutting into legitimate programs for the poor and the elderly. A tax increase would jeopardize our economic expansion and might well prove counterproductive in terms of its

effect on the deficit. We can hardly back away from our defense build-up without creating confusion among friends and adversaries alike about our determination to maintain our commitments and without jeopardizing our prospects for meaningful arms control talks. And frankly we must not break faith with those poor and elderly who depend on Federal programs for their security.

THE DEFICIT AND ECONOMIC GROWTH

Until the Second World War, the Federal budget was kept in balance or ran a surplus during peacetime as a matter of course. But in the early 1960's this traditional fiscal discipline and political rectitude began to break down. We have run deficits during 24 of the last 25 years. In the past ten years, they have averaged 2.5% of GNP. But last year the deficit was over 5% of GNP. This trend is clearly in the wrong direction and must be reversed.

Last year's deficit amounted to nearly \$1,000 for every man, woman, and child in the United States. To eliminate the deficit solely by increasing taxes would mean imposing an extra \$2,400 burden on each American household. But taxes are already higher relative to GNP than they were during the 1960s and early 1970s—before inflation pushed them to levels that proved insupportable. The American people have made it clear they will not tolerate a higher tax burden. Spending is the problem—not taxes—and spending must be cut.

The program of spending cuts and other reforms contained in my budget will lead to a balanced budget at the end of five years and will thus remove a serious impediment to the continuation of our economic expansion. As this budget shows, such reforms can be accomplished in an orderly manner, without resorting to desperate measures.

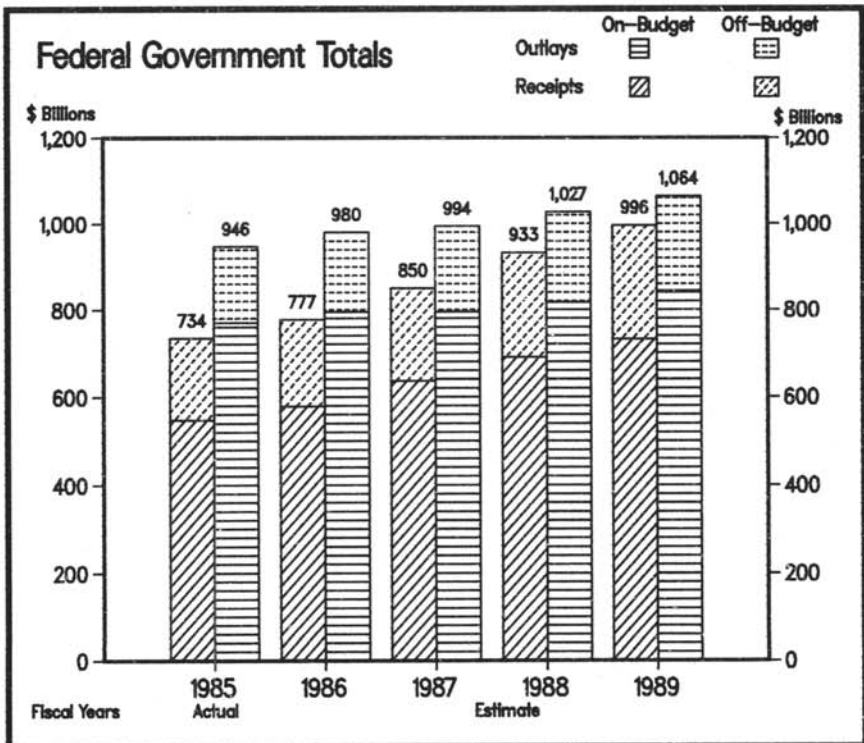
Inappropriate and outmoded programs, and activities that cannot be made cost effective, must be ended. Activities that are essential, but that need not be carried out by the Federal Government, can be placed in the private sector or, if they are properly public in nature, turned over to State and local governments. As explained in the Management Report I am also submitting today, efficiencies can be realized through improved management techniques, increased productivity, and program consolidations.

The need to cut unnecessary Federal spending and improve management of necessary programs must be made a compelling guide to our policy choices. The result will be a leaner, better integrated, more streamlined Federal Government—stripped of marginal, non-essential and inappropriate functions and activities, and focusing its energies and resources entirely on its proper tasks and constitutional responsibilities. That way, resources will be allocated more efficiently—those things best done by government will be done by

government; those things best done by the private sector will be directed by the marketplace.

The Balanced Budget and Emergency Deficit Control Act (Gramm-Rudman-Hollings) requires that spending be reduced in accord with a prescribed formula if projected deficits exceed the predetermined targets. This mechanism will operate in a limited fashion during the current fiscal year. However, we should avoid such across-the-board cuts in the future, and they will not be necessary if Congress adopts this budget. Achieving budget savings by taking into account relative priorities among programs is a much better way than resorting to an arbitrary formula. The latter could dangerously weaken vital programs involving the national security or public health and safety, while leaving marginal programs substantially intact.

If the spending cuts and other reforms proposed in this budget are approved, the Federal deficit will be reduced by \$166 billion over the next three years. This represents about \$700 for every individual American and about \$1,900 for every household. I believe this is the appropriate way to deal with the deficit: cut excessive Federal spending rather than attack the family budget by increasing taxes, or risk a deterioration in our national security posture, or break faith with the dependent poor and elderly.



RESTRUCTURING AND RETURNING THE FEDERAL GOVERNMENT TO ITS PROPER ROLE

The task of reducing the deficit must be pursued with an eye toward narrowing the current wide scope of Government activities to the provision of those, but only those, necessary and essential services toward which all taxpayers should be contributing—and providing them as efficiently as possible. This is the underlying philosophy that I have used in shaping this year's budget. Let me explain:

High priority programs should be adequately funded.—Despite the very tight fiscal environment, this budget provides funds for maintaining—and in some cases expanding—high priority programs in crucial areas of national interest. Necessary services and income support for the dependent poor and the elderly receive significant funding in this budget. So do other programs of national interest, including drug enforcement, AIDS research, the space program, nonmilitary research, and national security.

While national security programs continue to be one of my highest priorities, they have not been exempt from general budgetary stringency. Last summer I reluctantly agreed with Congress to scale back the planned growth of defense appropriations to a zero real increase for 1986 and only a 3% real increase each year thereafter. Congressional action on 1986 appropriations and the subsequent sequestration for 1986 under Gramm-Rudman-Hollings have cut defense budget authority well below last year's level. The budget I am submitting would return defense funding to a steady, well-managed growth pattern consistent with the program levels agreed to in last year's budget resolution and consistent with what the country needs in order to provide for our national security.

During the past five years, we have reversed the decline in defense spending and have made significant progress in restoring our military capabilities. The moderate increases that are now requested are necessary to maintain this progress and enable us to move forward with meaningful arms reduction negotiations with the Soviet Union.

Unnecessary programs are no longer affordable.—Some government programs have become outmoded, have accomplished their original purpose, represent an inappropriate area for Federal involvement in the first place, or are marginal in the current tight budgetary environment. If it would not be appropriate or feasible for the private sector or for State or local governments to assume such functions, this budget proposes that programs of this variety be terminated immediately, phased out in an orderly manner, or eliminated when their legal authority expires. Examples include

Small Business Administration credit programs, Amtrak grants, Urban Development Action Grants, the Appalachian Regional Commission, the Economic Development Administration, the Interstate Commerce Commission, Maritime Administration loan guarantees, education subsidies for health professionals, the work incentives program, and subsidies for air carriers.

Many other programs should be reduced to a more appropriate scale.—Some Federal programs have become overextended, misdirected, or operate on too expansive a scale given the current tight budgetary environment. This budget proposes reforms to limit the costs and future growth of medicare and medicaid, subsidized housing, Civil Service pensions and health benefits, postal subsidies, interstate highway grants, the Forest Service, and many other programs.

The Government should not compete with the private sector.—Traditionally, governments supply the type of needed services that would not be provided by the private marketplace. Over the years, however, the Federal Government has acquired many commercial-type operations. In most cases, it would be better for the Government to get out of the business and stop competing with the private sector, and in this budget I propose that we begin that process. Examples of such “privatization” initiatives in this budget include sale of the power marketing administrations and the naval petroleum reserves; and implementation of housing and education voucher programs. I am also proposing the sale of unneeded assets, such as loan portfolios and surplus real estate, and contracting out appropriate Federal services.

Many services can be provided better by State and local governments.—Over the years, the Federal Government has preempted many functions that properly ought to be operated at the State or local level. This budget contemplates an end to unwarranted Federal intrusion into the State and local sphere and restoration of a more balanced, constitutionally appropriate, federalism with more clearly delineated roles for the various levels of government. Examples include new consolidations of restrictive small categorical grant programs into block grants for transportation and environmental protection, at reduced Federal costs. Continued funding is maintained for existing block grants for social services, health, education, job training, and community development.

Administration of the agricultural extension service should be turned over to State and local governments. Also, the Federal Government should get out of the business of paying for local sewage treatment systems, local airports, local law enforcement, subsidies to State maritime schools, and local coastal management.

Remaining Federal activities should be better managed.—As we proceed with the deficit reduction process over the next several years, it is important that all remaining Federal operations be well managed and coordinated to avoid duplication, reduce costs, and minimize regulatory burdens imposed on the private sector. Management efficiencies must accompany the process of developing a leaner, more carefully focused Federal role. We can no longer afford unnecessary overhead and inefficiencies when we are scaling back the role and cost of the Federal Government.

Substantial savings in overhead costs have been achieved under provisions of the Deficit Reduction Act of 1984. As described in my Management Report, more savings are possible, and these effects are incorporated in this budget. Outmoded, inefficient systems of agency cash and credit management are being replaced; administrative policies and procedures, approaches to automatic data processing, and agency field structures will be streamlined and upgraded; and waste, fraud, and abuse will be further reduced. All these initiatives, part of our Reform '88 program, will take advantage of efficiencies made possible by modern management techniques, improved communications, and new information technology. We shall run the Federal Government on a business-like basis—improving service delivery and reducing taxpayer costs.

Administration of Federal agencies will be made more efficient through the adoption of staffing standards, automation of manual processes, consolidation of similar functions, and reduction of administrative overhead costs. A program to increase productivity by 20% by 1992 in all appropriate Government functions is being instituted, and a major effort is proposed to revamp our outmoded management of a \$250 billion Federal credit portfolio. This effort will include establishing prescreening, origination fees, administration and penalty charges, use of collection agencies, charging appropriate interest rates, and the sale of loan portfolios.

Our management improvement program will result in a leaner and more efficient Federal structure and is described in greater detail in my separate Management Report. Improving the management of the Government must be accorded a crucial role and the priority it deserves.

We must also reduce unnecessary costs and burdens on the non-federal sector and have already made considerable progress in reducing the costs imposed on businesses and State and local governments by Federal regulations. These savings are estimated to total \$150 billion over a 10-year period. We have reduced the number of new regulations in every year I have been in office and have eliminated or reduced paperwork requirements by over 500 million hours. In addition, regulations are now more carefully crafted to achieve the greatest public protection for the least cost,

and wherever possible to use market forces instead of working against them.

Finally, user fees should be charged for services where appropriate.—Those who receive special benefits and services from the Federal Government should be the ones to bear the costs of those services, not the general taxpayer. Accordingly, this budget imposes fees and premiums for Federal guarantees of loans, and imposes user fees and charges for Federal cost recovery for meat and poultry inspection, National park and forest facilities, harbor and inland waterway use, Coast Guard and Customs inspections, and for many other services.

REFORM OF THE BUDGET PROCESS

Over the years, Federal spending constituencies have become increasingly powerful. In part because of their strong and effective advocacy, Congress has become less and less able to face up to its budgetary responsibilities. The Congressional budget process is foundering; last year it fell apart time and time again. The budget resolution and appropriations bills were months late in passing, and few real deficit reductions were achieved.

Gramm-Rudman-Hollings offers a significant opportunity to avoid many of these problems in the future. That act not only sets deficit targets leading to a balanced budget by 1991, it provides a mechanism for automatic spending cuts and incorporates certain reforms in the budget process itself. But Gramm-Rudman-Hollings does not go far enough in this regard. To meet the clear need for a greatly strengthened budget process, I propose a number of additional reform measures.

As before, I ask Congress to pass a balanced budget amendment to the Constitution. In addition, I continue to seek passage of a line item veto—authority now possessed by 43 of the Nation's governors. I also urge, for 1988 and beyond, changing the budget resolution to a joint resolution subject to Presidential signature and establishing binding expenditure subcategories within the resolution budget totals. Moreover, I urge that serious study be given to proposals for multiyear appropriations and to the development of a capital budget.

As I have pointed out time and again, there's not a State in the Union that doesn't have a better budget process than the Federal Government. We can—and must—do better.

CONCLUSION

As I said in my address to Congress yesterday, the State of the Union is strong and growing stronger. We've had some extraordinarily good years, and our economy is performing well, with infla-

tion coming under control. Economic growth and investment are up, while interest rates, tax rates, and unemployment have all come down substantially. Our national security is being restored. The proliferation of unnecessary and burdensome Federal regulations has been halted. A significant beginning has been made toward curbing the excessive and unsustainable growth of domestic spending. Improving the management of the Government has been given priority and is achieving results. I think most Americans would agree that America is truly on the move!

The large and stubbornly persistent budget deficit remains as a dark and threatening cloud on the horizon. It threatens our prosperity and our hopes for continued healthy economic growth.

Congress has recognized this threat. It has mandated a gradual, orderly movement to a balanced budget over the next 5 years. The proposals in this budget are a blueprint for achieving those targets while preserving legitimate programs for the aged and needy, providing for our national security, and doing this without raising taxes.

I realize it will be difficult for elected officials to make the hard choices envisioned in this budget. But we must find the political will to face up to our responsibilities and resist the pleadings of special interests whose "era of power" in Washington must be brought to an end—for taxpayers as a whole can no longer be expected to carry them on their backs. All this will call for statesmanship of a high order. We must all realize that the deficit problem is also an opportunity—an opportunity to construct a new, leaner, better focused, and better managed Federal structure. Let's do it.

I look forward to working with Congress on meeting these formidable challenges. It is our job. Let's get on with it.

RONALD REAGAN

FEBRUARY 5, 1986

Part 2

RECENT BUDGET HISTORY AND THE ECONOMIC OUTLOOK

BUDGET HISTORY

For the first 150 years of our history, the prevailing—indeed unquestioned—belief was that the Federal budget should be balanced. While deficits were unavoidable in wartime, all political parties, all Presidents, and nearly all Members of Congress operated on the assumption that the “norm” would be budgetary balance, and the Government even ran sufficient surpluses to repay most of the debt accumulated during wars and depressions.

The advent of Keynesian economics 50 years ago led to a new belief that a little “pump priming” could get the economy going again. It became the conventional wisdom that the Government could afford to run deficits in periods of subnormal economic activity, which then would be offset by surpluses in periods of prosperity. It was generally presumed that the budget would remain balanced over the cycle as a whole.

However, starting around the time of the Vietnam War and continuing long after that war wound down, even this degree of discipline began slipping away. Deficits gradually ceased to be a respectable countercyclical tool and turned into an escape valve for a lack of political will or for political gridlock. In recent years, deficits have been large, chronic, and structural. It is not only that we have had deficits in 24 of the last 25 years; more importantly, they have recently become much larger—exceeding 2.5% of GNP in all but one of the past 10 years and averaging over 5% for the last 3 years.

As deficits increased, Federal debt mounted at an accelerating pace. By the end of World War II, Federal debt held by the public had risen to a then astronomical \$235 billion, exceeding 1945 GNP. Unlike earlier postwar periods in our history, after World War II the Federal Government made little effort to repay its wartime borrowings. The debt remained at about the end-of-war level through 1960. By 1970, however, the debt held by the public had risen to \$285 billion. By 1980 it was \$715 billion, and in 1983 it passed the one trillion dollar mark; it will reach two trillion dollars well before the end of the decade.

The deficits have resulted from the rapid growth of Government spending, which has outstripped the growth of receipts. The problem is not a lack of receipts. During the past 20 years, Federal receipts have risen almost precisely in line with the economy as a whole. As a share of GNP, receipts (including social security taxes) have averaged slightly over 18% and stood at 18.6% in 1985. Thus, Federal receipts as a share of GNP are today running slightly above the historical norm.

In marked contrast, Federal spending as a share of GNP has been on an upward trend, rising from 18.2% in 1960 to 24.0% in 1985. Unfortunately, not only was the Federal Government growing too large during this period, but the spending priorities were also inappropriate. The share of the Nation's resources devoted to national defense was reduced to only 5% by the time this administration took office, about half of its share two decades earlier. On the other hand, nondefense spending's share doubled during this period, reaching 17.1% by 1980, as shown in the table below. Rapidly rising payments to individuals were largely responsible for this increase.

THE COMPOSITION OF FEDERAL SPENDING

(Percent of GNP)

	1960	1970	1980	1985
Defense.....	9.5	8.2	5.0	6.4
Nondefense.....	8.7	11.5	17.1	17.6
Payments for individuals.....	4.8	6.5	10.4	10.8
Other grants-in-aid to State and local governments.....	0.9	1.6	2.2	1.5
Net interest.....	1.4	1.5	2.0	3.3
All other.....	2.6	2.8	3.3	2.9
Undistributed offsetting receipts.....	-0.9	-0.9	-0.7	-0.8
Total.....	18.2	19.8	22.2	24.0

This trend of rapid increase in domestic spending, with little change in the share of income collected in taxes eventually produced the explosion of the deficit we have seen in the 1980s. Although the level of the deficit soared during the 1980 and the 1981-82 recessions and remains at record high levels, the seeds of the problem were sown in the breakdown of fiscal discipline in the preceding decades. The proposals in this budget bring this situation under control by meeting the Balanced Budget Act (Gramm-Rudman-Hollings) deficit targets that decline gradually to budget balance in 1991.

ECONOMIC ASSUMPTIONS

The economy and the budget are interrelated. Federal receipts and outlays depend directly on the level of economic activity, inflation, interest rates, unemployment, and other economic factors. Likewise, both outlays and the tax structure have substantial effects on the state of the economy—output, employment, and interest rates. In estimating Federal 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 1987; the second table shows the long-range assumptions underlying the budget projections. The common practice is followed in showing these assumptions for calendar years, rather than fiscal years. To facilitate comparisons, the current services estimates are based on the same economic assumptions; hence differences between current services and policy are just due to the direct effects of policy changes, and do not include the possible budgetary effects of any induced changes in the economy.

SHORT-RANGE ECONOMIC FORECAST

(Calendar years; dollar amounts in billions)

Item	Actual 1984	Forecast		
		1985 ¹	1986	1987
Gross national product:				
Current dollars:				
Amount	3,775	3,992	4,274	4,629
Percent change, fourth quarter over fourth quarter	9.0	5.8	8.0	8.3
Constant (1982) dollars:				
Amount	3,492	3,574	3,695	3,842
Percent change, fourth quarter over fourth quarter	4.7	2.5	4.0	4.0
Incomes (current dollars):				
Personal income	3,112	3,294	3,486	3,756
Wages and salaries	1,835	1,961	2,078	2,247
Corporate profits	238	228	281	330
Price level (percent change, fourth quarter over fourth quarter):				
GNP deflator	4.1	3.2	3.8	4.1
Consumer Price Index ²	3.6	3.3	3.7	4.1
Unemployment rates (percent):				
Total, fourth quarter ³	7.1	6.9	6.7	6.5
Insured, annual average ⁴	2.8	2.8	2.7	2.6
Federal pay raise (percent):				
Military (October) ⁵	4.0	7.0	4.0	4.8
Civilian (January)	4.0	3.5	3.0
Interest rate, 91-day Treasury bills (percent) ⁶	9.6	7.5	7.3	6.5

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 changed significantly in January 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 The 1984 military pay raise occurred in January. In calendar year 1985, there were two military pay raises: 4.0% in January and 3.0% in October.

⁶ Average rate on new issues within period, on a bank discount basis.

The economic recovery that began in December 1982 is now in its fourth year. Although it is a mature expansion, it shows no sign of ending. On the contrary, most of the evidence points to an acceleration of growth in 1986. Moreover, if the administration's policy proposals assumed in this budget are enacted, the economy could grow above its recent trend rate through 1991, making this the longest period of uninterrupted growth on record.

Real GNP is projected to rise 4.0% this year on a fourth-quarter-to-fourth-quarter basis. Faster growth is likely to place some upward pressure on short-term interest rates. While the inflation rate is projected to rise slightly, reflecting accelerated growth of the money supply last year and the decline in the dollar, it is now projected to be lower than was assumed in last year's budget, declining to 2% by 1991.

In constant 1982 dollars, real GNP is projected to continue to grow at an annual rate of 4.0% through 1988, progressively slowing to 3.5% in 1991, which is close to the economy's postwar average. This is consistent with a decline in the unemployment rate to 5.5% by the end of 1991.

LONG-RANGE ECONOMIC ASSUMPTIONS

(Calendar years; dollar amounts in billions)

Item	Assumptions			
	1988	1989	1990	1991
Gross national product:				
Current dollars:				
Amount	4,995	5,359	5,709	6,036
Percent change, fourth quarter over fourth quarter	7.7	7.0	6.2	5.6
Constant (1982) dollars:				
Amount	3,996	4,151	4,301	4,454
Percent change, fourth quarter over fourth quarter	4.0	3.7	3.6	3.5
Incomes (current dollars):				
Personal income	4,012	4,266	4,506	4,748
Wages and salaries	2,418	2,587	2,743	2,901
Corporate profits	366	394	424	430
Price level (percent change, fourth quarter over fourth quarter):				
GNP deflator	3.6	3.2	2.5	2.0
Consumer Price Index ¹	3.5	3.2	2.5	2.0
Unemployment rates (percent):				
Total, fourth quarter ²	6.2	6.0	5.7	5.5
Insured, annual average ³	2.5	2.3	2.2	2.0
Federal pay raise (percent):				
Military (October)	5.1	4.9	4.5	NA
Civilian (January)	3.0	3.0	3.0	3.0
Interest rate, 91-day Treasury bills (percent) ⁴	5.6	4.8	4.3	4.0

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 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.

NA—Not available.

Part 3

DEALING WITH THE DEFICIT: MAJOR BUDGET PROPOSALS

The President's budget for 1987 accomplishes four key goals:

- It reduces the deficit as required to sustain economic growth and in doing so meets the deficit targets called for by the recently-enacted Gramm-Rudman-Hollings law (with a deficit of no more than \$144 billion in 1987 and a balanced budget in 1991).
- It envisions no tax increase.
- It provides necessary funding for national security.
- It contains no cuts for social security benefits and preserves benefits for those in need.

The budget achieves these goals by ending Federal activities that have outlived their usefulness; by transferring to State and local governments or to the private sector those activities they can carry out more efficiently; by making appropriate changes in the scope of remaining programs, including the better targeting of social services programs; and by making Government programs more efficient, effective, and accountable.

FEDERAL GOVERNMENT TOTALS

(Dollar amounts in billions)

	1986	1987	1988	1989	1990	1991
Current services:						
Receipts.....	776.5	844.1	927.3	989.2	1,053.0	1,120.2
Outlays.....	982.0	1,025.9	1,077.3	1,128.1	1,179.3	1,224.1
Deficit.....	-205.6	-181.8	-150.0	-138.9	-126.3	-103.9
Percent of GNP.....	4.9	4.0	3.1	2.6	2.2	1.7
Proposed:						
Receipts.....	777.1	850.4	933.2	996.1	1,058.1	1,124.0
Outlays.....	979.9	994.0	1,026.8	1,063.6	1,093.8	1,122.7
Surplus or deficit.....	-202.8	-143.6	-93.6	-67.5	-35.8	+1.3
Percent of GNP.....	4.8	3.2	1.9	1.3	0.6	*
G-R-H deficit target.....	-171.9	-144.0	-108.0	-72.0	-36.0	0

*0.05 percent or less.

On a current services basis, the deficit is projected to reach \$182 billion in 1987, or 4.0% of GNP, declining to \$104 billion, or 1.7% of GNP, by 1991. The budget proposals would hold the deficit to \$144 billion in 1987, or 3.2% of GNP, with a steady reduction in the deficit in subsequent years resulting in a surplus of \$1 billion in 1991.

The proposals in this budget are estimated to reduce the 1987 deficit some \$38 billion below current services. In total, the budget proposals reduce the deficit by \$166 billion over the next 3 years and \$362 billion over the next 5 years.

