



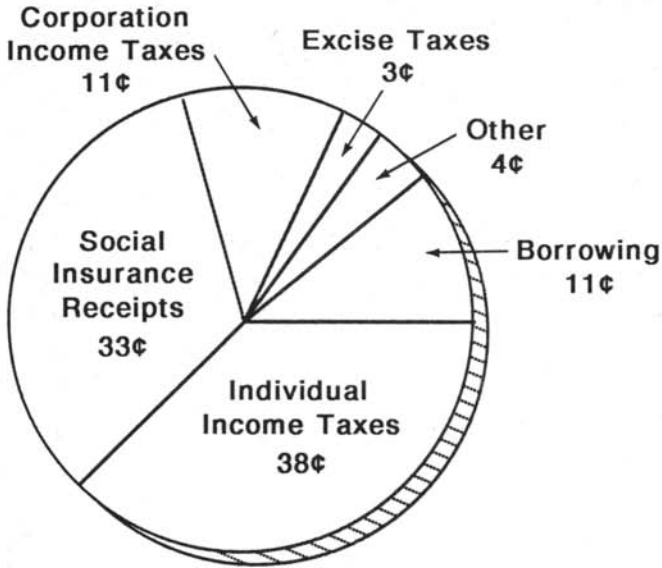
EXECUTIVE OFFICE OF
THE PRESIDENT
OFFICE OF MANAGEMENT
AND BUDGET

THE
UNITED STATES
BUDGET
IN BRIEF

FISCAL YEAR
1988

The Federal Government Dollar Fiscal Year 1988 Estimate

Where It Comes From ...



Where It Goes ...

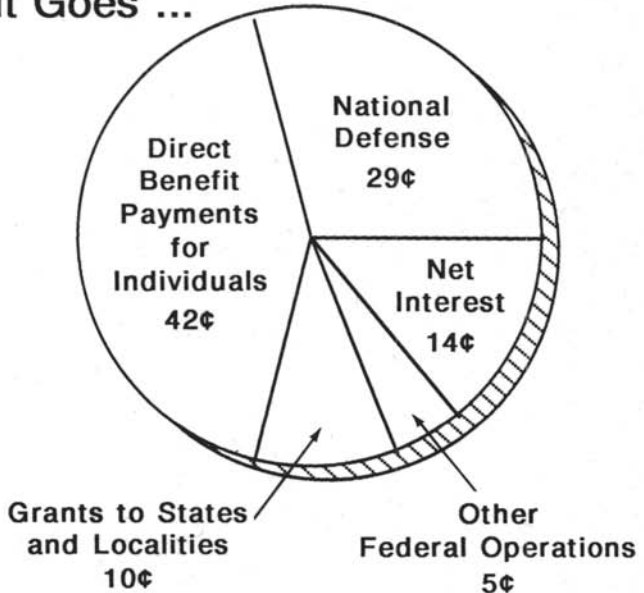


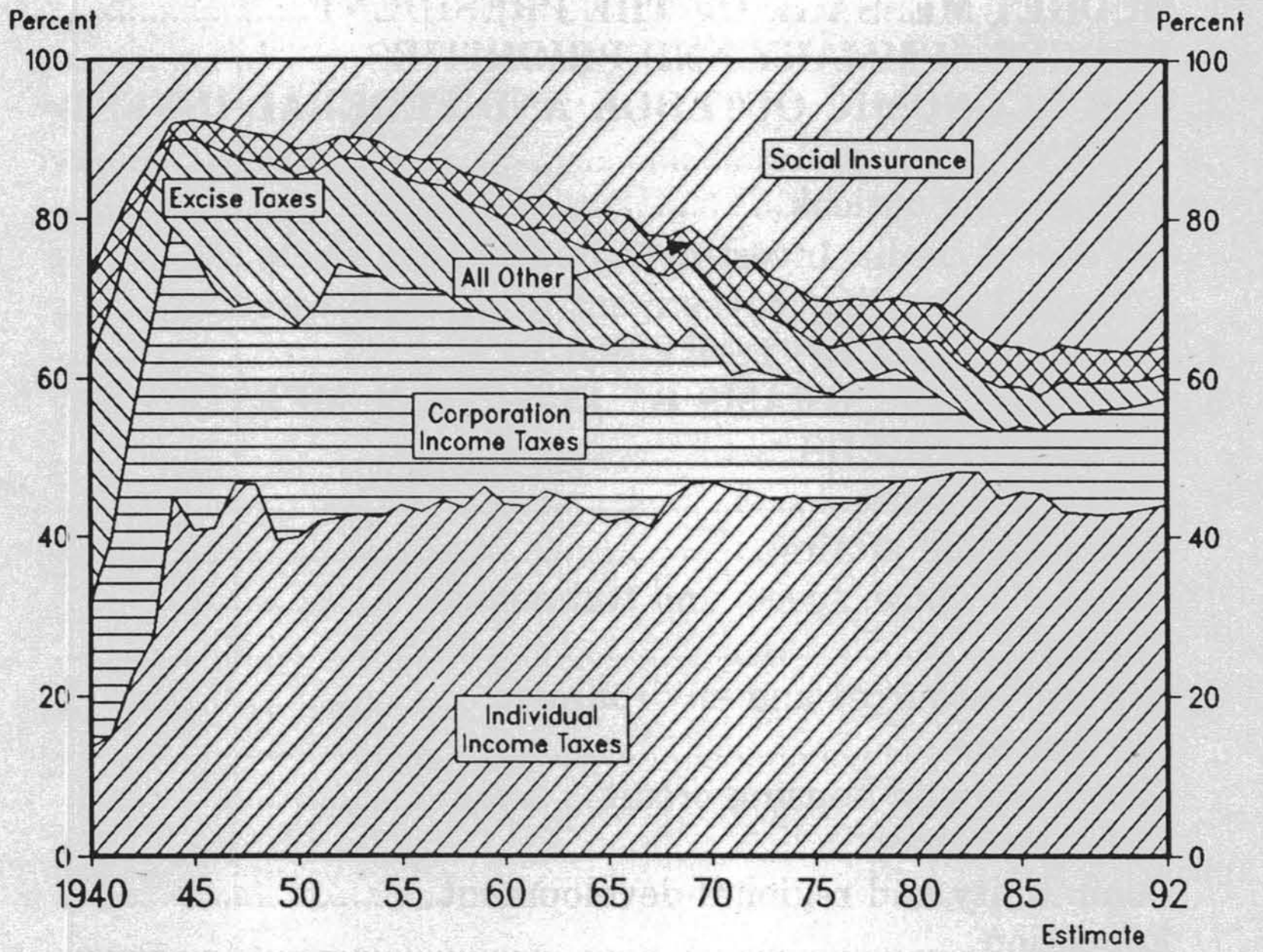
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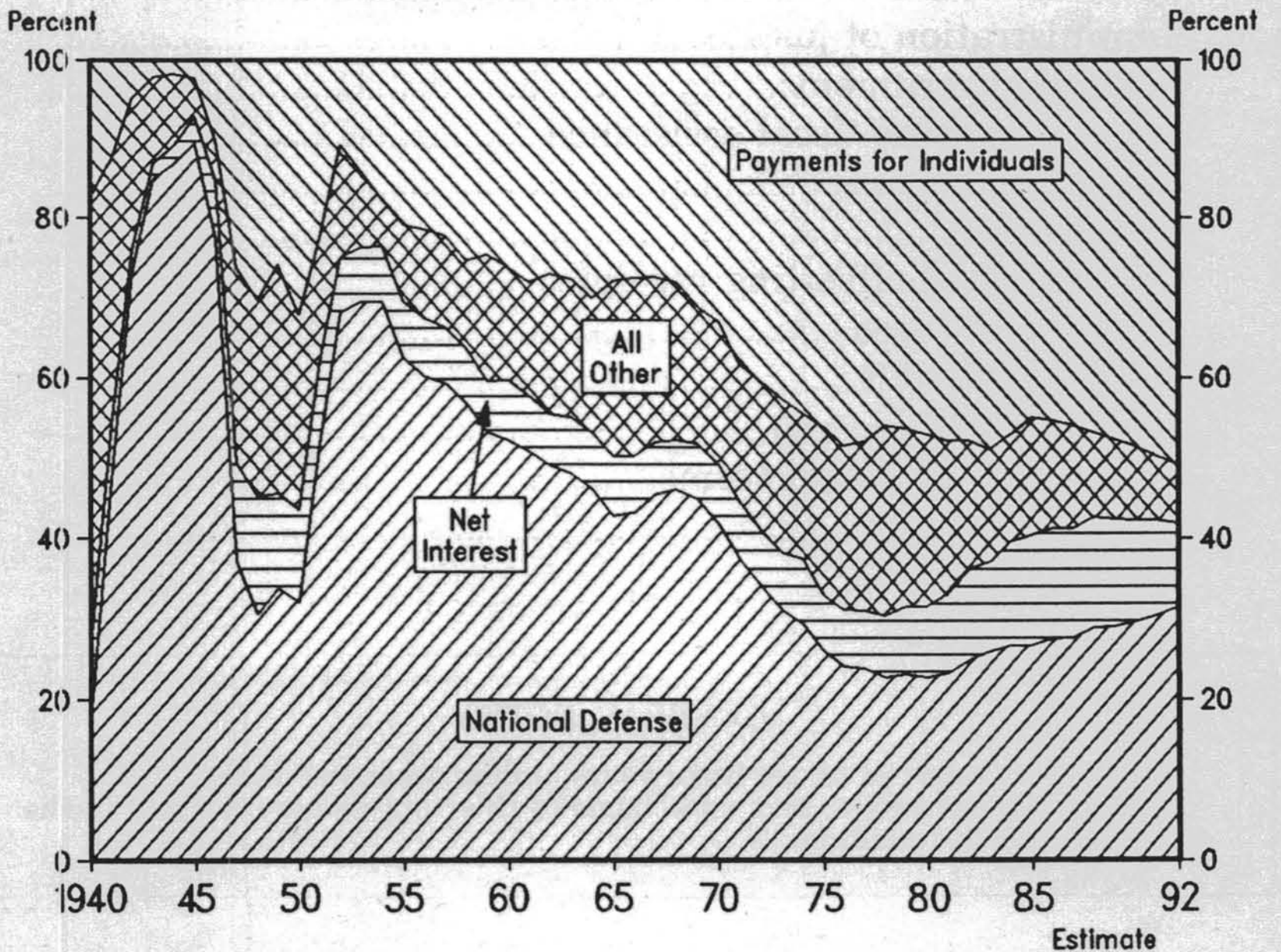
GENERAL NOTES

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.

Percentage Composition of Federal Government Receipts



Percentage Composition of Federal Government Outlays



THE BUDGET MESSAGE OF THE PRESIDENT

*To the Speaker of the House of Representatives and the
President of the Senate:*

The current economic expansion, now in its 50th month, is already one of the longest of the postwar era and shows promise of continuing to record length. This has not been due simply to chance—it is the result of successful policies adopted during the past 6 years. Disposable personal income is at an all-time high and is still rising; total production and living standards are both increasing; employment gains have been excellent. Inflation, which raged at double-digit rates in 1980, has been reduced dramatically. Defense capabilities, which had been dangerously weakened during the 1970's, have been substantially rebuilt, restoring a more adequate level of national security. An insupportable growth in tax burdens and Federal regulations has been halted, an intolerably complex and inequitable income tax structure has been radically reformed, and the largest management improvement program ever attempted is in full swing in all major Federal agencies. It has been a good 6 years.

Now in its 5th year, the current expansion already has exceeded 5 of the 7 previous postwar expansions in duration, and leading economic indicators point to continued growth ahead. Our policies have worked. Let me mention a few highlights of the current economic expansion:

- In the past 4 years 12.4 million new jobs have been created, while the total unemployment rate has fallen by 3.7 percentage points. By comparison, jobs in other developed countries have not grown significantly, and unemployment rates have remained high.
- Inflation, which averaged 10.3 percent a year during the 4 years before I came to office, has averaged less than a third of that during the last 4 years—3.0 percent; inflation in 1986, at about 1 percent, was at its lowest rate in over two decades.
- The prime rate of interest, and other key interest rates, are less than half what they were in 1981.
- Between 1981 and 1986, numerous changes in the tax code, including a complete overhaul last year, have simplified reporting, made the tax law more equitable, and significantly lowered tax rates for individuals and corporations. Six million

low-income taxpayers are being removed from the income tax rolls. The inhibitive effect of our tax code on individual initiative has been reduced dramatically. Real after-tax personal income has risen 15 percent during the last 4 years, increasing our overall standard of living.

- Our defense capabilities have been strengthened with modernized equipment and successful recruiting and retention of higher caliber personnel; the readiness, training, and morale of our troops has been improved.
- After years of unsustainably rapid growth, Federal spending for domestic programs other than entitlements has been held essentially flat over the last 4 years.
- Since 1981, the amount of time spent by the public filling out forms required by the Federal Government has been cut by over 600 million hours, and the number of pages published annually in the *Federal Register* has been reduced by over 45 percent.
- Our continuing fight against waste, fraud, and abuse in Government programs has paid off, as the President's Council on Integrity and Efficiency has saved \$84 billion in funds that have been put to more efficient use.
- Finally, Federal agencies have instituted the largest management improvement program ever attempted to bring a more business-like approach to Government.

The dramatic improvement in the performance of our economy stemmed from steadfast adherence to the four fundamental principles of the economic program I presented in February 1981:

- limiting the growth of Federal spending;
- reducing tax burdens;
- relieving the economy of excessive regulation and paperwork; and
- supporting a sound and stable monetary policy.

BUDGET SUMMARY

(In billions of dollars)

	1986	1987	1988	1989	1990	1991	1992
Receipts.....	769.1	842.4	916.6	976.2	1,048.3	1,123.2	1,191.2
Outlays.....	989.8	1,015.6	1,024.3	1,069.0	1,107.8	1,144.4	1,178.9
Surplus or deficit (—).....	—220.7	—173.2	—107.8	—92.8	—59.5	—21.3	12.3
Gramm-Rudman-Hollings deficit targets.....	—171.9	—144.0	—108.0	—72.0	—36.0	0.0	0.0
Difference.....	48.8	29.2	—0.2	20.8	23.5	21.3	—12.3

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

NEED FOR DEFICIT REDUCTION

The foundation has been laid for a sustained era of national prosperity. But a major threat to our future prosperity remains: the Federal deficit. If this deficit is not brought under control by limiting Government spending, we put in jeopardy all we have achieved. Deficits brought on by continued high spending threaten the lower tax rates incorporated in tax reform and inhibit progress in our balance of trade.

We cannot permit this to happen. Therefore, one of the major objectives of this budget is to assure a steady reduction in the deficit until a balanced budget is reached.

This budget meets the \$108 billion deficit target for 1988 set out in the Balanced Budget and Emergency Deficit Control Act, commonly known for its principal sponsors as Gramm-Rudman-Hollings. Gramm-Rudman-Hollings committed both the President and Congress to a fixed schedule of progress toward reducing the deficit. In submitting this budget, I am keeping my part of the bargain—and on schedule. I ask Congress to do the same. If the deficit reduction goals were to be abandoned, we could see unparalleled spending growth that this Nation cannot afford.

This budget shows that eliminating the deficit over time is possible *without* raising taxes, *without* sacrificing our defense preparedness, and *without* cutting into legitimate programs for the poor and the elderly, while at the same time providing needed additional resources for other high priority programs.

DEFICIT REDUCTION IN 1988

Although the deficit has equalled or exceeded 5 percent of the gross national product (GNP) in each of the past 4 years, each year I have proposed a path to lower deficits—involving primarily the curtailment of unnecessary domestic spending. Congress, however, has rejected most of these proposals; hence, our progress toward reducing the deficit has been much more modest than it could have been.

This year there appears to be a major turn for the better. The 1987 deficit is estimated to be about \$48 billion less than in 1986 and should decline to less than 4 percent of GNP. As the economy expands, Federal receipts will rise faster than the increase in outlays Congress enacted for the year.

However, there is no firm guarantee that progress toward a steadily smaller deficit and eventual budget balance will continue. On a current services basis the deficit will continue to decline over the next 5 years, but this decline is gradual and vulnerable to potential fiscally irresponsible congressional action on a multitude of spending programs. It is also threatened by the possibility of a less robust economic performance than is projected, for that projec-

tion is based on the assumption that the necessary spending cuts will be made.

This 1988 budget can deal the deficit a crucial blow. If the proposals in this budget are adopted and if the economy performs according to the budget assumptions for growth and inflation, then for the second consecutive year the deficit should shrink substantially, by \$65 billion, and thus decline to less than 2½ percent of GNP. Reducing the deficit this far would bring it within the range of our previous peacetime experience and bring our goal of a balanced budget much closer to realization.

Moreover, if Congress adopts the proposals contained in this budget, it will ensure additional deficit reductions in future years, because in many cases the savings from a given action, although small in 1988, would mount in later years. Given the good start made in 1987, Congress has an opportunity this year—by enacting this budget—to put the worst of the deficit problem behind us.

Adopting the spending reductions and other reforms proposed in this budget would reduce the Federal deficit an average of \$54 billion annually for the next 3 years. This represents \$220 each year for every individual American and about \$600 for every household. I believe this is the appropriate way to deal with the deficit: cutting excessive Federal spending rather than attacking the family budget by increasing taxes, weakening our national security, breaking faith with the poor and the elderly, or ignoring the requirements for additional resources for other high priority programs.

A MORE COMPETITIVE, PRODUCTIVE AMERICA

The task of deficit reduction is a formidable one—but it can and should be achieved with serious attention to the effects on America's economy, businesses, State and local governments, social organizations, and individual citizens. Reducing the deficit will reduce the burden the Federal Government places on private credit markets. The specific deficit reduction measures proposed in this budget would also help make our economy more competitive—and more productive. These objectives have been major considerations in the formulation of this budget.

High priority programs must be funded adequately. Despite the very tight overall fiscal environment, this budget provides adequate funds for maintaining and, in selected cases, expanding high priority programs in key areas of national interest. For example:

- essential services and income support for the aged and needy are expanded;
- the prevention, treatment, and research efforts begun in my 1987 drug abuse initiative are continued, while resources devoted to drug law enforcement have tripled since my administration began;

- the budget allocates \$85 million to more intensive health care for those with the highest incidence of infant mortality;
- over half a billion dollars is provided for AIDS research and education in 1988—a 28 percent increase above the 1987 level and more than double our 1986 effort (an additional \$100 million is provided for AIDS treatment and blood screening by the Veterans Administration and the Department of Defense);
- building upon the Nation's preeminence in basic biomedical research, the budget seeks funding for the full multiyear costs of biomedical research grants made by the National Institutes of Health;
- a \$200 million increase over the 1987 level is proposed for compensatory education for educationally disadvantaged children;
- current ineffective programs intended to assist dislocated workers are replaced by an expanded billion-dollar program carefully designed to help those displaced from their jobs move quickly into new careers;
- a 68 percent increase in funding is provided to permit the Federal Aviation Administration to modernize the Nation's air traffic control system; this includes the procurement of doppler radars capable of detecting severe downdrafts that imperil landings and takeoffs at airports where this is a hazard;
- for 1988, \$400 million is provided to carry out newly enacted immigration reform legislation;
- substantial increases in funding for clean coal technology demonstrations, as well as research on acid rain formation and environmental effects, are provided to address the acid rain problem; and
- a new civil space technology initiative, together with previously planned increases to construct a space station, develop a national aerospace plane, and foster the commercial development of space, are provided in this budget.

Restoring our national security also has been one of my highest priorities over the past 6 years due to the serious weakness arising from severe underfunding during the middle and late 1970's. Nonetheless, defense and international programs have not escaped the effects of fiscal stringency. The defense budget actually has declined in real terms in each of the past 2 years. This trend cannot be allowed to continue. I am proposing in this budget a 3 percent real increase over last year's appropriated level. This request—some \$8 billion less than last year's—is the minimum level consistent with maintaining an adequate defense of our Nation.

Likewise, my request for our international affairs programs is also crucial to our effort to maintain our national security. I urge

Congress not to repeat last year's damaging cuts, but rather to fund these programs fully.

The incentive structure for other Federal programs should be changed to promote efficiency and competitiveness. One of the problems with many Federal programs is that they provide payments without encouraging performance or efficiency. They are perceived to be "free" and, therefore, there is potentially unlimited demand. This has to be changed—and this budget proposes creating needed incentives in critical areas.

Our farm price support programs, under the Food Security Act of 1985, are proving much too costly—half again as costly as estimated when the bill was enacted just one year ago. The \$25 billion being spent on farm subsidies in 1987 is 14 percent of our total Federal deficit and equivalent to taking \$415 of each nonfarm family's taxes to support farmers' incomes—over and above the amount that price supports add to their grocery bills. Some of the provisions of the Act encourage farmers to overproduce just to receive Federal benefits. Other provisions give the greatest benefits to our largest and most efficient agricultural producers instead of to those family farmers most in need of help. My administration will propose amendments to the Food Security Act to focus its benefits on the full-time family farmer by placing effective limitations on the amount paid to large producers and removing the incentive for farmers to overproduce solely to receive Federal payments.

Reform of the medicare physician payment system is also proposed. Under the proposals, medicare would pay for radiology, anesthesiology, and pathology (RAP) services based on average area costs instead of inflationary fee-for-service reimbursements. The current fee-for-service payment distorts incentives and induces inappropriate billing for unneeded services. This initiative would remove the distortions caused by medicare's current reimbursement rules, eliminating a key barrier preventing the restoration of traditional arrangements between RAP physicians and hospital staffs.

The budget proposes continued increases in federally supported basic research that will lead to longer term improvements in the Nation's productivity and global competitiveness. For example, the budget projects a doubling within 5 years of the National Science Foundation's support for academic research. I also propose to increase support for training future scientists and engineers, and to foster greater technology transfer from Government to industry.

Another way of attaching a "value" to Government-provided services—and an incentive to use them only as needed—is to charge user fees where appropriate. Those who receive special Federal services—not the general taxpayer—should bear a greater share of the costs of those services. Accordingly, this budget im-

poses fees for Federal lending activities, for meat and poultry inspection, for National park and forest facilities, for Coast Guard services, for Customs inspections, and for many other services.

The Government should stop competing with the private sector. The Federal Government interferes with the productivity of the private sector in many ways. One is through borrowing from the credit markets to finance programs that are no longer needed—as in the case of the rural housing insurance fund, direct student financial assistance, urban mass transit discretionary grants, vocational education grants, the Federal Crop Insurance Corporation fund, sewage plant construction grants, justice assistance grants, the Legal Services Corporation, and rural electrification loans. I am proposing in this budget that we terminate these programs and rely instead on private or State and local government provision of these services.

The budget also proposes that a number of programs that have real utility be transferred back to the private sector, through public offerings or outright sales. Following our successful effort to authorize sale of Conrail, I am now proposing the sale of the Naval Petroleum Reserves, AMTRAK, the Alaska Power Administration, the helium program, and excess real property. In addition, I am proposing legislation to authorize study of a possible divestiture of the Southeastern Power Administration. These “privatization” efforts continue to be a high priority of my administration and, I believe, will result in increased productivity and lower total costs of providing these services. The Federal Government needs to provide essential services that are truly public in nature and national in scope. It has no business providing services to individuals that private markets or their State or local governments can provide just as well or better.

The Federal Government should depend more on the private sector to provide ancillary and support services for activities that remain in Federal hands. The budget proposes that the work associated with over 40,000 Federal positions be contracted out to the private sector as yet another way to increase productivity, reduce costs, and improve services.

Federal credit programs should operate through the private markets and reveal their true costs. The Federal Government provides credit for housing, agriculture, small business, education, and many other purposes. Currently, over a trillion dollars of Federal or federally assisted loans are outstanding. Including lending of Government-sponsored enterprises, federally assisted lending amounted to 14 percent of all lending in U.S. credit markets in 1985.

Under current treatment, loan guarantees appear to be “free”; they do not affect the budget until and unless borrowers default. Direct loans are counted as outlays when they are made, but as

“negative outlays” when they are repaid; thus, direct loans seem “free” too, inasmuch as it is presumed they will be repaid. But neither direct loans nor loan guarantees are free. Besides the better terms and conditions a borrower gets from the Government, there is the matter of default. When a borrower does not repay a direct loan, the negative outlay does not occur, and this is a subsidy implicit in the original loan transaction. When a borrower defaults on a guaranteed loan, the Government has to make good on repayment—also a program subsidy.

Since these effects are poorly understood and lead to grave inefficiencies in our credit programs, we will ask Congress to enact legislation whereby the true cost to the economy of Federal credit programs would be counted in the budget. By selling a substantial portion of newly made loans to the private sector and reinsuring some newly made guarantees, the implicit subsidy in the current practice will become explicit. This reform will revolutionize the way Federal credit activities are conducted.

The private sector will also be increasingly involved in the management of our huge portfolio of outstanding loans and loan guarantees. Delinquent Federal borrowers will be reported to private credit bureaus, and private loan collection agencies will be used to help in our collection efforts. The Internal Revenue Service (IRS) will expand its “offsetting” of refunds to pay off delinquent Federal debts, and Federal employees who have not paid back Federal loans will have their wages garnisheed.

Increased role for State and local governments. Over the past 6 years I have sought to return various Federal services to State and local governments—which are in a much better position to respond effectively to the needs of the recipients of these services. To me, this is a question of reorganizing responsibilities within our Federal system in a manner that will result in more productive delivery of the services that we all agree should be provided. Thus, this budget phases out inappropriate Federal Government involvement in local law enforcement, sewage treatment, public schools, and community and regional development. Transportation programs will be consolidated or States will be given greater flexibility in the use of Federal funds for highways, mass transit, and airports.

Federal regulations must be reduced even further to improve productivity. My administration will continue the deregulation and regulatory relief efforts that were begun in 1981. The Task Force on Regulatory Relief, headed by the Vice President, has been reinstated. In the past, excessive Federal regulations and related paperwork have stifled American productivity and individual freedom. We must continue our efforts to streamline the regulatory process and to strike the proper balance between necessary regulation and associated paperwork on the one hand, and the costs of these requirements on the other.

Federal activities should be better managed. The American people deserve the best managed Federal Government possible. Last year, I initiated the Federal Government Productivity Program, with the goal of improving productivity in selected areas by 20 percent by 1992. A substantial portion of total direct Federal employment falls within the program, including such activities as the Department of Agriculture meat and poultry inspection, Navy aircraft maintenance and repair, social security claims processing, National Park maintenance, operation of Federal prisons, and IRS processing of tax returns.

Credit reform, privatization, productivity improvement, and other proposals will be described in more detail in the *Management Report* to be issued this month. It will also identify further measures to reduce waste, fraud, and abuse; to improve management of the Government's \$1.7 trillion cashflow; to institute compatible financial management systems across all Federal agencies; and other initiatives to improve the management of Government operations. These ambitious management reform undertakings, called "Reform '88," constitute the largest management reform effort ever attempted.

The budget also proposes a new approach to paying Federal employees who increase their productivity. I ask that Congress approve a new plan to transform the current system of virtually automatic "within-grade" salary increases for the roughly 40 percent of employees eligible each year for these 3 percent hidden pay raises to one that is "performance-oriented". This will give Federal employees stronger incentives to improve service delivery.

I include with this budget my recommendations for increases in executive level pay for the executive, legislative, and judicial branches of the Federal Government. The Quadrennial Commission report submitted to me on December 15, 1986 documented both the substantial erosion in the real level of Federal executive pay that has occurred since 1969 and the recruitment and retention problems that have resulted, especially for the Federal judiciary. The Commission is to be commended for its diligent and conscientious effort to address the complicated and complex problems associated with Federal pay levels.

Every one of the Quadrennial Commissions that have met over the past 18 years has recognized that a pay increase for key Federal officials was necessary. Each Commission concluded that pay for senior Government officials fell far behind that of their counterparts in the private sector. They also understood that we cannot afford a Government composed primarily of those who are wealthy enough to serve. Unfortunately, the last major Quadrennial Commission pay adjustment was in 1977—a decade ago.

However, I recognize that we are under mandated efforts to reduce the Federal deficit and hold down the costs of Government

to the absolute minimum level. In this environment, I do not believe it would be appropriate to implement fully the Quadrennial Commission recommendations.

Accordingly, I have decided to propose a pay increase, but have cut substantially the recommendations made by the Quadrennial Commissioners in their report to me last month. Moreover, I have decided to establish a Career Manager Pay Commission to review and report to me by next August on appropriate pay scales for our elite corps of career Government managers. The pay increases I am proposing to Congress, plus the results of this new Commission, should place Government compensation on a fairer and more comparable footing.

PEACE THROUGH STRENGTH

I have become convinced that the only way we can bring our adversaries to the bargaining table for arms reduction is to give them a reason to negotiate—while, at the same time, fulfilling our responsibility to our citizens and allies to provide an environment safe and secure from aggression.

We have built our defense capabilities back toward levels more in accord with today's requirements for security. Modest and sustained growth in defense funding will be required to consolidate the real gains we have made. Because of severe fiscal constraints, we are proceeding at a slower pace than I originally planned, and the budget I propose provides the minimum necessary to ensure an adequate defense.

I am also submitting, for the first time, a two-year budget for National Defense. This will permit greater stability in providing resources for our defense efforts and should lead to greater economy in using these resources.

BUDGET PROCESS REFORM

The current budget process has failed to provide a disciplined and responsible mechanism for consideration of the Federal budget. Budget procedures are cumbersome, complex, and convoluted. They permit and encourage a process that results in evasion of our duty to the American people to budget their public resources responsibly. Last year Congress did not complete action on a budget for 8 months and 2 weeks—2 weeks past the statutory deadline. Except for the initial report of the Senate Budget Committee, Congress missed every deadline it had set for itself just 9 months earlier. In the end, Congress passed a yearlong, 389-page omnibus appropriations bill full of excessive and wasteful spending. Because Congress had not completed action on the annual appropriations bills, at one point I was compelled by law to initiate a shutdown of Federal Government activities. Such abrogation of a responsible budget

process not only discourages careful, prudent legislation—it encourages excessive spending and waste.

Furthermore, since I, as President, do not have a line-item veto, I had to ignore the many objectionable features of the omnibus appropriations legislation and sign it to avoid a Federal funding crisis. I am sure that many Members of Congress do not approve of this method of budgeting the Federal Government.

Last Fall's funding crisis and its slap-dash resolution are only one of the most obvious manifestations of the flaws in the system. Congress passes budget resolutions (without the concurrence of the President) based on functions; it considers 13 separate, but related, appropriations bills based on agencies, not functions; it develops a reconciliation bill; it passes authorizing legislation, sometimes annually; and it enacts limits on the public debt. The words alone are obscure and confusing; the process behind it is chaotic. The process must be streamlined and made more accountable.

Shortly, I will outline specific reforms designed to make the process more efficient and increase accountability, so that we can give the American people what they deserve from us: a budget that is fiscally responsible and on time.

CONCLUSION

Looking back over the past 6 years, we can feel a sense of pride and satisfaction in our accomplishments. Inflation has been brought under control. Growth and investment are up, while interest rates, tax rates, and unemployment rates have all come down substantially. A foundation for sustained economic expansion is now in place. Our national security has been restored to more adequate levels. The proliferation of unnecessary and burdensome Federal regulations has been halted. A significant beginning has been made toward curbing the excessive growth of domestic spending. Management of the Government is being improved, with special emphasis on productivity.

Important tasks, however, still remain to be accomplished. The large and stubbornly persistent budget deficit has been a major source of frustration. It threatens our prosperity and our hopes for continued economic growth.

Last year, the legislative and executive branches of Government responded to this threat by mandating gradual, orderly progress toward a balanced budget over the next 4 years. The proposals outlined here achieve the 1988 target while preserving legitimate programs for the aged and needy, providing for adequate national security, devoting more resources to other high-priority activities, and doing this without raising taxes.

This budget presents hard choices which must be faced squarely. Congress must not abandon the statutory deficit targets of Gramm-Rudman-Hollings. Honoring the provisions and promises of this

legislation offers the best opportunity for us to escape the chronic pattern of deficit spending that has plagued us for the past half century. We must realize that the deficit problem is also an opportunity of a different kind—an opportunity to construct a new, leaner, better focused, and better managed Federal structure supporting a more productive and more competitive America.

RONALD REAGAN

JANUARY 5, 1987

Part 2

BUDGET SUMMARY AND PRIORITIES

The President's budget for 1988 proposes further reduction in the deficit while maintaining Federal support for the core functions of Government. In particular, this budget:

- meets the Gramm-Rudman-Hollings 1988 deficit target of \$108 billion—a reduction of \$65 billion in 1988, following a reduction of \$48 billion in 1987;
- avoids increasing the Nation's tax burden;
- reflects bipartisan consensus to protect social security;
- provides 3 percent real growth in funding for national defense, that is, 3 percent real growth above the 1987 appropriated level; and
- reforms, reduces, or terminates an assortment of programs, saving taxpayers \$19 billion in 1988 alone.

PRESIDENT'S 1988 BUDGET

(In billions of dollars)

	1986	1987	1988	1989	1990	1991	1992
Totals:							
Receipts.....	769.1	842.4	916.6	976.2	1,048.3	1,123.2	1,191.2
Outlays.....	989.8	1,015.6	1,024.3	1,069.0	1,107.8	1,144.4	1,178.9
Deficit or surplus.....	-220.7	-173.2	-107.8	-92.8	-59.5	-21.3	12.3
Gramm-Rudman-Hollings targets.....	-171.9	-144.0	-108.0	-72.0	-36.0	0.0	0.0
Year-to-Year Changes:							
Receipts.....	35.0	73.3	74.2	59.6	72.1	74.9	68.1
Outlays.....	43.5	25.8	8.8	44.6	38.8	36.6	34.5
Deficit.....	-8.5	+47.5	+65.4	+15.0	+33.3	+38.2	+33.6

As a share of gross national product (GNP), the proposed reduction in the deficit is dramatic—from 5.3 percent of GNP in 1986 to just 2.3 percent in 1988.

The President's budget calls for holding the outlay increase to \$9 billion, from \$1,016 billion in 1987 to \$1,024 billion in 1988. After adjustment for inflation, spending would decline in real terms.

The \$9 billion increase in proposed outlays reflects the net impact of:

- an increase of \$2 billion for net interest payments;
- an increase of \$11 billion for social security benefits under existing law;
- an increase of \$15 billion in spending for national defense;
- an increase of \$1 billion for major medical programs; and
- a net decrease of \$21 billion for other Federal spending. This decrease reflects the net impact of increased revenues from asset sales, privatization initiatives, and user fees—a total of \$13 billion—as well as a wide variety of programmatic increases and decreases.

The following sections describe the major budget proposals by programmatic category. Social security, national defense, major medical, and the category of other mandatory programs are discussed separately from domestic discretionary programs. Spending for mandatory programs is determined largely by the number of individuals or businesses that meet eligibility and benefit criteria established by law. Funding for national defense and domestic discretionary programs is determined by authorizations and appropriations, rather than by benefit criteria in substantive legislation. Domestic discretionary programs are described in three broad groupings—economic subsidies and development, social programs, and general government functions (including the conduct of international affairs). The discussion of programmatic changes is followed by a discussion of the proposed changes in revenues from the sale of assets, the collection of user fees, and other sources. Summary tables on these categories are provided at the end of this chapter.

PROGRAMMATIC CHANGES

Social Security.—The administration proposes no changes in social security benefits. Approximately one in every six Americans is a social security beneficiary. The average benefit for a retired worker and spouse will be about \$10,000 in 1987—an increase of approximately \$265 per month (or nearly \$3,200 per year) over the 1981 level. Benefits will continue to increase as new retirees receive higher benefits based on higher average wages.

Nearly all Americans participate in the social security program, either by receiving benefits or by paying payroll taxes that finance them. Primarily because benefits will increase by the change in the consumer price index and a growing number of beneficiaries, outlays for social security benefits are estimated to increase from \$205 billion in 1987 to \$217 billion in 1988.

National Defense.—Defense budget authority levels declined in real terms in both 1986 and 1987. The 1987 appropriated amount is now 6 percent below that for 1985. In those years, Congress cut \$65 billion from administration requests, with reductions in both operations and investment programs. As a result, the rebuilding of our national security capabilities has been delayed and in the end may prove more costly. Fewer aircraft, missiles, and ships are being purchased than is prudent, and fewer resources are available for combat readiness.

Specific congressionally mandated reductions in the President's budget request over the past 2 years include:

- a 65 percent cut in Peacekeeper strategic missiles—a reduction of 45 missiles from a 2-year request of 69 missiles;
- a 30 percent cut in funding for the Strategic Defense Initiative—a reduction of \$2.8 billion from a 2-year request of \$9.3 billion; and
- a 27 percent cut in a variety of tactical missiles—a reduction of 14,000 from a 2-year request of over 53,000 missiles;

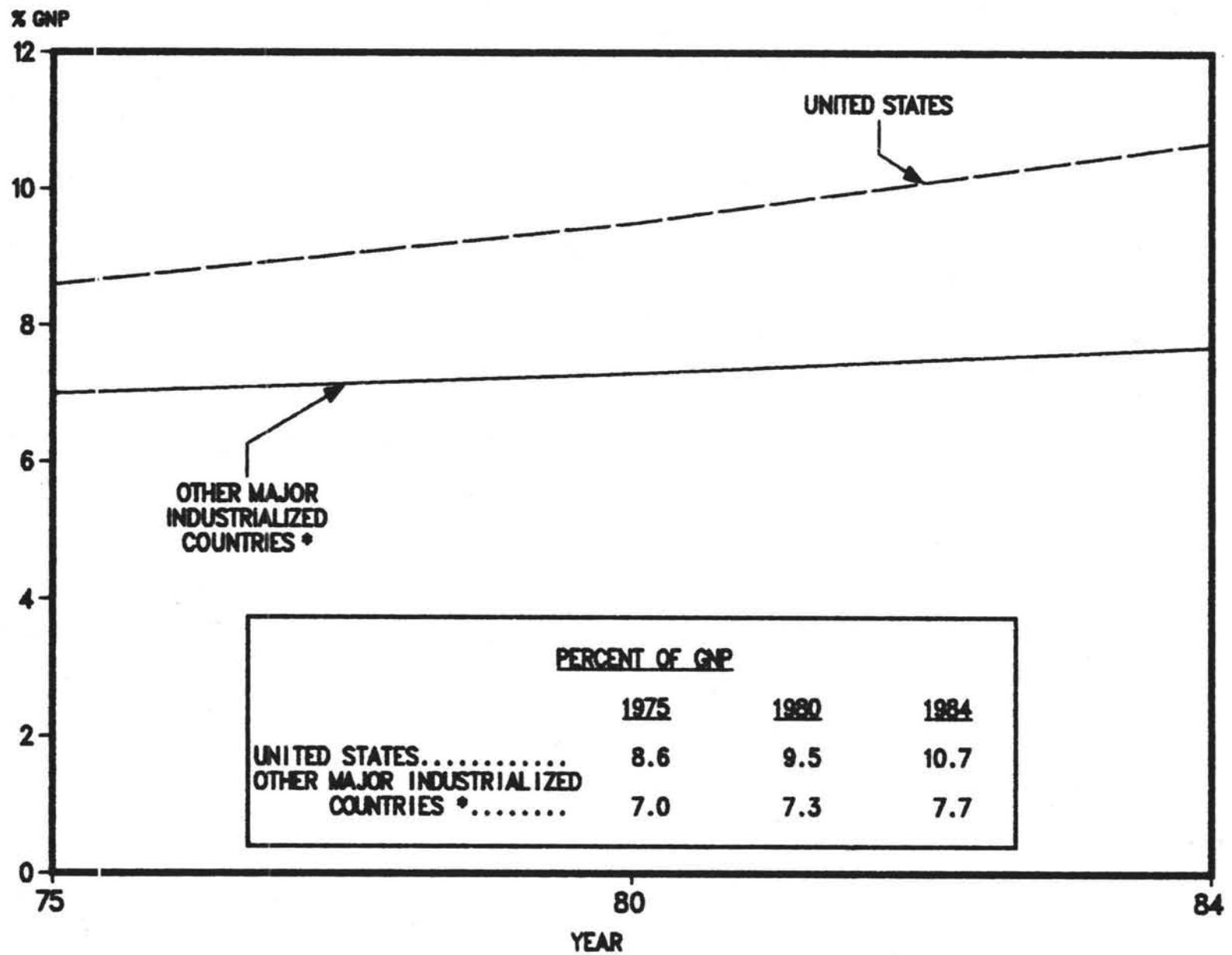
To meet the most critical unmet needs resulting from the 2-year decline in real defense budget authority levels, the administration proposes a 1987 supplemental appropriation of \$2.8 billion to be followed by sustained moderate real growth of about 3 percent annually. The amounts requested are those minimally necessary to maintain national security and to allow the consolidation of real gains in military strength made in this administration.

The budget resumes improvements in the capabilities of strategic and conventional forces but at a slower rate than originally planned. Procurement is being stretched out for several major ground forces systems—including the Abrams tank and the Bradley Fighting Vehicle. Similarly, ship procurement is being delayed and the goal of achieving 40 Air Force tactical wings has been reduced to 37 wings.

In keeping with the requirements of the 1986 Defense Authorization Act, the administration is proposing a 2-year national defense budget. Favorable response by Congress should lead to enhanced program planning and execution, and more stability at the operational level where commanders and program managers carry out mandated policy.

Major Medical Programs.—Since 1960, Americans' per capita spending on health care has increased rapidly—more than three times faster than the rate of inflation. Americans now spend 10.7 percent of GNP on medical care, more than any other industrialized nation. Federal health spending has also continued to grow rapidly, despite major policy reforms enacted since 1981. Federal spending for health care is growing even faster than medical

HEALTH COSTS AS PERCENT OF GNP, 1975-1984



* AUSTRALIA, CANADA, FRANCE, WEST GERMANY, ITALY, JAPAN, NETHERLANDS, AND UNITED KINGDOM

spending generally and will more than double in this decade unless present trends are reversed.

Rising medical costs have been cited as a factor in the declining international competitiveness of many industries. During the last decade, the competitive burden of health care costs on American industry has doubled, widening the gap between the U.S. and its major trade competitors. More efficient use of health resources would not diminish the quality of health care, but, as shown by the experience of major international competitors, would free the Nation's resources for other productive efforts.

Without substantial health spending reform, America's competitive position will continue to erode. The Nation's businesses, which pay for most health care in the U.S. through payroll taxes and fringe benefits, have recognized the urgent need for reform. They have brought competitive market principles to the health care system, promoting among other reforms the wider use of health maintenance organizations (HMOs), i.e., a single institution that is responsible for all of an individual's health care. So, too, must Federal health spending be brought under control.

Medicare.—By far the largest Federal health program is medicare. Medicare's prospective payment system (PPS) has curbed hospital spending, which increased only 2.0 percent between 1985 and 1986 after almost doubling from 1980 to 1985. In contrast, spending on physician services grew 8.5 percent between 1985 and 1986, even though the number of beneficiaries grew only 2 percent and hospital admissions actually declined by 2 percent. And this occurred during a congressionally imposed *freeze* on physician charges!

The budget includes urgently needed medicare reforms that will restrain the rapid growth in Federal health spending and, in turn, will help improve the Nation's competitive position. The principle of capitation—paying a fixed, predetermined price for health services—would be expanded in medicare and medicaid, replacing the inflationary incentives inherent in cost reimbursement. By creating incentives for the efficient delivery of quality care, capitation and other reforms can bring to Federal programs the same efficiencies realized by employers and private insurers. This budget proposes that medicare payments to physicians whose practices are based in hospitals—radiologists, anesthesiologists, and pathologists (RAPs)—be incorporated in the set price for each procedure, providing incentives for hospitals and these physicians to provide quality care at lower costs.

The role of capitation in bringing greater efficiencies to the provision of services paid for by medicare would also be enhanced by encouraging HMOs to participate in medicare and by promoting the development of preferred provider organizations (PPOs). A private sector innovation, PPOs lower costs by contracting only with efficient providers.

Under the budget, medicare payments for hospital capital costs would become part of the hospital's fixed, predetermined price per admission (depending on the patient's diagnosis). This reform would reverse the inflationary incentives of the current system, which rewards hospitals for building excess capacity even though *one out of every three hospital beds currently is empty*. Prospective payment for capital costs would give hospitals the incentive to allocate resources efficiently and to restrain escalations in costs. However, consistent with provisions of the Omnibus Budget Reconciliation Act of 1986, capital reforms would not reduce medicare spending in 1988.