FEDERAL GOVERNMENT TOTALS AND PROPOSED CHANGES ¹

(In billions of dollars)

	1986	1987	1988	1989	1990	1991
Defense function:						
Current services.....	265.8	284.9	303.7	328.6	354.1	379.4
Policy change		-2.7	-4.5	-6.3	-9.3	-13.1
Proposed level	265.8	282.2	299.1	322.3	344.8	366.3
Social security benefits:						
Current services.....	197.6	209.6	223.6	237.5	252.4	261.1
Policy change		-*	-*			
Proposed level	197.6	209.6	223.6	237.5	252.4	261.1
Low income support benefits:						
Current services.....	40.2	40.1	42.7	43.1	43.0	44.4
Policy change	-0.1	-0.7	-0.9	-1.1	-1.3	-1.4
Proposed level	40.1	39.4	41.8	41.9	41.7	43.0
Other nondefense programs:						
Current services.....	371.5	377.8	399.3	416.8	436.7	454.7
Policy change	-2.0	-24.9	-35.8	-47.1	-58.1	-68.1
Proposed level	369.5	352.9	363.5	369.7	378.6	386.6
Undistributed offsetting receipts:						
Current services.....	-34.6	-35.8	-40.7	-40.7	-41.9	-44.2
Policy change	-1.2	-2.4	-5.6	-3.1	-7.3	-6.0
Proposed level	-35.8	-38.1	-46.4	-43.8	-49.3	-50.2
Net interest:						
Current services.....	141.5	149.2	148.7	142.8	135.1	128.6
Policy change	+1.2	-1.2	-3.6	-6.8	-9.5	-12.8
Proposed level	142.7	148.0	145.1	136.0	125.6	115.9
Total outlays:						
Current services.....	982.0	1,025.9	1,077.3	1,128.1	1,179.3	1,224.1
Policy change	-2.1	-31.9	-50.5	-64.5	-85.5	-101.4
Proposed level	979.9	994.0	1,026.8	1,063.6	1,093.8	1,122.7
Receipts:						
Current services.....	776.5	844.1	927.3	989.2	1,053.0	1,120.2
Policy change	+0.7	+6.3	+5.9	+6.9	+5.0	+3.9
Proposed level	777.1	850.4	933.2	996.1	1,058.1	1,124.0
Deficit or surplus:						
Current services.....	-205.6	-181.8	-150.0	-138.9	-126.3	-103.9
Policy change	+2.8	+38.2	+56.4	+71.4	+90.5	+105.2
Proposed level	-202.8	-143.6	-93.6	-67.5	-35.8	+1.3

*\$50 million or less.

¹ Includes off-budget social security outlays and receipts.

Despite the overall fiscal restraint, this budget preserves vital national security, health, safety, and other services that benefit the aged, the needy and the general public.

PURSUE PRIORITY INITIATIVES

National defense.—Protection of the Nation's security is one of the fundamental duties of the Federal Government. It is essential that we equip, operate, and maintain the military forces needed to protect our vital national interests. During the 1970's the United States severely underfunded defense programs. Over the past 5 years the administration reversed the decline in real defense spending and the United States now possesses the most effective peacetime military ever. As a consequence, the United States has been able to embark on meaningful negotiations with the Soviet Union over mutual, verifiable reductions in nuclear arms.

The compromise budget resolution that Congress passed last year called for no real growth in defense funding in 1986 and 3% real growth each year thereafter. The appropriations enacted for 1986 did not provide the defense funding levels agreed to in the resolution. The sequestration required by Gramm-Rudman-Hollings resulted in additional cuts in defense funding. As a result of these cuts, the level of defense funding provided for 1986 is more than 5% below 1985 in real terms.

The administration is proposing 1987 defense funding levels that provide the real program agreed to in last year's budget resolution. Savings from the actual dollar amounts contained in the resolution have been achieved due to lower inflation and pay assumptions. The proposed funding levels beyond 1987 permit replacement of aging systems and maintenance of the increased defense capability we have achieved.

Security assistance.—While U.S. military strength is the major deterrent to such challenges, the United States must also assist key friendly, developing countries in resisting communist and other aggression. In a number of circumstances, increasing the defense capacity of these allies can be more effective and less expensive than equipping U.S. forces for the same task. Therefore, the budget proposes an international security assistance program of \$11.3 billion in budget authority for 1987. These funds will help further the Middle East peace process, defend against communist aggression in Central America, secure the right to maintain U.S. military bases in a number of countries around the world, and strengthen the military forces of countries such as Pakistan on the southern periphery of the Soviet Union.

Diplomatic security.—The budget provides additional funding in support of the administration's effort to fight terrorism, particularly attacks on United States citizens. While several of the most recent incidents have been directed at Americans travelling abroad, the greatest continuing threat is to U.S. officials stationed overseas. Accordingly, the State Department is expanding significantly its program to improve the security of U.S. diplomatic installations abroad.

Law and Drug Enforcement.—Improvements to Federal law enforcement, particularly in the area of drug enforcement, is a major domestic priority. Budget authority of \$1.8 billion is requested for this program in 1987. The largest portion of the increase (\$48 million) will go to the Drug Enforcement Administration, which is the lead agency in fighting the war on illicit drugs.

Basic Research.—The budget reflects the high priority that this administration continues to give to support basic research. Governmentwide support for basic research is proposed to increase by more than 3% in real terms in 1987. Fundamental knowledge in scientific fields such as mathematics, physics, and materials science, and in the various engineering disciplines provides the basis for a healthy long-term economy, a strong defense, and a better quality of life for all our citizens. The proposed 1987 budget of the National Science Foundation (NSF) provides over \$1.4 billion in support of basic research in science and engineering.

Space.—The budget maintains U.S. leadership in space by continuing most major ongoing space projects, by restoring progress in the space shuttle program towards routine and reliable space flight, and by initiating several major space science and technology efforts. The budget supports a vigorous and balanced research program in space science and the application of advanced space technologies. Budget authority of \$7.0 billion is proposed for NASA space programs in 1987.

Aviation safety.—The budget includes several measures to enhance aviation safety, including additional traffic controllers at busy locations and increasing the number of safety inspectors. The Federal Aviation Administration is undertaking a broad effort to modernize the air traffic control system and related safety facilities. The detection of severe weather will be improved through procurement of the long-range and terminal doppler weather radar system. Budget authority of \$4.8 billion is proposed for 1987.

AIDS.—Acquired immune deficiency syndrome (AIDS) remains the highest public health priority of the Department of Health and

Human Services. Complementing State and local programs, the Federal effort encompasses health education and risk prevention, as well as research on the causes of and potential treatments for AIDS. Budget authority of \$213 million is requested for AIDS research and education in 1987.

ELIMINATE INEFFECTIVE, DUPLICATIVE, OR UNNECESSARY PROGRAMS

Government subsidies to businesses often provide an unfair competitive advantage or favor the least efficient firms over their more productive counterparts. The budget addresses these problems in several areas by proposing to terminate:

- Credit programs of the Small Business Administration (SBA). More than 99% of small businesses already obtain financing without Federal assistance.
- All Federal aid to the six State maritime schools. Such Federal subsidies cannot be justified given the projected oversupply of licensed merchant marine officers through the early 1990's.
- Several direct assistance or insurance programs for the commercial fishing industry.
- Agricultural Stabilization and Conservation Service cost-sharing programs and the Soil Conservation Service programs on private lands. The new conservation reserve program and other conservation provisions authorized by the 1985 farm bill are far more effective responses to these needs.

Nor should the Federal Government fund State and local governments in activities that assist only specific geographic areas or allow areas simply to compete with each other at the expense of the taxpayers as a whole. Therefore, the administration is proposing to terminate:

- Urban development action grants program. This proposal is part of the Governmentwide effort to reduce local economic development subsidies and reduce excessive Federal intervention in the economic decisions of firms and individuals. Of course, cities may use community block grants for economic development projects if they so choose.
- Economic Development Administration and the Appalachian Regional Commission. The budget provides for staff to close out these grants and loan programs, and ensures adequate debt collection and auditing of outstanding projects. The budget also proposes to eliminate the regional economic, but not the power, programs of the Tennessee Valley Authority in 1987 and the rural development loans and grants of the Department of Agriculture.

The administration is also proposing to terminate:

- Federal funding for the Legal Services Corporation.
- The Interstate Commerce Commission. Further deregulation of the motor carrier, freight forwarder, water carrier, and bus industries reflects the administration's commitment to the economic deregulation of the surface transportation industry, based on a conclusion that the benefits outweigh the costs to the public.

REFORM SOCIAL SERVICES

The Federal Government funds a wide array of entitlement and discretionary programs that finance benefits for medical care, higher education, income support, and other social services. The administration continues to support reforms to focus assistance on the people most in need, to promote efficient and effective program operations, and to eliminate or reduce costly programs.

The administration is proposing no cuts in the benefit levels for supplemental security income, veterans pensions, food stamps and aid to families with dependent children (AFDC). The administration is proposing reforms to simplify the administration of food stamps and AFDC; encourage States to serve the highest risk participants in the special supplemental food program for women, infants and children (WIC); and increase State liabilities for food stamps given to people who are not eligible for them.

Under existing laws and regulations, outlays for medicare, which is one of the largest programs in the Federal budget, are expected to reach \$74.9 billion in 1987—a four-fold increase over 10 years ago. Led by private employers and insurers, third-party payers of health care have sought aggressively to constrain exploding health care costs. Following the private sector's lead, the administration is proposing legislation to reform payments to hospitals for direct medical education, increase gradually the medicare Part B premiums to 35% of program costs over 5 years, and increase the deductible for supplementary medical insurance, which has been increased only twice since 1966. Even after these changes, medicare outlays are estimated to rise from \$70.2 billion in 1987 to \$98.4 billion in 1991.

In the past 20 years, the cost and complexity of Federal programs for student aid have exploded, resulting in a system that is unnecessarily expensive and difficult to administer. In 1985 about 5.6 million students—almost half of all students—received federally-generated aid totaling over \$14 billion. Such aid covered over 20% of the total educational costs of all students and almost 50% of the educational costs of those students receiving aid. The administration is proposing reforms that would provide aid on a less costly basis, target aid in 1987 on about 3.9 million students most

likely to benefit and in clear need of assistance, and help bring about significant reductions in program error rates and abuse.

The administration is also proposing reforms in other programs to:

- Replace the expired trade adjustment assistance program with improved aid to dislocated workers under the Job Training Partnership Act;
- Concentrate Federal subsidies for meals served in schools and child care facilities on children from lower-income families;
- Limit Federal medicaid payments to the States to reasonable annual increases and adopt reforms to control costs;
- Eliminate the unsuccessful work incentive program and require employable AFDC and food stamp recipients to engage in job search and work activities as a condition for eligibility;
- Implement a means test for veterans medical care, obtain private insurance reimbursements, and increase the use of State and community nursing home programs sponsored by the Veterans Administration;
- Reform refugee and entrant assistance to encourage early self-sufficiency;
- Eliminate direct Federal subsidies for training of health professionals in view of a projected surplus of professionals in the 1990's;
- Reduce the cost of providing health services to Indians by the increased use of health maintenance organizations;
- Limit funding for the Job Corps to those centers located near those they serve;
- Restrict funding for the summer youth employment program to the most severe youth unemployment areas and increase literacy training;
- Cover rail workers under the Federal/State unemployment insurance system;
- Reduce and redirect funding for vocational and adult education so that State grants could only support programs for the disadvantaged, handicapped, and other special groups; and
- Limit Federal payments for overhead to 20% of research costs for the 18,000 National Institutes of Health biomedical research grants.

In an era of fiscal restraint, the result of these proposals will be a reform of social services programs to provide necessary services to those truly in need on the most efficient basis possible.

REDUCE COMPETITION WITH THE PRIVATE SECTOR

At the present time, the Federal Government is engaged in many activities that are similar to, or even the same as, those provided

by the private sector. Private firms are forced by the pressures of competition to be efficient and responsive to consumer demands, or they will not succeed in the long run. The incentives to control costs are stronger in the private sector, because Government managers do not have the discipline of the market place.

This year's budget proposes to return some of these activities to the private sector. Some of these proposals have appeared in previous budgets; others are new. All are designed to take advantage of the incentives for lowering costs.

The administration is proposing to sell:

- *Power marketing administrations* (Bonneville, Alaska, South-eastern, Southwestern, and Western Area). These agencies sell 6% of all electrical power produced in the United States each year. This initiative estimated to yield net savings of \$0.2 billion in 1987, \$1.6 billion in 1988 and \$12.7 billion over the period 1987 to 1991.
- *Naval petroleum reserves*.—These reserves consist of two oil fields that are currently run by the Department of Energy. This sale is estimated to yield an additional \$1.0 billion in 1987 and \$1.9 billion in 1988.
- *Surplus property*.—In 1987, the General Services Administration plans to sell \$0.5 billion of surplus real property that could be used more effectively in the private sector.

The administration is proposing to terminate Federal subsidies to Amtrak and for land remote sensing satellites (Landsat), which provide benefits mainly to the recipients of the services in question and not to the general public. Previous Government support has subsidized the development of this new technology; if the services it provides are to continue, the users rather than the general public should pay the costs.

The budget contains a number of proposals that will shift capital allocation decisions back to the market and allow private firms to be more competitive. The administration is proposing to:

- Change the Federal Housing Administration (FHA) single-family mortgage insurance program to restrict the availability of Federal mortgage insurance to those with the fewest options for financing the purchase of a home.
- Increase premium rates and phase out Federal subsidies for crop insurance by 1991.
- Study how to privatize the provision of political risk insurance by the Overseas Private Investment Corporation.
- Determine whether to begin using private reinsurers for Federal guaranteed loans with a possible test beginning in 1987.

Housing and education vouchers will alter the form of Government support for basic necessities by giving the recipients a choice of suppliers. The use of vouchers will introduce the benefits of competition.

TRANSFER ACTIVITIES TO STATE AND LOCAL GOVERNMENTS

Services not truly national in character are more properly administered by State and local governments, which are more responsive to the needs of both benefit recipients and taxpayers. In recognition of the principle of federalism, the administration proposes to return certain responsibilities to State and local governments. The administration also proposes to ease the financial burdens created by this transfer of responsibility by creating or expanding block grants, and by reducing or eliminating regulatory and reporting requirements. Specifically:

- The administration is proposing budget authority of \$3.3 billion in 1987 for a new transportation block grant, to be financed entirely from Federal gasoline tax receipts. Grants would be distributed by formula and could be used without prior Federal approval.
- A new pollution control block grant would combine seven programs into one consolidated block grant. The seven programs include air and water quality, drinking water, underground injection control, toxic substances enforcement, pesticides, and hazardous waste.
- The administration proposes to expand the existing primary care health block grant to include three smaller programs for black lung clinics, migrant health, and family planning. Budget authority for the expanded grant is proposed to be \$565 million for 1987.

On the other hand, the administration is proposing reductions or terminations in other grants that are not a Federal priority. States and localities should determine without Federal involvement whether these programs justify funding from their own sources:

- Funding for major highway programs is proposed to be \$12.8 billion in 1987—\$2.6 billion below current services. The interstate system completion and repair programs would be replaced by a combined interstate and primary program, to finance either new construction or repair.
- For grants to construct sewage treatment plants, the administration will request \$1.8 billion in budget authority for 1987 *after* authorization to phase out the program by 1990 has been enacted. The original objective of this program will have been met with the nearly \$50 billion of assistance that will have been provided by the Federal Government since 1972.
- For community and regional development activities, the administration is proposing to terminate a number of categorical programs. The comprehensive and flexible community de-

velopment block grant would be the principal vehicle for Federal support of local community development activities.

- The administration is proposing to reduce or eliminate several State grant programs for criminal justice assistance, including the juvenile justice program and the State and local assistance program. The objective of the juvenile justice program has largely been met.
- The administration is proposing to terminate the community services block grant in 1987. A large portion of the Federal grant pays for the overhead of local community action agencies rather than serving the needy and elderly.
- The administration proposes to terminate support for energy conservation grants and State energy planning and extension activities. Planning and extension activities are a State and local responsibility.
- The administration is repropounding the termination of local rail service assistance to States and of the air service subsidy program, which was established in 1978 to provide a transition period for communities to adjust to deregulation. Both of these programs have fulfilled their purpose.

MAKE FEDERAL GOVERNMENT SERVICES MORE EFFICIENT, EFFECTIVE, AND ACCOUNTABLE

Improved management of Federal operations continues to be an important part of the administration's overall objective of restoring efficiency, balancing the role, and reducing the size of the Federal Government. The goal of these efforts is to ensure that the Federal Government provide needed services in an economical and efficient way. Early in this administration, President Reagan made management reform one of his top priorities and initiated "Reform '88", a program to upgrade the management of the Federal Government. The key initiatives are:

Fraud, waste, and abuse.—Reduction of fraud, waste, and abuse in Federal programs remains a high priority. During the past 4-1/2 years the Inspectors General have made recommendations for the improved use of over \$63 billion. Their recommendations have led to 14,291 civil and criminal prosecutions and 14,146 administrative sanctions or agency actions.

Federal personnel and benefits.—The administration is proposing several reforms of the civil service retirement system in order to bring Government pension costs closer to those of the vast majority of private employers. Primary among these are proposals to limit cost-of-living adjustments, to reduce annuities for those who retire

before age 62, and to raise the retirement contributions by two percentage points in 1987.

The new agency productivity programs being implemented as part of Reform '88 will make it possible to reduce civilian agency employment and to achieve savings. The number of employees in nondefense agencies is projected to decrease by 1.25% a year from 1985 through 1987. The full implementation of the new productivity program should at least double that rate for 1988 through 1991.

Federal resource management.—The budget proposes an indefinite moratorium on further development and fill of the strategic petroleum reserve (SPR), once it reaches 500 million barrels in 1986. This moratorium is estimated to result in outlay savings of \$1.9 billion over the next 5 years. Over the past 5 years, the Nation has substantially reduced its vulnerability to supply disruptions by increasing both the efficiency of oil use and U.S. oil production. Legislation is also proposed to sell \$250 million of unneeded surplus materials from the national defense stockpile in 1987.

Credit management.—The budget proposes to reduce the Government's intervention in the Nation's lending market. This will be accomplished by phasing out or reducing several Federal credit programs, changing from direct to guaranteed lending as much as possible, charging at or above Treasury interest rates, charging loan origination fees, setting up a borrower prescreening and postaward review process, using private sector debt collection agencies, offsetting IRS refunds, and undertaking a pilot program to sell selected loans in the Federal portfolio. The administration will also consider the establishment of a Federal credit agency to oversee this program and look into the use of private sector reinsurers for the guaranteed loan programs.

Several direct loan and loan guarantee programs are proposed to be eliminated or sharply reduced over the next 5 years. The administration is also proposing to charge borrowers for some of the benefits they receive from Government loans and loan guarantees. For example, new or increased fees are proposed for Farmers Home Administration agricultural credit and export credit provided by the Commodity Credit Corporation. Higher interest rates are being proposed for a number of programs, including rural electrification loans, guaranteed student loans, and reclamation loans. The administration is proposing that the Secretary of the Treasury charge a special premium for all 100% federally guaranteed loans and that user fees be imposed on government-sponsored enterprises.

The new fees would allow fully private financial intermediaries to compete on a more equal basis in lending to the housing, agriculture, and education sectors. Credit fees are estimated to total \$0.3 billion in 1987 and \$4.3 billion over the next 5 years.

Charge for government services.—The Federal Government provides numerous services that directly benefit narrow, clearly identifiable groups of business and private users. Because these services evolved over time, however, the Federal agencies providing them recover widely varying proportions of their costs through fees on the users.

Those identifiable groups who directly benefit from a service should pay the cost of the service. The beneficiaries of the services for which the administration is instituting new or increased fees consist in general of corporations or the relatively affluent. These include fees for recreational, commercial, and safety services provided by the Coast Guard, and for the use of the commercial navigation facilities operated by the Corps of Engineers; additional customs fees to offset the cost of processing passengers and commercial carriers; and fees on Internal Revenue Service letters of determination and private letter rulings, and a charge to recoup the expense of collecting underpaid taxes.

These and other user fees are estimated to yield \$3.3 billion in 1987 and \$11.4 billion over 3 years.

CONCLUSION

In summary, the proposals put forth in this budget represent a comprehensive program for reducing Federal spending by restoring the Federal Government to its proper role and reforming or eliminating inefficient programs. It contains no cuts in social security benefits; preserves benefits for those in need of Federal aid; provides for a strong national defense; and, if enacted, will result in the elimination of the Federal deficit by 1991 without any increase in taxes.

Part 4

FEDERAL RECEIPTS BY SOURCE

This section describes the major sources of receipts and the legislative proposals and administrative actions affecting them. The economic assumptions underlying the estimates are in Part 2.

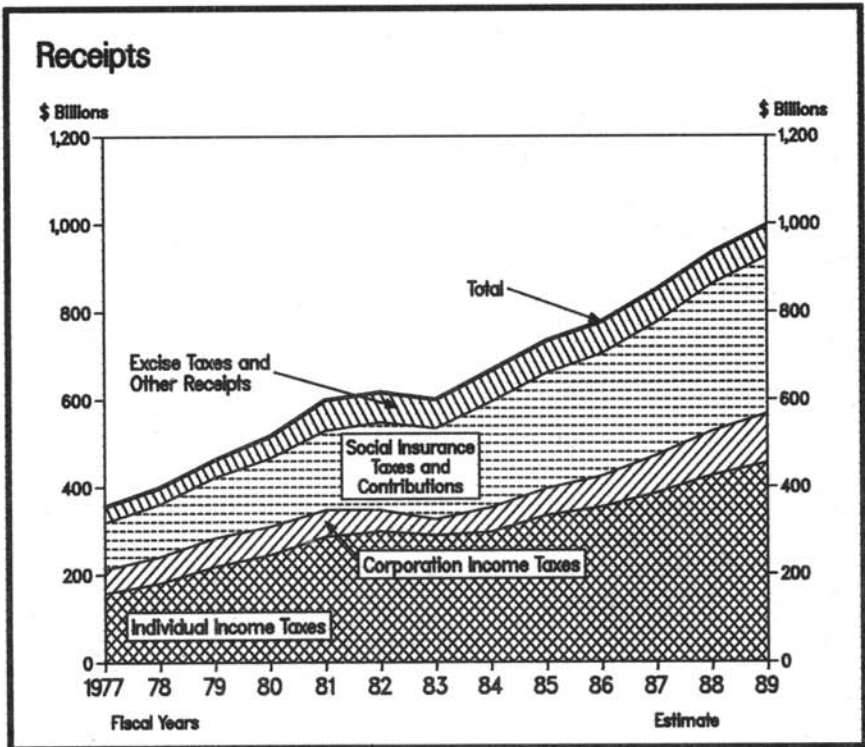
SUMMARY

Total receipts in 1987 are estimated to be \$850.4 billion, an increase of \$73.2 billion from the \$777.1 billion estimated for 1986. Receipts in 1988 and 1989 are estimated to be \$933.2 billion and \$996.1 billion, respectively.

Composition of budget receipts.—The Federal tax system relies predominantly on income and payroll taxes. In 1987:

- Income taxes paid by individuals and corporations are estimated at \$386.0 billion and \$86.7 billion, respectively. Combined, these sources account for 55.6% of total 1987 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 \$302.8 billion, 35.6% of the total.
- Excise taxes, including the crude oil windfall profit tax, are expected to provide \$35.2 billion, 4.1% of the total.
- Estate and gift taxes, customs duties, and miscellaneous receipts are estimated at \$39.7 billion, the remaining 4.7% 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 57.0% by 1989, 1.4 percentage points more than for 1987. This rise is the combined effect of a 0.3 percentage point rise in the individual income tax share and a 1.0 percentage point rise in the corporation income tax share. Social insurance taxes and contributions are projected to increase as a share of total receipts to 36.0%. The projected share of all other receipts declines by 1.7 percentage points between 1987 and 1989.



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 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 to 9 cents a gallon and restructures other highway related taxes.

Three major 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, restored the 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 industry pension program on a sounder financial basis.

The most recent tax law is the Deficit Reduction Act of 1984 (DEFRA). The major provisions of this Act are designed to increase the efficiency of the tax system by curbing tax shelter abuse, limiting unwarranted tax benefits, and increasing taxpayer compliance.

As a result of these legislated changes, taxes have been reduced by \$741.0 billion over the 1985-1989 period relative to pre-1981 tax law.

NET EFFECT OF MAJOR ENACTED LEGISLATION ON RECEIPTS ¹

(In billions of dollars)

	1985	1986	1987	1988	1989	1985-1989
Economic Recovery Tax Act of 1981	-170.3	-207.5	-244.8	-274.0	-303.7	-1,200.3
Tax Equity and Fiscal Responsibility Act of 1982	39.2	49.2	59.2	61.6	61.7	270.8
Highway Revenue Act of 1982	4.2	4.5	4.7	4.8	5.0	23.2
Social Security Amendments of 1983	8.7	8.0	9.2	20.0	24.9	70.9
Interest and Dividends Tax Compliance Act of 1983..	-2.4	-2.1	-1.7	-1.8	-2.0	-9.9
Railroad Retirement Revenue Act of 1983	0.7	1.1	1.1	1.1	1.1	5.1
Deficit Reduction Act of 1984	9.3	16.0	21.8	24.9	27.2	99.2
Net tax reduction	-110.5	-130.8	-150.6	-163.3	-185.8	-741.0

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

RECEIPTS PROPOSALS

Tax simplification and reform.—The administration looks forward to working with the Congress to produce acceptable tax reform legislation this year. Because such legislation will be revenue neutral, it is not essential that it be reviewed at this time in the budget. Although the administration continues to support legislation to expand the limitations on individual retirement accounts for married couples with only one spouse working outside the home, and to extend the tax credit for incremental research and experimental expenditures, which expired December 31, 1985, these proposals are not included in the budget because they should be part of the forthcoming tax reform legislation. In addition, once tax reform

legislation has been enacted, the administration is planning to repropose an enterprise zone program that would provide tax incentives for redevelopment of economically distressed areas.

Internal Revenue Service (IRS) revenue initiative.—In an effort to close the gap between taxes owed and paid, and to improve overall compliance with the tax laws, the IRS will increase the size of its examination staff.

Other.—The administration also proposes that:

- 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;
- employee contributions to civil service retirement be increased from 7% to 9% of wages and salaries effective October 1986;
- the 16 cent excise tax on cigarettes, which is scheduled to expire March 15, 1986, be extended;
- regular Federal/State unemployment insurance coverage be extended to railroad employment;
- fees on coal production used to finance black lung disability benefits be increased;
- the State and local government deposit of social security payroll taxes conform to the private sector schedule; and
- taxes used to finance the cleanup of hazardous waste sites be reauthorized and expanded.

EFFECT OF PROPOSED LEGISLATION AND ADMINISTRATIVE ACTION ON RECEIPTS¹

(In billions of dollars)

	1986	1987	1988	1989
IRS revenue initiative		0.6	1.5	2.6
Higher education tax incentive		—*	—0.2	—0.3
Tuition tax credit		—0.4	—0.6	—0.9
Employee contribution to civil service retirement		0.9	1.2	1.2
Cigarette excise tax ²	0.8	1.7	1.7	1.7
Railroad unemployment insurance coverage		0.1	0.1	0.1
Black lung disability trust fund ²		0.2	0.2	0.2
State and local deposit of payroll taxes		0.4	0.3	1.2
Hazardous substance response trust fund ²		0.1	0.1	0.1
Other ²	—0.1	2.7	1.5	1.1
Total	0.7	6.3	5.9	6.9

* \$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 on the economy are taken into account in forecasting incomes, however, and in this way affect the receipts estimates by major source and in total.

² Net of income tax offsets.

Part 5

FEDERAL PROGRAMS BY FUNCTION: MEETING NATIONAL NEEDS

This section discusses the budget in terms of functions, which are broad categories of activities with similar purposes. The programs are grouped into functions so that related Federal activities that meet particular national needs are considered together, regardless of which agencies are responsible for them. The functional structure classifies these activities according to their primary purpose. Each activity is classified only in the function that defines its most important purpose, even though it may serve more than one.

There are 19 functions, plus 2 categories—allowances and undistributed offsetting receipts—that are not themselves functions because they do not consist of programs, but are needed to encompass the entire budget. Each function, in turn, is divided into one or more subfunctions, which are narrower and more homogeneous groupings of programs. Since last year's budget, social security and medicare have been split into two separate functions. As required by the Balanced Budget and Emergency Deficit Control Act of 1985, the receipts and outlays of social security—the old-age and survivors insurance and the disability insurance trust funds—are now excluded from the budget (i.e., “off-budget”). For purposes of this section, education activities are discussed as if they were a separate function.

The function-subfunction hierarchy is used in the outlay chart or table that is presented for each function. The chart or table quantifies the outlays including the results from the President's proposals; the accompanying text explains them. Table 4 at the back of this volume supplies the outlay data underlying the charts in this part.

While outlays are an important measure of resources allocated to Federal programs, they do not cover all Federal activities. Federal loan guarantees generally require no outlays unless the borrower defaults. To monitor and control Federal credit activities, a separate credit budget reflects all new guaranteed loan commitments and direct loan obligations. Table 6 shows these data by agency.

Tax expenditures, also not measured by outlays, are another means by which the Federal Government can achieve policy objectives. Tax expenditures are provisions of income tax law that allow a preferential rate of tax, a special credit, a deferral of tax liability, or a special exclusion, deduction, or exemption. 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. They seek to maintain peace by deterring war. To meet the need for strengthened military capabilities, the administration requests an increase in budget authority for national defense from \$286.1 billion in 1986 to \$320.3 billion in 1987. Outlays are estimated to be \$265.8 billion in 1986, rising to \$282.2 billion in 1987.

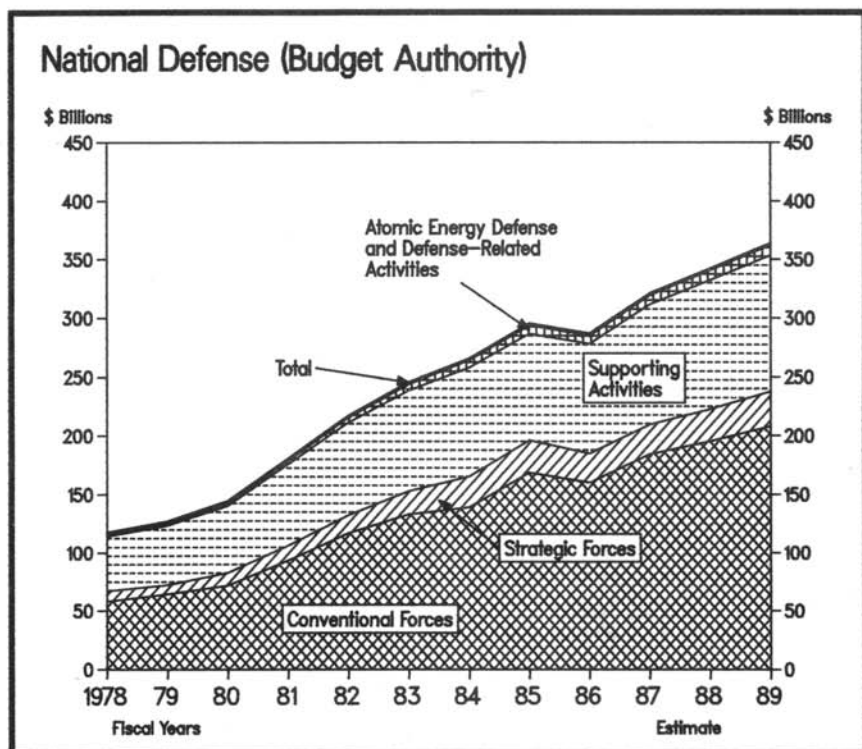
Conventional forces.—Conventional forces are required to deter aggression and to respond to aggression if deterrence should fail. The major elements supporting these forces are pay and benefits for military personnel; purchase, operation and maintenance of conventional arms such as tanks, ships and aircraft; procurement of ammunition and spare parts; and training. Budget authority of \$184.3 billion is requested for these forces in 1987. Major acquisitions include new helicopters and M-1 tanks for the Army, new Navy ships, and Air Force fighter 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 for continuing the administration'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. The strategic program also calls for developing an advanced technology (stealth) bomber; modernizing warning 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 \$101.9 billion is requested for these activities in 1987. 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 Department of Energy develops, tests, and produces nuclear weapons and reactors for nuclear-powered ships. Budget authority of \$8.2 billion is requested for this work in 1987.

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



INTERNATIONAL AFFAIRS

Amid problems of increased international terrorism and political instability abroad, the Federal Government has primary responsibility for protecting and advancing the interests of the United States and its people in international affairs. United States 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 be \$18.6 billion in 1987, an increase of \$1.5 billion from the estimated \$17.1 billion in 1986.

Foreign aid.—Outlays for international security assistance programs for 1987 are estimated to be \$10.9 billion. These programs

serve to strengthen allied and friendly governments where the United States has special security concerns. Security assistance also helps insure U.S. access to military bases and facilities overseas. The major programs in this area are foreign military sales credits and the economic support fund, with estimated 1987 outlays of \$5.8 billion and \$4.1 billion, respectively. The \$1.2 billion increase in estimated 1987 outlays from the 1986 level for overall security assistance is due to an increase of \$1.9 billion in foreign military sales credits. This increase is partially offset by a \$0.8 billion decrease in economic support fund outlays.

Outlays for *international development and humanitarian assistance* are estimated to be \$5.0 billion in 1987 and \$4.9 billion in 1986. 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 in 1987 are \$2.1 billion, the same level as 1986. AID programs support economic growth in developing countries through projects in agriculture, population, health, education and energy. The agency also supports the overseas humanitarian relief and development programs of U.S. private and voluntary organizations. Public Law 480 food aid supports economic development, humanitarian relief, security assistance, and export market development.

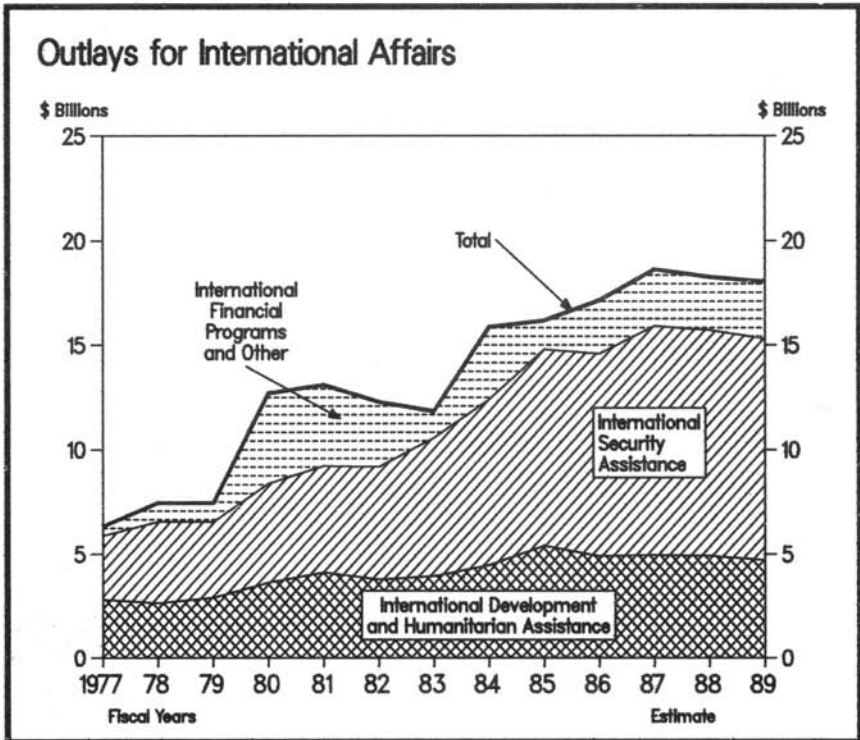
International financial programs.—The Export-Import Bank's direct loan program is proposed to be eliminated. The Bank will maintain its loan guarantee programs, which encourage the export of U.S. goods and services, supplemented by a new interest rate subsidy program.

A new fair export financing program is proposed to counteract unfair competition by foreign competitors. The proposed 1987 budget authority of \$300 million would be disbursed over several years.

Other.—Outlays of \$2.4 billion in 1986 and \$3.1 billion in 1987 are estimated for the *conduct of foreign affairs*, reflecting substantial increases in personnel and improved security of U.S. embassies overseas and limited personnel increases to expand essential reporting and analysis of diplomatic and political conditions overseas. Special emphasis is being placed by the Department of State on

protecting U.S. employees and facilities abroad against the rising incidence of terrorism.

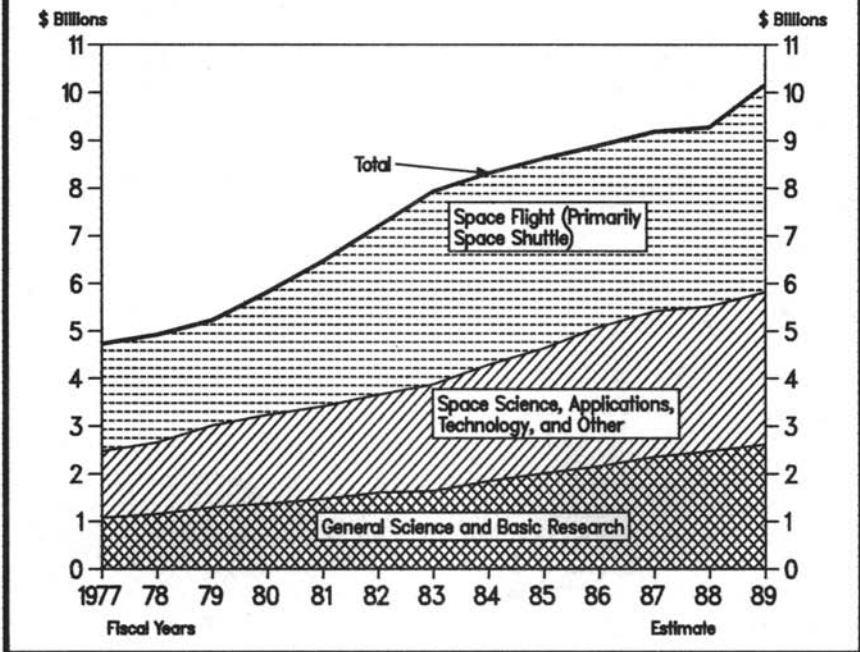
Foreign information and exchange activities.—The U.S. Information Agency will continue the expansion and modernization of Voice of America radio facilities. Outlays of \$0.9 billion in 1986 and \$1.0 billion in 1987 are estimated for all foreign information and exchange activities.



GENERAL SCIENCE, SPACE, AND TECHNOLOGY

The programs in this function emphasize investments that contribute to long-term economic growth and the technological strength of the Nation. Federal support for basic research, space research and technology, and for space flight based on the space shuttle and the manned space station helps to meet those needs. Outlays are estimated to increase from \$8.9 billion in 1986 to \$9.2 billion in 1987.

Outlays for General Science, Space, and Technology



General science and basic research.—Outlays for general science and basic research activities are estimated to increase from \$2.2 billion in 1986 to \$2.4 billion in 1987. This area covers the scientific and engineering research programs supported across all disciplines by the National Science Foundation (NSF) and the general science programs in nuclear and high energy physics supported by the Department of Energy. This level of funding maintains the Nation's commitment to these important areas of basic research.

To support research at universities, the NSF will continue to increase the access of academic scientists to the most advanced computers and to encourage interdisciplinary efforts in fundamental research. Outlays for this and other research activities of the NSF are estimated to be \$1.6 billion in 1987, a 9% increase from the 1986 level.

All space programs.—The Federal civilian space program is under the jurisdiction of the National Aeronautics and Space Administration. Outlays for the civilian space program in 1987 are estimated to be \$6.8 billion. Progress will be restored in the space shuttle program towards achieving routine and reliable access to space for all planned users. The development of the manned space station will start in 1987 to facilitate space-based research, help

develop advanced technology useful to the economy, and encourage greater commercial use of space.

Other programs in this area will support further studies of the solar system and the universe; studies in remote sensing of the Earth's resources and environment; efforts to encourage greater private sector investment and involvement in space; and a new joint research program with the Department of Defense to explore new technologies for transatmospheric vehicles that promise to reduce dramatically the cost of access to space. Funds are also included for continued support of the Galileo mission to Jupiter and the Hubble space telescope.

ENERGY

The Nation needs adequate supplies of energy at reasonable costs. The best way to meet this need is to let market forces work. The role of the Federal Government in this process should be limited.

Consistent with this philosophy, the administration proposes a number of reductions in energy programs and major initiatives which both provide new revenues and curtail the Federal Government's involvement in energy markets. Total outlays for energy are estimated to be \$4.0 billion in 1987, compared to \$4.4 billion in 1986.

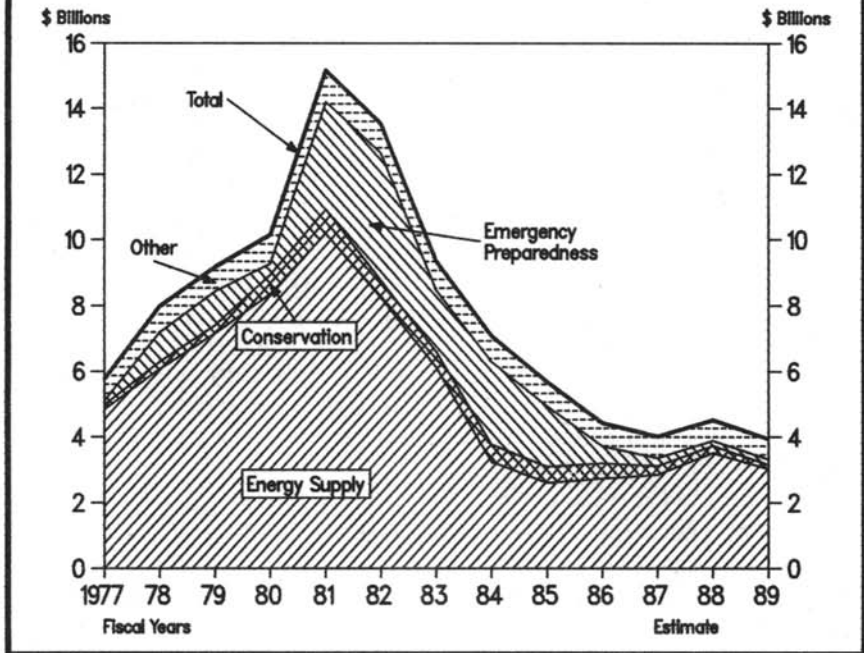
Energy supply.—Programs in this area include energy research and development, direct production programs, and subsidies for synthetic fuels and certain electric utilities and telephone systems.

The budget proposes reductions in support for energy research and development, and limits such support to research that complements, rather than supplants, ongoing research and development investment by the private sector. A total of \$2.1 billion in outlays is estimated in 1987.

Direct production programs include the enrichment of uranium for use as fuel at nuclear power plants; creation of facilities to provide for nuclear waste disposal; production of petroleum at the naval petroleum reserves (NPRs) in California and Wyoming; and the generation and sale of electricity at the Tennessee Valley Authority and at the five regional power marketing administrations (PMAs). The administration proposes to sell the NPRs, which have outlived their usefulness as national security assets and, beginning in 1988, to privatize the PMAs. Privatization can provide greater regional control and result in a more efficient electric power system. Income from these sales and privatization is reflected in undistributed offsetting receipts.

Congress has terminated the Synthetic Fuels Corporation, and transferred responsibility for its previously approved projects to the

Outlays for Energy



Secretary of the Treasury. World oil prices have fallen since the Corporation was created, greatly reducing prospects for near-term commercial production of synthetic fuels.

Legislation is being proposed to provide Rural Electrification Administration direct loans at the cost of Treasury borrowing plus 1-1/8%, in order to reduce the REA loan subsidy now given under the current 5% interest rate. The administration also proposes to assess a fee on all generation and transmission facility borrowers to recover any defaults on their loan repayments.

Energy conservation.—Outlays for energy conservation are expected to be \$0.3 billion in 1987. It is anticipated that future support for State and local government grant programs will come from the resolution of a number of cases involving petroleum pricing violations under the old oil price control program.

Emergency energy preparedness.—The significant progress made in filling the strategic petroleum reserve over the past 5 years, as well as the favorable changes that have occurred in world oil markets, have caused the administration to propose an indefinite moratorium on filling the reserve when it reaches 500 million

barrels. Estimated outlays in 1987 of \$0.2 billion would be used to maintain the reserve in a state of readiness.

Other.—Outlays for other energy programs for 1987 are estimated to be \$0.7 billion, a slight decrease from 1986. These funds support the work of the Nuclear Regulatory Commission and various Department of Energy operating and administrative expenses.

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 \$12.0 billion in 1987, a \$0.9 billion decrease from 1986 that is in large part the result of increased user fees, management improvements, funding fewer new construction projects, and returning some regulatory powers to the States.

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	
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.....	4.0	—*	4.0	4.2	—0.2	4.1	6.7	—2.2	4.5	12.6
1985.....	4.5	—*	4.5	4.3	—0.2	4.1	7.1	—2.3	4.8	13.4
1986 estimate.....	4.7	—*	4.6	4.2	—0.2	4.0	7.0	—2.7	4.3	12.9
1987 estimate.....	4.5	—0.1	4.5	4.5	—0.6	3.8	6.4	—2.8	3.6	12.0
1988 estimate.....	4.5	—0.1	4.4	4.7	—0.7	4.0	6.3	—2.9	3.4	11.8
1989 estimate.....	4.5	—0.2	4.4	4.9	—0.8	4.1	6.2	—3.0	3.1	11.7

*\$50 million or less.

Pollution control.—Outlays for pollution control are estimated to be \$4.5 billion in 1987, including \$0.8 billion for cleaning up abandoned hazardous waste sites and chemical spills, which continues the expanded effort begun in 1986.

While new budget authority of \$1.8 billion will be requested in 1987 for the construction of sewage treatment systems, the program must be reauthorized before the request for funding will be submitted.

Water resources.—Outlays for water resources are estimated to be \$3.8 billion in 1987, \$0.1 billion less than 1986. Most of the proposed funding covers construction of projects started in previous

years and operation and maintenance costs of completed projects. Nineteen new construction starts, including four projects proposed by the administration in prior budgets, are proposed. Army Corps of Engineers expenses for the Nation's harbors are now financed almost entirely by general tax revenues. In anticipation of enactment of pending legislation to recover these expenses, the budget assumes that budget authority of \$0.2 billion for operation and maintenance will be financed by navigation user fees. The administration's policy is to require the users of Federal commercial services to pay for these services and to require concurrent recovery of construction-period costs. The administration also proposes to gradually double the existing 10-cent per gallon user fee on fuel used to transport cargo on the inland waterway system.

In addition the administration proposes to terminate the Soil Conservation Service small watershed program, which provides flood control and drainage facilities that are usually within the financial and engineering capability of non-Federal entities to provide for themselves.

Conservation, recreation, and other.—Outlays for conservation and land management are estimated to be \$0.6 billion in 1987, a decrease of \$0.5 billion from 1986. The decrease is due to higher offsetting receipts expected from the sale of timber and minerals on Federal lands, changes in programs to improve the management and productivity of the national forests and public lands, streamlining mineral leasing programs, the maturation of the abandoned mined land reclamation grant program, and termination of several Soil Conservation Service programs.

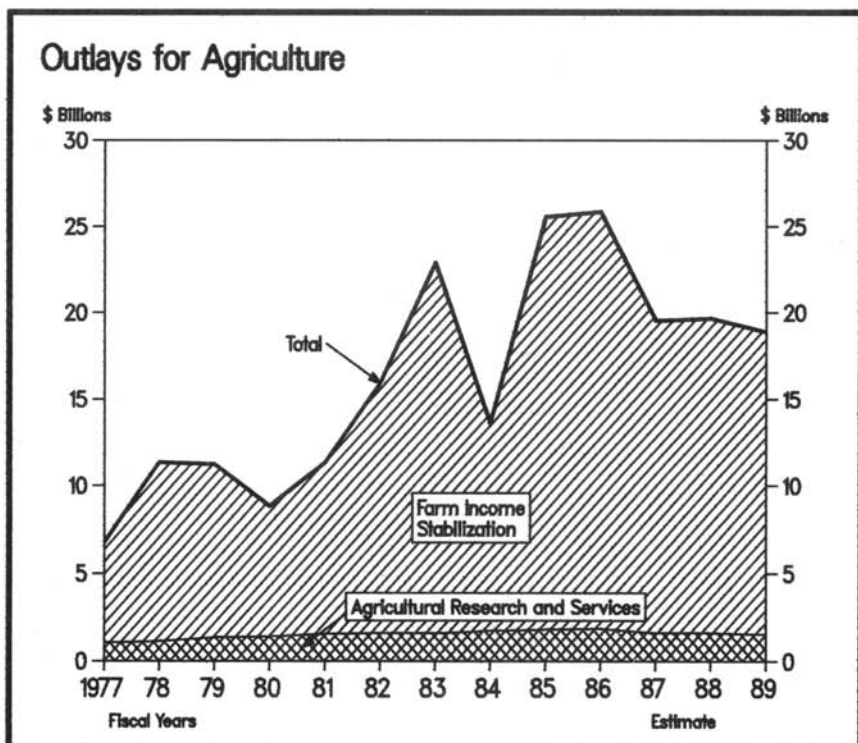
Outlays for recreational resources are estimated to be \$1.4 billion, a decrease of \$0.2 billion from 1986. This reduction is due to a reduction in recreational land acquisition, management efficiencies, and a proposed increase in user fees.