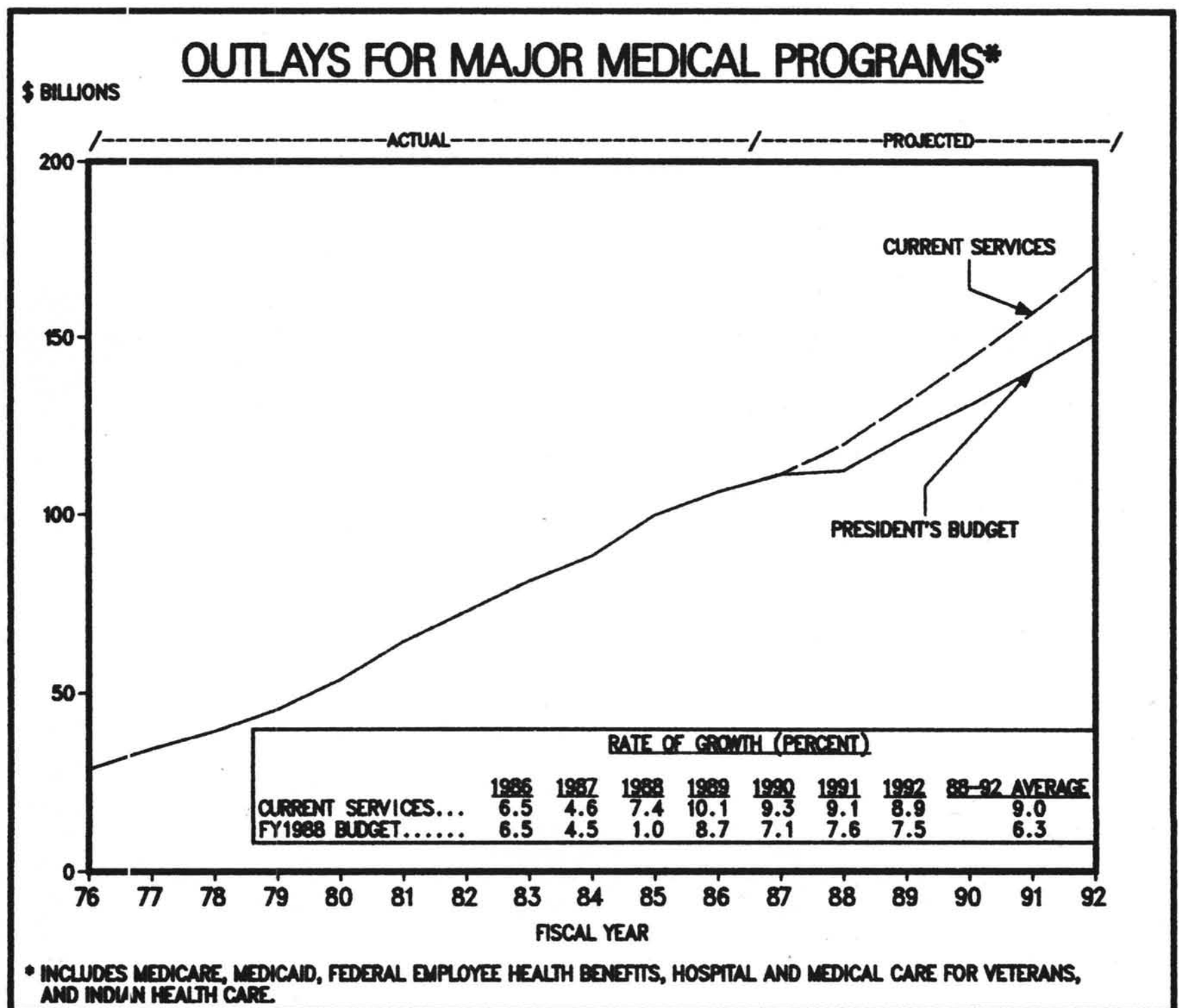
Revenue proposals would restrain spiraling health care costs by increasing medicare premiums to 35 percent of supplementary medical insurance costs for *new* enrollees and extending medicare coverage to the minority of State and local employees that are not already covered (most of whom are eligible for medicare benefits).

Medicaid.—The Federal Government's second largest medical program—medicaid—has grown 10 percent per year since 1980.

The administration proposes an optional capitation demonstration program with fiscal incentives for States to place medicaid beneficiaries into HMOs.

The administration repropose the institution of a reasonable limit in the growth of Federal medicaid payments to States. Federal payments would be limited to \$1 billion below projected outlays in 1988 and then be allowed to grow at the rate of the medical consumer price index.

Federal Employees Health Benefits (FEHB).—The FEHB program is the world's largest multiple-choice health plan. The administration proposes that the formula used to determine the Government's contribution to enrollees' health premiums be changed to a weighted average that reflects the premiums of *all* FEHB plans and the distribution of enrollees among those plans. Currently, this contribution is based on a simple average of the *high-option* coverage offered by *six* of the largest plans. The limitations of this outdated formula prevent it from reflecting the recent shift of enrollees from high-option to low-option coverage and the dramatic growth in the number of FEHB plans. The proposed formula would reflect these and other changes in the FEHB program, providing more equitable cost sharing between the Government and its employees.



Veterans Medical Care.—Adequate medical care for America's disabled and needy veterans is one of the Nation's highest priorities. The administration's proposal for Veterans Administration (VA) medical care provides ample resources to meet this objective. No-cost care would be provided to all service-disabled veterans who request it, as well as to former prisoners of war and veterans exposed to certain toxic substances and radiation. No-cost care would also be provided to veterans of wars prior to World War II and those receiving VA pensions. Among other veterans, funding would be provided for no-cost care for all earning less than \$25,000 per year (for a veteran with one dependent; \$20,000 for a single veteran); funding would not be provided for the care of those whose annual incomes exceed these levels. The administration believes that as a rule when veterans' illnesses are completely unrelated to their military service and they are financially able to provide for their own health care, they should do so.

Conclusion.—As the chart above reveals, under current services major medical expenditures are projected to increase by 54 percent during the period 1988 through 1992. However, adjusting for the increase in the expected number of beneficiaries and general inflation, expenditures should have to rise by only 27 percent to maintain the same level of resources per beneficiary. Without some kind of reforms, expenditures would rise at twice the rate that would appear warranted. The proposals outlined above would *increase* real expenditures per beneficiary by 1 percent per year while lowering the overall increase during the next 5 years to 36 percent. This difference is hardly a trifle; it would save taxpayers \$7.2 billion in 1988 and \$65.8 billion from 1988 through 1992.

Other Mandatory Programs.—This category includes farm price supports, deposit insurance, Federal employee retirement, unemployment compensation, food and nutrition assistance, and other income maintenance programs, including those for veterans.

The administration proposes no cuts in the benefit levels for supplemental security income, veterans compensation, and food stamps. For some "other mandatory" programs, however, the administration proposes carefully targeted reforms to make the system more equitable and to reduce unnecessary costs.

Restructure Farm Price Supports.—The administration will propose legislation to modify farm commodity price support programs in order to solve the farm program problems once and for all.

In the past 5 years, spending on farm programs has increased over sixfold—from \$4 billion in 1981 to \$25.8 billion in 1986. This \$25.8 billion would amount to an average payment of more than \$16,000 to each of the 1.6 million farm families if made directly.

Despite this enormous commitment of resources, economic conditions in agriculture are not good, in large part because of contradictory and counterproductive farm programs. This situation is untenable and must be changed.

Because current crop programs are designed to support farm income when prices decline, overproduction generates ever-increasing Federal support. In addition, too much Federal money goes to a relatively small proportion of farmers—and those tend to be the owners of the largest and most efficient farms. Finally, certain farm programs are directly counter to the Federal Government's international objectives and responsibilities. For example, the Government's support for domestic sugar producers conflicts with the policy to encourage increased trade between the United States and the Philippines and certain Caribbean countries.

The administration's proposals address the major shortcomings of the 1985 farm bill but retain that bill's basic price support mechanisms. Outlay savings of \$24 billion over the 1988-1992 period are projected to result from enactment of these proposals.

Specifically, the administration's proposed changes will modify farm programs to:

- remove the incentive for farmers to overproduce by decoupling program benefits from an obligation to harvest certain crops;
- limit to \$50,000 (instead of \$250,000 under current law) the amount of Federal payments each farmer may receive;
- close loopholes that make current payment limitations ineffective for a large number of farmers; and
- reduce target prices by 10 percent per year in order to reduce incentives for farmers to overproduce, and to reduce the burden on the taxpayer.

The administration will also seek changes in the counter-productive sugar program to make it more market-oriented while providing adjustment assistance to current program participants.

Reform the Civil Service Retirement System (CSRS).—The budget proposes that retirement benefits under the existing CSRS program be brought in line with the new Federal employee retirement system (FERS) by limiting future cost-of-living adjustments (COLAs) to the percentage change in the Consumer Price Index (CPI) minus 1 percent. This change would be identical to the COLA that will be granted under the new FERS system for employees retiring at age 62 and beyond. The administration is also seeking repeal of the lump sum withdrawal provisions in both CSRS and FERS, which enable employees to withdraw all their contributions toward retirement in a lump sum at retirement.

Improve the Self-Sufficiency of AFDC Recipients.—The administration is proposing several changes designed to prevent and reduce welfare dependency in the aid to families with dependent children (AFDC) and child support enforcement programs. Under a new AFDC work and training proposal, teenage recipients will be encouraged to remain in or return to school; older recipients will participate in a variety of employment and training activities designed to improve their employability. A proposal to require States to establish mandatory child support guidelines will also promote self-sufficiency and family stability.

Withhold Funds From States for Excessive Issuance of Food Stamp Benefits.—Over the past decade, States have made substantial progress in giving the proper food stamp benefits to those who lawfully deserve them. But State laxity, resulting in the over-issuance of food stamps, remains a large problem that costs taxpayers dearly. To date, only \$1.3 million of approximately \$100 million in outstanding State food stamp liabilities have been collected.

This budget proposes to withhold from grants to States the value of their excessive food stamp issuance. As States improve their issuance systems and error rates fall, Federal withholdings would also fall. The proposal would save an estimated \$264 million in 1988.

Target School Meal Subsidies to Low-Income Students.—The child nutrition programs give cash and commodity subsidies to institutions for meals served in schools, child care facilities, and other places. The administration proposes to maintain Federal nutrition subsidies to institutions for meals served to children from families with incomes below 185 percent of the poverty level, but discontinue subsidies for students from families with incomes above that level. Under the administration's proposals, nearly 13 million needy children will receive federally subsidized meals in 1988, for total budget authority of \$4 billion. Limiting the subsidy to those who need it most would save nearly \$757 million.

Economic Subsidies and Development.—This category covers discretionary programs for science and space, energy, natural resources and the environment, agricultural research and services, commerce and housing credit, transportation, community and regional development, and subsidies for health professions. Many programs in these areas should be and are being increased, including those that improve the safety and efficiency of the national airspace system, address the acid rain issue, and encourage investments in science and technology that over the longer run will enhance America's competitiveness. Many other programs no longer warrant current levels of Federal support.

Improve the National Airspace System.—The Federal Aviation Administration (FAA) operates and maintains the national airspace system and provides funds to the Nation's airports to ensure the safe and efficient movement of the Nation's air traffic. For these activities, the administration proposes a 20 percent increase in budget authority—from \$4.8 billion in 1987 to \$5.8 billion in 1988. Most of this increase would be used to modernize our Nation's airspace system. Among other activities, these funds would be used to finance precision landing systems and weather radars designed to detect potentially deadly wind shears.

Increase Efforts To Resolve the Acid Rain Issue.—In March 1985, the President and the Prime Minister of Canada requested a full report by the Special Envoys on the acid rain issue. In 1986, the President and the Prime Minister endorsed the Envoys' Report.

As a first step in carrying out the Envoys' recommendations, the Department of Energy committed \$400 million that already had been appropriated to share costs with the private sector for nine clean coal technology demonstration projects at an estimated total cost of just under \$1 billion. Over the period 1981 to 1985, the administration committed over \$2 billion to clean coal technology research and development. From 1986 to 1992, the administration proposes an additional \$1 billion for clean coal research.

The administration proposes an additional \$350 million in spending over 5 years for new clean coal technology demonstration projects, with at least as much funding to be provided by industry. Together, the Federal and non-Federal investments beginning in 1986 constitute a national effort exceeding \$5 billion in research, development, and demonstration of new technologies.

It is critical to know with a significant degree of confidence the environmental effects of any further new emission reduction efforts, because such efforts will be extremely expensive for the American people. Before assuming a commitment to bear such costs, the American people should be assured that there will be sufficiently positive environmental effects, and should know, with some degree of certainty, the extent and location of those effects. The program funded in this budget moves toward these objectives.

Restore America's Competitiveness.—The ability of the Nation to meet global competition, to provide for national security, and to improve the quality of life for all citizens depends in part upon national investments in science and technology. The Nation's future position in global markets will depend upon:

- the allocation of national resources to the generation of new knowledge; and
- the effective and timely transfer of this new knowledge to specific applications.

To satisfy these needs, the administration proposes continued increases in federally supported basic research, including:

- an increase of about 18 percent in funding for basic research for the National Science Foundation and a doubling of its budget by 1992;
- an increase of about 22 percent in basic research activities of the National Aeronautics and Space Administration, including the initiation of two new science and technology programs; and
- an increase of about 15 percent for the general science programs of the Department of Energy, permitting better use of basic research facilities.

Support for basic research, particularly at universities, is a key factor in generating sufficient new knowledge to ensure continued technological innovation. Federal support for basic scientific research is estimated to increase by 76 percent between 1982 and 1988—an average rate of growth of nearly 10 percent annually.

A second key element in the continued leadership of the U.S. in science and industry is the future availability of high-quality scientists and engineers. The administration proposes to increase the emphasis on research programs that would contribute to the development of such “human capital.” This emphasis will be reflected in new basic science and technology centers, and in a variety of ongoing programs of the National Science Foundation (NSF).

Increase the Number of Subsidized Housing Units.—Housing vouchers continue to be the cornerstone of the administration’s housing policy. They are less expensive than new construction subsidies and benefit tenants by giving them more freedom of choice about where they live. For 1988, the administration is proposing to provide 102,000 additional households with subsidies—twice the level proposed in 1987. Most are vouchers: 79,000 funded through the Department of Housing and Urban Development (HUD) and 20,000 through the Farmers Home Administration (FmHA). The other 3,000 subsidized units include new construction of housing specifically for Indians and for the elderly and handicapped. Another 1,700 vouchers are being proposed in 1988 for those tenants currently living in HUD or FmHA projects.

Set Federal Highway Funding Equal to User Fee Receipts.—Highway construction and repair on the 834,000-mile Federal-aid highway system is financed by Federal highway user fees in combination with State and local funds. The administration proposes to set annual Federal highway spending equal to the average annual amount of user fee receipts, excluding interest, deposited in the highway trust fund. Consolidation of several Federal-aid programs, together with provisions to increase the flexibility States have in

spending these funds, would improve the abilities of States to meet highway needs.

Limit the Federal Role in Mass Transit Funding and Distribute Funds More Appropriately.—The Federal Government assists States and localities with their mass transit programs through grants for capital and operating expenses. These grants are financed in part by a dedicated source of funding from a share of motor fuel tax receipts.

The administration seeks a more appropriate distribution of this dedicated source of transit funding. Currently, 83 percent of these funds benefit fewer than 20 cities. The administration is proposing that these funds, which are collected in every State, be allocated by formula to States and local agencies.

The Federal role in transit would be limited to management and allocation of the dedicated penny tax for transit, with no further funding of discretionary grants or other transit from general funds (except for the Washington, D.C. system, which is separately authorized).

Terminate Costly and Unjustified Electrification and Telephone Subsidies.—The Rural Electrification Administration (REA) program has gone far beyond its original purpose of making loans available to cooperatives to provide electricity and telephone service to rural areas. Recipients of subsidized REA loans today include electric cooperatives serving prosperous urban or suburban areas of cities such as Washington, D.C., Atlanta, Houston, Minneapolis, and Denver.

The administration proposes to terminate the costly existing subsidized direct loan program (5 percent interest), the 100 percent REA guaranteed Federal Financing Bank (FFB) loans, and the subsidized Rural Telephone Bank lending to electric cooperatives and telephone companies. Electric and telephone borrowers serving largely urban, suburban, or recreation areas and most telephone borrowers who are subsidiaries of larger holding companies would no longer be eligible for any REA assistance starting in 1988.

Fill the Strategic Petroleum Reserve at 35,000 Barrels per Day.—The strategic petroleum reserve (SPR) is a Government stockpile of crude oil to supplement the market in the event of a severe disruption in world oil supplies. The administration is proposing to continue development and fill of the reserve at the current rate of 75,000 barrels per day during 1987, but to reduce the rate to 35,000 barrels per day in 1988. This proposal is consistent with the administration's support for development of a 750 million barrel reserve and continues to preserve the Nation's energy security.

Constrain or Eliminate Community and Economic Development Programs for State and Local Governments.—In 1988, the administration will continue its effort to concentrate Federal resources on national priorities and provide maximum opportunities for State and local governments to meet their own local community and development needs. The comprehensive and flexible community development block grants (CDBG) will be the principal vehicle for continued Federal support. The administration proposes to establish the CDBG program level at \$2.6 billion for 1987 and 1988. The most needy communities will continue to receive adequate resources through legislation to target resources to such areas. The administration is proposing termination of the urban development action grants (UDAG) program, the Economic Development Administration (EDA), and the Appalachian Regional Commission (ARC).

Phase Out EPA Sewage Treatment Grants.—The Environmental Protection Agency's (EPA) sewage treatment grant program provides financial assistance to State and local governments for the construction of publicly owned sewage treatment systems. The administration's budget provides \$2 billion each in 1987 and 1988 and declining amounts in future years as part of a major legislative proposal to phase out the program by 1994. The Federal commitment will be limited strictly to assistance for construction of treatment facilities and related appurtenances to ensure maximum environmental benefits and cost-effectiveness.

Social Programs.—The Federal Government supports a wide range of social programs involving education, training and employment, social services, health, and income support. This section discusses some of the major administration initiatives that affect discretionary programs in these areas.

Provide Major Increases for AIDS Research and Education.—Acquired immune deficiency syndrome (AIDS) remains the administration's highest public health priority. The administration proposes \$534 million for the Department of Health and Human Services (HHS) AIDS research and education programs in 1988—a 28 percent, or \$118 million, increase over the 1987 level and more than twice the level for 1986.

In addition, the administration proposes \$98 million for use by the Veterans Administration and the Department of Defense to screen for the AIDS antibody and to counsel and provide medical care for veterans with AIDS.

Provide Stable Support for Basic Biomedical Research.—The administration proposes to adopt a long-term policy of stable and sustainable support for basic biomedical research by seeking obliga-

tional authority of \$5.8 billion for the National Institutes of Health (NIH) in 1987 and 1988. The 2-year total of \$11.6 billion represents a 12 percent increase over the previous 2-year total of \$10.4 billion.

Provide Assistance to the Homeless.—The administration believes the problem of the homeless is one characterized by intense personal suffering, but one not given to easy solutions. This administration responds to the problem of homelessness in several ways, including funding emergency needs for food and shelter, and directing that more efforts be made to ensure that the homeless have access to entitlement programs, such as food stamps, supplemental security income, aid to families with dependent children, VA benefits, and social security.

The budget proposes to continue the emergency funds for feeding and housing the homeless for the Federal Emergency Management Agency at \$80 million in 1988, to be distributed through a national board of major private charities. This is a \$10 million increase above the 1987 amount.

Limit the Federal Role in the Financing, Content, and Structure of Education Programs.—Education has always been and should remain primarily a State, local, and family responsibility. Although the Federal Government plays an important role—particularly for programs for the disadvantaged, the handicapped, and others in special need of additional support—the administration seeks to reduce the current size of the Federal financial involvement in education. In total, budget authority for Department of Education programs is proposed to be \$14.0 billion for 1988. Some of the major program proposals are described below.

- For programs for the handicapped and for rehabilitation, the budget allows for increases to offset inflation for the major State grants in 1987 and 1988 and reductions in selected other programs.
- For compensatory education for the disadvantaged, the administration proposes \$4.1 billion in budget authority for 1988—a \$200 million increase over the 1987 appropriation.
- For student aid for higher education, the administration proposes that guaranteed loans that have no direct costs to the Government be made available *to all students without any limit* other than the cost of education. A Pell grant program for the neediest students would be maintained, with targeting improvements allowing funding reductions from \$3.8 billion in 1987 to \$2.7 billion in 1988 and \$2.0 billion in 1989 and beyond.

Reform Job Training Programs.—The various programs now providing job search, job training, and cash benefits to dislocated

workers, are proposed to be replaced by an entirely new program. This new worker adjustment assistance program would assist all dislocated workers without regard to why they are unemployed, and will encourage workers to recognize when their old jobs are gone and move more quickly on to new careers. The new program would receive \$980 million in 1988, compared to the \$344 million appropriated for job search, training, and cash assistance in 1987.

The summer youth employment program is proposed to be converted into a year-round program of remedial skill training, subsidized summer jobs, or a mixture of both, as determined by local areas, for youth in families receiving support from the aid to families with dependent children (AFDC) program. The administration proposes to provide \$800 million, \$50 million more than the 1987 enacted appropriation for the summer youth employment program.

Legislation will be proposed to decentralize authority, financing, and responsibility for administering State unemployment insurance and employment service programs to the States.

Continue Support for Important Social Services Programs; Reduce Support for Others.—The administration proposes to continue funding for the social services block grant at \$2.7 billion in 1988, the same as the 1987 enacted amount. Selected other programs are proposed for reductions or termination. The administration proposes to begin to phase out the community services block grant in 1988.

General Government.—This category of discretionary programs includes many core functions of Government: conduct of international affairs, administration of justice, legislative and central executive functions, and fiscal operations such as tax collection.

International Affairs.—The President proposes to reverse the sharp decreases in funding for many international affairs programs that have taken place over the past 2 years. A 1987 supplemental appropriation of \$1.3 billion in budget authority is proposed. Budget authority for 1988 is requested at \$19.1 billion, which is \$1.0 billion above the 1987 level with the supplemental. Outlays in 1988 are estimated to be \$15.2 billion.

International spending will be carefully targeted. A major portion of the proposed increases is needed to make good on firm commitments of the United States to other countries and organizations, commitments that Congress has fully reviewed and affirmed. The increases also will allow vital support for the national security of the United States in a variety of ways, particularly through the provision of military and economic aid to democratic governments struggling to maintain their freedom. Further, the increases are

intended to protect the lives of American citizens and officials against widespread threats by international terrorists. Finally, the United States must further strengthen its international information programs. These programs reach out to peoples throughout the world to provide them with the truth about the United States, the rest of the democratic world, and repressive, totalitarian regimes.

Nearly 60 percent of the 1987 supplemental is directed at *international security assistance* objectives. Over half of these security funds are needed to honor the obligations of the United States to countries that provide military bases or base access for United States forces. These commitments simply cannot be ignored without impairing the Nation's security. Much of the remaining security aid will provide crucial economic assistance to four major Central American democracies.

For *international development and humanitarian assistance*, the supplemental proposes \$100 million in urgently needed reconstruction funds for El Salvador in the wake of that country's recent severe earthquake. The supplemental also partially would reduce large arrearages in U.S. payments to the multilateral development banks.

The *conduct of foreign affairs* is inherently a Federal governmental function carried on for all Americans. The budget calls for modestly increased funds for the State Department's regular operations—including enhanced reporting and analysis and improved data processing and telecommunications capability. Most of the \$0.6 billion in increased spending in this area would protect U.S. facilities and officials abroad from attack. The increase in such attacks over the past decade and the resulting loss of life demand a major upgrade for diplomatic security by the United States.

In trying to communicate more effectively with the peoples of the world—particularly those of communist countries—the United States has embarked on a major worldwide modernization and expansion of Voice of America and Radio Free Europe/Radio Liberty broadcasting facilities. To ensure that the U.S. message gets through to a growing audience, increases in radio construction and modernization programs are needed.

Expand Government-wide Drug Enforcement and Fight Drug Abuse.—Overall, for drug law enforcement, prevention, and treatment, budget authority has climbed from \$1.2 billion in 1981 to more than \$3.0 billion proposed in 1988.

Improvement of the Federal drug law enforcement program has been one of the administration's top domestic priorities. This budget proposes resource levels for 1988 necessary to continue the Federal priority given to drug enforcement. The 1988 request is \$0.5 billion lower than the enacted 1987 level of \$3.0 billion for two reasons. First, \$225 million was appropriated in 1987 for grants to

assist in drug enforcement activities at the State and local level. The administration believes that this one-time infusion of funds will provide significant assistance to local drug enforcement efforts, so such grant funds will no longer be needed for 1988. Second, approximately \$350 million was appropriated for capital purchases made in 1987, which need not be repeated in 1988. Partially offsetting these decreases are about \$70 million of increases for drug enforcement operations in 1988. For example, budget authority for the Drug Enforcement Administration is proposed to increase from \$490 million in 1987 to \$522 million in 1988.