AGRICULTURE

The goals of Federal agriculture price support, credit, and insurance programs are to promote economic stability and a market-oriented farm economy. These goals will be served by the recently enacted Farm Security Act of 1985 (known as the farm bill), which sets farm policy for the next 5 years. That bill will provide the Secretary of Agriculture with authority to bring U.S. supported crop prices close to world market levels, thus helping to increase U.S. agriculture exports. Agricultural productivity is enhanced further through research and other services assisted by the Federal Government. Total outlays for agriculture in 1987 are expected to be \$19.5 billion, a decrease of \$6.3 billion from 1986.

Farm income stabilization.—The Commodity Credit Corporation (CCC) provides producers of agricultural commodities with price and income support through loans, purchases, payments, and other activities. Federal crop insurance is the primary means of alleviating losses to crop producers caused by natural disasters. The Farmers Home Administration (FmHA) also provides credit to farmers through the agricultural credit insurance fund (ACIF).

The administration's budget proposals are intended to reform existing programs and eliminate costly duplication of subsidies that distort agricultural markets and harm U.S. farm exports. Outlays for farm income stabilization programs are expected to increase from \$23.8 billion in 1985 to \$24.0 billion in 1986. This is a result of higher CCC outlays for price support mechanisms set by law. Outlays of \$17.9 billion are estimated in 1987. This farm bill should reduce the need for substantial supply control of agricultural products while still providing price stability. In 1987, \$3 billion of new guaranteed loans will be offered for export sales that would not occur without Federal intervention. The administration proposes that the FmHA move toward guarantees of private loans rather than subsidized direct Federal loans both to enhance credit efficiency and to reduce demands on the Federal budget.



Agricultural research and services.—Agricultural research programs help to increase productivity by developing new knowledge about human nutrition and food. Long-term basic research will continue to receive higher priority and more Federal aid than short-term applied research and development, which is more appropriately financed by private industry. Agricultural services include marketing, animal and plant health inspection programs, and the collection and distribution of economic data. Legislation will be proposed to expand the user fees charged for these services. Outlays for agricultural research and services are estimated to be \$1.6 billion in 1987, compared to \$1.8 billion in 1986.

COMMERCE AND HOUSING CREDIT

Commerce and housing credit programs channel credit assistance to the housing sector; support an environment in which all sectors of the economy may compete equally for credit; insure bank, thrift, and credit union deposits; and provide postal services. Outlays are estimated to be \$1.4 billion in 1987.

OUTLAYS FOR COMMERCE AND HOUSING CREDIT

(In billions of dollars)

	Mortgage credit and deposit insurance	Postal Service	Other advancement of commerce	Total
1977	-0.2	2.1	1.2	3.1
1978	3.6	1.3	1.4	6.3
1979	2.3	0.9	1.5	4.7
1980	5.6	1.2	2.5	9.4
1981	4.7	1.4	2.1	8.2
1982	4.0	0.2	2.1	6.3
1983	3.9	1.1	1.7	6.7
1984	3.8	1.2	1.9	6.9
1985	0.9	1.4	2.0	4.2
1986 estimate.....	0.2	1.3	2.3	3.8
1987 estimate.....	-3.1	2.7	1.7	1.4
1988 estimate.....	-2.4	5.1	1.2	3.8
1989 estimate.....	-3.4	1.8	1.2	-0.5

Mortgage credit insurance.—The Federal Government aids the housing industry and homebuyers by promoting stable, noninflationary economic growth. Consistent with the policy to reduce Federal intervention in private markets, the administration is proposing to terminate or privatize programs in which beneficiaries are served by existing private market mechanisms. The budget also proposes to raise user fees for credit programs in which the Government unfairly competes with the private sector.

The Federal Housing Administration (FHA) insures home mortgages for individuals. The administration proposes a guaranteed loan limitation of \$50.9 billion in 1987 for this purpose, and also plans to increase the premium charged for FHA insurance from 3.8% to 5.0%. Other changes proposed for FHA include: better targeting of programs for low-income homebuyers by restricting eligibility, and a careful assessment of the most efficient way to sell FHA mortgage insurance business to the private sector. The administration proposes the rental housing voucher program to replace the currently costly new construction programs for housing for the elderly and handicapped. The Farmers Home Administration housing assistance programs would be terminated. In addition, the administration proposes fee increases on debt obligations for Federal Government agencies and Government-sponsored enterprises which participate in the secondary mortgage market. The Government National Mortgage Association, the Federal Home Loan Mortgage Corporation and the Federal National Mortgage Association would each be mandated a fee increase to lessen the advantages each has over the private market.

Bank, thrift, and credit union deposit insurance.—The provision of deposit insurance is an increasingly important stabilizing influence on the Nation's economy, given the record number of bank failures in calendar year 1985 due to severe problems in the agricultural sector. 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 \$1.5 billion in 1986 and \$2.4 billion in 1987.

Postal Service.—The administration proposes to stop reimbursing the Postal Service for losses in revenue associated with carrying certain categories of mail at free or reduced rates. However, legislation will be proposed to enable the Postal Service itself to continue the subsidy for most existing subsidized mailers. The outlays of the Postal Service are composed of the payments by the general fund to the postal service fund, and the net outlays (spending offset by income, such as proceeds from the sale of stamps) of the postal service fund. Total outlays for 1987 are estimated to be \$2.7 billion.

Other advancement of commerce.—The administration proposes to transfer the Small Business Administration (SBA) and many of its noncredit programs to the Department of Commerce as part of an overall effort to increase reliance on the private sector and reduce Federal credit programs. SBA's loan programs would be terminated.

TRANSPORTATION

Federal transportation programs assist State and local governments as well as private enterprise by funding projects and research that promote safe, efficient movement of people and distribution of goods and services. Outlays for transportation are estimated to be \$25.5 billion in 1987, \$1.6 billion less than in 1986.

The administration stresses the Federal Government's role in national transportation programs and proposes reduced, but flexible funding for local transportation projects in addition to elimination of maritime and railroad subsidies. The budget also reflects the administration's continued efforts to reduce the Federal role in commercial transportation and to require users to pay the full cost of the transportation services they receive.

Highways.—The administration proposes to limit 1987 funding for programs supported by the highway trust fund to anticipated highway user fee receipts. Outlays for highways are estimated at \$13.6 billion in 1987, including outlays associated with a proposed block grant to fund local transportation projects. The total is \$0.5 billion below 1986.

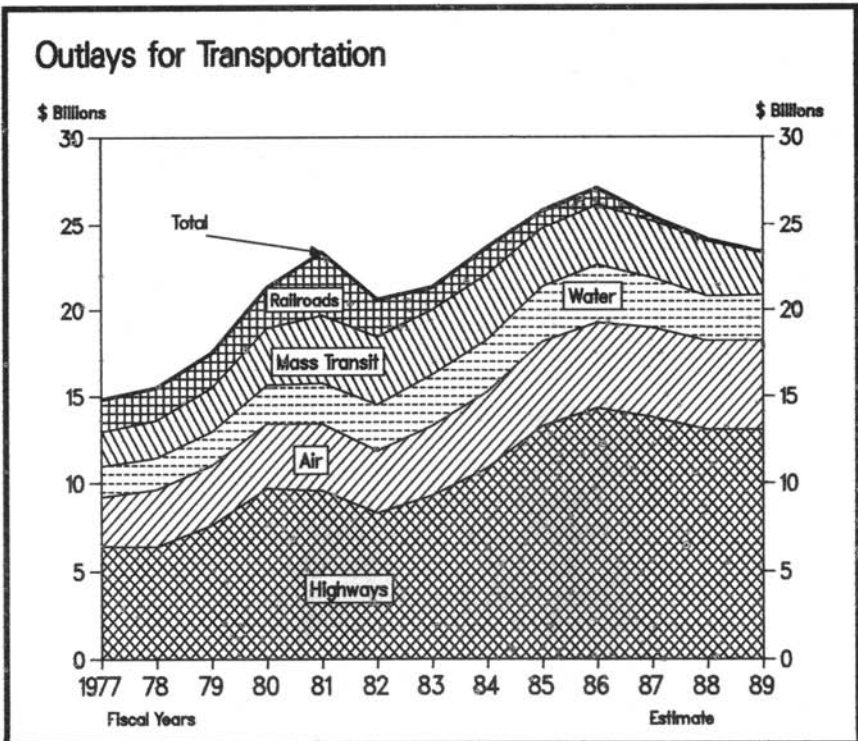
Mass transit.—The administration continues to believe that funding of local transportation is not an appropriate Federal Government role, because benefits accrue locally. The administration therefore proposes to limit 1987 funding from the mass transit account to the level of receipts provided by the one cent of the gasoline tax dedicated to mass transit activities. This assistance, in conjunction with the \$2.2 billion in proposed highway block grant funds, would be distributed by formula block grant and could be used for local transportation needs. Outlays for mass transit are estimated to decline from \$3.5 billion in 1986 to \$3.4 billion in 1987.

Air transportation.—Outlays for air transportation are estimated at \$5.2 billion in 1987, \$0.2 billion more than 1986. These levels include funding for the Federal Aviation Administration's (FAA) capital modernization program, 15,000 air traffic controllers, additional airline and aircraft inspectors, and elimination of air carrier subsidies. Legislation has been proposed to finance about 75% of the FAA's operations and maintenance activities from the airport and airway trust fund.

Water transportation.—Outlays for water transportation are estimated to decline to \$2.9 billion in 1987, from \$3.4 billion in 1986. The budget request for the Coast Guard continues 1986 programs with emphasis on maritime drug interdiction operations and modernization of shore facilities. The budget also includes proposed user fees for direct and indirect services provided by the Coast Guard to commercial operators and recreational boaters. These fees would yield an estimated \$0.2 billion in offsetting receipts in 1987.

The administration continues to support the policy that U.S.-flag ship operators be permitted to build or acquire vessels abroad. The budget includes funding for operating subsidies to meet the Federal Government's obligations on existing contracts; no new contracts are anticipated. Several new initiatives are being proposed to reduce unwarranted maritime subsidies, including termination of new guaranteed loan commitments for ship construction, Federal aid to maritime schools, and maritime research and development.

Railroads.—The budget continues the administration's policy of reducing Federal responsibility for rail activities unrelated to safety. Subsidies for Amtrak and the United States Railway Association would end. Outlays for railroads are estimated to decline from \$0.9 billion in 1986 to \$0.3 billion in 1987.



COMMUNITY AND REGIONAL DEVELOPMENT

Federal policy emphasizes the primary role that private, State, and local resources must play in community and regional development. The administration believes that Federal programs that support community and regional development should devolve as much responsibility as possible to States and local governments, which in many cases brings closer to the people the decision on whether to pay to support the programs. Programs that interfere with private sector activity should be curtailed. Total outlays for this function are estimated to be \$6.5 billion in 1987, a decrease of \$1.4 billion from 1986.

Community development.—The community development block grant (CDBG) program administered by the Department of Housing and Urban Development is the principal program in this category. The CDBG program provides community and economic development support to cities, counties, Indian tribes, and U.S. territories. The nature of CDBG allows States and localities to allocate funds to supplement other resources in ways that they choose. The administration will propose to reform the process through which CDBG grants are distributed to mitigate the effects of program reductions on communities with the greatest need. Outlays for CDBG are estimated at \$3.1 billion in 1987, down from \$3.6 billion in 1986.

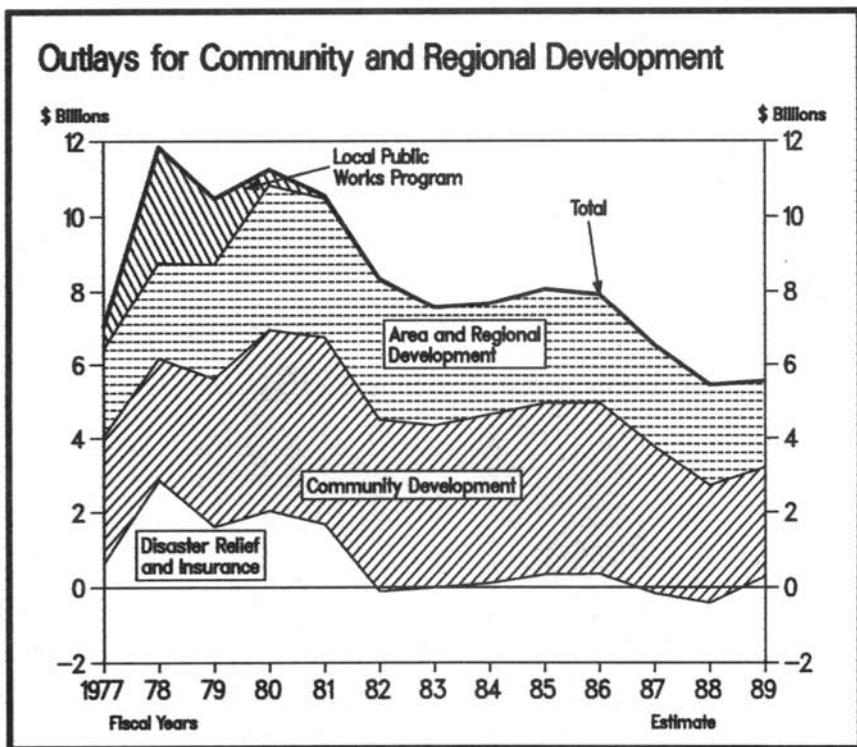
The administration proposes to terminate urban development action grants, rental development grants, and rental rehabilitation grants in 1987. The CDBG program will allow communities to meet most of these same program objectives with greater local discretion. Total outlays for community development are estimated to be \$3.9 billion in 1987, a \$0.7 billion decrease from 1986. Since the full effect of the proposed terminations will not be felt in the first year, outlays will continue to decline through 1989.

Area and regional development.—Programs in this category support rural development, development of American Indian tribal governments, and multi-State regional development. Total outlays in area and regional development are estimated to be \$2.8 billion in 1987, down from \$3.0 billion in 1986.

Most assistance provided by the Farmers Home Administration rural development loan and grant programs and the Economic Development Administration is proposed for termination. The goals of these programs will continue to be met through the CDBG program and other methods at the discretion of State and local

governments. The administration continues to propose termination of the Appalachian Regional Commission, since it has outlived its purpose following the economic growth experienced by that region and the Federal funding it has received to date. Also proposed for termination is direct funding to the Tennessee Valley Authority for regional economic, community, and agricultural development programs that are more appropriately private or State and local government responsibilities. To the extent that Federal assistance might be warranted, it can be allocated more equitably by programs administered nationally by other Federal agencies.

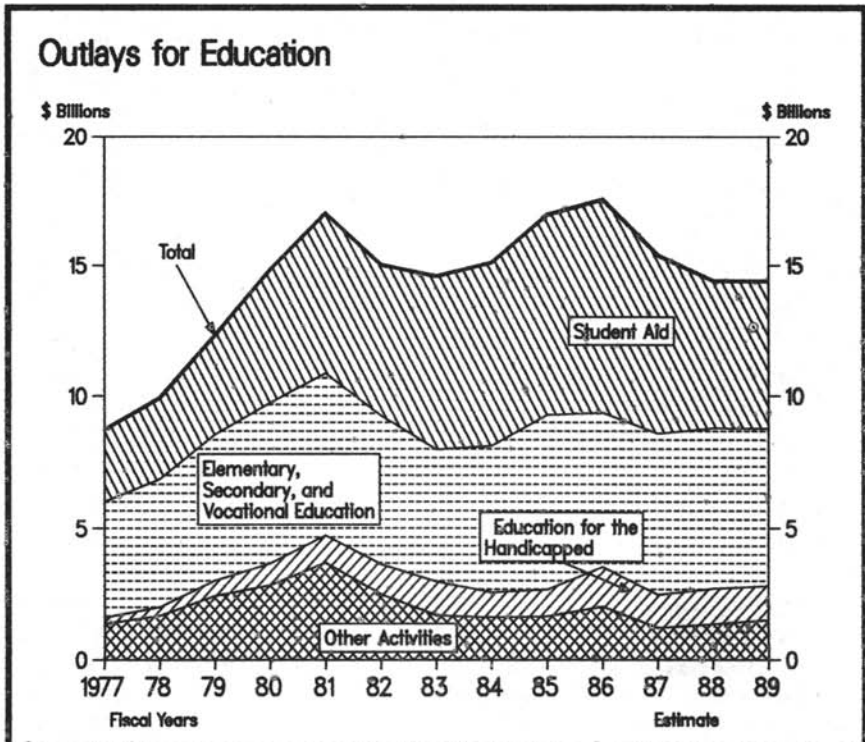
Disaster relief and insurance.—The Federal Government provides disaster relief and insurance to supplement private, State, and local government resources when these resources are insufficient. Disaster loans administered by the Small Business Administration are proposed for termination because insurance is available to cover losses. The administration also proposes to continue the phaseout of the subsidy in national flood insurance through rate increases and other changes to recover clearly allocable costs from beneficiaries.



EDUCATION

The administration's policies on education emphasize national leadership and dedication to excellence in education for all children. Federal programs for education assist parents, States, and localities in providing education, especially for educationally disadvantaged, low-income, and handicapped persons. Outlays for this function are estimated to be \$15.4 billion in 1987, a 12.4% decrease from the 1986 level.

Elementary, secondary and vocational education, and education for the handicapped.—Programs in this category are primarily Federal grants designed to help States educate students with special needs. For 1987, the administration proposes to finance most of the major grant programs at or near the 1986 level. A major reduction is proposed for vocational education; remaining funds will be concentrated on the disadvantaged and handicapped. The administration continues to support legislation to allow parents of children selected to participate in the compensatory education program the option of using program funds as vouchers to obtain educational services at the private or public school of their choice. Outlays for these programs are estimated to be \$7.4 billion in 1987.



Higher education.—Estimated outlays for higher education are \$6.8 billion in 1987. The administration proposes reforms for Federal student aid to reduce excessive levels of spending and to target available aid to the most needy students.

The Administration is also proposing an income-contingent loan program to replace national direct student loans. Under this program, students would receive unsubsidized loans with repayments adjusted according to the students' ability to pay.

TRAINING, EMPLOYMENT, AND SOCIAL SERVICES

Federal programs in this area are designed to facilitate the operation of the labor market and provide social services to needy individuals. Outlays for these activities are estimated to be \$12.1 billion in 1987, a decline of \$1.0 billion from 1986.

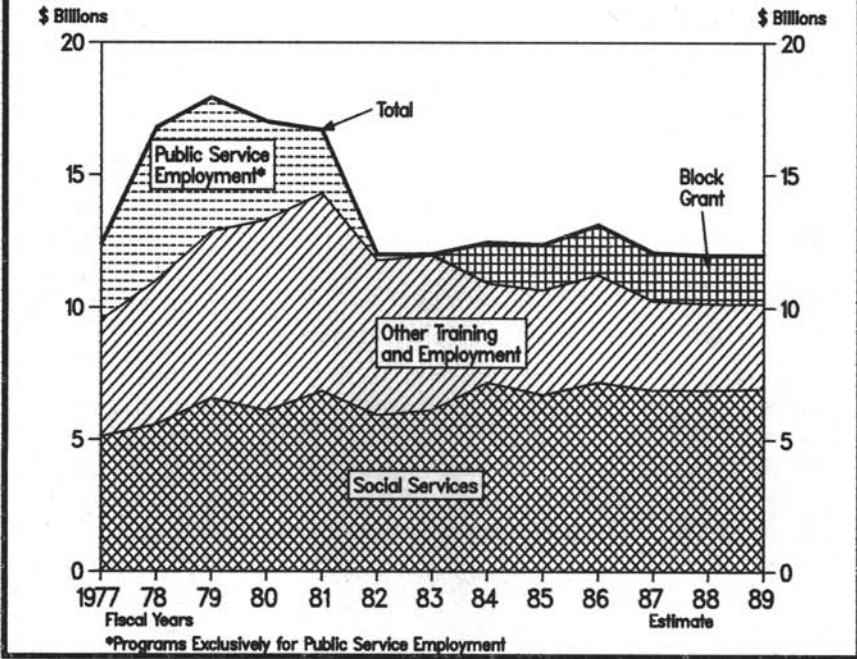
Training and employment.—Training and employment programs are designed both to improve individuals' abilities to obtain and retain jobs by developing job skills and to support services that match individuals with jobs. The major Federal activities in this area are financed through grants to States. These grants include a block grant that allows States to design training programs to meet the needs of their disadvantaged population and categorical grants for the employment service, public service employment for older workers, summer youth employment and training, and job placement and training for workers displaced by changing economic conditions. The administration proposes to change the distribution of the latter two grant programs to ensure that they are targeted to areas of greatest need.

The administration proposes to reduce the Jobs Corps from 40,500 to 22,000 slots. At the lower program level, centers that remain open would be near where the youth needing service live, would afford the best possible learning environment, and would be most cost effective. Outlays for training and employment are estimated to be \$4.5 billion in 1987.

Social services.—The Federal Government makes grants to States and to public and private institutions for a variety of social services. Beneficiaries include low-income persons, the elderly, the disabled, children, youth, and native Americans. Outlays for social services are estimated to decrease from \$7.2 billion in 1986 to \$6.9 billion in 1987.

The social services block grant gives States discretion to determine which social services will be offered and who will be eligible to receive them. Special grants are given to States to aid special populations such as the elderly and the physically or mentally handicapped. The administration is proposing to close out the duplicative community services block grant. States may continue community service programs with social services block grant funds.

Outlays for Training, Employment, and Social Services

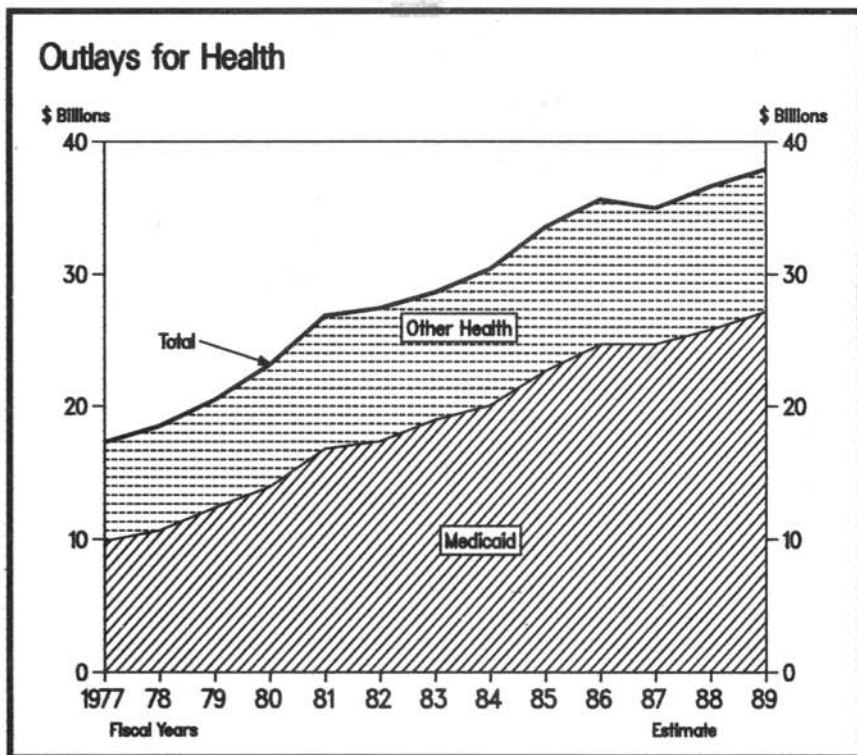


The Federal Government also makes grants to help States provide foster care and adoption assistance, and reunite children with their families. The administration is reproposing a new bonus system for 1987 to reward States that resolve children's problems quickly and return them to permanent homes.

HEALTH

The Federal Government contributes to meeting national health care needs by financing and providing health care services, promoting disease prevention, and supporting research and training. Federal outlays for these programs are estimated to decrease from \$36 billion in 1986 to \$35 billion in 1987.

Medicaid.—More than two-thirds of Federal outlays for health in this function is devoted to medicaid. Under current law, estimated Federal medicaid outlays of \$25.9 billion in 1987 and an additional \$21.3 billion provided by States are expected to finance care for 23.6 million poor Americans. For 1987 the administration proposes limiting medicaid expenditures to \$1 billion below projected levels.



In subsequent years, the growth in medicaid costs would be limited to the increase in prices in the medical care sector. The administration also proposes substantial new program reforms to significantly increase State flexibility to control costs.

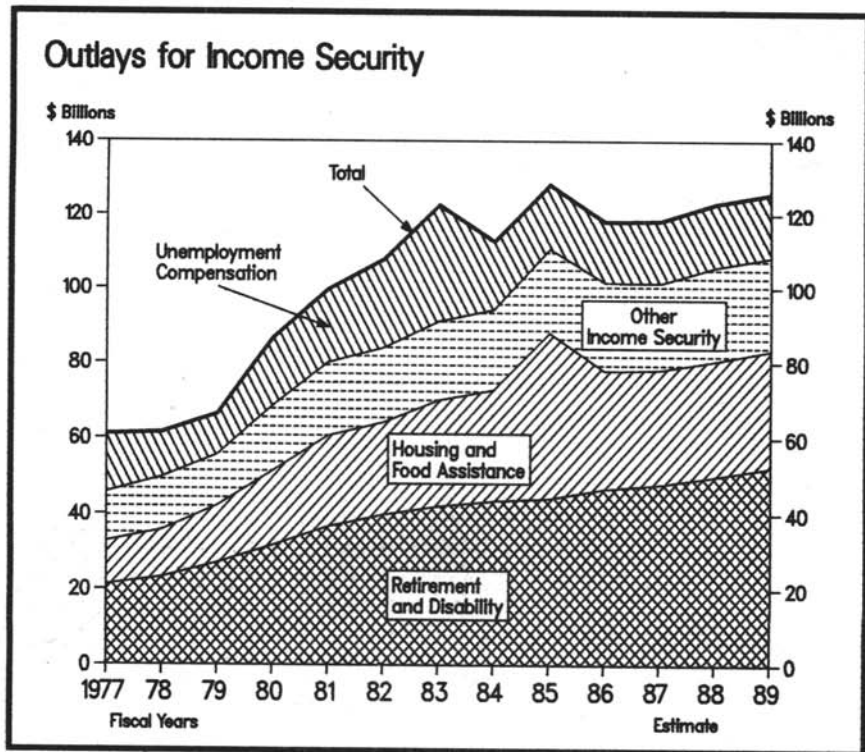
Other health programs.—Programs in this category include the Indian Health Service, the National Health Service Corps, and health block grants to States. In addition, the Federal Government provides 85% of the Nation's expenditure on basic, health-related research. Outlays for this research are estimated to be \$5.4 billion in 1987. Because the supply of health care professionals is now adequate, the administration proposes ending direct Federal subsidies for health professions training except for loan guarantees. Estimated outlays of \$0.8 billion in 1987 will help protect consumers from unsafe 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 this proposal, employees would be given a wider range of choices among health insurance 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 \$1.2 billion in 1987.

Outlays for child nutrition and other food programs, excluding food stamps, are estimated to be \$5.8 billion in 1987. The budget proposes to discontinue meal subsidies for students from non-needy families in school lunch and breakfast programs and child care facilities.

Under proposed law, estimated food stamp outlays including nutrition assistance to Puerto Rico are \$12.3 billion in 1987, compared to \$12.5 billion for 1986. An annual cost-of-living adjustment is due in October 1986. The budget includes proposals to increase employment opportunities for able-bodied recipients and to reform Federal funding for State and local administrative costs. Similar changes in funding for administrative costs are proposed for aid to families with dependent children and medicaid.

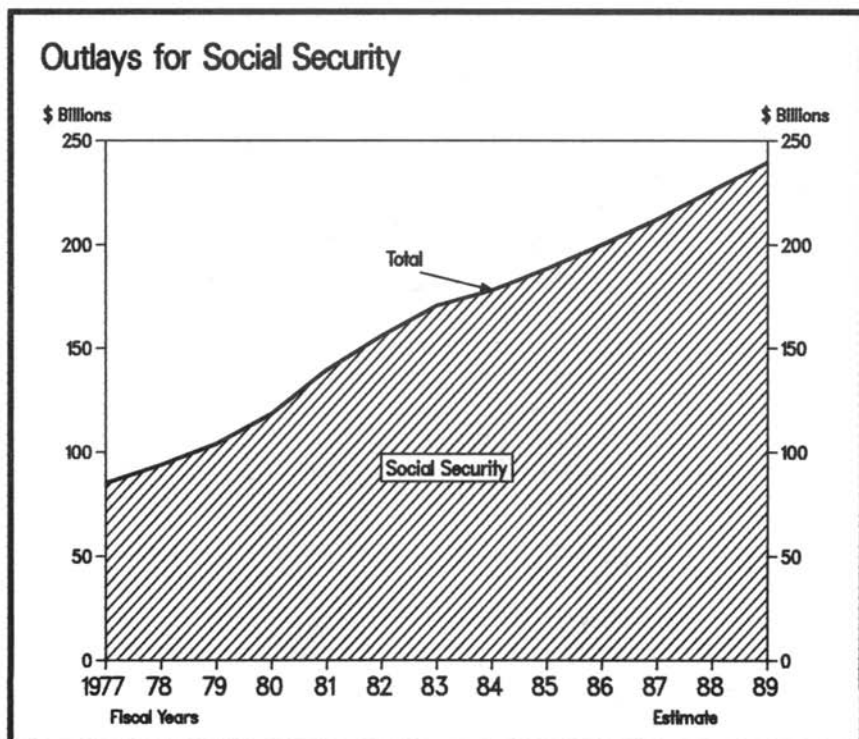
Unemployment compensation.—Outlays for unemployment compensation are estimated to increase from \$16.5 billion in 1986 to \$16.8 billion in 1987. About 2.2 million workers per week are estimated to receive benefits in 1987. The administration is proposing legislation to extend Federal-State unemployment insurance coverage to rail workers.



Other income security.—Outlays for the supplemental security income program (SSI), which pays benefits to an estimated 4 million needy aged, blind or disabled individuals, are estimated to be \$10.5 billion in 1987. SSI payments continue to be adjusted for changes in the cost-of-living. Federal outlays for aid to families with dependent children (AFDC) and child support enforcement are estimated to be \$8.9 billion in 1987. Approximately 3.7 million low-income families are estimated to receive AFDC benefits in 1987 under current law. The budget proposes to increase recipients' work opportunities and to reform eligibility rules. Other income security programs include the earned income tax credit and low-income home energy assistance.

SOCIAL SECURITY

The Federal Government contributes to the income security of aged and disabled Americans through social security, which is comprised of the old-age and survivors insurance (OASI) and the disability insurance (DI) programs. Social security represents about one-fifth of estimated total Federal outlays in 1986 and provides benefits to one in every six Americans. As a result of the Balanced Budget and Emergency Deficit Control Act of 1985, the receipts and outlays of the OASI and DI trust funds are now off-budget and are exempt from any general budget limitation imposed by statute.



Social security.—Social security affects the lives of most Americans, either through benefits received or through payroll taxes deducted from earnings. Outlays for social security old-age, survivors, and disability programs are estimated to increase from \$200 billion in 1986 to \$212 billion in 1987, primarily because of cost-of-living increases and increases in the number of beneficiaries.

VETERANS BENEFITS AND SERVICES

Benefits and services are provided to meet the Nation's obligation to veterans of military service. Outlays for this function are expected to be \$26.4 billion in 1987.

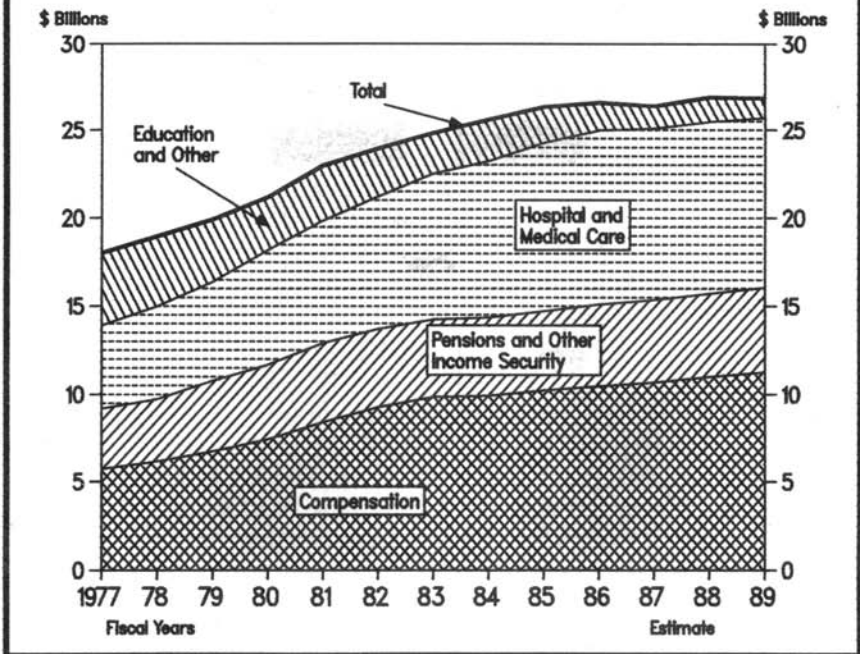
Hospital and medical care.—The Veterans Administration (VA) operates the Nation's largest medical care system. The Administration's comprehensive reform of VA medical care eligibility is being repropoed. This reform would allow VA to target and sustain quality care primarily for veterans injured during military service and for veterans without resources to defray all or part of their health care expenses. In addition, it would require health insurers to reimburse the Government for care provided to non-service-connected veterans with health insurance. The budget also proposes to restructure and enhance long-term care policy to make greater use of VA-sponsored State and community nursing home care programs and non-institutional programs. Outlays for hospital and medical care programs (which exclude third party reimbursement) are estimated at \$9.9 billion in both 1986 and in 1987.

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 \$10.5 billion in 1986 to \$10.7 billion in 1987. These estimates reflect an administration proposal to provide a 3.7% increase in compensation benefits effective with the January 1987 payments.

Pensions.—Pensions are provided to needy veterans with wartime service—both combat and non-combat veterans alike—and to needy survivors of deceased veterans. Outlays for pension benefits are estimated at \$3.8 billion in both 1986 and 1987. Pension recipients are scheduled to receive an estimated 3.7% increase in benefits effective with the January 1987 payments.

Education, training, and rehabilitation.—The GI bill provides education benefits to veterans and active duty personnel who served, at least in part, between February 1, 1955, and December 31, 1976. These benefits are designed primarily to help veterans adjust to civilian life.

Outlays for Veterans Benefits and Services



Individuals who entered military service after 1976 are eligible for the post-Vietnam era educational assistance program (VEAP). Enrollment in this program has been closed since July 1985, while the all-volunteer force educational assistance test program is in effect. Because this costly program is unnecessary for recruitment, the administration is proposing to curtail the test and reopen VEAP on October 1, 1986.

Outlays for this purpose are estimated to decline from \$633 million in 1986 to \$553 million in 1987 because of the continued decline in the number of eligible beneficiaries.

Other.—The VA provides additional assistance to veterans through housing loan guarantees. New guaranteed loan commitments are expected to rise slightly from \$12.3 billion in 1986 to \$14.7 billion in 1987. As part of the administration's policy to make Federal credit programs self-supporting, the existing 1% funding fee charged on VA-guaranteed housing loans would be increased to 2% in 1987—increasing to 3.8% by 1990—and could be added to the mortgage amount. Direct loans are available to disabled veterans eligible for specially adapted housing and to non-veterans who purchase property from the VA portfolio.

ADMINISTRATION OF JUSTICE

Federal activities in this function include law enforcement, litigative and judicial activities, criminal justice assistance to State and local Governments, and the operation of prisons to house Federal inmates. Outlays for these activities are estimated at \$6.9 billion in 1987.

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 \$3.9 billion in 1987.

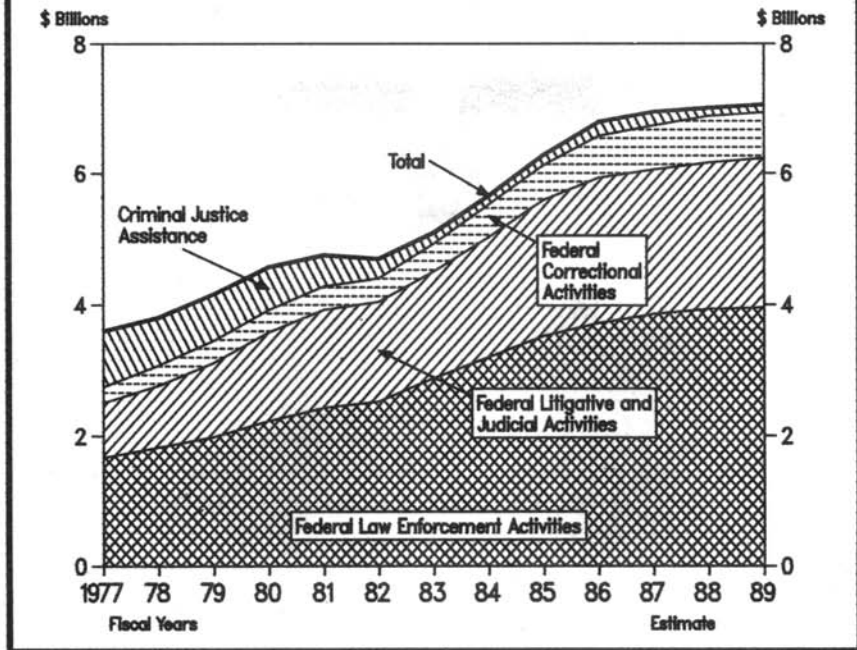
In the Justice Department, the Federal Bureau of Investigation (FBI) and the Drug Enforcement Administration (DEA) work together with other Federal agencies through 13 regional Organized Crime Drug Enforcement task forces. The FBI also enforces a broad range of other criminal statutes, and works with other Federal, State, and local law enforcement authorities. In 1987, additional resources are requested for foreign counterintelligence activities and for the development of artificial intelligence computer capability to aid in counterterrorism activities and other investigations.

Federal litigative and judicial activities.—The administration's efforts in this area focus on enforcing organized crime and drug statutes; strengthening efforts to combat fraud and waste; recovering delinquent debt owed the Government; and defending civil claims filed against the Government and its officials.

The budget does not include any proposed funding beyond 1986 for the Legal Services Corporation, created to assist State and local agencies that provide free civil legal assistance to the poor. The social services block grant is sufficient to fund legal services that States wish to provide for their citizens. In addition, it is expected that programs developed by State and local bar associations to provide free assistance to indigent citizens will continue to grow, consistent with private attorneys' ethical obligations to provide such free services. Outlays for litigative and judicial activities are estimated to be \$2.2 billion in 1987.

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 the construction of three new prisons, as well as for additions and renovations to existing prison facilities. Outlays for correctional activities are estimated to be \$0.7 billion in 1987.

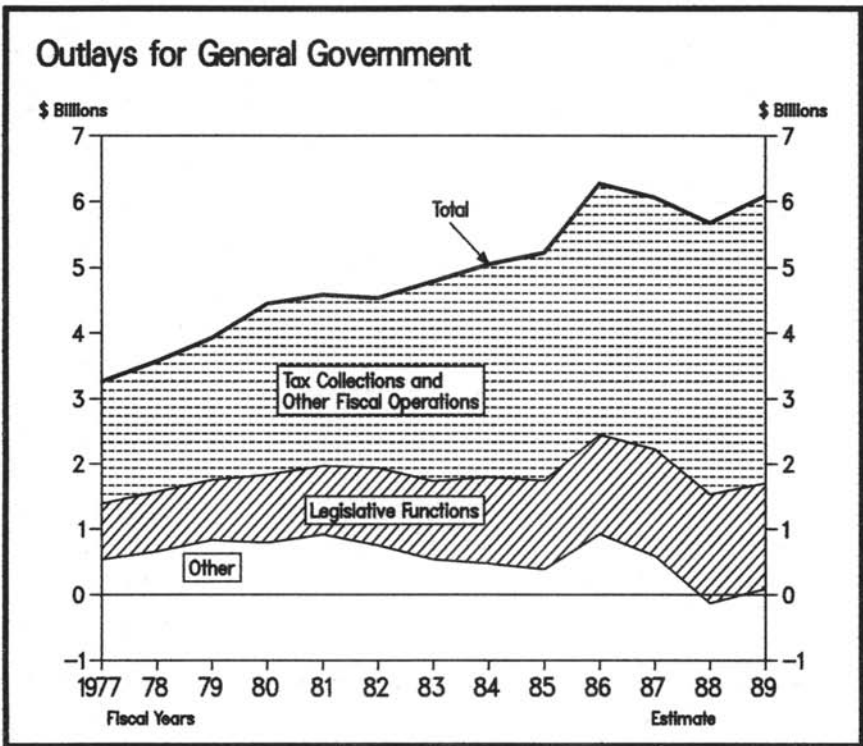
Outlays for Administration of Justice



Criminal justice assistance.—The administration is again requesting no new budget authority for juvenile justice and delinquency prevention programs because the primary objective of the programs—the separation of juvenile from adult offenders—has largely been accomplished. In addition, the administration is proposing that States and localities assume primary responsibility for activities currently funded by the State and local assistance program since the benefits of the program accrue to the States and localities. Outlays for criminal justice assistance in 1987 are estimated to be \$0.2 billion.

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 procurement activities of the General Services Administration, central personnel management activities of the Office of Personnel Management (OPM), and archive and recordkeeping activities. Outlays for general government are estimated to be \$6.1 billion in 1987.



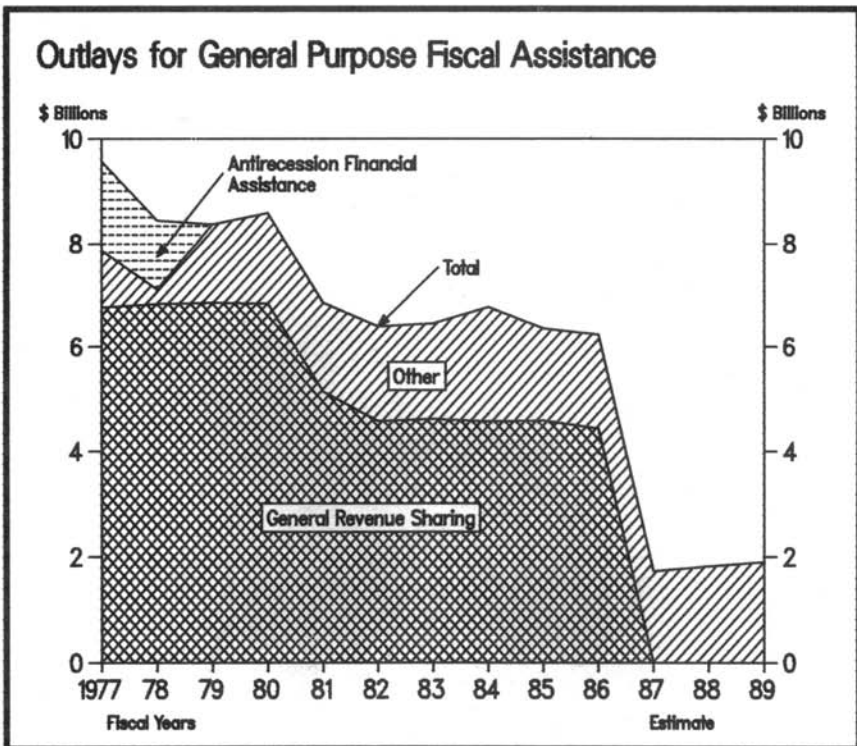
Administration initiatives include expanded efforts to identify and collect unpaid taxes. The IRS will continue to modernize and streamline its operations, with the use of new tax processing equipment and automated collection of unpaid tax liabilities. Greater emphasis on audits and increased litigation of tax shelter cases are expected to encourage voluntary compliance with the tax laws. A substantial increase in the tax audit staff is proposed, which will have revenue benefits well beyond the increased cost.

GENERAL PURPOSE FISCAL ASSISTANCE

General purpose fiscal assistance provides financial aid to State and local governments without major restrictions or matching requirements. Historically, the Federal Government has provided substantial levels of this assistance, which can generally be used for State or local services, construction, debt retirement, and other purposes of general government. However, the Federal Government can no longer afford to continue the general revenue sharing program. Consequently, outlays for this assistance are estimated to decline from \$6.2 billion in 1986 to \$1.7 billion in 1987.

General revenue sharing.—General revenue sharing provides assistance to nearly 39,000 local governments. The administration is proposing to end general revenue sharing in 1986. This termination is consistent with the substantial improvements during the past decade in the abilities of State and most local Governments to meet their own fiscal needs. Outlays for the general revenue sharing program are estimated to be zero in 1987, based on the proposed termination of the final quarterly payment under the currently authorized program.

Other general purpose fiscal assistance.—This category includes payments to the District of Columbia and other payments to States, localities, and territories. Some jurisdictions receive payments from the Federal Government based on receipts generated from the timber sales, mineral leases, grazing permits and other activities on Federal property. Outlays for other general purpose fiscal assistance are estimated to be \$1.8 billion in 1986 and \$1.7 billion in 1987. The administration is proposing legislation that will allow the Federal Government to deduct the costs of managing the lands that generate timber and mineral receipts before calculating the States' and counties' shares.



NET INTEREST

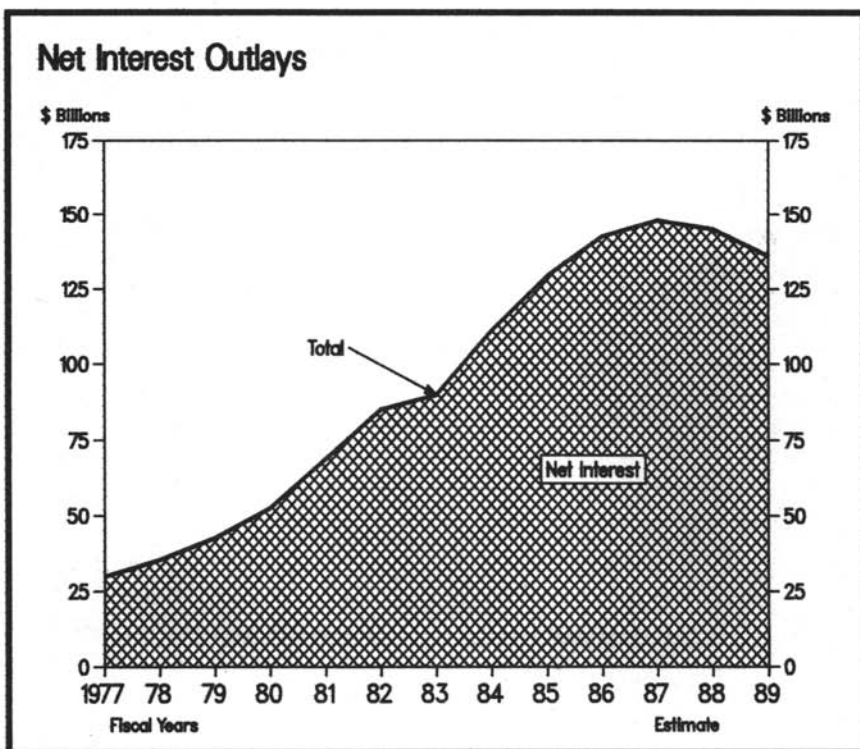
Net interest includes the Federal Government's cost of borrowing and most of its income from lending money. It consists of the interest costs of borrowing to finance the public debt and the collections of interest payments from Government trust funds and from the public.

Despite the projected decline in interest rates, larger borrowing requirements cause an expected increase in net interest outlays from \$142.7 billion in 1986 to \$148.0 billion in 1987.

The public debt is composed of Treasury securities held by the public and by Government accounts. The interest cost associated with these securities is shown as interest on the public debt.

Most trust fund balances are required by law to be invested in Federal securities. The interest outlays on this debt are included in interest on the public debt. However, the interest earned by most trust funds is deducted in this function so that net interest includes only the Government's net transactions with the public.