The administration also proposes to expand the drug abuse treatment, research, and prevention programs begun in the President's drug abuse initiative, and to continue substantial levels of drug abuse research funding.

Implement Immigration Reform.—On November 6, 1986, the President signed into law a landmark revision of the Nation's immigration laws—a revision 6 years in the making. The budget seeks \$138 million in supplemental 1987 budget authority and \$194 million in 1988 budget authority for the Immigration and Naturalization Service to carry out this legislation.

Provide Necessary Resources for Securities and Exchange Commission (SEC) and Commodity Futures Trading Commission (CFTC).—The administration is proposing budget increases for the independent regulatory agencies responsible for ensuring that the Nation's financial markets are kept efficient and that their integrity is preserved.

REVENUE CHANGES

In addition to the programmatic changes discussed above, the administration proposes a number of revenue changes to:

- collect taxes owed but not paid;
- improve the allocation of Federal credit;
- sell loan assets where appropriate;
- shift to the private sector the production of certain goods and services; and
- charge reasonable user fees for Federal programs that deliver services to identifiable beneficiaries.

Credit Reform.—The administration proposes to change the way Federal credit programs are treated in the budget. The proposal would charge the true economic cost of credit—the present value of the subsidy—to any agency making or guaranteeing loans. Adoption of this proposal would be a significant improvement over current practice. It would:

- accurately and equitably measure the benefits of Federal credit programs;
- encourage delivery of benefits in the form most appropriate to the needs of beneficiaries;
- put the cost of credit programs on an expenditure basis equivalent to other Federal spending; and
- improve the allocation of resources among credit programs and between credit and other spending.

Details of this proposal and specific legislative language will be prepared and sent to the Congress at a later date.

Other Loan Asset Sales.—The Federal Government will continue and expand its pilot program of selling existing loan assets without recourse—a program first proposed in the 1987 budget. These sales are designed to achieve four main goals:

- reduce the Government's cost of administering credit;
- provide an incentive for agencies to improve loan origination and documentation;
- assist in determining the subsidies on Federal credit programs; and
- increase budgetary offsetting receipts in the year of sale.

The sales program includes loans with a face value of \$11.2 billion in 1988, which are estimated to produce offsetting receipts of \$5.3 billion.

Privatization.—Privatization is a strategy to shift the production of goods and services from the Government to the private sector in order to reduce Government expenditures and to take advantage of the efficiencies that normally result when services are provided through the competitive marketplace. Building on the sale of Conrail, which was approved by the Congress last year and is expected to take place in 1987, the administration proposes in this budget a number of privatization initiatives:

Amtrak.—The administration proposes that the Federal Government get out of the passenger rail business by severing its financial ties to Amtrak. The budget proposes to terminate all Amtrak subsidies and dispose of some or all of Amtrak's assets, the majority of which are in the Boston-to-Washington corridor, to one or more private sector companies, rail passenger organizations, or other entities. The disposal of Amtrak's assets will generate offsetting receipts estimated to be \$1.0 billion in 1988, which will partially repay the more than \$12 billion in Federal subsidy already paid to Amtrak.

Naval Petroleum Reserves (NPRs).—The administration proposes, as it did last year, that the Federal Government sell the two oil

fields it operates—Elk Hills, California, and Teapot Dome, Wyoming. Running an oil field is a business, not a Government activity. Private owners can produce and market oil more efficiently and effectively than can the Federal Government.

Selling the NPRs is estimated to reduce the deficit by \$2.5 billion in 1988 and \$0.3 billion in 1989. In addition, if the assets are sold, they will generate hundreds of millions of dollars in tax receipts for the Treasury in future years.

Power Marketing Administrations.—The budget repropose divestiture of the five power marketing administrations (PMAs), which supply 6 percent of the electricity generated in the country. These are commercial activities, which in most areas of the country are performed by private and other non-Federal enterprises.

The administration continues to believe that divestiture can lead to creation of new enterprises that are more responsive to regional and customer needs, without significant increases in power rates. Administration activities will be coordinated with Congress and with existing power customers, and legislative authorizations will be sought when necessary. (Implementation, of course, cannot proceed until there are necessary legislative approvals.)

Auction of the Unassigned Spectrum.—The administration proposes to allow the use of auctions, instead of the present practice of using hearings and lotteries, in assigning Federal Communications Commission licenses for use of the unassigned spectrum. Public auctions will capture the true value of the license and give taxpayers a return for the use of the spectrum, which is considered public property. Auctioning the assignments for frequencies is expected to generate \$600 million in 1988.

Helium Operations.—The budget proposes an increased role for industry in supplying helium to U.S. Government users. The private helium industry will provide purification and transportation services to Federal helium consumers using crude helium from the Government's existing inventory in the Cliffside field storage reservoir. Government-owned helium facilities and helium program assets other than the inventory of crude helium will be offered for sale.

Excess Real Property.—In 1987, Federal agencies will identify more than \$800 million in excess real property for disposal. The General Services Administration will sell this property over the next 2 years; the receipts will help reduce the deficit.

User Fees.—Some of the services the Federal Government provides are utilized by narrowly defined groups or individuals. Agen-

cies should recover a portion of their costs for providing these services through "user fees," in which recipients of the service are charged directly. Direct charges to users are appropriate because those who benefit from the service pay the cost; taxpayers do not. User fees increase efficiency of service delivery by reaching those willing to pay. Cost-based user fees may also provide an incentive for the private sector to provide comparable service at lower cost.

The administration proposes to:

- increase fees in the mortgage finance programs of the Federal Housing Administration and the Government National Mortgage Association;
- increase fee for Veterans Administration home loans;
- charge for Coast Guard services;
- increase recreation user fees;
- charge user fees for the Food Safety and Inspection Service;
- reform pension benefit guaranties;
- revise user fees for guaranteed student loans;
- establish user fees for the United States Travel and Tourism Administration; and
- increase user fees for Commerce products and services.

SUMMARY OF TABLES

The first table in this section shows total outlays for the major components of the budget: social security benefits; national defense; major medical programs; other mandatory programs; programs that provide economic subsidies and development; social programs; general government programs; and net interest. The next table summarizes the deficit reduction proposals described in the sections above. For each of the major categories of programmatic changes and revenue changes, the table shows budget savings relative to a current services level. The current services level is a measure of the budget outlook assuming no changes in policy. Current services estimates are based on an assumption that existing laws and programs will simply be carried forward, adjusted only for inflation and other anticipated relatively uncontrollable changes such as increases in the number of beneficiaries.

MAJOR COMPONENTS OF THE BUDGET

(In billions of dollars)

	1986	1987	1988	1989	1990	1991	1992
Social security benefits.....	196.5	205.5	216.9	230.0	244.4	259.1	273.2
National defense.....	273.4	282.2	297.6	312.2	330.0	349.5	370.9
Major medical programs.....	106.4	111.2	112.3	122.1	130.8	140.7	151.2
Other mandatory.....	151.9	156.3	144.5	143.4	144.8	146.8	148.3
Discretionary:							
Economic subsidies and development.....	84.5	81.3	80.9	82.2	82.3	79.8	79.9
Social programs.....	45.4	46.6	44.4	45.0	44.8	45.2	44.6

MAJOR COMPONENTS OF THE BUDGET—Continued

(In billions of dollars)

	1986	1987	1988	1989	1990	1991	1992
General government.....	28.7	32.1	34.1	38.3	40.2	42.6	44.5
Subtotal, discretionary.....	158.7	160.0	159.4	165.4	167.4	167.6	169.0
Net interest.....	136.0	137.5	139.0	141.5	139.0	134.8	122.1
Subtotal, gross Federal outlays.....	1,022.8	1,052.7	1,069.7	1,114.7	1,156.3	1,198.5	1,234.6
Undistributed offsetting receipts.....	-33.0	-37.1	-45.4	-45.8	-48.5	-54.0	-55.6
Total Federal outlays.....	989.8	1,015.6	1,024.3	1,069.0	1,107.8	1,144.4	1,178.9

SUMMARY OF DEFICIT REDUCTIONS

(Change from current services, in billions of dollars)

	1987	1988	1989	1990	1991	1992
Programmatic changes:						
Major medical programs.....	-0.1	-6.7	-7.7	-10.0	-11.8	-13.9
Other mandatory.....	-0.1	-3.4	-8.2	-11.4	-13.1	-13.9
Nondefense discretionary:						
Economic subsidies and development..	-1.3	-4.6	-10.7	-11.9	-15.0	-16.2
Social programs.....	-0.5	-4.5	-7.5	-10.0	-11.3	-12.5
General government.....	1.1	0.5	3.2	2.5	2.1	1.5
Subtotal, nondefense discretionary..	-0.7	-8.6	-15.0	-19.3	-24.2	-27.3
Subtotal, programmatic changes....	-0.9	-18.7	-30.8	-40.8	-49.1	-55.1
Revenue changes:						
Governmental receipts ¹	-0.1	-6.1	-8.0	-8.6	-8.8	-8.9
Credit reform.....		-1.3	-0.6	0.9	2.2	3.6
Other loan asset sales.....		-4.2	-1.7	-0.8	-0.3	*
Privatization.....	-0.1	-5.4	-3.7	-3.8	-6.5	-5.3
User fees.....	-0.3	-3.2	-3.5	-3.6	-3.7	-3.8
Other revenue changes.....		-2.1	-2.6	-3.6	-4.3	-6.7
Subtotal, revenue changes.....	-0.4	-22.4	-20.1	-19.5	-21.5	-21.2
Interest.....	*	-1.3	-3.2	-6.0	-9.3	-14.3
Total deficit reductions.....	-1.3	-42.4	-54.2	-66.2	-79.9	-90.6

*\$50 million or less.

¹ For additional details, see Part 4, "Federal Receipts by Source", and Special Analysis A, "Current Services Estimates."

The administration proposes to reduce the 1988 deficit by \$42.4 billion below the current services level. Nearly 56 percent of these reductions are a result of the various revenue changes discussed above, and lower interest. Only 44 percent of the reductions are a result of programmatic changes. Even after these proposed reductions, outlays for many programs will increase between 1987 and 1988. The next table provides additional detail on the dollar amounts of proposed changes in specific programs. The last table shows that of the \$42.4 billion in reductions, \$12.8 billion results from privatization and other proposed terminations.

PROPOSED DEFICIT REDUCTIONS

(Change from current services, in billions of dollars)

	1987	1988	1989	1990	1991	1992
Programmatic changes:						
Major medical:						
Medicare		-4.6	-4.0	-5.1	-5.6	-6.3
Medicaid	—*	-1.4	-3.0	-4.0	-5.2	-6.6
Veterans medical care	-0.1	-0.1	—*	-0.1	-0.1	-0.1
Federal employees health benefits		-0.5	-0.6	-0.7	-0.8	-0.8
Other	—*	-0.1	-0.1	-0.2	-0.2	-0.2
Subtotal, major medical	-0.1	-6.7	-7.7	-10.0	-11.8	-13.9
Other mandatory:						
Farm price supports		0.5	-3.5	-6.1	-6.9	-6.9
Federal retirement systems		-1.5	-1.7	-1.9	-2.1	-2.2
Child nutrition	-0.1	-0.8	-0.9	-1.0	-1.1	-1.1
Family support payments		-0.6	-0.6	-0.5	-0.6	-0.9
Food stamps		-0.3	-0.3	-0.2	-0.1	-0.1
Other	*	-0.8	-1.2	-1.8	-2.3	-2.7
Subtotal, other mandatory	-0.1	-3.4	-8.2	-11.4	-13.1	-13.9
Nondefense Discretionary:						
Economic subsidies and development:						
Rural electrification administration	-0.2	-1.5	-1.8	-2.1	-3.3	-3.9
Natural resources and environment	-0.2	-1.1	-1.6	-1.8	-2.1	-2.3
Rural housing insurance fund	-0.8	-0.8	-1.4	-1.5	-1.7	-1.8
Rural development insurance fund	—*	-0.5	-1.6	-0.3	-0.3	-0.4
Subsidized housing		-0.3	-0.6	-1.2	-1.9	-1.9
Other	-0.1	-0.4	-3.6	-4.9	-5.8	-6.0
Subtotal, economic subsidies and development	-1.3	-4.6	-10.7	-11.9	-15.0	-16.2
Social programs:						
Student financial assistance	-0.2	-1.8	-3.7	-4.5	-4.9	-5.3
Other education	*	-1.1	-1.9	-2.5	-2.9	-3.2
Low income home energy assistance		-0.6	-0.7	-0.8	-0.8	-0.9
National Institutes of Health	-0.2	-0.5	-0.6	-0.8	-1.0	-1.1
Legal Services Corporation		-0.3	-0.3	-0.3	-0.3	-0.3
Other	-0.1	-0.3	-0.3	-1.0	-1.3	-1.6
Subtotal, social programs	-0.5	-4.5	-7.5	-10.0	-11.3	-12.5
General government:						
IRS enforcement	0.1	0.4	0.6	0.6	0.5	0.5
Department of Justice	0.1	0.6	0.5	0.3	0.4	0.4
Conduct of foreign affairs	0.2	0.4	0.4	0.5	0.6	0.5
Public Law 480 food aid		-0.1	-0.1	-0.1	-0.2	-0.2
Federal supply service		-0.2	-0.2	-0.2	-0.2	-0.2
Export-Import Bank		-0.4	*	0.1	0.1	0.2
Other	0.7	-0.2	1.9	1.3	0.9	0.2
Subtotal, general government	1.1	0.5	3.2	2.5	2.1	1.5
Subtotal, programmatic changes	-0.9	-18.7	-30.8	-40.8	-49.1	-55.1
Revenue changes:						
Governmental receipts	-0.1	-6.1	-8.0	-8.6	-8.8	-8.9
Credit reform		-1.3	-0.6	0.9	2.2	3.6
Other loan asset sales		-4.2	-1.7	-0.8	-0.3	—*
Privatization:						
Amtrak sale and grant termination		-1.6	-0.6	-0.7	-0.7	-0.7

PROPOSED DEFICIT REDUCTIONS—Continued

(Change from current services, in billions of dollars)

	1987	1988	1989	1990	1991	1992
Sale of NPRs.....		-2.5	-0.3	0.5	0.7	0.6
Sale of PMAs.....			-1.8	-2.6	-5.4	-4.0
Auction of the unassigned spectrum.....		-0.6				
GSA real property sales.....		-0.3	-0.4	-0.2	-0.2	-0.2
Terminate crop insurance.....		-0.2	-0.5	-0.6	-0.7	-0.8
Health professions training subsidies.....	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2
Subtotal, privatization.....	-0.1	-5.4	-3.7	-3.8	-6.5	-5.3
User fees:						
Credit fees.....	-0.3	-1.6	-1.6	-1.7	-1.8	-1.9
Other user fees.....	—*	-1.7	-1.9	-1.9	-1.9	-1.9
Subtotal, user fees.....	-0.3	-3.2	-3.5	-3.6	-3.7	-3.8
Other revenue changes:						
FSLIC.....		-1.6	-0.8	-0.5	0.1	-0.9
Medicare premium increase.....		-0.6	-1.8	-3.1	-4.4	-5.8
Subtotal, other revenue changes.....		-2.1	-2.6	-3.6	-4.3	-6.7
Subtotal, revenue changes.....	-0.4	-22.4	-20.1	-19.5	-21.5	-21.2
Interest.....	—*	-1.3	-3.2	-6.0	-9.3	-14.3
Total deficit reductions.....	-1.3	-42.4	-54.2	-66.2	-79.9	-90.6

*\$50 million or less.

PROPOSED PHASE-OUTS AND TERMINATIONS

(Outlays, in millions of dollars)

	Current services	Savings from current services		
	1987	1988	1989	1990
Privatization:				
Amtrak sale and grant termination.....	640	-1,617	-640	-662
Naval petroleum reserves.....	-442	-2,500	-274	518
Power marketing administrations.....	-501		-1,756	-2,631
Auction of the unassigned spectrum.....		-600		
GSA real property sales.....	-250	-305	-353	-213
Crop insurance.....	637	-178	-471	-627
Health professions training subsidies.....	232	-186	-188	-201
Subtotal, privatization.....	316	-5,386	-3,682	-3,816
Economic Subsidies and Development:				
Department of Agriculture:				
Rural electrification loans.....	-35	-2,162	-2,266	-2,267
Rural housing insurance fund.....	2,999	-776	-1,395	-1,530
Telephone Bank.....	-5	-344	-473	-438
Conservation programs.....	599	-276	-392	-464
Extension Service categorical grants.....	332	-69	-92	-104
Rural water and waste disposal grants.....	168	-14	-39	-70
Office of Transportation.....	2	-2	-3	-3
Marketing payments to States.....	2	-1	-1	-1
Rural development insurance fund.....	1,023	-485	-1,589	-279
Department of Commerce:				
Economic Development Administration.....	358	-60	-130	-184
Trade adjustment assistance.....	12	-3		
National undersea research program.....	11	-6	-11	-12

PROPOSED PHASE-OUTS AND TERMINATIONS—Continued

(Outlays, in millions of dollars)

	Current services	Savings from current services		
	1987	1988	1989	1990
Coastal zone management and sea grants.....	80	-44	-68	-81
Public telecommunications facilities.....	21	-11	-6	-1
Department of Housing and Urban Development:				
Categorical housing programs.....	515	-10	-71	-311
Urban development action grants.....	440	-23	-73	-133
Rehabilitation loans.....	25	-97	-126	-84
Housing development action grants.....	157	19	-47	-106
Department of Transportation:				
Mass transit discretionary grants.....	898	-52	-219	-406
State maritime schools.....	8	-9	-9	-10
Miscellaneous highway projects.....	115	-12	-27	-39
Environmental Protection Agency:				
Sewage construction grants.....	2,610	-90	-230	-390
Asbestos-in-schools loans/grants.....	15	-39	-45	-50
Other Agencies:				
Postal subsidy.....	729	-523	-564	-582
Interstate Commerce Commission.....	46	-35	-46	-51
TVA economic development programs.....	12	-12	-13	-13
Communication technology satellite.....	75	-11	-3	
Appalachian Regional Development Commission.....	143	-9	-29	-61
Subtotal, economic subsidies and development.....	11,355	-5,156	-7,967	-7,670
Social Programs:				
Department of Education:				
Compensatory education (HEP & CAMP).....	7	-6	-8	-8
Several elementary and secondary programs.....	48	-41	-53	-56
Education for the handicapped (grants for infants and families).....	2	-38	-49	-53
Vocational education.....	941	-312	-749	-914
Immigrant and refugee education.....	22	-23	-44	-48
Several higher education programs.....	124	-80	-94	-96
Several student aid programs.....	1,161	-1,239	-1,321	-1,367
Library grants.....	200	-55	-100	-139
Other Agencies:				
Legal Services Corporation.....	303	-276	-323	-333
Community services block grant.....	368	-54	-127	-220
Subtotal, social programs.....	3,176	-2,124	-2,868	-3,234
General Government:				
Justice assistance grants.....	267	-118	-259	-375
Total.....	15,114	-12,784	-14,776	-15,095

Part 3a

ECONOMIC OUTLOOK

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.

SHORT-RANGE ECONOMIC FORECAST

(Calendar years; dollar amounts in billions)

Item	Actual 1985	Forecast		
		1986 ⁶	1987	1988
Gross national product:				
Current dollars:				
Amount.....	3,998	4,218	4,493	4,816
Percent change, fourth quarter over fourth quarter.....	6.3	5.4	6.9	7.3
Constant (1982) dollars:				
Amount.....	3,585	3,681	3,794	3,928
Percent change, fourth quarter over fourth quarter.....	2.9	2.7	3.2	3.7
Incomes (current dollars)				
Personal income.....	3,314	3,493	3,700	3,941
Wages and salaries.....	1,966	2,075	2,210	2,371
Corporate profits before tax.....	223	240	309	341
Price level (percent change, fourth quarter over fourth quarter):				
GNP deflator.....	3.3	2.6	3.6	3.5
Consumer Price Index ²	3.3	0.9	3.8	3.6
Unemployment rate (percent):				
Total, fourth quarter ³	6.9	6.7	6.5	6.2
Insured, annual average ⁴	2.8	2.8	2.6	2.4
Federal pay raise, January (percent):				
Military ⁵	7.0	.....	3.0	4.0
Civilian.....	3.5	.....	3.0	2.0
Interest rate, 91-day Treasury bills (percent) ⁶	7.5	6.0	5.4	5.6

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 the program. It does not include recipients of extended benefits under that program.

⁴ Two military pay raises occurred in calendar year 1985: 4 percent in January and 3 percent in October.

⁵ Average rate on new issues within period, on a bank discount basis.

⁶ Data released after the January 5th transmittal of the budget indicate a preliminary actual for 1986 GNP of \$4,208 billion in current dollars and \$3,677 billion in constant dollars. The GNP deflator is 114.5; the CPI is unchanged. The fourth quarter unemployment rate is 6.7 percent.

LONG-RANGE ECONOMIC ASSUMPTIONS

(Calendar years; dollar amounts in billions)

Item:	Assumptions			
	1989	1990	1991	1992
Gross national product:				
Current dollars:				
Amount	5,165	5,524	5,879	6,214
Percent change, fourth quarter over fourth quarter	7.2	6.8	6.3	5.4
Constant (1982) dollars:				
Amount	4,071	4,218	4,367	4,514
Percent change, fourth quarter over fourth quarter	3.6	3.6	3.5	3.3
Incomes (current dollars):				
Personal income	4,201	4,452	4,703	4,959
Wages and salaries	2,546	2,716	2,885	3,057
Corporate profits before tax.....	377	411	444	459
Price level (percent change, fourth quarter over fourth quarter):				
GNP deflator	3.5	3.0	2.7	2.0
Consumer Price Index ¹	3.5	3.0	2.6	2.0
Unemployment rate (percent):				
Total, fourth quarter ²	5.9	5.7	5.5	5.5
Insured, annual average ³	2.3	2.2	2.0	2.0
Federal pay raise, January (percent):				
Military	4.3	4.6	4.5	4.2
Civilian.....	3.0	3.0	3.0	3.0
Interest rate, 91-day Treasury bills (percent) ⁴	5.3	4.7	4.2	3.6

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 the 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.

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 1988; 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.

The economic expansion that began in December 1982 is now in its fifth 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 1987 and 1988. Moreover, if the administration's policy proposals assumed in this budget are enacted, the economy could grow above its recent trend rate through 1992, making this the longest period of uninterrupted growth on record.

Real GNP is projected to rise by 3.2 percent this year and by 3.7 percent in 1988. The inflation rate is projected to rebound from the oil-price-depressed 1986 rate to the 3½ percent rate of 1983-1985,

with some upward push due to the decline in the dollar, but is then projected to decline steadily to 2.0 percent in 1992.

In constant 1982 dollars, real GNP is projected to continue to grow at an annual rate of 3.6 percent in 1989 and 1990, progressively slowing to 3.3 percent in 1992, which is close to the economy's postwar average rate. This is consistent with a decline the unemployment rate to 5.5 percent by the end of 1991.