Other interest income from Federal agencies and the public as well as other interest costs of the Government are also included in this function in order to show net interest transactions with the public.



NET INTEREST

(In billions of dollars)

	1985 actual	1986 estimate	1987 estimate	1988 estimate	1989 estimate
Interest on the public debt.....	179.1	196.1	206.9	211.8	206.5
Interest received by on-budget trust funds	-22.1	-26.7	-29.6	-33.5	-36.7
Interest received by off-budget trust funds.....	-4.1	-4.4	-4.7	-6.3	-8.7
Other interest.....	-23.4	-22.3	-24.5	-26.9	-25.1
Net interest outlays	129.4	142.7	148.0	145.1	136.0

ALLOWANCES

Allowances cover certain forms of budgetary transactions that are expected to occur but are not reflected in the program details of the preceding functions. When these transactions take place, they are reported as outlays for the appropriate agencies and functions.

The allowance for civilian agency pay raises reflects the assumption that Federal civilian employees will receive a 3.0% pay raise in January of each year beginning in 1987. The allowance for Coast Guard military personnel pay raises reflects the administration's proposed 4.0% pay increase in October 1986 and assumes that pay raises in all other years will match those granted to Department of Defense military employees.

In order to conform more closely the financing of Federal civilian retirement systems to private sector retirement plans, the administration is proposing to increase the contributions by both Federal employees and employing agencies to the retirement trust funds from the current 7% of payroll to 9% in 1987. The allowance for increased employing agency payments for employee retirement covers the full amount of the additional contributions by civilian agencies, with the exception of the Postal Service.

An allowance for other requirements contains amounts for potential reestimates and minor programmatic changes, which net to zero.

UNDISTRIBUTED OFFSETTING RECEIPTS

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

Agency contributions for employee retirement are counted as outlays of the paying accounts. Deductions for the receipt of these payments are not made against the receiving agencies and functions because the size of the deductions would seriously distort the budget totals for these programs. Hence, these collections are deducted as undistributed offsetting receipts. There are two major categories of these collections: those received by budget accounts, primarily the military retirement and civil service retirement trust funds, and those received by the off-budget social security trust funds. Total collections by the budget accounts are estimated to be \$26.3 billion in 1986 and \$28.5 billion in 1987, while the collections by off-budget accounts amount to \$2.8 billion in 1986 and \$3.2 billion in 1987. Included in these totals are the effects of the administration's proposals to increase employing agency contributions from the current 7% of payroll to 9% in 1987 and to require the Postal Service to begin paying the full employer share of the cost of employee pensions.

Payments to the Federal 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 budget totals. Offsetting collections for OCS are estimated to be \$5.4 billion in 1986 and \$5.3 billion in 1987.

The administration proposed to sell Conrail for \$1.2 billion in 1986 and anticipates that the sale will be concluded in 1986. The administration also proposes to sell the naval petroleum reserve for \$3.6 billion, payable in two installments in 1987 and 1988, and the five Federal power marketing administrations, beginning in 1988. Since the proceeds from these sales are relatively large, they are recorded as undistributed offsetting receipts.

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 research and development is encouraged by allowing such costs to be expensed; 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	1985	1986	1987
National defense.....	2.4	2.5	2.7
International affairs.....	4.4	4.6	5.0
General science, space, and technology	7.0	4.7	3.7
Energy.....	3.2	2.7	2.7
Natural resources and environment.....	2.0	2.4	2.8
Agriculture	1.2	1.2	1.3
Commerce and housing credit.....	188.0	204.6	220.8
Transportation	0.2	0.2	0.1
Community and regional development	0.9	1.1	1.2
Education, training, employment, and social services.....	27.8	32.2	34.6
Health	34.6	38.7	42.9
Income security.....	102.8	113.1	124.5
Social security.....	17.8	18.6	19.5
Veterans benefits and services.....	2.3	2.3	2.3
General government	0.3	0.3	0.3
General purpose fiscal assistance.....	31.9	34.7	37.7
Net interest.....	0.7	0.7	0.7

Part 6a

THE BUDGET PROCESS

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

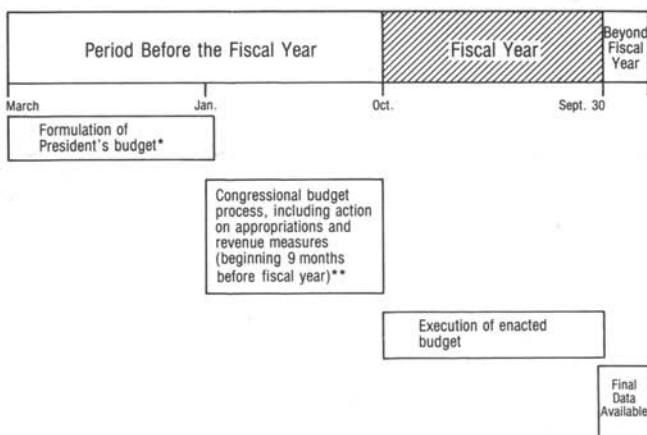
Executive formulation and transmittal.—The budget sets forth the President's financial plan of operation for the Federal Government. The President's transmittal of budget proposals to the Congress is the result of many months of planning and analysis throughout the executive branch. Formulation of the 1987 budget began in mid-1985.

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 spending priorities and the economic outlook, and establishes general budget and fiscal policy guidelines for the fiscal year that begins more than a year later. The President's guidelines also cover the 4 fiscal years beyond the budget year. Tentative policy decisions and planning ceilings for the budget year and the following 4 years are then given to the agencies as guidelines for preparing their budgets.

In the summer, agencies 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 early each calendar year reflects the needs of individual programs, the total outlays and receipts that are appropriate in relation to economic conditions, and the requirements of the Balanced Budget and Emergency Deficit Control Act of 1985.

The President is also required by law to transmit current services estimates with the budget. 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.

Major Steps in the Budget Process



* In future years, the President's budget is due to be transmitted to Congress on the first Monday after January 3rd.

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

Congressional action.—Before enacting budget authority, which permits agencies to incur obligations that result in spending, the Congress enacts legislation to authorize the program. Many programs are authorized indefinitely, or for a specified number of years; other programs such as space exploration, 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. For example, social security, medicare, and interest on the public debt are paid under permanent appropriations.

Under procedures established by law, the Congress considers budget totals before completing action on individual appropriations. Congressional committees must report budget estimates to the House and Senate budget committees by February 25. The Congress is scheduled to adopt by April 15 a concurrent budget resolution as a guide in its subsequent consideration of appropriations and revenue measures. The resolution sets targets for receipts, outlays and budget authority, and for direct loan obligations and new guaranteed loan commitments.

Congressional budget resolutions do not require Presidential approval. Frequently, however, there is consultation between the congressional leadership and the administration, because subsequent legislation developed to attain congressional budget targets must be sent to the President for approval. In some recent years, the Congress enacted omnibus reconciliation legislation that reduced budget authority and outlays or increased revenues in response to directives in the concurrent budget resolution.

Congressional consideration of requests for appropriations and for changes in revenue laws occurs first in the House of Representatives, where the Ways and Means Committee reviews proposed revenue measures and the Appropriations Committee studies the appropriations requests. These committees recommend the action to be taken by the House of Representatives. After the appropriations and tax bills are approved by the House, they are forwarded to the Senate, which follows a similar process. When the House and Senate disagree, a conference committee, consisting of Members of both bodies, resolves the issues and submits a report to both Houses for approval.

After congressional approval, bills are transmitted to the President for approval or veto. When action on appropriations is not completed by the beginning of the fiscal year, the Congress enacts continuing resolutions to provide authority for the affected agencies to continue financing operations up to a specified date or until their regular appropriations are enacted.

Deficit reduction.—The Balanced Budget and Emergency Deficit Control Act of 1985 requires the deficit to be reduced in gradual stages to zero by 1991. Annual deficit targets are established for the President's budget and congressional budget resolutions. During the last 2 months before the start of a fiscal year, the directors of the Office of Management and Budget and the Congressional Budget Office estimate the deficit for that year. If it is at least \$10 billion over the specified target, an automatic sequestration (reduction) process is triggered. Since 1986 began before the Act was passed, special rules were provided for this year. The deficit is estimated to be above the target for 1986, so the sequestration process has already started for this year. The reductions are reflected in this budget.

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.

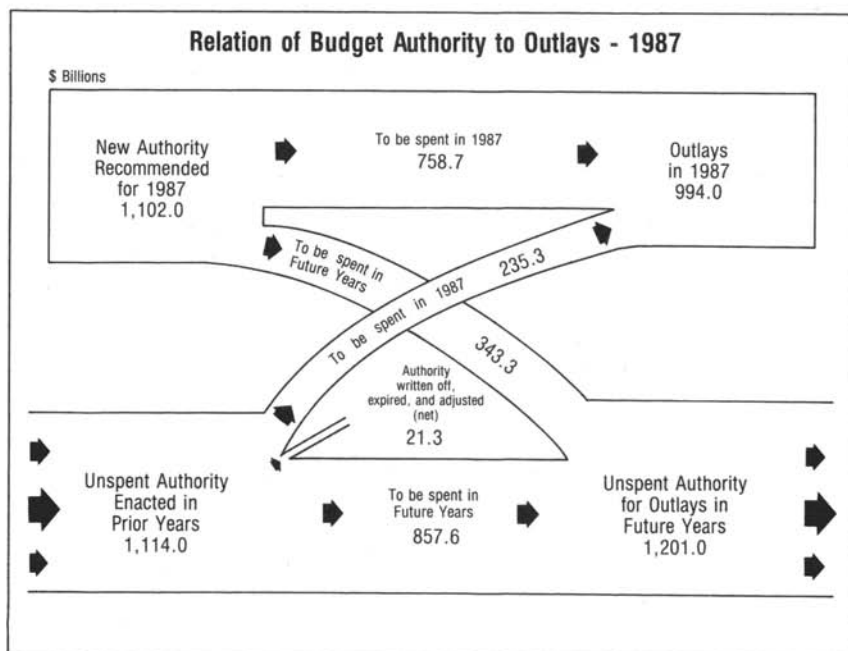
The executive branch must report to the Congress any administrative action to postpone or eliminate spending authorized by law. Deferrals, which are temporary withholdings of budget authority, may be overturned by an act of the Congress at any time. Rescissions, which permanently cancel existing budget 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 1987 will be obligated or spent in that year.

- Budget authority for social security and most other 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 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 other programs.



PART 6b

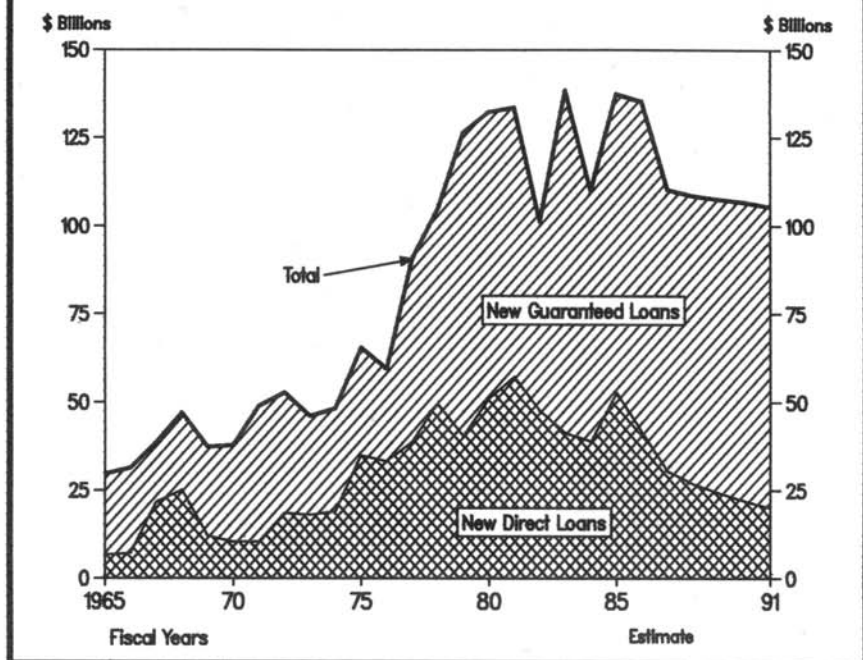
FEDERAL CREDIT BUDGET

The Federal Government is the largest financial intermediary in the United States. At the end of 1985, it held \$257 billion in its direct loan portfolio, and it had guaranteed another \$410 billion in loans. Government-sponsored enterprises lent another \$370 billion. Thus, directly or indirectly, the Government had allocated credit worth more than a trillion dollars at the end of 1985. By way of contrast, the total debt outstanding in the United States was nearly \$7 trillion.

In 1985, the Government offered \$53 billion in new direct loans and \$85 billion in guaranteed loans to farmers, homeowners, students, small businesses, exporters, utilities and State, local and foreign governments. The subsidies implicit in these direct and guaranteed loans amounted to \$16 billion. The cost of these largely invisible subsidies has been borne by all borrowers who have not received subsidized credit. The unsubsidized borrowers have paid higher interest rates or fees for their credit or have not received credit at all. The cost of defaults on these loans has been borne by taxpayers.

The Federal credit budget, which was introduced in 1980, measures and controls the volume of credit authority. Credit authority is simply the authority to make new direct or guaranteed loans. The credit budget measures the volume of new credit authority at the point when the Government legally contracts to provide the guarantee or direct loan. It controls the credit authority through annual ceilings set in appropriations acts on the amount of new direct or guaranteed loans that individual credit programs may offer. For 1987, the budget proposes new direct loans of \$30.6 billion and new guaranteed loans of \$79.7 billion. This is a decrease from 1985 of 42% in direct loans and 6% in guaranteed loans. The chart shows the credit budget totals.

Total Federal Credit Budget



The economic sectors that receive the most Federal credit are agriculture and housing. Approximately 50% of new direct loans over the past decade have gone to agriculture, while over 60% of new guaranteed loans have gone to housing. The basic rationale of all Federal credit programs is to provide financing on terms and conditions that are more favorable to the borrower than financing otherwise available from private sources. Some of these subsidies serve worthwhile public purposes and should be continued. Others do not.

The administration has made reform of the Government's credit programs a major priority because the benefits of some programs are exceeded by their large but less visible costs. Many of the programs are not directing credit resources efficiently and are subsidizing borrowers who should not receive special assistance. Proposed reforms include eliminating unnecessary direct and guaranteed loans, charging higher interest rates and loan guarantee fees to cover default costs, and implementing several management improvement initiatives. In addition, the administration proposes to undertake a pilot program in 1987 to sell \$4.4 billion in loan assets from 13 programs to the public. It will also consider reinsuring its guaranteed loans with private companies.

Part 6c

GLOSSARY OF BUDGET TERMS ¹

- AUTHORIZING LEGISLATION**—Legislation enacted by the Congress to set up or continue the operation of a Federal program or agency. Authorizing legislation is normally required for subsequent appropriations, but does not usually provide budget authority.
- BUDGET**—A plan of proposed receipts and spending for the coming fiscal year.
- 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.
- CONCURRENT RESOLUTION ON THE BUDGET**—A resolution passed by both Houses of the Congress, but not requiring the signature of the President, setting outlay and receipt targets 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 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. The major Federal fund is the general fund, which is derived from general taxes and borrowing. The other forms of Federal funds involve 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 1987 begins on October 1, 1986, and ends on September 30, 1987. (From 1844 to 1976 the fiscal year began on July 1 and ended on the following June 30.)

¹ For more details, see *A Glossary of Terms Used in the Federal Budget Process*, United States General Accounting Office, Washington, D.C.

- 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.
- 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, net of refunds, reimbursements, and offsetting collections. Outlays include interest accrued on the public debt. Social security outlays are now off-budget; all other outlays are on-budget.
- RECEIPTS**—Income, net of refunds, collected from the public by the Federal Government in its sovereign capacity, primarily through the exercise of its power to tax. Business-type transactions (such as sales, interest, and loan repayments) and payments between Government accounts are excluded from receipts and offset against outlays (see offsetting receipts). Social security taxes are now off-budget; all other receipts are on-budget.
- 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.
- SEQUESTRATION**—Reduction of new budget authority or other budgetary resources, as defined in the Balanced Budget and Emergency Deficit Control Act of 1985.
- SUPPLEMENTAL APPROPRIATION**—An appropriation enacted subsequent to a regular annual appropriations act. Supplemental appropriations acts provide additional budget authority for programs or activities (including new programs authorized after the date of the original appropriations act) for which the need for funds is too urgent to be postponed.
- SURPLUS OR DEFICIT**—Difference between receipts and outlays.
- TAX EXPENDITURES**—Provisions of income tax law 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 and specified by law as being trust fund money, such as the social security and unemployment trust funds. Trust fund receipts that are not needed immediately are generally invested in Government securities and earn interest for the trust fund.

Part 6d

SELECTED TABLES

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Table 1. RECEIPTS, OUTLAYS, AND DEBT, 1977-89

(In billions of dollars)

Description	Actual									Estimate			
	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Receipts:													
On-budget:													
Federal.....	241.3	270.5	316.4	350.9	410.4	409.3	382.4	420.4	459.5	485.2	533.3	583.5	622.8
Trust funds.....	70.3	76.9	86.0	94.7	106.0	122.1	147.3	157.5	197.7	207.2	216.7	228.8	240.7
Interfund transactions.....	-32.9	-33.2	-37.0	-41.6	-47.4	-57.1	-76.5	-77.5	-109.4	-113.1	-113.9	-122.0	-131.0
Total on-budget.....	278.7	314.2	365.3	403.9	469.1	474.3	453.2	500.4	547.9	579.2	636.1	690.4	732.5
Off-budget (trust funds).....	76.8	85.4	98.0	113.2	130.2	143.5	147.3	166.1	186.2	197.9	214.3	242.8	263.7
Total receipts.....	355.6	399.6	463.3	517.1	599.3	617.8	600.6	666.5	734.1	777.1	850.4	933.2	966.1
Outlays:													
On-budget:													
Federal funds.....	304.5	342.4	374.9	433.5	496.2	543.4	613.3	638.6	726.1	750.9	751.8	773.1	799.2
Trust funds.....	56.9	59.9	65.7	84.8	94.2	107.9	124.4	124.9	152.7	157.4	157.5	166.0	175.6
Interfund transactions.....	-32.9	-33.2	-37.0	-41.6	-47.4	-57.1	-76.5	-77.5	-109.4	-113.1	-113.9	-122.0	-131.0
Total on-budget.....	328.5	369.1	403.5	476.6	543.0	594.3	661.2	686.0	769.5	795.2	795.4	817.1	843.8
Off-budget (trust funds).....	80.7	89.7	100.0	114.3	135.2	151.4	147.1	165.8	176.8	184.7	198.6	209.6	219.9
Total outlays.....	409.2	458.7	503.5	590.9	678.2	745.7	808.3	851.8	946.3	979.9	994.0	1,026.8	1,063.6
Surplus or deficit (-):													
Federal funds.....	-63.1	-71.9	-58.5	-82.6	-85.8	-134.2	-230.8	-218.2	-266.6	-265.8	-218.5	-189.5	-176.4
Trust funds.....	9.5	12.7	18.3	8.8	6.8	6.2	23.1	32.9	54.4	63.0	74.9	96.0	108.9
Total surplus or deficit (-).....	-53.6	-59.2	-40.2	-73.8	-78.9	-127.9	-207.8	-185.3	-212.3	-202.8	-143.6	-93.6	-67.5
On-budget.....	(-49.7)	(-54.9)	(-38.2)	(-72.7)	(-73.9)	(-120.0)	(-208.0)	(-185.6)	(-221.6)	(-216.0)	(-159.3)	(-126.8)	(-111.3)
Off-budget.....	(-3.9)	(-4.3)	(-2.0)	(-1.1)	(-5.0)	(-7.9)	(0.2)	(0.3)	(9.4)	(13.2)	(15.7)	(33.2)	(43.8)
Debt outstanding, end of year:													
Gross Federal debt.....	709.1	780.4	833.8	914.3	1,003.9	1,147.0	1,381.9	1,576.7	1,827.5	2,112.0	2,320.6	2,509.0	2,684.3
Held by the public.....	551.8	610.9	644.6	715.1	794.4	929.4	1,141.8	1,312.6	1,509.9	1,714.0	1,855.7	1,948.7	2,015.4

Note.—For all years, transactions of the social security trust funds are presented off-budget and transactions of formerly off-budget accounts are presented on-budget.

Table 2. COMPOSITION OF OUTLAYS IN CURRENT PRICES: 1967-89

(In billions of dollars)

Fiscal year	Outlays								Memorandum	
	Total	National defense	Nondefense					Undistributed offsetting receipts	On-budget	Off-budget ²
			Total nondefense	Payments for individuals	All other grants ¹	Net Interest	Other			
1967.....	157.5	71.4	86.0	43.2	10.4	10.3	29.5	-7.3	137.0	20.4
1968.....	178.1	81.9	96.2	49.8	12.5	11.1	30.9	-8.0	155.8	22.3
1969.....	183.6	82.5	101.1	57.1	13.0	12.7	26.3	-8.0	158.4	25.2
1970.....	195.6	81.7	114.0	64.7	15.4	14.4	28.1	-8.6	168.0	27.6
1971.....	210.2	78.9	131.3	80.4	17.7	14.8	28.5	-10.1	177.3	32.8
1972.....	230.7	79.2	151.5	92.9	20.6	15.5	32.2	-9.6	193.8	36.9
1973.....	245.7	76.7	169.0	104.5	28.1	17.3	32.5	-13.4	200.1	45.6
1974.....	269.4	79.3	190.0	120.1	28.7	21.4	36.5	-16.7	217.3	52.1
1975.....	332.3	86.5	245.8	153.5	33.3	23.2	49.4	-13.6	271.9	60.4
1976.....	371.8	89.6	282.2	180.1	39.4	26.7	50.4	-14.4	302.2	69.6
TQ.....	96.0	22.3	73.7	45.4	10.9	6.9	14.7	-4.2	76.6	19.4
1977.....	409.2	97.2	312.0	196.3	46.1	29.9	54.5	-14.9	328.5	80.7
1978.....	458.7	104.5	354.2	211.0	53.7	35.4	69.9	-15.7	369.1	89.7
1979.....	503.5	116.3	387.1	232.9	55.9	42.6	73.2	-17.5	403.5	100.0
1980.....	590.9	134.0	456.9	277.5	59.4	52.5	87.4	-19.9	476.6	114.3
1981.....	678.2	157.5	520.7	323.4	57.8	68.7	98.8	-28.0	543.0	135.2
1982.....	745.7	185.3	560.4	356.7	50.3	85.0	94.5	-26.1	594.3	151.4
1983.....	808.3	209.9	598.4	395.3	50.8	89.8	96.5	-34.0	661.2	147.1
1984.....	851.8	227.4	624.4	399.8	53.2	111.1	92.3	-32.0	686.0	165.8
1985.....	946.3	252.7	693.6	425.6	57.6	129.4	113.7	-32.8	769.5	176.8
1986 estimate.....	979.9	265.8	714.1	445.9	58.2	142.7	103.0	-35.8	795.2	184.7
1987 estimate.....	994.0	282.2	711.8	458.8	50.5	148.0	92.5	-38.1	795.4	198.6
1988 estimate.....	1,026.8	299.1	727.6	485.9	48.3	145.1	94.7	-46.4	817.1	209.6
1989 estimate.....	1,063.6	322.3	741.3	513.6	46.5	136.0	89.0	-43.8	843.8	219.9

¹ Grants to State and local governments excluding those for payments for individuals. ² Social security trust funds.