Part 3b

FEDERAL CREDIT: INVESTMENT IN FINANCIAL ASSETS

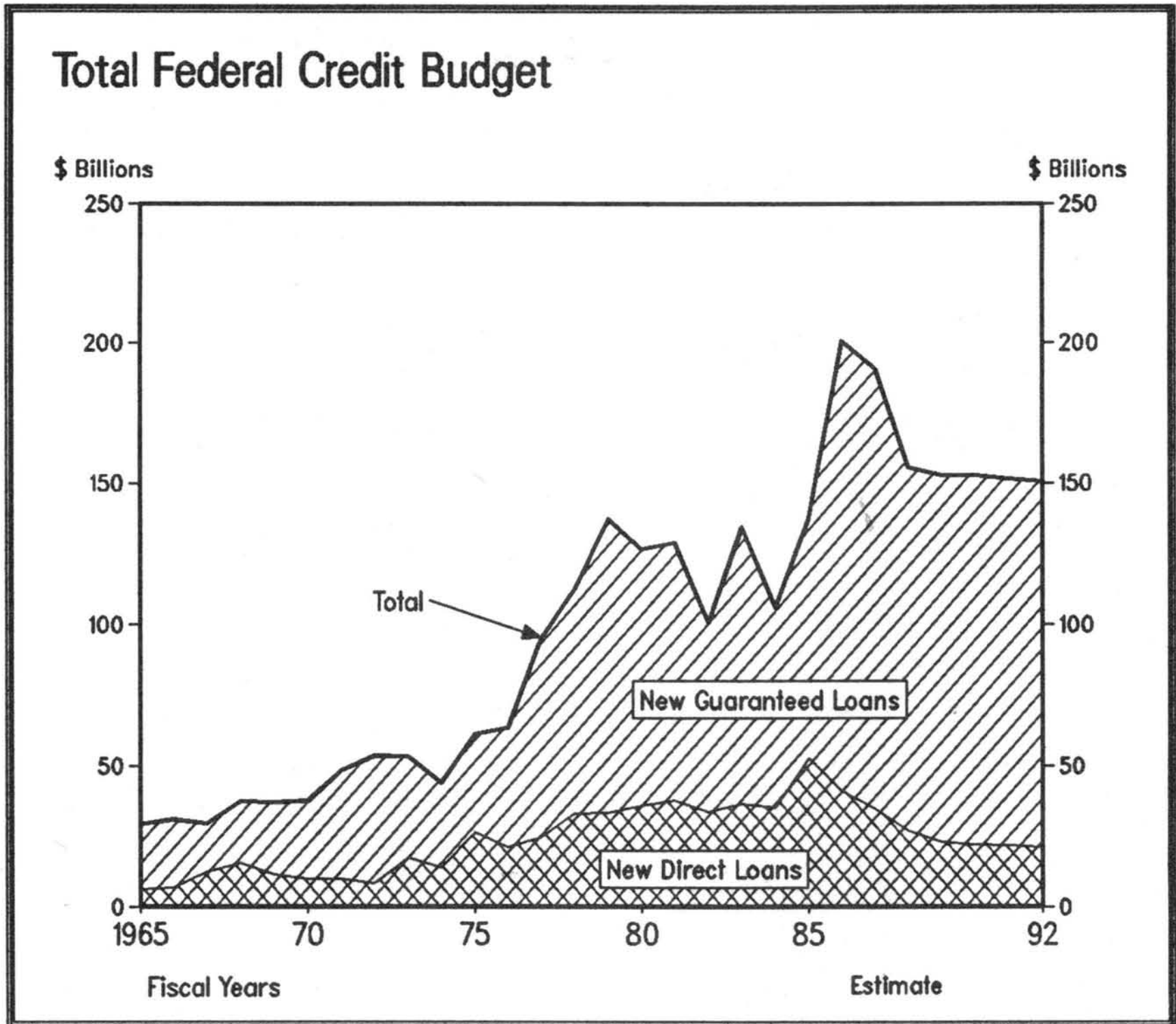
The Federal Government is the largest financial intermediary in the United States. At the end of 1986, it held outstanding loans with a face value of \$252 billion in its direct loan portfolio, and it had guaranteed another \$450 billion in loans. Government-sponsored enterprises lent another \$453 billion. Thus, directly or indirectly, the Government had influenced the allocation of credit worth more than a trillion dollars.

In 1986, the Government offered \$41 billion in new direct loans and \$159 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 nearly \$18 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 1988, the budget proposes new direct loans of \$27 billion and new guaranteed loans of \$128 billion. This is a decrease from 1986 of 34 percent in direct loans and 20 percent in guaranteed loans. The chart shows Federal credit activity since 1965.

The economic sectors that receive the most Federal credit are agriculture and housing. Approximately one-half of new direct loans over the past decade have gone to agriculture, while two-thirds of new guaranteed loans have gone to housing. The basic rationale of all Federal credit programs is to provide financing on

Total Federal Credit Budget



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 is proposing a significant reform of credit accounting practices. The proposal would charge the true economic cost of credit—the present value of the subsidy provided to borrowers—to any agency making or guaranteeing loans. The proposed phase-out or termination of some credit programs is another important initiative. The budget also contains proposals to sell \$11.2 billion of face value loans from the portfolios of several Federal agencies, and to charge higher or new user fees for many credit programs.

Part 3c

CAPITAL SPENDING: INVESTMENT IN PHYSICAL ASSETS

Federal outlays for investment take several forms and are made for many purposes. They are in the form of direct outlays or grants and they include the acquisition of physical assets, which yield a stream of services over a period of years; expenditures for human capital in the form of education and training; expenditures for research and development, which provide less tangible long-term benefits; and lending, which yields a monetary return.

Direct Federal Physical Capital.—The budget proposes to spend \$4.3 billion in 1988 on physical assets that generate future revenue, including those for TVA power generating stations and equipment, many Corps of Engineers projects, and Postal Service buildings and equipment.

An additional \$6.7 billion is proposed to be spent in 1988 on federally owned nondefense physical capital that will provide long-term benefits, but that is not expected to generate future Federal revenue. Total direct nondefense physical investment of the Federal Government amounts to \$10.9 billion, or 8.7 percent of all Federal investment spending, and 1.3 percent of total Federal outlays.

The remaining purchases of long-lived physical assets by the Federal Government are for defense. In 1988, \$91.2 billion is budgeted for Federal investment in such assets. This amount is 72.7 percent of total Federal physical capital investment and 8.9 percent of total Federal outlays.

Grants for Physical Capital Investment.—The Federal Government also helps pay for many public physical assets that it does not own. In 1988, grants to State and local governments for investment purposes are proposed to be \$23.4 billion, which is 18.6 percent of total Federal physical capital investment and 2.3 percent of total Federal outlays. All Federal outlays for physical capital investment, both direct outlays and grants, come to \$125.5 billion or 12.5 percent of total Federal outlays.

Part 4

FEDERAL RECEIPTS BY SOURCE

This section describes the major sources of receipts (budget and off-budget) and the legislative proposals and administrative actions affecting them. The economic assumptions underlying the estimates are in Part 3a.

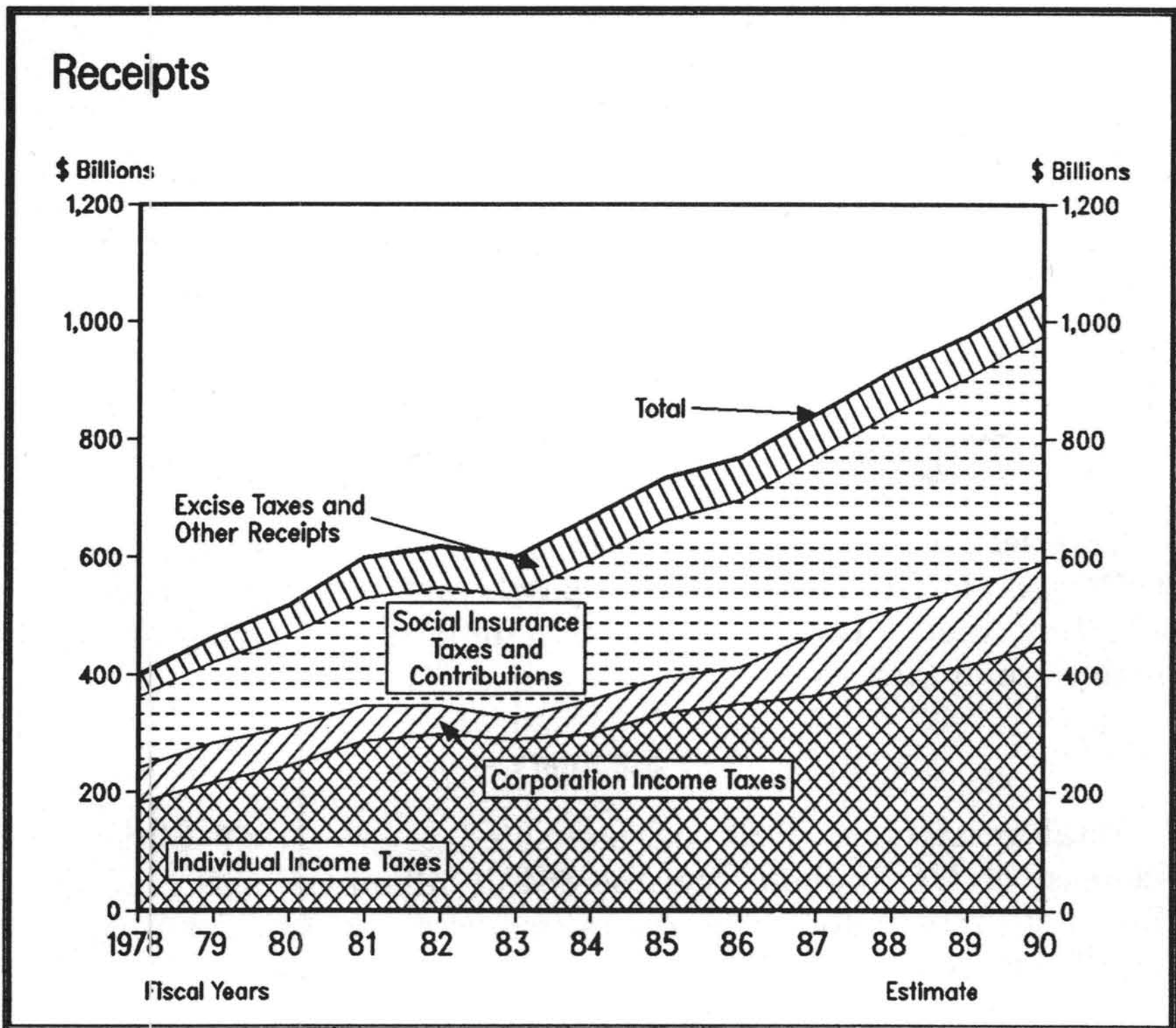
Summary

Total receipts in 1988 are estimated to be \$916.6 billion, an increase of \$74.2 billion from the \$842.4 billion estimated for 1987. Receipts in 1989 and 1990 are estimated to be \$976.2 billion and \$1,048.3 billion, respectively.

Composition of Receipts.—The Federal tax system relies predominantly on income and payroll taxes. In 1988:

- Income taxes paid by individuals and corporations are estimated at \$392.8 billion and \$117.2 billion, respectively. Combined, these sources account for 55.6 percent of total 1988 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 \$333.2 billion, 36.4 percent of the total.
- Excise taxes imposed on selected products, services, and activities are expected to provide \$33.4 billion, 3.6 percent of the total.
- Estate and gift taxes, customs duties, and miscellaneous receipts are estimated at \$40.0 billion, the remaining 4.4 percent of the total.

Under the tax policy and economic assumptions presented in this budget, the income tax share of total receipts is projected to rise to 56.3 percent by 1990, 0.7 percentage point more than for 1988. This rise is the combined effect of a 0.1 percentage point rise in the individual income tax share and a 0.5 percentage point rise in the corporation income tax share. Social insurance taxes and contributions are projected to rise slightly as a share of total receipts to



36.6 percent. The projected share of all other receipts declines by 0.9 percentage point between 1988 and 1990.

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), provided incentives for work, saving, and investment. The major provisions of this Act included an across-the-board reduction in individual income tax rates; 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), improved the fairness of the tax system while preserving the incentives for work, saving, and investment enacted in 1981. This Act increased receipts primarily by eliminating unintended benefits and obsolete incentives, and providing mechanisms to improve tax law enforcement and collection techniques.

NET EFFECT OF MAJOR ENACTED LEGISLATION ON RECEIPTS ¹

(In billions of dollars)

	1986	1987	1988	1989	1990	1986-90
Economic Recovery Tax Act of 1981	-209.8	-238.5	-258.7	-282.0	-309.4	-1,298.4
Tax Equity and Fiscal Responsibility Act of 1982	46.7	56.8	58.8	58.2	59.9	280.4
Highway Revenue Act of 1982	4.5	4.7	4.9	5.1	5.1	24.2
Social Security Amendments of 1983	10.2	12.1	24.6	31.0	23.8	101.7
Interest and Dividends Tax Compliance Act of 1983	-2.1	-1.7	-1.8	-2.0	-2.5	-10.0
Railroad Retirement Revenue Act of 1983	1.1	1.1	1.0	1.1	1.1	5.4
Deficit Reduction Act of 1984	16.1	22.0	25.3	27.7	31.1	122.1
Consolidated Omnibus Budget Reconciliation Act of 1985	0.9	2.7	3.0	3.0	3.1	12.7
Federal Employees' Retirement System Act of 1986		-0.4	-0.8	-0.8	-0.9	-2.9
Omnibus Budget Reconciliation Act of 1986		2.6	2.8	2.4	1.0	8.8
Superfund Amendments and Reauthorization Act of 1986		0.6	1.0	1.1	1.1	3.9
Continuing Resolution for 1987		1.9	2.7	2.4	2.5	9.5
Tax Reform Act of 1986 ²		18.6	0.9	-11.7	-9.0	-1.2
Net tax reduction	-132.4	-117.6	-136.4	-164.4	-193.1	-743.8
ADDENDUM						
Net effect on receipts by source:						
Individual income taxes	-134.4	-157.0	-186.2	-216.9	-238.6	-933.2
Corporation income taxes	-14.8	18.5	19.7	20.6	24.2	68.3
Social insurance taxes and contributions	11.3	13.8	27.3	33.4	25.1	110.9
Excise taxes	11.3	14.4	11.2	8.7	8.5	54.0
Estate and gift taxes	-5.9	-7.9	-9.2	-11.0	-12.4	-46.4
Customs duties	*	0.6	0.5	0.6	*	1.8
Miscellaneous receipts	0.1	0.2	0.3	0.1	0.1	0.8

*\$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 The Tax Reform Act of 1986 also increases outlays by the following amounts: 1987, \$0.1 billion; 1988, \$1.7 billion; 1989, \$2.8 billion; and 1990, \$2.8 billion. The cumulative amount for 1987-90 is \$7.4 billion.

The Highway Revenue Act of 1982 was the third major tax law enacted since January 1981. This Act increased the excise tax on gasoline and diesel fuel and restructured other highway related taxes.

Three major laws affecting receipts were enacted during 1983. The first, the Social Security Amendments of 1983, restored the solvency of social security trust funds through a combination of revenue increases and benefit reductions. The Interest and Dividends Tax Compliance Act of 1983 repealed 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, were designed to place the railroad industry pension program on a sounder financial basis. Despite these changes, further deterioration in the system has forced the rail pension actuaries to recommend financing increases in the pension program.

The most recent major tax law enacted prior to 1986 was the Deficit Reduction Act of 1984 (DEFRA). The major provisions of this Act increased the efficiency of the tax system by curbing tax shelter abuse, limiting unwarranted tax benefits, and further improving tax law enforcement.

One of the most sweeping overhauls of the tax code in our Nation's history became law on October 22, 1986, when President Reagan signed the Tax Reform Act of 1986. The major provisions of this Act, which broadened the individual and corporation income tax bases and substantially lowered individual and corporation income tax rates, were designed to restore simplicity and fairness to the Federal income tax code.

Other major laws enacted during 1986 affecting receipts included the Consolidated Omnibus Budget Reconciliation Act of 1985, the Federal Employees' Retirement System Act of 1986, the Omnibus Budget Reconciliation Act of 1986, the Superfund Amendments and Reauthorization Act of 1986, and the Continuing Resolution for 1987.

As a result of these legislated changes, taxes have been reduced by \$743.8 billion over the 1986-1990 period relative to pre-1981 tax law.

Receipts Proposals

Internal Revenue Service (IRS) Initiatives.—The administration proposes to increase IRS funding in 1988 to ensure the smooth implementation of tax reform, to improve tax law enforcement, and to close the gap between taxes owed and taxes paid.

Other.—The administration also proposes that:

- Medicare hospital insurance (HI) coverage be extended to all State and local government employees.
- Exemptions from gasoline and other highway excise taxes be repealed.
- Contributions to the rail industry pension fund be increased.
- Employers pay the employer portion of the social security (OASDHI) payroll tax on total tips.
- Excise taxes on coal production used to finance black lung disability benefits be increased.
- Social security (OASDHI) coverage be extended to certain earnings.
- Customs user fees scheduled to expire September 30, 1989 be increased and extended.

EFFECT OF PROPOSED LEGISLATION AND ADMINISTRATIVE ACTION ON RECEIPTS ¹

(In billions of dollars)

	1987	1988	1989	1990
IRS initiatives.....		2.4	3.1	3.3
Extend HI coverage to State and local employees.....		1.6	2.2	2.2
Repeal gasoline and other highway tax exemptions ²		0.6	0.6	0.6
Increase contribution to rail industry pension fund.....		0.1	0.3	0.3
Require employer tax on total tips ²		0.2	0.3	0.3
Increase tax on coal production ²		0.3	0.3	0.3
Extend OASDHI coverage to certain earnings.....		0.3	0.3	0.4
Customs user fee ²	*	0.1	0.1	0.5
Railroad unemployment insurance coverage.....		0.1	0.2	0.2
IRS user fees.....		0.1	0.1	0.1
Railroad windfall subsidy financing.....		0.1	0.1	0.1
D.C. employer contribution to CSRS.....		*	*	*
Nuclear power plant fees.....	0.1	0.1	0.1	0.1
Other.....		0.1	0.4	0.4
Total.....	0.1	6.1	8.0	8.6
ADDENDUM				
Effect of proposals on receipts by source:				
Individual income taxes.....	—*	1.1	1.4	1.4
Corporation income taxes.....		1.0	1.5	1.5
Social insurance taxes and contributions.....		2.4	3.5	3.5
On-budget.....		(2.0)	(2.9)	(2.9)
Off-budget.....		(0.4)	(0.6)	(0.6)
Excise taxes.....		1.2	1.2	1.2
Other.....	0.1	0.4	0.5	1.0
Total.....	0.1	6.1	8.0	8.6
On-budget.....	(0.1)	(5.8)	(7.5)	(8.0)
Off-budget.....		(0.4)	(0.6)	(0.6)

*\$50 million or less.

¹ These estimates are based on the direct effect of legislative changes at a given level of economic activity. Indirect effects on the economy are taken into account in forecasting incomes, however, and in this way affect the receipts estimates by major sources 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, each of which is divided into one or more subfunctions, which are narrower and more homogeneous groupings of programs. There are two additional 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. For purposes of this section, education activities are discussed as if they were a separate function. There have been no major changes in the functional structure of the budget since last year.

The function-subfunction hierarchy is used in the outlay chart or table that is presented for each function. The chart or table displays 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

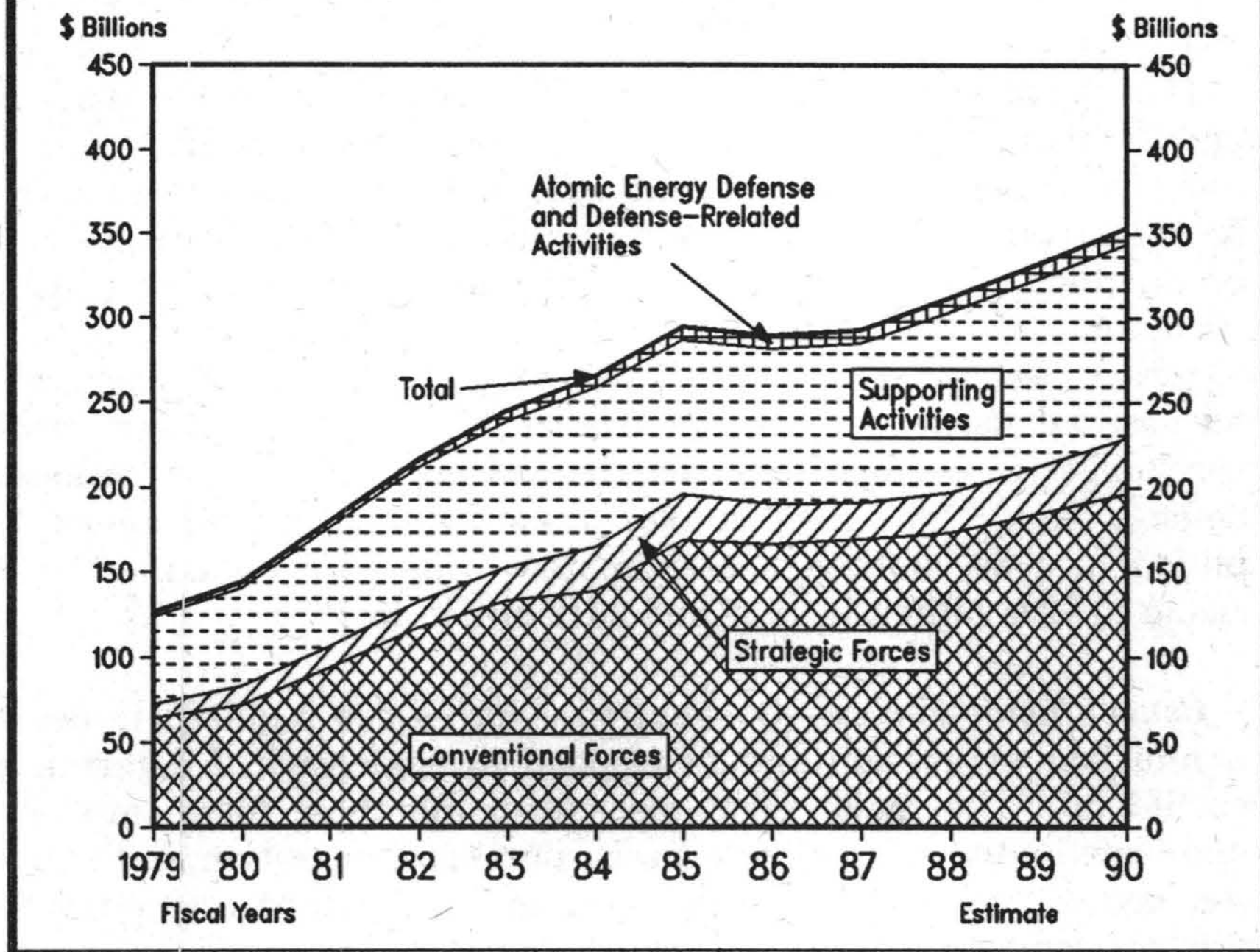
This function includes activities directly related to the defense and security of the United States. The national defense program seeks to preserve peace by maintaining sufficient military strength to deter war and provide for a successful defense if war should occur. Budget authority for defense declined in real terms in both 1986 and 1987, due to congressional cuts of \$65 billion from administration requests. To preserve the real gains in our military capabilities and national security made earlier in this administration, the budget proposes an increase in budget authority for national defense from \$293 billion in 1987 to \$312 billion in 1988 and \$332 billion in 1989. Outlays are estimated to be \$282 billion in 1987, rising to \$298 billion in 1988 and \$312 billion in 1989.