Table 2. COMPOSITION OF OUTLAYS IN CONSTANT (FISCAL YEAR 1982) PRICES: 1967-89—Continued

(In billions of dollars)

Fiscal year	Outlays								Memorandum	
	Total	National defense	Nondefense					On-budget	Off-budget ^a	
			Total nondefense	Payments for individuals	All other grants ¹	Net interest	Other			Undistributed offsetting receipts
1967.....	488.7	235.1	253.7	114.6	33.3	28.6	103.1	-26.2	434.6	54.1
1968.....	525.8	254.8	270.9	128.0	37.9	29.8	102.2	-27.2	468.3	57.4
1969.....	510.4	243.4	267.0	140.6	37.1	32.4	82.4	-25.5	448.7	61.7
1970.....	509.4	225.6	283.8	152.2	40.8	34.7	81.4	-25.4	444.7	64.6
1971.....	509.4	202.7	306.7	181.0	43.3	34.0	75.8	-27.3	435.7	73.6
1972.....	527.6	190.9	336.7	200.1	47.4	33.6	79.7	-24.1	448.4	79.2
1973.....	527.5	175.1	352.4	215.7	60.5	35.9	69.8	-28.1	433.4	94.1
1974.....	528.7	163.3	365.3	228.3	56.8	41.1	71.9	-32.8	429.7	99.0
1975.....	586.0	159.8	426.2	265.8	58.5	40.4	84.9	-23.4	481.4	104.6
1976.....	609.8	153.6	456.2	291.7	64.3	43.0	80.1	-22.9	497.0	112.8
TQ.....	152.4	37.1	115.3	71.2	17.3	10.8	22.5	-6.4	121.9	30.5
1977.....	622.6	154.3	468.3	295.5	70.1	44.6	79.9	-21.7	501.0	121.5
1978.....	652.2	155.0	497.1	296.8	75.7	49.4	97.0	-21.7	526.0	126.2
1979.....	660.2	159.1	501.0	301.6	71.8	54.7	95.9	-22.9	530.7	129.5
1980.....	699.1	164.0	535.1	324.7	68.4	62.0	103.8	-23.8	565.4	133.7
1981.....	726.5	171.4	555.2	344.3	61.3	73.7	106.0	-30.1	582.7	143.9
1982.....	745.7	185.3	560.4	356.7	50.3	85.0	94.5	-26.1	594.3	151.4
1983.....	776.5	200.8	575.7	379.3	48.8	86.1	95.0	-33.4	635.8	140.7
1984.....	788.8	210.4	578.4	368.7	49.1	102.5	88.6	-30.6	636.1	152.7
1985.....	846.1	226.7	619.4	379.6	50.5	115.3	103.7	-29.6	688.5	157.6
1986 estimate.....	850.0	232.0	617.9	384.9	49.3	123.1	92.5	-31.8	690.7	159.2
1987 estimate.....	829.4	237.6	591.9	380.6	41.1	122.6	80.5	-33.0	664.9	164.5
1988 estimate.....	824.7	242.5	582.2	388.2	37.6	115.7	79.7	-38.9	657.6	167.1
1989 estimate.....	829.9	256.2	573.7	396.7	34.9	104.9	72.6	-35.5	660.5	169.5

¹ Grants to State and local governments excluding those for payments for individuals.^a Social security trust funds.

Table 3. RECEIPTS BY SOURCE AND OUTLAYS BY FUNCTION, 1977-87

(In billions of dollars)

Description	Actual									Estimate	
	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
RECEIPTS BY SOURCE											
Individual income taxes.....	157.6	181.0	217.8	244.1	285.9	297.7	288.9	298.4	334.5	353.7	386.0
Corporation income taxes.....	54.9	60.0	65.7	64.6	61.1	49.2	37.0	56.9	61.3	70.9	86.7
Social insurance taxes and contributions:											
Employment taxes and contributions.....	92.2	103.9	120.1	138.7	163.0	180.7	185.8	209.7	234.6	252.1	273.7
Unemployment insurance.....	11.3	13.8	15.4	15.3	15.8	16.6	18.8	25.1	25.8	23.6	23.4
Other retirement contributions.....	3.0	3.2	3.5	3.7	4.0	4.2	4.4	4.6	4.8	4.7	5.6
Total social insurance taxes and contributions.....	106.5	121.0	138.9	157.8	182.7	201.5	209.0	239.4	265.2	280.4	302.8
On-budget.....	(29.7)	(35.6)	(40.9)	(44.6)	(52.5)	(58.0)	(61.7)	(73.3)	(79.0)	(82.5)	(88.5)
Off-budget.....	(76.8)	(85.4)	(98.0)	(113.2)	(130.2)	(143.5)	(147.3)	(166.1)	(186.2)	(197.9)	(214.3)
Excise taxes:											
Alcohol.....	5.3	5.5	5.5	5.6	5.6	5.4	5.6	5.3	5.6	5.9	5.9
Tobacco.....	2.4	2.4	2.5	2.4	2.6	2.5	4.1	4.7	4.8	4.6	4.6
Highway.....	6.7	6.9	7.2	6.6	6.3	6.7	8.3	11.7	13.0	13.0	13.8
Airport and airway.....	1.2	1.3	1.5	1.9	*	0.1	2.2	2.5	2.9	3.0	3.2
Windfall profit tax.....				6.9	23.3	18.4	12.1	8.9	6.3	4.1	2.8
Other.....	2.0	2.2	2.0	0.9	3.1	3.1	3.0	4.2	3.4	4.1	4.9
Total excise taxes.....	17.5	18.4	18.7	24.3	40.8	36.3	35.3	37.4	36.0	34.6	35.2
Estate and gift taxes.....	7.3	5.3	5.4	6.4	6.8	8.0	6.1	6.0	6.4	6.1	5.7
Customs duties.....	5.2	6.6	7.4	7.2	8.1	8.9	8.7	11.4	12.1	12.4	12.9
Miscellaneous receipts.....	6.5	7.4	9.3	12.7	13.8	16.2	15.6	17.0	18.5	19.0	21.1
Total receipts.....	355.6	399.6	463.3	517.1	599.3	617.8	600.6	666.5	734.1	777.1	850.4
On-budget.....	(278.7)	(314.2)	(365.3)	(403.9)	(469.1)	(474.3)	(453.2)	(500.4)	(547.9)	(579.2)	(636.1)
Off-budget.....	(76.8)	(85.4)	(98.0)	(113.2)	(130.2)	(143.5)	(147.3)	(166.1)	(186.2)	(197.9)	(214.3)

OUTLAYS BY FUNCTION											
National defense.....	97.2	104.5	116.3	134.0	157.5	185.3	209.9	227.4	252.7	265.8	282.2
International affairs.....	6.4	7.5	7.5	12.7	13.1	12.3	11.8	15.9	16.2	17.1	18.6
General science, space, and technology.....	4.7	4.9	5.2	5.8	6.5	7.2	7.9	8.3	8.6	8.9	9.2
Energy.....	5.8	8.0	9.2	10.2	15.2	13.5	9.4	7.1	5.7	4.4	4.0
Natural resources and environment.....	10.0	11.0	12.1	13.9	13.6	13.0	12.7	12.6	13.4	12.9	12.0
Agriculture.....	6.8	11.4	11.2	8.8	11.3	15.9	22.9	13.6	25.6	25.9	19.5
Commerce and housing credit.....	3.1	6.3	4.7	9.4	8.2	6.3	6.7	6.9	4.2	3.8	1.4
Transportation.....	14.8	15.5	17.5	21.3	23.4	20.6	21.3	23.7	25.8	27.1	25.5
Community and regional development.....	7.0	11.8	10.5	11.3	10.6	8.3	7.6	7.7	7.7	7.9	6.5
Education, training, employment, and social services.....	21.1	26.7	30.2	31.8	33.7	27.0	26.6	27.6	29.3	30.7	27.4
Health.....	17.3	18.5	20.5	23.2	26.9	27.4	28.6	30.4	33.5	35.7	35.0
Medicare.....	19.3	22.8	26.5	32.1	39.1	46.6	52.6	57.5	65.8	68.7	70.2
Income security.....	61.0	61.5	66.4	86.5	99.7	107.7	122.6	112.7	128.2	118.1	118.4
Social security.....	85.1	93.9	104.1	118.5	139.6	156.0	170.7	178.2	188.6	200.1	212.2
On-budget.....	(0.7)	(0.7)	(0.8)	(0.7)	(0.7)	(0.8)	(20.0)	(7.1)	(5.2)	(8.0)	(5.7)
Off-budget.....	(84.3)	(93.1)	(103.3)	(117.9)	(138.9)	(155.1)	(150.7)	(171.2)	(183.4)	(192.0)	(206.5)
Veterans benefits and services.....	18.0	19.0	19.9	21.2	23.0	24.0	24.8	25.6	26.4	26.6	26.4
Administration of justice.....	3.6	3.8	4.2	4.6	4.8	4.7	5.1	5.7	6.3	6.8	6.9
General government.....	3.3	3.6	3.9	4.4	4.6	4.5	4.8	5.1	5.2	6.3	6.1
General purpose fiscal assistance.....	9.6	8.4	8.4	8.6	6.9	6.4	6.5	6.8	6.4	6.2	1.7
Net interest.....	29.9	35.4	42.6	52.5	68.7	85.0	89.8	111.1	129.4	142.7	148.0
On-budget.....	(32.5)	(37.8)	(44.8)	(54.9)	(71.0)	(87.1)	(91.6)	(114.4)	(133.6)	(147.2)	(152.7)
Off-budget.....	(-2.7)	(-2.4)	(-2.2)	(-2.3)	(-2.3)	(-2.1)	(-1.8)	(-3.3)	(-4.1)	(-4.4)	(-4.7)
Allowances.....											0.8
Undistributed offsetting receipts.....	-14.9	-15.7	-17.5	-19.9	-28.0	-26.1	-34.0	-32.0	-32.8	-35.8	-38.1
On-budget.....	(-13.9)	(-14.7)	(-16.4)	(-18.7)	(-26.6)	(-24.5)	(-32.2)	(-29.9)	(-30.3)	(-32.9)	(-35.0)
Off-budget.....	(-1.0)	(-1.1)	(-1.1)	(-1.2)	(-1.4)	(-1.6)	(-1.8)	(-2.0)	(-2.5)	(-2.8)	(-3.2)
Total outlays.....	409.2	458.7	503.5	590.9	678.2	745.7	808.3	851.8	946.3	979.9	994.0
Off-budget.....	(328.5)	(369.1)	(403.5)	(476.6)	(543.0)	(594.3)	(661.2)	(686.0)	(769.5)	(795.2)	(795.4)
Off-budget.....	(80.7)	(89.7)	(100.0)	(114.3)	(135.2)	(151.4)	(147.1)	(165.8)	(176.8)	(184.7)	(198.6)

*\$50 million or less.

Table 4. OUTLAYS BY FUNCTION AND SUBFUNCTION, 1977-89

(In billions of dollars)

Function and subfunction	Actual									Estimate			
	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
National defense:													
Department of Defense—Military:													
Military personnel.....	33.7	35.6	37.3	40.9	47.9	55.2	60.9	64.2	67.8	71.4	73.6	74.8	75.5
Operation and maintenance.....	30.6	33.6	36.4	44.8	51.9	59.7	64.9	67.4	72.3	74.1	80.9	81.0	87.2
Procurement.....	18.2	20.0	25.4	29.0	35.2	43.3	53.6	61.9	70.4	75.7	76.7	81.2	88.9
Research, development, test and evaluation.....	9.8	10.5	11.2	13.1	15.3	17.7	20.6	23.1	27.1	28.7	31.6	36.6	38.4
Military construction and other ¹	3.1	2.7	3.3	3.2	3.6	4.9	4.5	4.3	7.7	8.4	11.5	16.9	23.3
Subtotal, Department of Defense—Military.....	95.3	102.3	113.7	131.0	153.8	180.7	204.4	220.8	245.4	258.4	274.3	290.7	313.3
Atomic energy defense activities.....	1.9	2.1	2.5	2.9	3.4	4.3	5.2	6.1	7.1	7.2	7.7	8.4	9.0
Defense-related activities.....	*	0.1	0.1	0.1	0.3	0.3	0.3	0.5	0.3	0.3	0.3	*	—*
Total national defense.....	97.2	104.5	116.3	134.0	157.5	185.3	209.9	227.4	252.7	265.8	282.2	299.1	322.3
International affairs:													
International development and humanitarian assistance.....	2.8	2.6	2.9	3.6	4.1	3.8	4.0	4.5	5.4	4.9	5.0	4.9	4.7
International security assistance.....	3.1	3.9	3.7	4.8	5.1	5.4	6.6	7.9	9.4	9.7	10.9	10.8	10.6
Conduct of foreign affairs.....	1.0	1.1	1.3	1.4	1.3	1.6	1.8	1.9	2.1	2.4	3.1	3.1	3.5
Foreign information and exchange activities..	0.4	0.4	0.5	0.5	0.5	0.6	0.6	0.7	0.8	0.9	1.0	1.1	1.2
International financial programs.....	-0.9	-0.6	-0.9	2.4	2.0	0.9	-1.1	0.9	-1.5	-0.8	-1.4	-1.7	-1.9
Total international affairs.....	6.4	7.5	7.5	12.7	13.1	12.3	11.8	15.9	16.2	17.1	18.6	18.3	18.0
General science, space, and technology:													
General science and basic research.....	1.1	1.2	1.3	1.4	1.5	1.6	1.6	1.8	2.0	2.2	2.4	2.5	2.6
Space flight.....	2.3	2.3	2.2	2.6	3.1	3.5	4.1	4.0	4.0	3.8	3.8	3.7	4.3
Space science, applications, and technology..	1.0	1.0	1.2	1.3	1.4	1.5	1.5	1.7	1.9	2.1	2.2	2.2	2.3
Supporting space activities.....	0.4	0.5	0.6	0.5	0.6	0.6	0.8	0.8	0.8	0.8	0.9	0.9	0.9
Total general science, space, and technology.....	4.7	4.9	5.2	5.8	6.5	7.2	7.9	8.3	8.6	8.9	9.2	9.3	10.2

Energy:													
Energy supply	4.8	6.1	7.2	8.4	10.2	8.2	6.1	3.3	2.6	2.7	2.9	3.5	3.0
Energy conservation	0.1	0.2	0.3	0.6	0.7	0.5	0.5	0.5	0.5	0.5	0.3	0.2	0.1
Emergency energy preparedness	0.1	0.9	1.0	0.3	3.3	3.9	1.9	2.5	1.8	0.5	0.2	0.2	0.2
Energy information, policy, and regulation	0.7	0.8	0.7	0.9	1.0	0.9	0.9	0.8	0.7	0.7	0.7	0.6	0.6
Total energy	5.8	8.0	9.2	10.2	15.2	13.5	9.4	7.1	5.7	4.4	4.0	4.5	3.9
Natural resources and environment:													
Water resources	3.2	3.4	3.9	4.2	4.1	3.9	3.9	4.1	4.1	4.0	3.8	4.0	4.1
Conservation and land management	0.6	1.0	0.8	1.0	1.2	1.1	1.5	1.3	1.5	1.1	0.6	0.4	0.2
Recreational resources	1.0	1.4	1.5	1.7	1.6	1.4	1.5	1.6	1.6	1.5	1.4	1.2	1.2
Pollution control and abatement	4.3	4.0	4.7	5.5	5.2	5.0	4.3	4.0	4.5	4.6	4.5	4.4	4.4
Other natural resources	1.0	1.2	1.3	1.4	1.5	1.5	1.5	1.6	1.7	1.7	1.7	1.8	1.7
Total natural resources and environment	10.0	11.0	12.1	13.9	13.6	13.0	12.7	12.6	13.4	12.9	12.0	11.8	11.7
Agriculture:													
Farm income stabilization	5.7	10.2	9.9	7.4	9.8	14.3	21.3	11.9	23.8	24.0	17.9	18.1	17.4
Agricultural research and services	1.1	1.1	1.3	1.4	1.5	1.6	1.6	1.7	1.8	1.9	1.6	1.6	1.5
Total agriculture	6.8	11.4	11.2	8.8	11.3	15.9	22.9	13.6	25.6	25.9	19.5	19.7	18.9
Commerce and housing credit:													
Mortgage credit and deposit insurance	-0.2	3.6	2.3	5.6	4.7	4.0	3.9	3.8	0.9	0.2	-3.1	-2.4	-3.4
Postal Service	2.1	1.3	0.9	1.2	1.4	0.2	1.1	1.2	1.4	1.3	2.7	5.1	1.8
Other advancement of commerce	1.2	1.4	1.5	2.5	2.1	2.1	1.7	1.9	2.0	2.3	1.7	1.2	1.2
Total commerce and housing credit	3.1	6.3	4.7	9.4	8.2	6.3	6.7	6.9	4.2	3.8	1.4	3.8	-0.5
Transportation:													
Ground transportation	10.2	10.4	12.1	15.3	17.1	14.3	14.3	16.2	17.6	18.6	17.3	16.2	15.4
Air transportation	2.8	3.2	3.4	3.7	3.8	3.5	4.0	4.4	4.9	5.0	5.2	5.1	5.2
Water transportation	1.7	1.8	2.0	2.2	2.4	2.7	3.0	3.0	3.2	3.4	2.9	2.6	2.7
Other transportation	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.1	0.1
Total transportation	14.8	15.5	17.5	21.3	23.4	20.6	21.3	23.7	25.8	27.1	25.5	24.1	23.4

Table 4. OUTLAYS BY FUNCTION AND SUBFUNCTION, 1977-89—Continued

(In billions of dollars)

Function and subfunction	Actual									Estimate			
	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Community and regional development:													
Community development.....	3.4	3.3	4.0	4.9	5.1	4.6	4.4	4.5	4.6	4.6	3.9	3.1	2.9
Area and regional development.....	3.0	5.7	4.9	4.3	3.8	3.8	3.2	3.0	3.1	3.0	2.8	2.7	2.4
Disaster relief and insurance.....	0.6	2.9	1.6	2.0	1.7	-0.1	—*	0.1	—*	0.4	-0.2	-0.4	-0.3
Total community and regional development.....	7.0	11.8	10.5	11.3	10.6	8.3	7.6	7.7	7.7	7.9	6.5	5.5	5.0
Education, training, employment, and social services:													
Elementary, secondary, and vocational education.....	4.6	5.2	6.1	6.9	7.2	6.8	6.3	6.5	7.6	7.4	7.4	7.4	7.2
Higher education.....	3.2	3.7	5.1	6.7	8.9	7.2	7.2	7.4	8.2	9.0	6.8	5.8	6.1
Research and general education aids.....	0.9	1.0	1.1	1.2	1.0	1.0	1.1	1.2	1.1	1.2	1.2	1.1	1.1
Training and employment.....	6.9	10.8	10.8	10.3	9.2	5.5	5.3	4.6	5.0	5.2	4.5	4.4	4.3
Other labor services.....	0.4	0.4	0.5	0.6	0.6	0.6	0.6	0.6	0.7	0.7	0.7	0.7	0.7
Social services.....	5.1	5.6	6.6	6.1	6.9	5.9	6.1	7.2	6.7	7.2	6.9	6.9	7.0
Total education, training, employment, and social services.....	21.1	26.7	30.2	31.8	33.7	27.0	26.6	27.6	29.3	30.7	27.4	26.3	26.4
Health:													
Health care services.....	13.0	13.9	16.0	18.0	21.2	21.8	23.0	24.5	27.0	28.6	28.4	30.0	31.4
Health research.....	2.5	2.8	3.0	3.4	3.8	3.9	4.0	4.4	4.9	5.5	5.4	5.5	5.4
Education and training of health care work force.....	1.0	0.9	0.6	0.7	0.8	0.7	0.6	0.4	0.5	0.5	0.4	0.3	0.3
Consumer and occupational health and safety.....	0.7	0.8	0.9	1.0	1.0	1.0	1.1	1.1	1.2	1.2	0.8	0.9	0.9
Total health.....	17.3	18.5	20.5	23.2	26.9	27.4	28.6	30.4	33.5	35.7	35.0	36.7	37.9

Medicare.....	19.3	22.8	26.5	32.1	39.1	46.6	52.6	57.5	65.8	68.7	70.2	76.0	83.0
Income security:													
General retirement and disability insurance (excluding social security)	3.6	3.4	4.4	5.1	5.4	5.6	5.6	5.4	5.6	5.3	5.4	5.6	5.7
Federal employee retirement and disability	17.7	19.8	22.7	26.6	31.3	34.3	36.5	38.1	38.6	41.4	42.4	44.5	46.7
Unemployment compensation	15.3	11.8	10.7	18.0	19.7	23.7	31.5	18.4	17.5	16.5	16.9	17.3	17.3
Housing assistance	3.0	3.7	4.4	5.6	7.8	8.7	10.0	11.3	25.3	12.4	12.2	11.9	11.7
Food and nutrition assistance	8.5	8.9	10.8	14.0	16.2	15.6	18.0	18.1	18.5	18.7	18.1	18.7	19.3
Other income security	13.0	13.9	13.4	17.2	19.4	19.8	21.1	21.4	22.7	23.8	23.3	25.3	25.0
Total income security.....	61.0	61.5	66.4	86.5	99.7	107.7	122.6	112.7	128.2	118.1	118.4	123.1	125.7
Social security	85.1	93.9	104.1	118.5	139.6	156.0	170.7	178.2	188.6	200.1	212.2	226.1	239.9
On-budget	(0.7)	(0.7)	(0.8)	(0.7)	(0.7)	(0.8)	(20.0)	(7.1)	(5.2)	(8.0)	(5.7)	(6.4)	(7.2)
Off-budget	(84.3)	(93.1)	(103.3)	(117.9)	(138.9)	(155.1)	(150.7)	(171.2)	(183.4)	(192.0)	(206.5)	(219.7)	(232.7)
Veterans benefits and services:													
Income security for veterans	9.2	9.7	10.8	11.7	12.9	13.7	14.3	14.4	14.7	15.1	15.4	15.7	16.1
Veterans education, training, and rehabilita- tion	3.7	3.4	2.8	2.3	2.3	1.9	1.6	1.4	1.1	0.6	0.6	0.6	0.5
Hospital and medical care for veterans.....	4.7	5.3	5.6	6.5	7.0	7.5	8.3	8.9	9.5	9.9	9.7	9.8	9.6
Veterans housing	-0.1	*	0.2	-*	0.2	0.1	*	0.2	0.2	0.2	-*	*	-0.2
Other veterans benefits and services	0.5	0.6	0.6	0.7	0.7	0.7	0.7	0.8	0.8	0.8	0.8	0.9	0.9
Total veterans benefits and serv- ices	18.0	19.0	19.9	21.2	23.0	24.0	24.8	25.6	26.4	26.6	26.4	26.9	26.9
Administration of justice:													
Federal law enforcement activities.....	1.7	1.8	2.0	2.2	2.4	2.5	2.9	3.2	3.5	3.7	3.9	3.9	4.0
Federal litigative and judicial activities.....	0.8	0.9	1.1	1.3	1.5	1.5	1.6	1.8	2.1	2.2	2.2	2.2	2.3
Federal correctional activities.....	0.2	0.3	0.3	0.3	0.4	0.4	0.4	0.5	0.5	0.6	0.7	0.7	0.7
Criminal justice assistance.....	0.8	0.7	0.7	0.7	0.5	0.3	0.2	0.1	0.1	0.2	0.2	0.1	0.1
Total administration of justice.....	3.5	3.8	4.2	4.6	4.8	4.7	5.1	5.7	6.3	6.8	6.9	7.0	7.1

Table 4. OUTLAYS BY FUNCTION AND SUBFUNCTION, 1977-89—Continued

(In billions of dollars)

Function and subfunction	Actual									Estimate			
	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
General government:													
Legislative functions	0.8	0.9	0.9	1.0	1.0	1.2	1.2	1.3	1.4	1.5	1.6	1.7	1.6
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	1.9	2.0	2.2	2.6	2.6	2.6	3.1	3.3	3.5	3.8	3.8	4.1	4.4
General property and records management....	0.2	0.3	0.3	0.3	0.1	0.2	0.2	0.2	0.1	0.4	0.3	-0.3	0.3
Central personnel management.....	0.1	0.1	0.1	0.2	0.2	0.1	0.1	0.1	0.2	0.1	0.1	0.1	0.1
Other general government	0.4	0.4	0.5	0.6	0.7	0.5	0.8	0.6	0.5	0.8	0.6	0.7	0.5
Deductions for offsetting receipts.....	-0.3	-0.3	-0.2	-0.4	-0.2	-0.2	-0.6	-0.5	-0.5	-0.5	-0.6	-0.7	-1.0
Total general government.....	3.3	3.6	3.9	4.4	4.6	4.5	4.8	5.1	5.2	6.3	6.1	5.7	6.1
General purpose fiscal assistance:													
General revenue sharing	6.8	6.8	6.9	6.8	5.1	4.6	4.6	4.6	4.6	4.4	*
Other general purpose fiscal assistance.....	2.8	1.6	1.5	1.7	1.7	1.8	1.8	2.2	1.8	1.8	1.7	1.8	1.9
Total general purpose fiscal assistance.....	9.6	8.4	8.4	8.6	6.9	6.4	6.5	6.8	6.4	6.2	1.7	1.8	1.9
Net interest:													
Interest on the public debt	41.9	48.7	59.8	74.8	95.5	117.2	128.6	153.8	179.1	196.1	206.9	211.8	206.5
Interest received by on-budget trust funds....	-5.5	-6.1	-7.7	-9.7	-11.5	-14.0	-15.3	-17.0	-22.1	-26.7	-29.6	-33.5	-36.7
Interest received by off-budget trust funds....	-2.7	-2.4	-2.2	-2.3	-2.3	-2.1	-1.8	-3.3	-4.1	-4.4	-4.7	-6.3	-8.7
Other interest	-3.9	-4.7	-7.3	-10.2	-13.0	-16.1	-21.7	-22.4	-23.4	-22.3	-24.5	-26.9	-25.1
Total net interest.....	29.9	35.4	42.6	52.5	68.7	85.0	89.8	111.1	129.4	142.7	148.0	145.1	136.0
On-budget.....	(32.5)	(37.8)	(44.8)	(54.9)	(71.0)	(87.1)	(91.6)	(114.4)	(133.6)	(147.2)	(152.7)	(151.4)	(144.7)
Off-budget	(-2.7)	(-2.4)	(-2.2)	(-2.3)	(-2.3)	(-2.1)	(-1.8)	(-3.3)	(-4.1)	(-4.4)	(-4.7)	(-6.3)	(-8.7)

Allowances:													
Civilian agency pay raises ²											0.4	1.9	3.1
Increased employing agency payments for employee retirement											0.3	0.4	0.4
Total allowances											0.8	2.4	3.5
Undistributed offsetting receipts:													
Employer share, employee retirement (on-budget)	-11.5	-12.4	-13.1	-14.6	-16.5	-18.2	-21.7	-23.2	-24.7	-26.3	-28.5	-30.2	-31.7
Employer share, employee retirement (off-budget)	-1.0	-1.1	-1.1	-1.2	-1.4	-1.6	-1.8	-2.0	-2.5	-2.8	-3.2	-3.7	-4.2
Rents and royalties on the Outer Continental Shelf	-2.4	-2.3	-3.3	-4.1	-10.1	-6.2	-10.5	-6.7	-5.5	-5.5	-5.3	-8.2	-6.4
Sale of major physical assets										-1.2	-1.2	-4.2	-1.5
Total undistributed offsetting receipts	-14.9	-15.7	-17.5	-19.9	-28.0	-26.1	-34.0	-32.0	-32.8	-35.8	-38.1	-46.4	-43.8
On-budget	(-13.9)	(-14.7)	(-16.4)	(-18.7)	(-26.6)	(-24.5)	(-32.2)	(-29.9)	(-30.3)	(-32.9)	(-35.0)	(-42.6)	(-39.6)
Off-budget	(-1.0)	(-1.1)	(-1.1)	(-1.2)	(-1.4)	(-1.6)	(-1.8)	(-2.0)	(-2.5)	(-2.8)	(-3.2)	(-3.7)	(-4.2)
Total outlays	409.2	458.7	503.5	590.9	678.2	745.7	808.3	851.8	946.3	979.9	994.0	1,026.8	1,063.6
On-budget	(328.5)	(369.1)	(403.5)	(476.6)	(543.0)	(594.3)	(661.2)	(686.0)	(769.5)	(795.2)	(795.4)	(817.1)	(843.8)
Off-budget	(80.7)	(89.7)	(100.0)	(114.3)	(135.2)	(151.4)	(147.1)	(165.8)	(176.8)	(184.7)	(198.6)	(209.6)	(219.9)

*\$50 million or less.