Conventional Forces.—Conventional forces are required to deter nonnuclear aggression and to respond to aggression if deterrence should fail. The major elements supporting these forces are pay and benefits for military personnel; purchase, operation and maintenance of conventional arms such as tanks, ships and aircraft; procurement of ammunition and spare parts; and training. Budget authority of \$173.4 billion is requested for these forces in 1988, and \$184.4 billion for 1989. 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 modernization of our strategic bomber forces by acquiring B-1B bombers, the Advanced Technology Bomber, and Advanced Cruise Missiles. Land-based forces are being modernized by procuring Peacekeeper missiles, developing a survivable rail-mobile basing system for the Peacekeeper, and developing a new, small intercontinental ballistic missile. Our sea-based forces are being modernized by procuring one Trident submarine a year and by developing and procuring new Trident II sea-launched missiles. Funding increases are proposed for the President's Strategic Defense Initiative—a research effort to determine whether an effective defensive system against ballistic missiles can be deployed.

Supporting Activities.—Supporting defense activities include research and development, training and medical services, central supply and maintenance, and other overhead and logistic activities.

National Defense (Budget Authority)



Budget authority of \$106.2 billion is requested for these activities in 1988, and \$111.2 billion for 1989. 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.

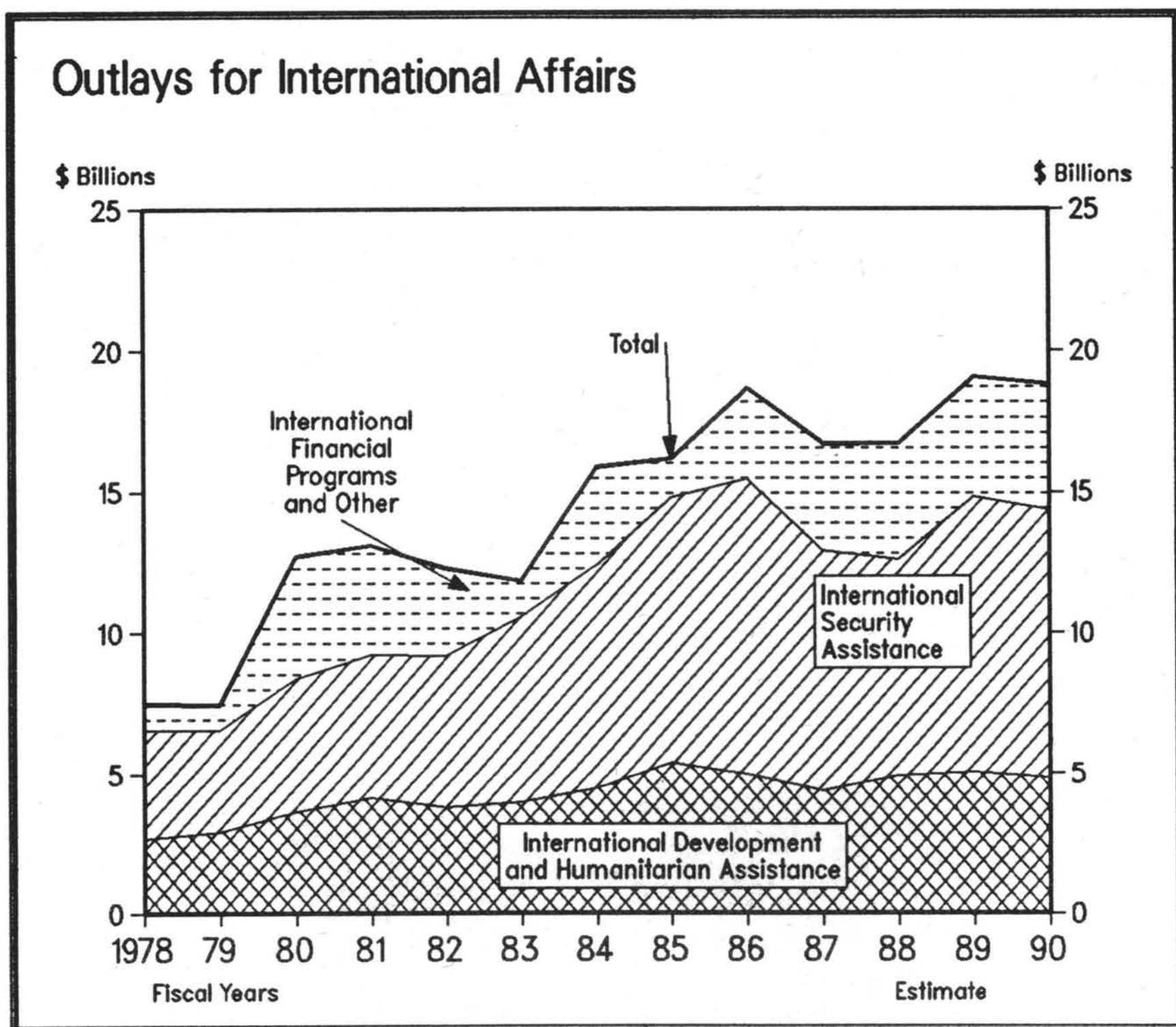
Atomic Energy Defense and Defense-Related Activities.—The Department of Energy develops, tests, and produces nuclear weapons and reactors for nuclear-powered ships. Budget authority of \$8.0 billion is requested for this work in 1988.

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

INTERNATIONAL AFFAIRS

The Federal Government has responsibility for protecting and advancing the interests of the United States and its people in international affairs. U. S. foreign policy is directed toward achiev-

ing a peaceful world environment, built on international security and prosperity, in which individuals may enjoy political and economic freedom. The administration proposes to reverse the sharp decreases of the past 2 years in budget authority for many international affairs programs, decreases which will lead to outlay reductions in later years. For 1987, supplemental appropriations are proposed that add \$0.6 billion in outlays for that year. Outlays for international affairs programs are estimated to be \$15.2 billion for 1988. This is an increase of \$0.6 billion from the \$14.6 billion estimated for 1987, assuming enactment of the supplemental appropriation.



Foreign Aid.—Outlays for *international security assistance* programs for 1988 are estimated to be \$7.7 billion. These programs primarily serve to strengthen democratic countries where the United States has special security concerns. Over half of the supplemental appropriation will be used to meet prior commitments to recipients of security assistance. The 1987 spending levels will be maintained in 1988, but outlays will drop because of estimated large repayments on loans made in previous years.

Outlays for *international development and humanitarian assistance* are estimated to be \$4.4 billion for 1987 and \$4.9 billion for 1988. Programs include both multilateral and bilateral assistance to help meet the development and humanitarian needs of poorer countries and to encourage the expansion of a market-oriented international economic system.

Multilateral development assistance is provided through the World Bank group of institutions, regional development banks, the United Nations, and related organizations. A \$0.6 billion increase in 1988 outlays to \$1.6 billion mainly reflects the proposed restoration of prior year funding cuts to enable the United States to honor pledges to the multilateral banks. Bilateral development assistance programs are largely carried out by the Agency for International Development (AID). AID programs support economic growth in developing countries through projects in agriculture, population, health, education and energy. The estimated outlays for AID for 1988 are \$2.1 billion, about the same level as for 1987. Included in that amount is a development fund for Africa, permitting greater flexibility in providing development assistance there.

Public Law 480 food aid provides surplus U.S. agricultural commodities to foreign governments under either long-term low interest rate loans, or grants. Outlays for this program in 1988 are estimated to drop slightly to \$1 billion, reflecting falling commodity prices rather than a reduction in tonnage delivered.

International Financial Programs.—The Export-Import Bank administers direct loan and guarantee programs to promote U.S. export sales. New lending will remain roughly at 1987 levels in 1988. A special \$0.2 billion in budget authority is sought in 1988 for a fund to continue a program, begun in 1987, that offsets highly concessional export credits offered by some other governments. By demonstrating that the United States will not be underbid, this program aims to force international negotiations to end such predatory financing policies.

Other.—Outlays of \$2.7 billion for 1987 and \$3.0 billion for 1988 are estimated for the *conduct of foreign affairs*. Portions of the increase are to improve security of U.S. embassies overseas and to pay for limited personnel increases to expand essential reporting and analysis of diplomatic and political conditions abroad.

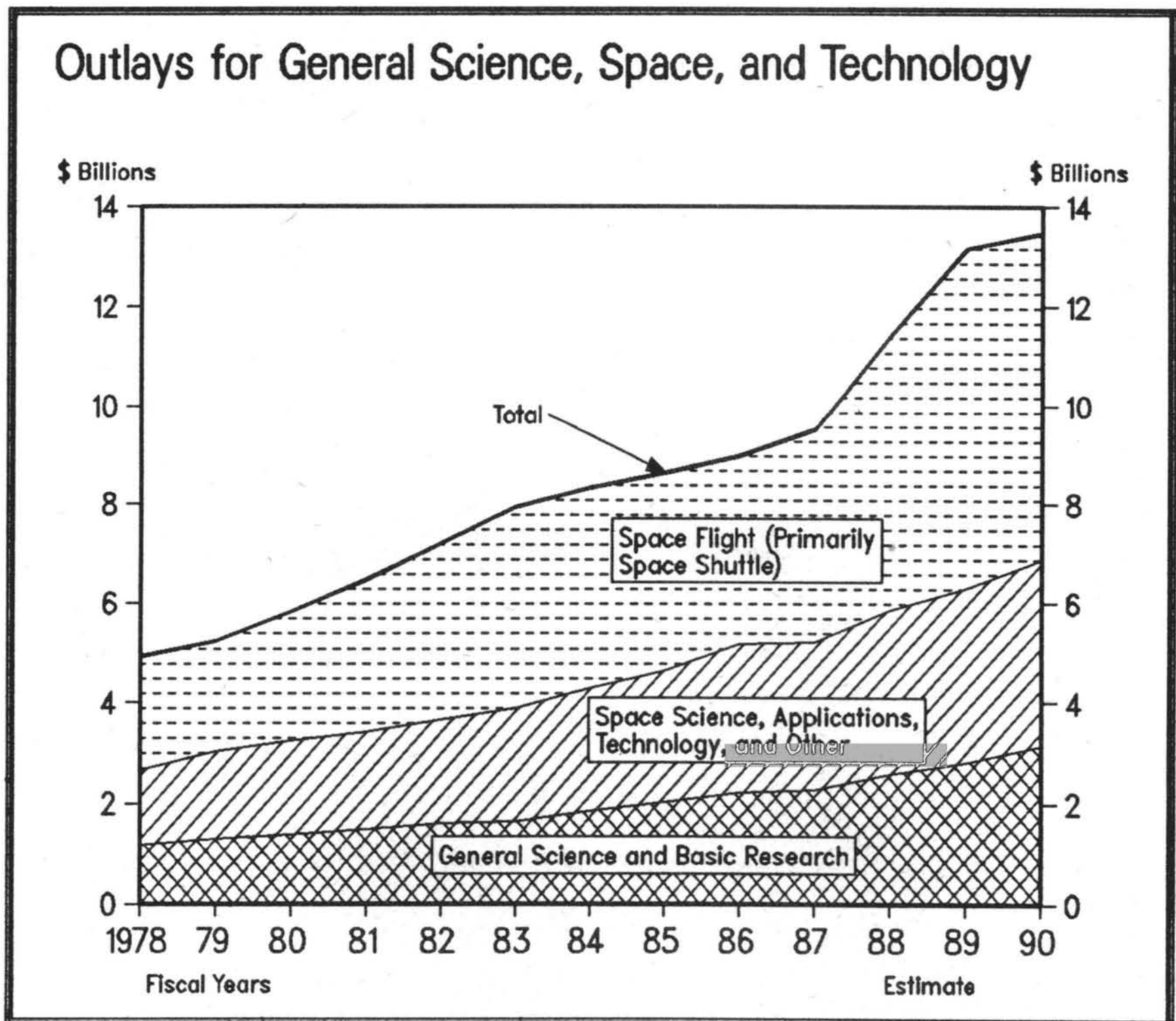
Foreign Information and Exchange Activities.—The U.S. Information Agency will continue the expansion and modernization of Voice of America radio facilities. Outlays of \$1.0 billion for 1987 and \$1.1 billion for 1988 are estimated for all foreign information and exchange activities.

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 is proposed for general science and basic research, space research and technology, and space flight. Outlays are estimated to increase from \$9.5 billion in 1987 to \$11.4 billion in 1988.

General Science and Basic Research.—Outlays for general science and basic research are estimated to increase by 14 percent, from \$2.3 billion in 1987 to \$2.6 billion in 1988. 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 (DOE). The budget maintains the Nation's commitment to these important areas of basic research.

With the increased level of support of basic research proposed for 1988, interdisciplinary research would receive special emphasis.



Basic research among several disciplines often leads to the creation of important new fields of science. The budget proposes to establish between 5 and 10 new interdisciplinary basic science and technology centers modeled after the existing engineering research centers. These new centers will focus on basic research among scientific disciplines and will attract and encourage substantial participation by industry and the States to speed the transfer of new knowledge from the laboratory to the marketplace. Outlays for this and other research activities of the NSF are estimated to be \$1.8 billion in 1988, a 15 percent increase from the 1987 level.

The budget also proposes additional funding for operation of the nuclear and particle physics accelerators supported by DOE. With the increased level of support, efforts will be enhanced to achieve a comprehensive understanding of the basic components of matter and energy and the forces that govern their interaction. Outlays of \$782 million are estimated for support of these programs in 1988, an increase of \$185 million or 12 percent over 1987.

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 1988 are estimated to be \$8.8 billion. In 1988, emphasis will be placed on returning the space shuttle safely to flight. Four shuttle flights are planned for 1988 and nine are planned for 1989. The development of the manned space station will be continued in 1988. The space station will 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 study the solar system, the universe, and the Earth's resources and environment; support research on materials processing in space; and develop technology for future space programs. In addition a major new effort, the civil space technology initiative, will develop a variety of generic space technologies such as space based propulsion, automation, and robotics. This initiative is intended to strengthen the technology base for continued U.S. leadership in space.

ENERGY

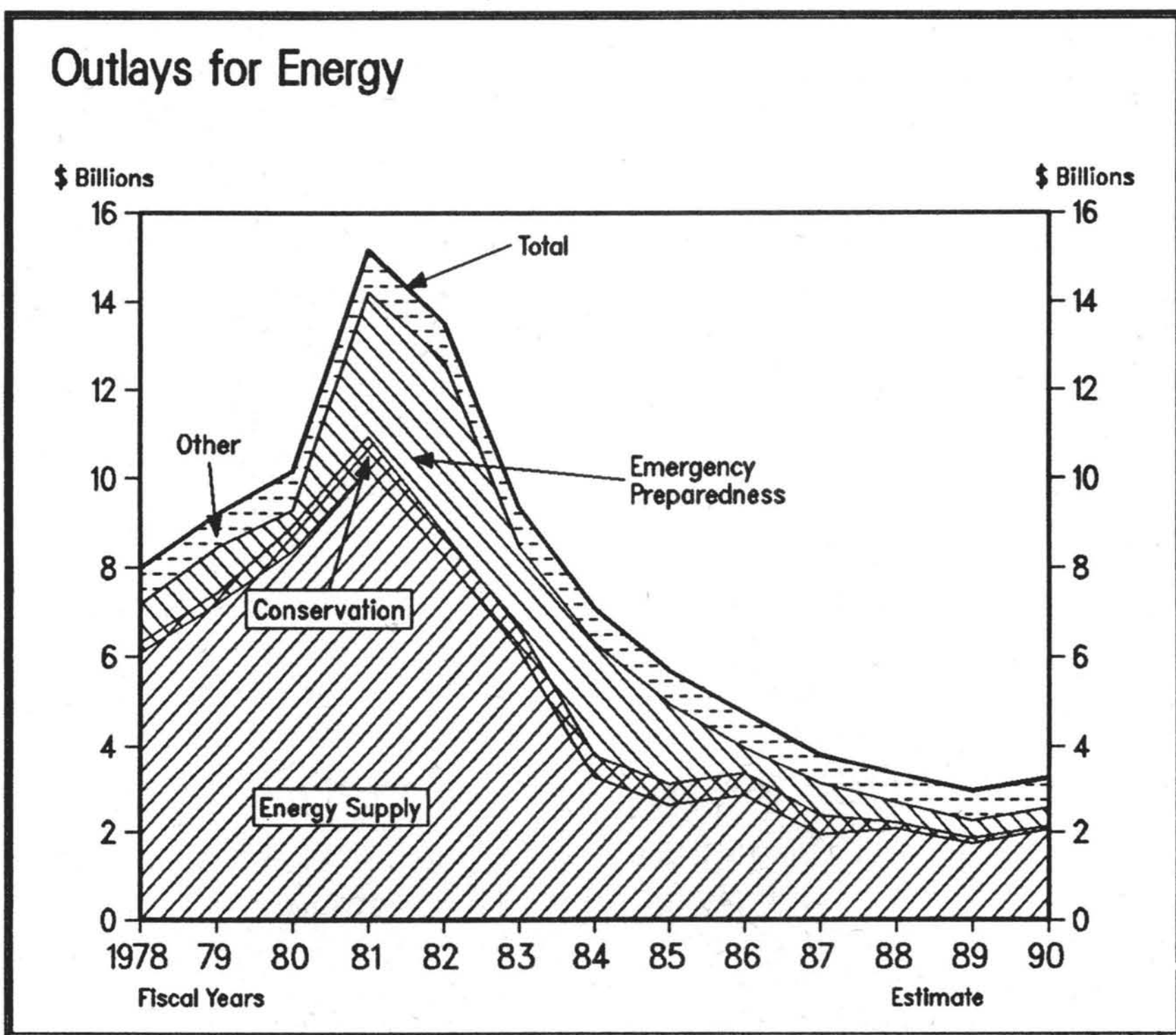
The Nation needs adequate supplies of energy at reasonable costs. The best way to meet this need is to let market forces work. The role of the Federal Government in this process should be limited.

Consistent with this philosophy, the budget proposes a number of reductions in energy programs and major initiatives that both provide new revenues and curtail the Federal Government's in-

volvement in energy markets. Total outlays for energy are estimated to be \$3.3 billion in 1988, compared to \$3.8 billion in 1987.

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

The budget proposes reductions in support for energy research and development, limiting such support to research that complements, rather than supplants, ongoing research and development investment by the private sector. Budget authority of \$2.2 billion is requested for 1988.



Direct production programs include the enrichment of uranium for use as fuel at nuclear power plants; development 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 NPR's, which have outlived their usefulness as national security assets, and to

transfer the PMAs out of the Federal Government. Defederalizing the PMAs can provide greater regional control and result in a more efficient electric power system. The proceeds from these sales and transfers are reflected in undistributed offsetting receipts elsewhere in the budget.

The administration proposes to phase out Rural Electrification Administration direct loans by the end of 1989. A less costly program offering a 70 percent REA guarantee of the principal of privately originated loans would be substituted.

Energy Conservation.—The budget proposes \$86 million in new budget authority for energy conservation in 1988. State and local government grant programs have received \$2.8 billion this past year from the settlement of cases involving petroleum pricing violations under the old oil price control program. Consequently, no new budget authority is proposed for these grants.

Emergency Energy Preparedness.—The administration proposes to continue development and fill of the strategic petroleum reserve at the current rate of 75,000 barrels a day during 1987, then to reduce the rate to 35,000 barrels a day in 1988. This proposal is consistent with the administration's support for a 750 million barrel reserve. Outlays for 1988 are estimated to be \$442 million.

Other.—Outlays for other energy programs for 1988 are estimated to be \$0.7 billion, a slight increase over 1987. 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. Net outlays are estimated to be \$14.2 billion in 1988. Estimated outlays are reduced by \$3.1 billion from 1987 levels through the use of increased user fees, management improvements, funding fewer new construction projects, and returning some regulatory powers.

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	
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.....	4.8	—*	4.8	4.2	—0.2	4.0	7.0	—2.3	4.8	13.6
1987 estimate.....	4.5	—*	4.5	4.6	—0.4	4.2	7.4	—2.3	5.1	13.9
1988 estimate.....	4.6	—*	4.6	4.6	—0.5	4.1	8.0	—2.5	5.5	14.2
1989 estimate.....	4.6	—*	4.6	4.9	—0.4	4.4	8.8	—2.7	6.1	15.2
1990 estimate.....	4.6	—*	4.6	4.8	—0.4	4.4	9.0	—2.7	6.3	15.3

*\$50 million or less.

Pollution Control.—Outlays for pollution control are estimated to be \$4.6 billion in 1988, including \$0.9 billion for cleaning up abandoned hazardous waste sites and chemical spills, which continues the expanded effort begun in 1987.

New budget authority of \$2.0 billion will be requested in 1988 for the construction of sewage treatment systems once an acceptable program has been reauthorized.

Water Resources.—Outlays for water resources are estimated to be \$4.1 billion in 1988 which is \$0.1 billion less than 1987 due to a sale of loan assets. Most of the proposed funding covers construction of projects started in previous years, and operation and maintenance costs of completed projects.

The administration proposes up to 13 new construction starts for the Army Corps of Engineers, contingent upon non-Federal cost sharing in accordance with the Water Resources Development Act of 1986 (WRDA). WRDA authorized a new 0.04 percent ad valorem fee for use of the 200 U.S. commercial harbors, annually recovering up to 40 percent of Corps of Engineers harbor operations and maintenance expenses. WRDA also imposed gradual increases in the existing inland waterway fuel tax, doubling it by 1995.

The Bureau of Reclamation is included in the administration's loan asset sale initiative. Completed Bureau loans worth about \$350 million will be offered for sale, yielding estimated receipts of \$154 million. Funding for Bureau projects gives highest priority to completing ongoing construction activities substantially underway, and constrains funding of new activities and projects.

In addition the administration proposes to terminate the Soil Conservation Service small watershed program, which provides

flood control 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 \$2.5 billion in 1988, an increase of \$0.9 billion from 1987. An increase of \$1.4 billion for conservation of agricultural lands is partially offset by decreases in other conservation and land management programs.

Outlays for recreational resources are estimated to be \$1.4 billion, a decrease of \$0.2 billion from 1987. This reduction occurs primarily as a result of a postponement of some construction and recreational land acquisition through 1992, and a proposed increase in user fees.

AGRICULTURE

The goals of Federal agricultural price support, credit, and insurance programs are to promote economic stability and a market-oriented farm economy. Total outlays are estimated to be \$26.3 billion in 1988, a \$4.8 billion decrease from 1987.

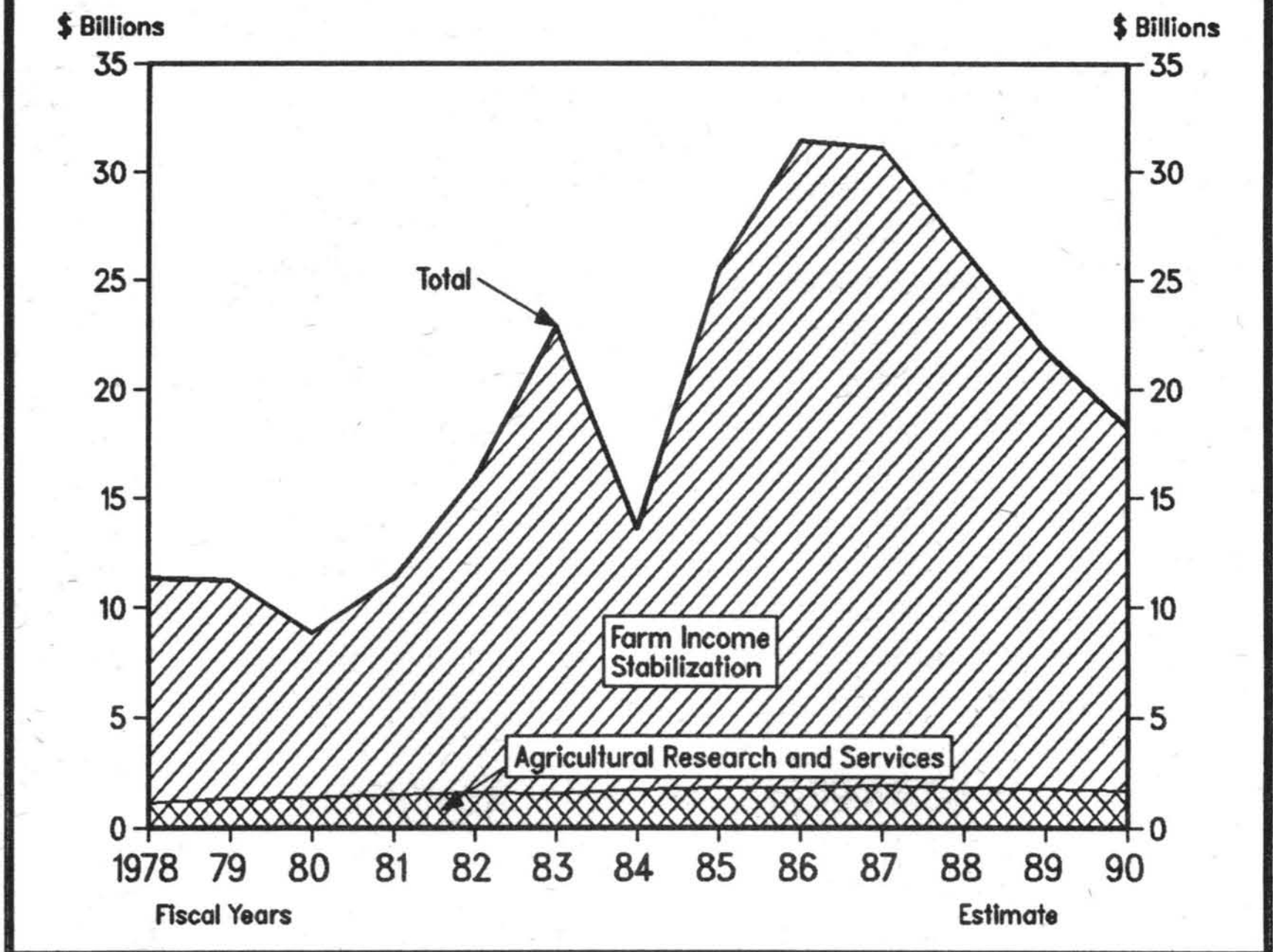
To ensure a fair deal to taxpayers while meeting commitments to America's farmers, the administration will propose legislation to modify farm commodity price support programs. Program changes that will be proposed within the basic structure of the farm bill are expected to reduce the enormous spending on agricultural programs and expand export markets for agricultural products by moving towards a more market oriented agricultural sector. In addition, the budget proposes to scale down Federal intervention and subsidies in other areas of agriculture, particularly in crop insurance, applied research, and other business services.

Farm Income Stabilization.—Expenditures on farm income stabilization programs are estimated to be \$24.5 billion in 1988 and represent 93 percent of total 1988 outlays for all agricultural programs. Specific programs include those of the Commodity Credit Corporation which provides producers of agricultural commodities with price and income support through loans, purchases, payments, and other activities. In addition, the Federal Government provides crop insurance and credit to farmers.

Outlays for commodity price support and related programs are estimated to total \$21.3 billion in 1988, a \$4.0 billion decrease from 1987. The projected decrease is primarily because the administration does not plan to provide advance deficiency payments on 1988 crops during FY 1988.

Legislation to modify the Food Security Act of 1985 will be proposed to: reduce target prices and decouple program benefits

Outlays for Agriculture



from a requirement to harvest crops; and reduce payment limitations from \$250,000 per farmer to \$50,000 as well as close loopholes to make the limitation more effective. These changes will continue support for the family farmer and reduce payments to our largest most efficient producers. Changes will also be proposed to reform the sugar program.

Outlays for Federal crop insurance are projected to total \$482 million in 1988. Since a 1980 initiative was successful in achieving its objective of developing a market for private crop insurance, the budget proposes a privatization of crop insurance services and a 5-year phaseout of the Federal role.

The administration's request for agricultural credit contains almost \$4.0 billion in total credit authority in 1988 to help ensure that viable but higher risk farmers have operating credit available to continue operations. Within this level of credit authority, direct Government lending is reduced and Federal guarantees of private loans are increased.

Agricultural Research Programs.—The 1988 research program outlays are estimated to be \$880 million in 1988, an increase of \$48

million over 1987. The increase in research funding results from expanded genetic and biotechnology research programs. Also, the 1988 budget will emphasize long-term, basic research rather than applied research and product development, which are more appropriately financed by private industry.

Federal outlays for extension programs are proposed to be reduced from \$332 million in 1987 to \$274 million in 1988. The lower funding level estimated reflects an administration proposal to reduce, but not eliminate, Federal funding for the Extension Service by terminating categorical grants to States for such programs as urban gardening, pest management, support for rural development centers, financial management, and food and nutrition education. Formula grants continue to be available for these purposes.

Other Federal expenditures for agricultural services include marketing assistance, animal and plant health programs, and the collection and distribution of economic data. Legislation will be proposed to expand the user fees charged for these services. Accordingly, outlays for agricultural services are estimated to decrease slightly from \$757 million in 1987 to \$655 million in 1988.

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 \$2.5 billion in 1988.

OUTLAYS FOR COMMERCE AND HOUSING CREDIT

(In billions of dollars)

	Mortgage credit and deposit insurance	Postal Service	Other advancement of commerce	Total
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.....	1.9	.8	1.8	4.4
1987 estimate.....	5.5	1.8	2.0	9.3
1988 estimate.....	-2.0	3.0	1.5	2.6
1989 estimate.....	-2.7	1.6	1.7	.7
1990 estimate.....	-3.5	1.8	3.1	1.4

Mortgage Credit Insurance.—The Federal Government aids the housing industry and homebuyers by promoting stable, non-infla-

tionary 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 would also raise user fees for credit programs in which the Government unfairly competes with the private sector.

The Federal Housing Administration (FHA) insures loans for housing, particularly home mortgages for low- and moderate-income first-time homebuyers. The administration proposes a guaranteed loan limitation of \$70 billion for this purpose in 1988. It also proposes to allow FHA to charge an insurance premium comparable to private market premiums and better target the FHA program to homebuyers with fewer private market alternatives.

The Government National Mortgage Association (GNMA) provides loan guarantees, which enhance the saleability of FHA-insured and VA-guaranteed mortgages in the capital markets. The administration proposes a \$100 billion GNMA loan guarantee ceiling in 1988 and an increase in the GNMA guarantee fee to 10 basis points in order to increase private issuances of similar securities.

Housing construction loan programs serving low-income families will be replaced by more cost-effective rental housing vouchers.

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 1986, which were due to severe problems in the agricultural sector and continued financial problems for a segment of the thrift industry. These insurance programs are operated by the Federal Deposit Insurance Corporation, the Federal Savings and Loan Insurance Corporation, and the National Credit Union Administration. Costs are estimated to exceed receipts for these insurance funds by \$7.6 billion in 1987 and \$0.5 billion in 1988.

Other Advancement of Commerce.—The Small Business Administration provides credit assistance to small and minority businesses through loan guarantees. Credit management reforms are being proposed that would increase fees and reduce the Federal Government's contingent liability for these guarantees.

In order to strengthen securities and commerce law enforcement, funding increases are being proposed for the Securities and Exchange Commission and the Commodities Futures Trading Commission.

Consistent with a recent Postal Rate Commission study of subsidized postal mailings, the budget proposes to eliminate nearly all of the subsidy while continuing lower rates for most religious and charitable mailings. The proposal would also establish separate subclass pricing for the reduced-rate payers.

TRANSPORTATION

The viability of the national economy, interstate commerce and travel, and national defense depends on safe and efficient transportation services. The Federal Government promotes this goal through programs that provide services and assist State and local governments as well as private enterprises.

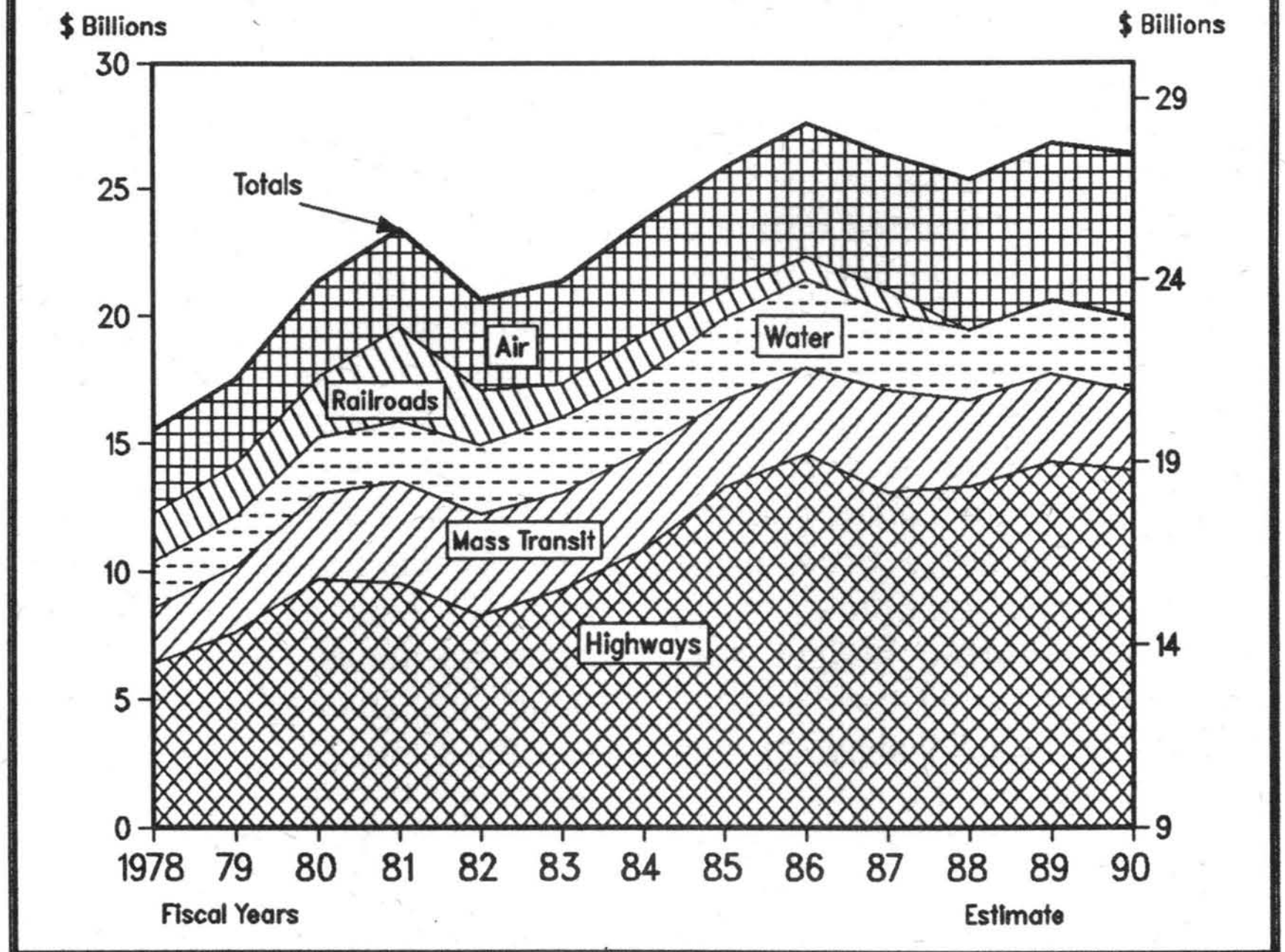
Outlays for transportation are estimated to be \$25.5 billion in 1988, \$1.5 billion less than in 1987. This decrease reflects a continuation of the policies aimed at: requiring transportation users to pay the full cost of the transportation benefits they receive; working to eliminate unnecessary Federal transportation regulations and subsidies; and providing reduced, but flexible funding for local transportation projects.

Highways.—Total outlays for highway and highway safety programs are estimated to be \$13.2 billion in 1988, \$0.3 billion more than 1987. Although the administration proposes to limit 1988 funding for programs supported by the highway trust fund to anticipated highway user fee receipts, the funding available for highway programs would be enhanced by the proposed repeal of existing gas tax loopholes. Closing these tax loopholes would increase highway trust fund receipts by \$0.8 billion in 1988 and \$0.9 billion annually through 1992 (funding generated by additional receipts would be prorated by existing formulae between highway and mass transit programs). The 1988 estimates include legislative proposals to provide States with greater flexibility in spending funds provided for construction or repair of interstate or primary highways. The administration also proposes to consolidate categorical grants for urban and secondary highway systems and bridges on those systems into a \$2.2 billion block grant for use on any main public road.

Mass Transit.—The \$1.6 billion in proposed budget authority for mass transit in 1988 represents a \$1.9 billion decrease from 1987 and reflects the administration's efforts to limit the Federal role in mass transit funding. The budget proposes to eliminate discretionary grant funding, which in the past has provided funds for the construction of unnecessary, costly, and underutilized transit systems in a small number of cities. The budget also proposes to distribute the receipts provided by the one cent per gallon of gasoline tax dedicated to mass transit activities more equitably by formula.

Railroads.—In keeping with the administration's policy of reducing Federal responsibility for rail activities unrelated to safety, proposed budget authority for railroad programs decrease by \$667

Outlays for Transportation



million in 1988. Program reductions largely result from the proposed elimination of Amtrak subsidies and the disposal of some or all of Amtrak's assets, which will increase revenues by about \$1 billion.

Air Transportation.—Budget authority for air transportation in 1988 is estimated to total \$6.5 billion dollars, a \$1.0 billion increase over 1987. Most of the requested 1988 funding increase is due to a 68 percent proposed increase in funding for the Federal Aviation Administration's (FAA) program to modernize our Nation's air traffic control system and a 16 percent increase in funding for FAA operations to increase the air traffic controller and safety inspection workforces.

Changes being proposed to the airport grant program include: allowing airports to withdraw from the Federal program and assess their own fees; allocating 22 percent of the funds to States to administer directly; and targeting discretionary funds to capacity and safety related projects. In addition, the administration will again propose that 85 percent of all FAA costs be funded from the user-supported Airport and Airway Trust Fund. This proposal is

consistent with studies which have shown that 85 percent of all FAA costs are attributable to the non-Federal use of the national airspace system and would end an inappropriate and unnecessary general taxpayer subsidy estimated to be more than \$7.4 billion during the period 1982-1987.

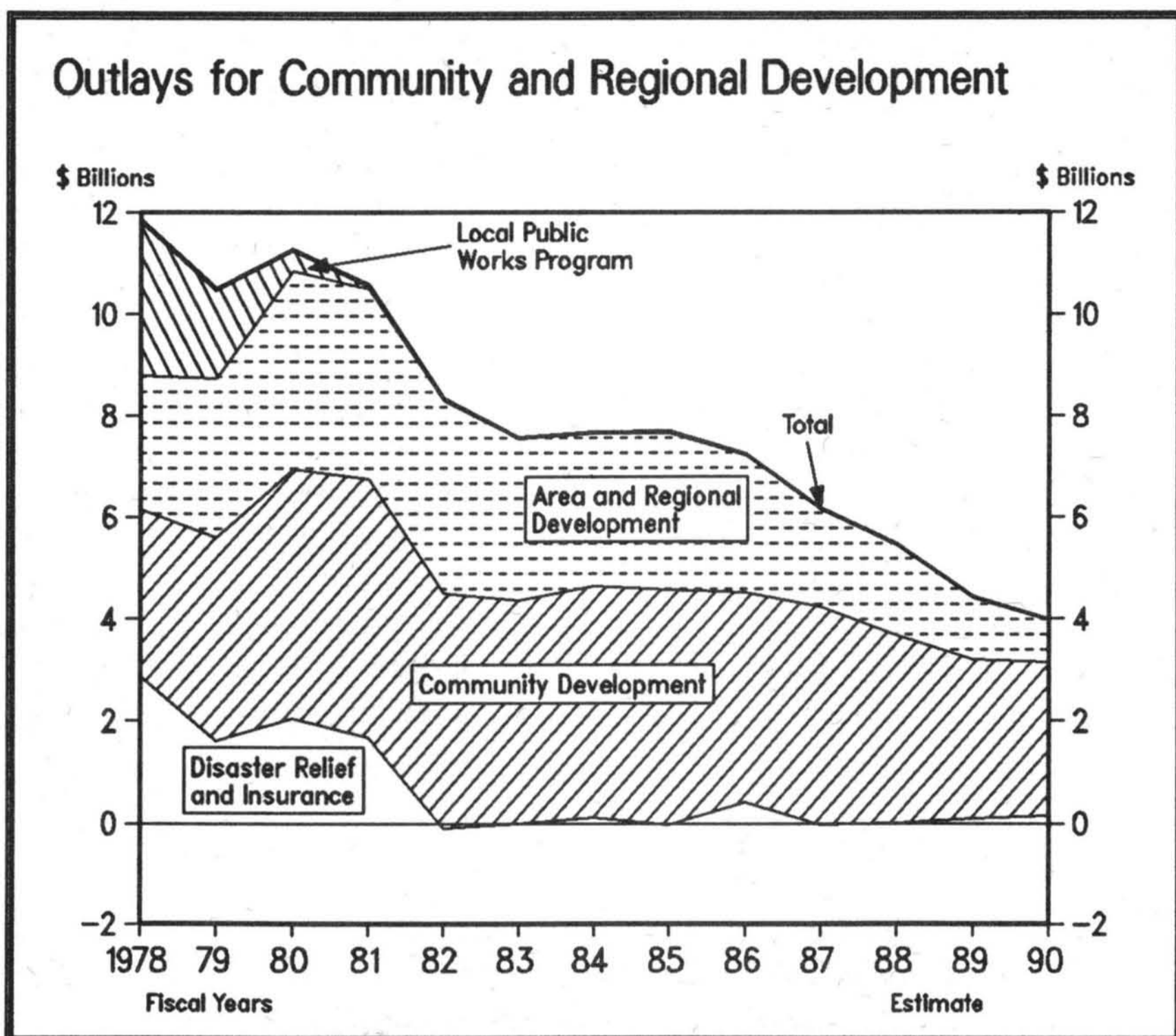
Water Transportation.—Outlays for water transportation programs are estimated to be \$2.9 billion in 1988, \$0.8 billion less than in 1987. The estimated outlay decrease reflects the administration's proposal to recover fees for certain Coast Guard services provided to commercial operators and recreational boaters as well as several initiatives to reduce unwarranted maritime subsidies. The administration's maritime proposals include terminating Federal aid to maritime schools and reducing the cost of the expanded cargo preference requirement enacted as part of the Food Security Act of 1985. At the same time, drug law enforcement will continue to receive major emphasis in 1988 with 22 percent of the Coast Guard's operating budget supporting interdiction of drug smuggling. The Coast Guard's other missions (e.g., search and rescue) will continue at or above current operating levels.

COMMUNITY AND REGIONAL DEVELOPMENT

Federal programs for community and regional development supplement State and local government efforts to sustain economic and social growth in urban and rural neighborhoods, communities, and regions. The administration believes that Federal programs that support community and regional development should transfer as much responsibility as possible to the State and local governments themselves. The administration proposes to eliminate a number of Federal categorical programs currently providing support for specific local community and economic projects.

Community Development.—The community development block grant (CDBG) program, administered by the Department of Housing and Urban Development (HUD), is the principal program in this category. These grants provide Federal support for cities, counties, Indian tribes, and U.S. territories to help them meet their community and development needs. The program allows the State and local governments to use their CDBG funds in ways that they choose, and is therefore less restrictive than many other community development programs. The administration proposes to rescind \$375 million of 1987 budget authority and establish the CDBG program level at \$2.6 billion for 1987 and 1988. Although this reduces the total resources available for this program, proposed legislation changes will help ensure that the most needy communities will continue to receive adequate assistance.

Other community development programs include urban development action grants (UDAG), rental rehabilitation grants, and rental development grants. Both the UDAG program and the rental development grant program are proposed for termination in 1987, while the rental rehabilitation grant program is scheduled to receive new budget authority of \$95 million in 1987 and \$75 million in 1988. The more flexible CDBG program will allow communities to meet most of these same program objectives with greater local discretion.



Area and Regional Development.—Programs in this category support rural development, development of American Indian reservations and multi-State regional development. Budget authority is proposed to decrease from \$2.9 billion in 1987 to \$2.3 billion in 1988. Total outlays are estimated to be \$1.8 billion in 1988, only \$0.1 billion below 1987 largely because of spending from prior years.

Much of the decline in the funding of area and regional development programs can be attributed to program terminations. The administration proposes to eliminate the Farmers Home Administration (FmHA) rural development loan and grant programs which

finance construction of water and waste-water systems and community facilities. These projects are primarily a State and local responsibility, and local financing enables communities to better determine the appropriate scope of such projects.

Like the FmHA programs, the economic development administration, which is part of the Department of Commerce, and the Appalachian Regional Commission are proposed for termination in 1987. Similar funds for both programs are available through other Federal sources such as the CDBG program.

Finally, Federal Indian programs, which are intended to increase self-determination for Indian tribal governments, to encourage economic development on Indian reservations, and to fulfill the trusteeship responsibilities of the Federal Government, are expected to have outlays of \$1 billion in 1987 and \$1.1 billion in 1988. The 1987 figure represents an 8 percent increase over the 1986 figure of \$958 million.