¹ Includes allowances for civilian and military pay raises for Department of Defense.

² Includes allowance for military pay raise for the Coast Guard.

Note.—For all years, transactions of the social security trust funds are presented off-budget and transactions of formerly off-budget accounts are presented on-budget.

Table 5. OUTLAYS BY AGENCY, 1985-91

(In billions of dollars)

	1985 actual	Estimate					
		1986	1987	1988	1989	1990	1991
Legislative branch.....	1.6	1.9	2.0	2.0	2.0	2.1	2.1
The Judiciary.....	1.0	1.1	1.2	1.2	1.3	1.3	1.3
Executive Office of the President.....	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Funds appropriated to the President.....	12.0	12.5	13.8	13.4	12.8	12.1	12.2
Agriculture.....	55.5	54.2	44.6	44.6	43.6	39.9	35.8
Commerce.....	2.1	2.0	2.1	2.2	2.1	2.5	2.2
Defense—Military ¹	245.4	258.4	274.3	290.7	313.3	335.5	356.6
Defense—Civil.....	18.8	20.6	20.9	22.1	23.4	24.5	25.7
Education.....	16.7	17.8	15.4	14.4	14.6	14.2	14.0
Energy.....	10.6	10.1	10.2	11.7	12.3	12.6	13.1
Health and Human Services, except social security.....	132.1	140.9	139.1	148.8	157.5	166.0	175.3
Health and Human Services, social security.....	183.4	192.0	206.5	219.7	232.7	247.4	257.0
Housing and Urban Development.....	28.7	15.2	13.9	13.3	12.4	12.5	12.7
Interior.....	4.8	4.6	4.3	4.2	4.1	4.1	4.0
Justice.....	3.6	3.8	4.1	4.2	4.2	4.2	4.3
Labor.....	23.9	23.1	23.2	23.7	23.8	24.0	24.2
State.....	2.6	2.9	3.6	3.7	4.1	4.2	4.0
Transportation.....	25.0	26.3	24.7	23.3	22.6	22.9	22.2
Treasury.....	165.1	184.7	188.3	193.1	188.4	181.9	176.9
Environmental Protection Agency.....	4.5	4.6	4.5	4.4	4.4	4.1	3.6
General Services Administration.....	-0.2	*	-*	-0.9	-0.3	-0.3	-0.4
National Aeronautics and Space Administration.....	7.3	7.3	7.5	7.5	8.2	9.0	9.5
Office of Personnel Management.....	23.7	24.1	24.7	26.2	27.4	28.5	29.6
Small Business Administration..	0.7	0.9	0.1				
Veterans Administration.....	26.3	26.5	26.4	26.7	26.7	27.0	27.0
Other independent agencies.....	9.8	10.9	10.1	12.6	8.5	7.9	7.9
Allowances ²			0.8	2.4	3.5	4.7	5.9
Undistributed offsetting receipts.....	-59.0	-67.1	-72.5	-88.6	-90.2	-99.1	-104.2
Total outlays.....	946.3	979.9	994.0	1,026.8	1,063.6	1,093.8	1,122.7

* \$50 million or less.

¹ Includes allowances for civilian and military pay raises for Department of Defense.² Includes allowances for civilian agency pay raises and military pay raises for the Coast Guard.

Table 6. CREDIT BUDGET: NEW DIRECT LOAN OBLIGATIONS AND GUARANTEED LOAN COMMITMENTS BY AGENCY

(In millions of dollars)

Department or other unit	Direct Loan Obligations			Guaranteed Loan Commitments		
	1985 actual	1986 estimate	1987 estimate	1985 actual	1986 estimate	1987 estimate
Funds Appropriated to the President	6,339	6,532	7,260	310	282	150
Agriculture	21,256	23,805	14,425	3,910	7,231	5,500
FFB direct loans	2,063	2,019	1,815			
Commerce	106	20	16	53	57	3
Defense: FFB direct loans	1,533	495				
Education	1,315	1,261	1,567	8,888	9,269	9,756
Energy	12	33	20			
Health and Human Services	10	21	22	271	389	100
Housing and Urban Development ¹	15,072	2,013	2,046	47,441	49,336	37,164
FFB direct loans	133	50				
Interior	74	66	66	42	60	30
Labor	1	2	3			
State	1	1	1			
Transportation	443	570	168	38	67	
FFB direct loans	2	4				
Treasury	60					
Environmental Protection Agency	31	32	2			
Small business assistance	1,017	962	751	2,810	2,950	
FFB direct loans	525	514	300			
Veterans Administration	1,090	1,126	1,166	12,140	12,299	14,715
Other independent agencies:						
Export-Import Bank	660	1,062		7,849	11,484	12,000
Federal Deposit Insurance Corporation		130	110			
Federal Savings and Loan Insurance Corporation (FHLBB)	783	500	500	900	426	350
National Credit Union Administration	50	102	81	*		
Tennessee Valley Authority	63	66	69			
FFB direct loans	206	248	167			
United States Synthetic Fuels Corporation				60		
Total	52,847	41,634	30,555	84,711	93,850	79,768
ADDENDUM						
Secondary guaranteed loans ¹				54,597	60,463	55,357

* \$500,000 or less.

¹ Commitments by GNMA to guarantee securities that are backed by loans previously insured or guaranteed by the Federal Housing Administration, Veterans Administration, or Farmers Home Administration (secondary guarantors) are excluded from the totals and shown as a memorandum entry.

Note: Loans guaranteed by Federal agencies and disbursed by the Federal Financing Bank (FFB) are identified in this table as FFB direct loans.

Table 7. FEDERAL FINANCES AND THE GROSS NATIONAL PRODUCT, 1968-89

(Dollar amounts in billions)

Fiscal year	Gross national product	Receipts						Outlays					
		Total		On-budget		Off-budget ¹		Total		On-budget		Off-budget ¹	
		Amount	Percent of GNP	Amount	Percent of GNP	Amount	Percent of GNP	Amount	Percent of GNP	Amount	Percent of GNP	Amount	Percent of GNP
1968.....	852.4	153.0	17.9	128.1	15.0	24.9	2.9	178.1	20.9	155.8	18.3	22.3	2.6
1969.....	929.5	186.9	20.1	157.9	17.0	29.0	3.1	183.6	19.8	158.4	17.0	25.2	2.7
1970.....	990.5	192.8	19.5	159.3	16.1	33.5	3.4	195.6	19.8	168.0	17.0	27.6	2.8
1971.....	1,057.1	187.1	17.7	151.3	14.3	35.8	3.4	210.2	19.9	177.3	16.8	32.8	3.1
1972.....	1,151.2	207.3	18.0	167.4	14.5	39.9	3.5	230.7	20.0	193.8	16.8	36.9	3.2
1973.....	1,285.5	230.8	18.0	184.7	14.4	46.1	3.6	245.7	19.1	200.1	15.6	45.6	3.5
1974.....	1,417.0	263.2	18.6	209.3	14.8	53.9	3.8	269.4	19.0	217.3	15.3	52.1	3.7
1975.....	1,523.5	279.1	18.3	216.6	14.2	62.5	4.1	332.3	21.8	271.9	17.8	60.4	4.0
1976.....	1,699.6	298.1	17.5	231.7	13.6	66.4	3.9	371.8	21.9	302.2	17.8	69.6	4.1
1977.....	1,935.8	355.6	18.4	278.7	14.4	76.8	4.0	409.2	21.1	328.5	17.0	80.7	4.2
1978.....	2,173.4	399.6	18.4	314.2	14.5	85.4	3.9	458.7	21.1	369.1	17.0	89.7	4.1
1979.....	2,452.2	463.3	18.9	365.3	14.9	98.0	4.0	503.5	20.5	403.5	16.5	100.0	4.1
1980.....	2,667.6	517.1	19.4	403.9	15.1	113.2	4.2	590.9	22.2	476.6	17.9	114.3	4.3
1981.....	2,986.2	599.3	20.1	469.1	15.7	130.2	4.4	678.2	22.7	543.0	18.2	135.2	4.5
1982.....	3,141.5	617.8	19.7	474.3	15.1	143.5	4.6	745.7	23.7	594.3	18.9	151.4	4.8
1983.....	3,320.9	600.6	18.1	453.2	13.6	147.3	4.4	808.3	24.3	661.2	19.9	147.1	4.4
1984.....	3,695.3	666.5	18.0	500.4	13.5	166.1	4.5	851.8	23.1	686.0	18.6	165.8	4.5
1985.....	3,936.8	734.1	18.6	547.9	13.9	186.2	4.7	946.3	24.0	769.5	19.5	176.8	4.5
1986 estimate.....	4,192.2	777.1	18.5	579.2	13.8	197.9	4.7	979.9	23.4	795.2	19.0	184.7	4.4
1987 estimate.....	4,538.1	850.4	18.7	636.1	14.0	214.3	4.7	994.0	21.9	795.4	17.5	198.6	4.4
1988 estimate.....	4,902.9	933.2	19.0	690.4	14.1	242.8	5.0	1,026.8	20.9	817.1	16.7	209.6	4.3
1989 estimate.....	5,268.9	996.1	18.9	732.5	13.9	263.7	5.0	1,063.6	20.2	843.8	16.0	219.9	4.2

Fiscal year	Gross national product	Surplus or deficit (-)						Federal debt, end of year					
		Total		On-budget		Off-budget ¹		Gross		Held by Government accounts		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
1968.....	852.4	-25.2	-3.0	-27.7	-3.3	2.6	0.3	369.8	43.4	79.1	9.3	290.6	34.1
1969.....	929.5	3.2	0.3	-0.5	-0.1	3.7	0.4	367.1	39.5	87.7	9.4	279.5	30.1
1970.....	990.5	-2.8	-0.3	-8.7	-0.9	5.9	0.6	382.6	38.6	97.7	9.9	284.9	28.8
1971.....	1,057.1	-23.0	-2.2	-26.1	-2.5	3.0	0.3	409.5	38.7	105.1	9.9	304.3	28.8
1972.....	1,151.2	-23.4	-2.0	-26.4	-2.3	3.0	0.3	437.3	38.0	113.6	9.9	323.8	28.1
1973.....	1,285.5	-14.9	-1.2	-15.4	-1.2	0.5	*	468.4	36.4	125.4	9.8	343.0	26.7
1974.....	1,417.0	-6.1	-0.4	-8.0	-0.6	1.8	0.1	486.2	34.3	140.2	9.9	346.1	24.4
1975.....	1,523.5	-53.2	-3.5	-55.3	-3.6	2.0	0.1	544.1	35.7	147.2	9.7	396.9	26.1
1976.....	1,699.6	-73.7	-4.3	-70.5	-4.1	-3.2	-0.2	631.9	37.2	151.6	8.9	480.3	28.3
1977.....	1,935.8	-53.6	-2.8	-49.7	-2.6	-3.9	-0.2	709.1	36.6	157.3	8.1	551.8	28.5
1978.....	2,173.4	-59.2	-2.7	-54.9	-2.5	-4.3	-0.2	780.4	35.9	169.5	7.8	610.9	28.1
1979.....	2,452.2	-40.2	-1.6	-38.2	-1.6	-2.0	-0.1	833.8	34.0	189.2	7.7	644.6	26.3
1980.....	2,667.6	-73.8	-2.8	-72.7	-2.7	-1.1	*	914.3	34.3	199.2	7.5	715.1	26.8
1981.....	2,986.2	-78.9	-2.6	-73.9	-2.5	-5.0	-0.2	1,003.9	33.6	209.5	7.0	794.4	26.6
1982.....	3,141.5	-127.9	-4.1	-120.0	-3.8	-7.9	-0.3	1,147.0	36.5	217.6	6.9	929.4	29.6
1983.....	3,320.9	-207.8	-6.3	-208.0	-6.3	0.2	*	1,381.9	41.6	240.1	7.2	1,141.8	34.4
1984.....	3,695.3	-185.3	-5.0	-185.6	-5.0	0.3	*	1,576.7	42.7	264.2	7.1	1,312.6	35.5
1985.....	3,936.8	-212.3	-5.4	-221.6	-5.6	9.4	0.2	1,827.5	46.4	317.6	8.1	1,509.9	38.4
1986 estimate.....	4,192.2	-202.8	-4.8	-216.0	-5.2	13.2	0.3	2,112.0	50.4	398.0	9.5	1,714.0	40.9
1987 estimate.....	4,538.1	-143.6	-3.2	-159.3	-3.5	15.7	0.3	2,320.6	51.1	464.9	10.2	1,855.7	40.9
1988 estimate.....	4,902.9	-93.6	-1.9	-126.8	-2.6	33.2	0.7	2,509.0	51.2	560.3	11.4	1,948.7	39.7
1989 estimate.....	5,268.9	-67.5	-1.3	-111.3	-2.1	43.8	0.8	2,684.3	50.9	668.9	12.7	2,015.4	38.3

*0.05% or less ¹ Social security trust funds. Note: Excludes transition quarter.

Table 8. FULL-TIME EQUIVALENT OF FEDERAL CIVILIAN EMPLOYMENT ¹

	Fiscal year				
	1985 actual ²	1986 estimate	1987 estimate	1988 estimate	difference 86-87
Agriculture	106,658	108,750	98,500	96,570	-10,250
Commerce	32,790	34,440	33,830	37,643	-610
Defense—civil functions	28,681	28,548	28,348	28,348	-200
Education	4,876	4,579	4,500	4,500	-79
Energy	16,257	16,218	15,721	12,005	-497
Health and Human Services	132,501	128,483	123,636	118,674	-4,847
Housing and Urban Development	12,101	11,720	11,288	10,916	-432
Interior	72,166	72,015	70,305	69,955	-1,710
Justice	60,852	64,266	65,820	66,028	1,554
Labor	18,176	18,549	18,155	18,060	-394
State	24,788	26,088	26,937	27,122	849
Transportation	61,044	60,938	58,981	57,164	-1,957
Treasury	127,442	126,467	129,587	132,345	3,120
Environmental Protection Agency	12,459	13,361	13,161	13,090	-200
National Aeronautics and Space Administration	21,991	21,800	21,800	21,800
Veterans Administration	221,292	221,051	212,066	204,662	-8,985
Other:					
Agency for International Development	4,969	4,875	4,825	4,700	-50
General Services Administration	25,254	25,406	22,635	22,297	-2,771
Nuclear Regulatory Commission	3,498	3,491	3,369	3,369	-122
Office of Personnel Management	5,666	5,510	5,419	5,029	-91
Panama Canal Commission	8,215	8,300	8,300	8,300
Small Business Administration	4,177	4,219	707	0	-3,512
Tennessee Valley Authority	31,098	31,000	31,000	31,000
United States Information Agency	8,572	9,120	9,280	9,369	160
Miscellaneous	39,582	41,430	40,822	40,552	-608
Estimated nondefense lapse		-8,180			8,180
Civilian agency employment	1,085,105	1,082,444	1,058,992	1,043,498	-23,452
Defense—military functions ³	1,036,870	1,034,375	1,037,113	1,037,356	2,738
Subtotal	2,121,975	2,116,819	2,096,105	2,080,854	-20,714
Postal Service Employment ⁴	692,748	717,694	736,852	764,852	19,158
Total, Executive Branch	2,814,723	2,834,513	2,832,957	2,845,706	-1,556

¹ Excludes developmental positions under the Worker-Trainee Opportunity Program (WTOP) as well as certain statutory exemptions.
² 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.

³ 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.

⁴ Includes the Postal Rate Commission.

Table 9. TOTAL RECEIPTS AND OUTLAYS, 1789-1991 (in millions of dollars)

Fiscal year	Receipts	Outlays	Surplus or deficit (-)	Fiscal year	Receipts	Outlays	Surplus or deficit (-)
1789-1849 ...	1,160	1,090	+ 70	1945.....	45,159	92,712	- 47,553
1850-1900 ...	14,462	15,453	- 991	1946.....	39,296	55,232	- 15,936
1901.....	588	525	+ 63	1947.....	38,514	34,496	+ 4,018
1902.....	562	485	+ 77	1948.....	41,560	29,764	+ 11,796
1903.....	562	517	+ 45	1949.....	39,415	38,835	+ 580
1904.....	541	584	- 43	1950.....	39,443	42,562	- 3,119
1905.....	544	567	- 23	1951.....	51,616	45,514	+ 6,102
1906.....	595	570	+ 25	1952.....	66,167	67,686	- 1,519
1907.....	666	579	+ 87	1953.....	69,608	76,101	- 6,493
1908.....	602	659	- 57	1954.....	69,701	70,855	- 1,154
1909.....	604	694	- 89	1955.....	65,451	68,444	- 2,993
1910.....	676	694	- 18	1956.....	74,587	70,640	+ 3,947
1911.....	702	691	+ 11	1957.....	79,990	76,578	+ 3,412
1912.....	693	690	+ 3	1958.....	79,636	82,405	- 2,769
1913.....	714	715	- *	1959.....	79,249	92,098	- 12,849
1914.....	725	726	- *	1960.....	92,492	92,191	+ 301
1915.....	683	746	- 63	1961.....	94,388	97,723	- 3,335
1916.....	761	713	+ 48	1962.....	99,676	106,821	- 7,146
1917.....	1,101	1,954	- 853	1963.....	106,560	111,316	- 4,756
1918.....	3,645	12,677	- 9,032	1964.....	112,613	118,528	- 5,915
1919.....	5,130	18,493	- 13,363	1965.....	116,817	118,228	- 1,411
1920.....	6,649	6,358	+ 291	1966.....	130,835	134,532	- 3,698
1921.....	5,571	5,062	+ 509	1967.....	148,822	157,464	- 8,643
1922.....	4,026	3,289	+ 736	1968.....	152,973	178,134	- 25,161
1923.....	3,853	3,140	+ 713	1969.....	186,882	183,640	+ 3,242
1924.....	3,871	2,908	+ 963	1970.....	192,807	195,649	- 2,842
1925.....	3,641	2,924	+ 717	1971.....	187,139	210,172	- 23,033
1926.....	3,795	2,930	+ 865	1972.....	207,309	230,681	- 23,373
1927.....	4,013	2,857	+ 1,155	1973.....	230,799	245,707	- 14,908
1928.....	3,900	2,961	+ 939	1974.....	263,224	269,359	- 6,135
1929.....	3,862	3,127	+ 734	1975.....	279,090	332,332	- 53,242
1930.....	4,058	3,320	+ 738	1976.....	298,060	371,779	- 73,719
1931.....	3,116	3,577	- 462	TQ.....	81,232	95,973	- 14,741
1932.....	1,924	4,659	- 2,735	1977.....	355,559	409,203	- 53,644
1933.....	1,997	4,598	- 2,602	1978.....	399,561	458,729	- 59,168
1934.....	2,955	6,541	- 3,586	1979.....	463,302	503,464	- 40,162
1935.....	3,609	6,412	- 2,803	1980.....	517,112	590,920	- 73,808
1936.....	3,923	8,228	- 4,304	1981.....	599,272	678,209	- 78,936
1937.....	5,387	7,580	- 2,193	1982.....	617,766	745,706	- 127,940
1938.....	6,751	6,840	- 89	1983.....	600,562	808,327	- 207,764
1939.....	6,295	9,141	- 2,846	1984.....	666,457	851,781	- 185,324
1940.....	6,548	9,468	- 2,920	1985.....	734,057	946,323	- 212,266
1941.....	8,712	13,653	- 4,941	1986 est.....	777,139	979,928	- 202,789
1942.....	14,634	35,137	- 20,503	1987 est.....	850,372	994,002	- 143,630
1943.....	24,001	78,555	- 54,554	1988 est.....	933,179	1,026,765	- 93,585
1944.....	43,747	91,304	- 47,557	1989 est.....	996,115	1,063,619	- 67,504
				1990 est.....	1,058,096	1,093,848	- 35,752
				1991 est.....	1,124,039	1,122,716	+ 1,323

*\$500 thousand or less.

Note.—Data for 1789-1933 are for the administrative budget; data for 1934 and all following years are for the unified budget.

Beginning in 1937, includes amounts for social security trust funds that are off-budget.

THE BUDGET DOCUMENTS

Budget of the United States Government, 1987 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, 1987 is designed for use by the general public. It provides a more concise, less technical overview of the 1987 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, 1987—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, 1987 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.

Historical Tables, Budget of the United States Government, 1987 provides data on receipts, outlays, surpluses or deficits, and Federal debt covering extended time periods—in many cases from 1940–1991. These are much longer time periods than those covered by similar tables in other budget documents. The data have been restructured to be consistent with the concepts and presentation used in the 1987 Budget, so these data series are comparable over time.

Management of the United States Government, 1987 provides a description of efforts to improve the management of Federal agencies. It reports on the President's Council on Integrity and Efficiency, describes Reform '88 initiatives undertaken by the President's Council on Management Improvement, and outlines the Administration's management proposals. Management improvement themes covered in the report include privatization, productivity improvement, return of responsibilities to State and local governments, administrative streamlining, program delivery improvements, cost reductions, cash and credit management, payment integrity efforts, upgraded information technology systems, and increased use of user fees and contracting out. Special sections describe current procurement reforms, the status of Grace Commission recommendations, and implementation of the Debt Collection Act of 1982, the Prompt Payment Act of 1982, and the Financial Integrity Act of 1982.

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