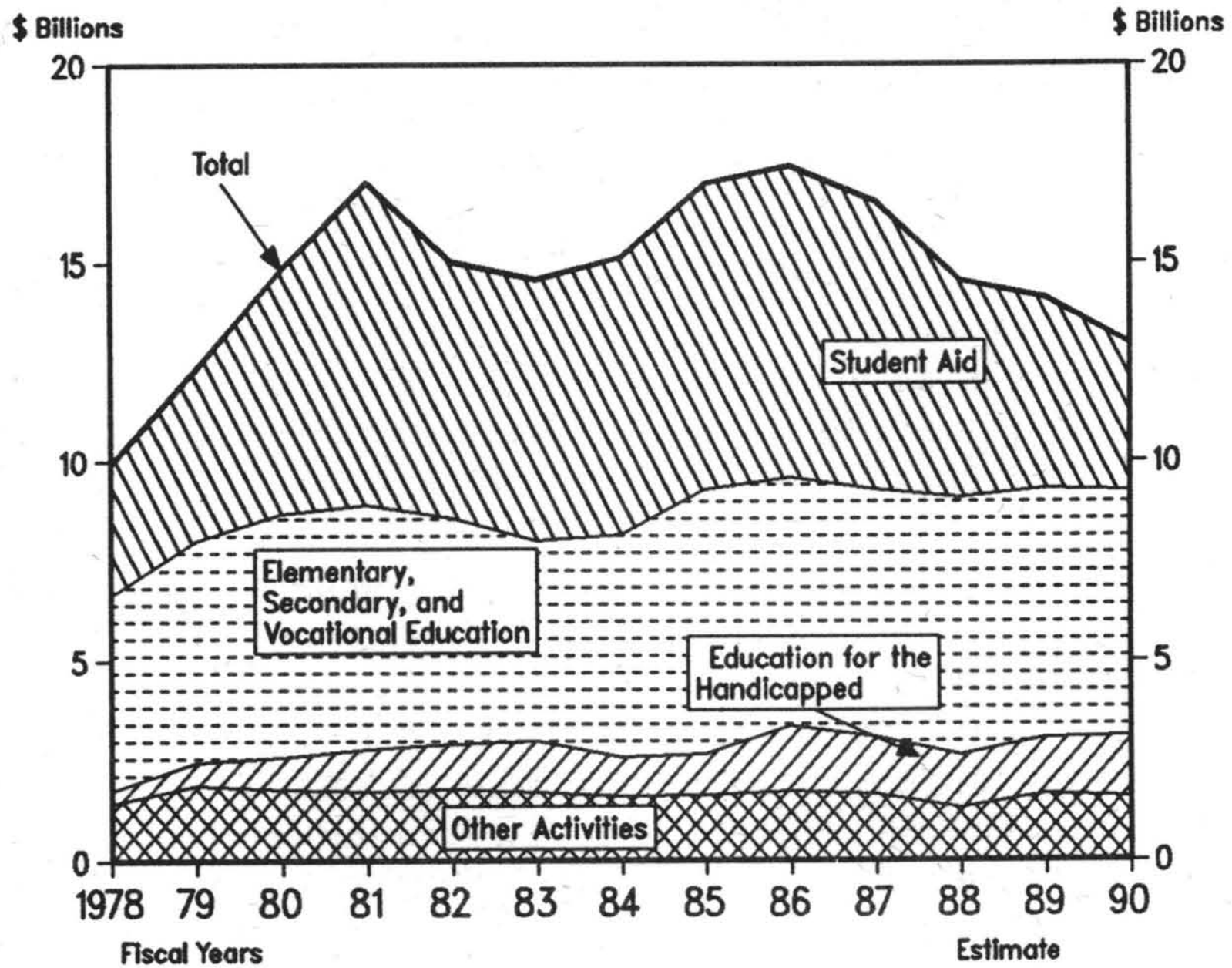
Disaster Relief and Insurance.—Providing insurance against losses from floods, hurricanes, tornadoes, and other natural disaster is primarily the responsibility of private insurers. State and local governments aid recovery when necessary, and Federal insurance and disaster relief programs are available when those resources are insufficient. One such Federal program is the Small Business Administration (SBA) business disaster loan program. For this program, eligibility changes are proposed to limit coverage to businesses and households who could not obtain similar loans elsewhere.

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 education are estimated to be \$14.5 billion in 1988, a 12.0 percent decrease from the proposed 1987 level, which reflects requested rescissions.

Elementary, Secondary and Vocational Education.—Programs in this category are primarily Federal grants designed to help States educate students with special needs. For 1988, the administration proposes to finance most of the major grant programs at or near the 1987 level, but proposes to eliminate or reduce selected smaller programs in which the Federal investment is inappropriate. The budget allows for an increase over the 1986 level to offset the effects of inflation on the major State grant for the education of

Outlays for Education



handicapped children and provides additional assistance above 1986 amounts to States in the preschool grant for children aged 3-5. The administration proposes to increase funding for compensatory education programs in 1988 above the 1987 amounts, and is proposing legislation to revise and strengthen these programs. Estimated outlays for these programs are \$7.8 billion in 1988.

Higher Education.—The budget continues the Federal Government's commitment to ensuring access to higher education for the poor, with significant changes proposed in program structure. The administration proposes reforms for Federal student aid that would maintain total aid at about current levels and target subsidized aid to the most needy students, while substantially decreasing costs to taxpayers. Major proposals include: elimination of borrowing limits (other than the cost of education) on guaranteed student loans (GSLs) that have no direct cost to the Government; expansion of the income-contingent loan program; continuation of the Pell grant program with improved targeting; initiation of insurance fees on new guaranteed borrowing; elimination of the Federal payment of student interest for regular GSLs; and reduction of GSL subsidies

to lenders and intermediary guarantee agencies. In addition, no funding is requested for supplemental educational opportunity grants, college work-study, Perkins loans, or State student incentive grants. These programs inefficiently provide aid to institutions rather than directly to students and are not needed under the new policies proposed for other programs. Estimated outlays for higher education are \$5.5 billion in 1988.

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 \$13.9 billion in 1988, an increase of \$0.6 billion from 1987.

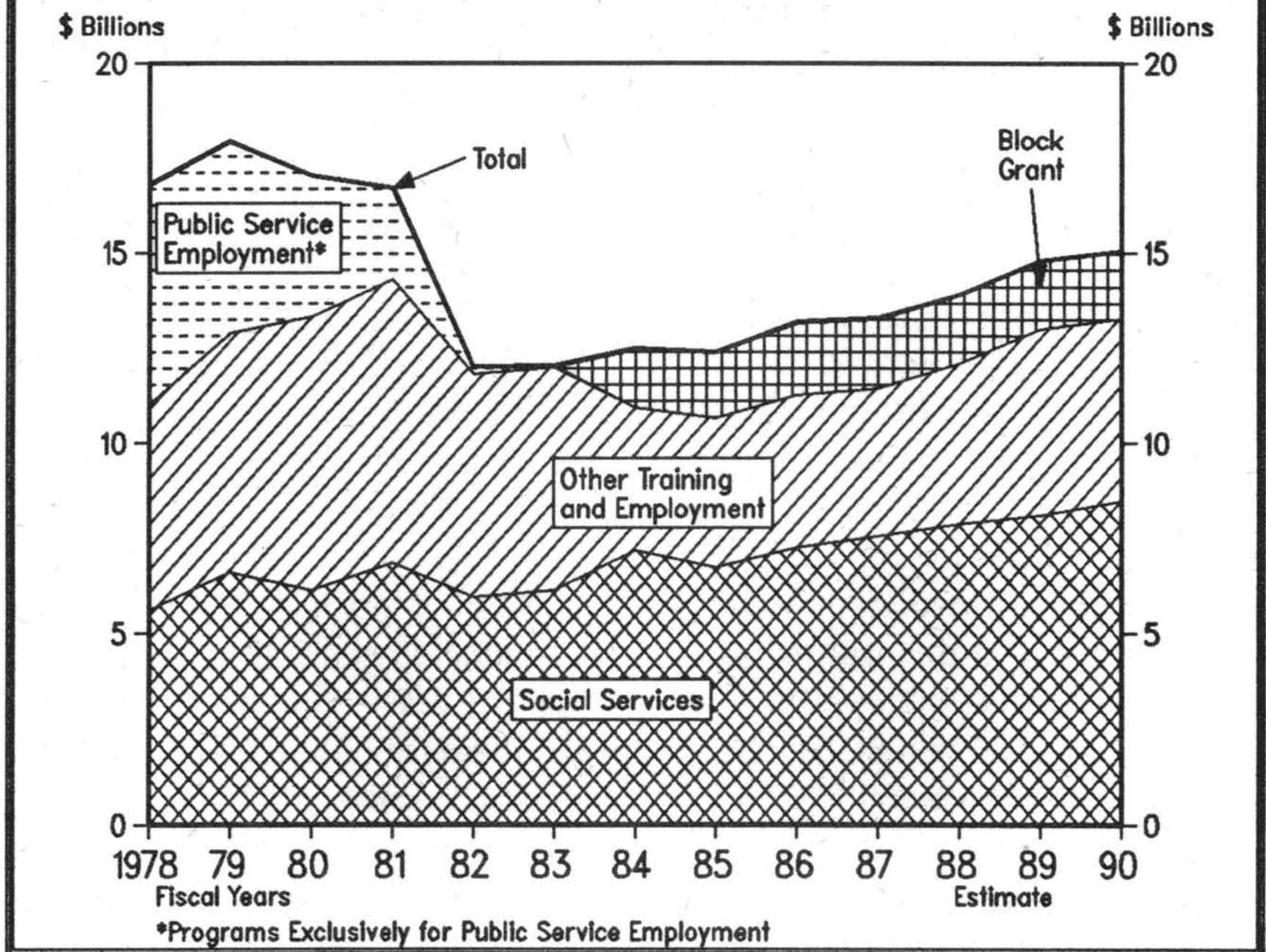
Training and Employment.—Training and employment programs are designed to improve individuals' abilities to obtain and retain jobs by developing job skills and to support services that match individuals with jobs. The major Federal activities in this area are financed through grants to States. These 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. In addition, the Federal Government contracts for the operation of other job training programs, including the Job Corps. Outlays for training and employment are estimated to be \$6.0 billion in 1988.

Legislation will be proposed to replace the existing summer youth employment program with a year-round program of remedial skills training, subsidized summer jobs, or a mixture of both, as determined by local areas. Youth in families receiving support from the aid to families with dependent children (AFDC) program would be eligible.

Two programs that currently help workers whose jobs have disappeared because of changes in the economy—trade adjustment assistance and Title III of the Job Training Partnership Act—are proposed to be replaced by an entirely new program. This new program, which would allow States and local areas to use a variety of new approaches to encourage workers to move on more quickly to new careers, could assist any dislocated worker, without regard to the reason for the unemployment.

Social Services.—The Federal Government makes grants to States and to public and private institutions for a variety of social

Outlays for Training, Employment, and Social Services



services. Beneficiaries include low-income persons, the elderly, the disabled, children, youth, and Native Americans. Outlays for social services are estimated to increase from \$7.5 billion in 1987 to \$7.9 billion in 1988.

The social services block grant gives States discretion to determine which social services will be offered and who will be eligible to receive them. This grant is proposed to be funded in 1988 at the same level as enacted for 1987. The administration proposes to begin phasing out the community services block grant. A phased reduction will provide community action agencies, which derive less than 13 percent of their funding from this grant, time to solicit funds from other sources. A generic appropriation of \$2.2 billion for social services activities will allow the Department of Health and Human Services to best serve children, older Americans, the developmentally disabled, and Native Americans. Increases over 1986 levels in the vocational rehabilitation State grant are proposed to offset the effect of inflation while reducing overall costs from the 1987 enacted level.

The Federal Government also makes grants to help States provide foster care and adoption assistance, and reunite children with

their families. Federal funding for these programs has grown uncontrollably since 1981 because of claims for States' administrative expenses rather than increased benefit payments to families. The administration therefore proposes to limit Federal reimbursement for these State administrative costs.

HEALTH

The Federal Government contributes to meeting national health care needs by financing and providing health care services, promoting disease prevention, and supporting research, training and consumer and occupational health and safety. Federal outlays for these programs are, excluding medicare and veterans medical programs, estimated to decrease from \$40 billion in 1987 to \$39 billion in 1988.

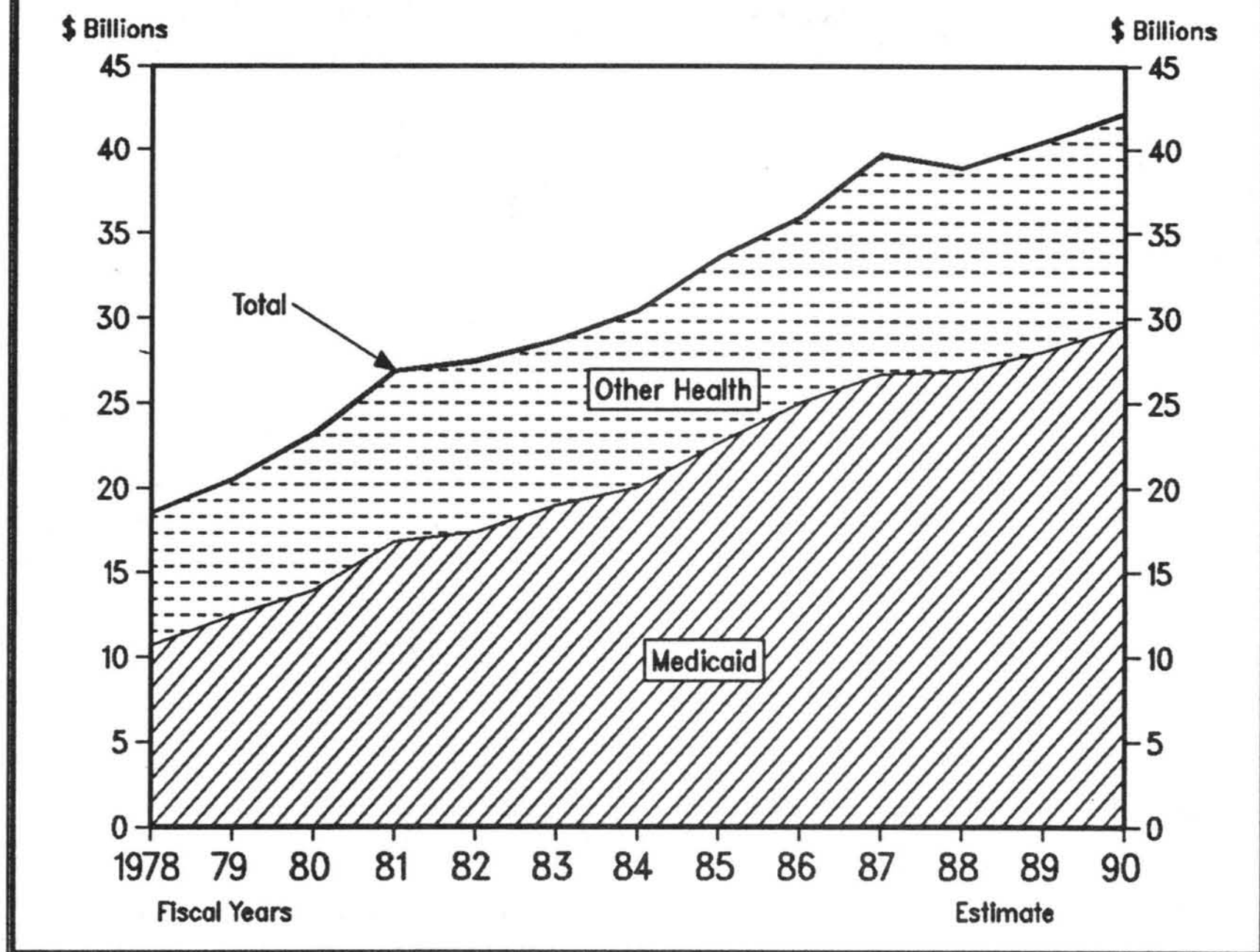
Medicaid.—More than two-thirds of Federal outlays for health in this function is devoted to Medicaid. Under current law, estimated State Medicaid outlays of \$22.2 billion in 1988 and an additional \$28.1 billion provided by the Federal Government are expected to finance care for nearly 24 million poor Americans.

The administration is proposing legislation to give States optional authority to capitate acute care Medicaid services. To qualify, a State program would have to capitate all eligible beneficiaries in a particular geographic area—such as a county—and must have certain provisions that protect quality of care and access to care. During the first three years of each new capitation project, a State would receive a higher Federal matching rate, which would help defray the costs of the transition from fee-for-service to capitation.

A second legislative proposal would reduce Federal Medicaid assistance to States in 1988 by \$1.0 billion in outlays and, in subsequent years, constrain the rate of increase in Federal assistance to States to the rate of increase in medical care prices.

Other Health Programs.—Programs in this category include the Indian Health Service, health block grants to States, and research and education on Acquired Immune Deficiency Syndrome (AIDS). In addition, the Federal Government provides 85 percent of the Nation's expenditure on basic, health-related research. Outlays for this research are estimated to be \$6.2 billion in 1988. Because the supply of health care professionals is now adequate, the administration proposes ending direct Federal subsidies for health professions training except for family medicine, geriatric training, and loan guarantees. Estimated outlays of \$0.9 billion in 1988 will help protect consumers from unsafe products, and workers from occupational hazards.

Outlays for Health



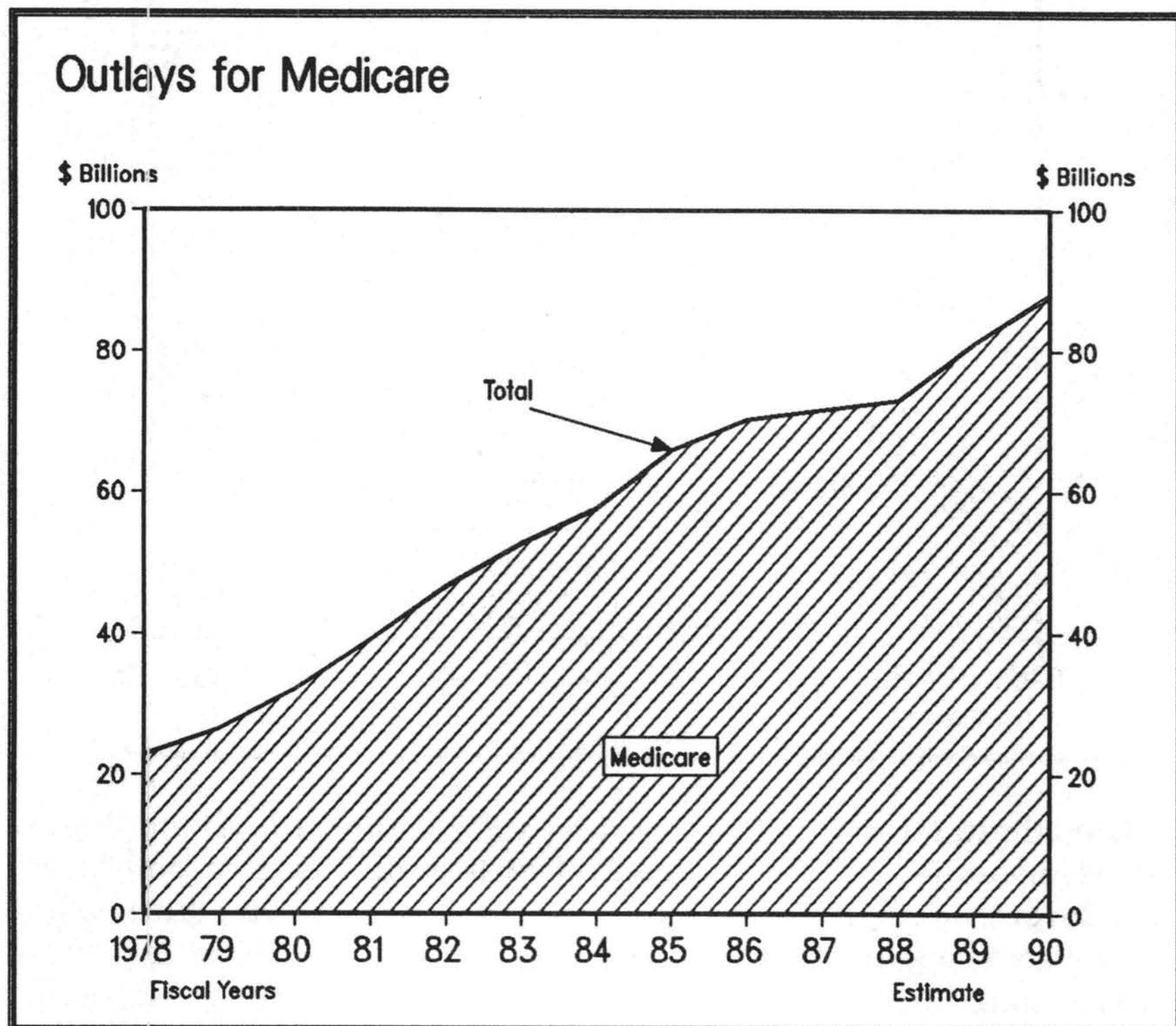
The administration is proposing to reform the Federal employees health benefits (FEHB) program. The formula used to determine the Government's contribution to enrollees health premiums would be changed to a weighted average that reflects the premiums of *all* FEHB plans and the distribution of enrollees among those plans. This proposed formula would produce a Government contribution that more accurately reflects the trends and costs of the FEHB program, providing more equitable cost sharing between the Government and its employees. The administration's proposal is expected to generate outlay savings of \$0.2 billion in 1988.

MEDICARE

The Federal Government contributes to the health of aged and disabled Americans through medicare. Medicare outlays in 1988, which are estimated to be \$73.0 billion, are expected to finance health insurance for an estimated 32 million persons who are aged, disabled or suffer from end-stage renal (i.e., kidney) disease.

In 1984 medicare's inflationary cost-reimbursement system for hospitals was replaced by the prospective payment system (PPS), which generally sets a flat payment per case in advance for each

hospital patient based on that patient's diagnosis. PPS has curbed the rapid increase in spending on hospitals, which increased only 2.0 percent between 1985 and 1986 after almost doubling from 1980 to 1985. For planning purposes, the average payment for a hospital case is projected to increase 2.5 percent in 1988.



The administration is proposing several programmatic changes. First, beneficiaries would be offered a voucher with which they could choose from a wide variety of plans, each offering benefits at least equivalent to medicare's.

Second, medicare payments for hospital capital costs would become part of the hospital's predetermined price per admission, giving hospitals the incentive to allocate resources efficiently. Consistent with provisions of the Omnibus Budget Reconciliation Act of 1986, capital reforms would not reduce medicare spending in 1988.

Third, medicare payments to physicians whose practices are based in hospitals—radiologists, anesthesiologists, and pathologists—would reflect a set price for each diagnosis, providing incentives for hospitals and these physicians to provide quality care at lower costs.

Spiraling general fund health care costs would be restrained by increasing medicare premiums to 35 percent of supplementary medical insurance costs for *new* enrollees. Payroll contributions from extending medicare coverage to the minority of State and local employees that are not already covered (most of whom are eligible for medicare benefits) would improve the solvency of the hospital insurance trust fund.

Even with proposed savings, outlays are projected to increase \$32.8 billion between 1987 and 1992, an increase larger than justified by general inflation and the increase in beneficiaries. Under the administration's proposals, spending per medicare beneficiary would *increase* in real terms through 1992.

INCOME SECURITY

Income security benefits are paid to the aged, the disabled, the unemployed, and low-income families. Total outlays are estimated to be \$124.8 billion in 1988.

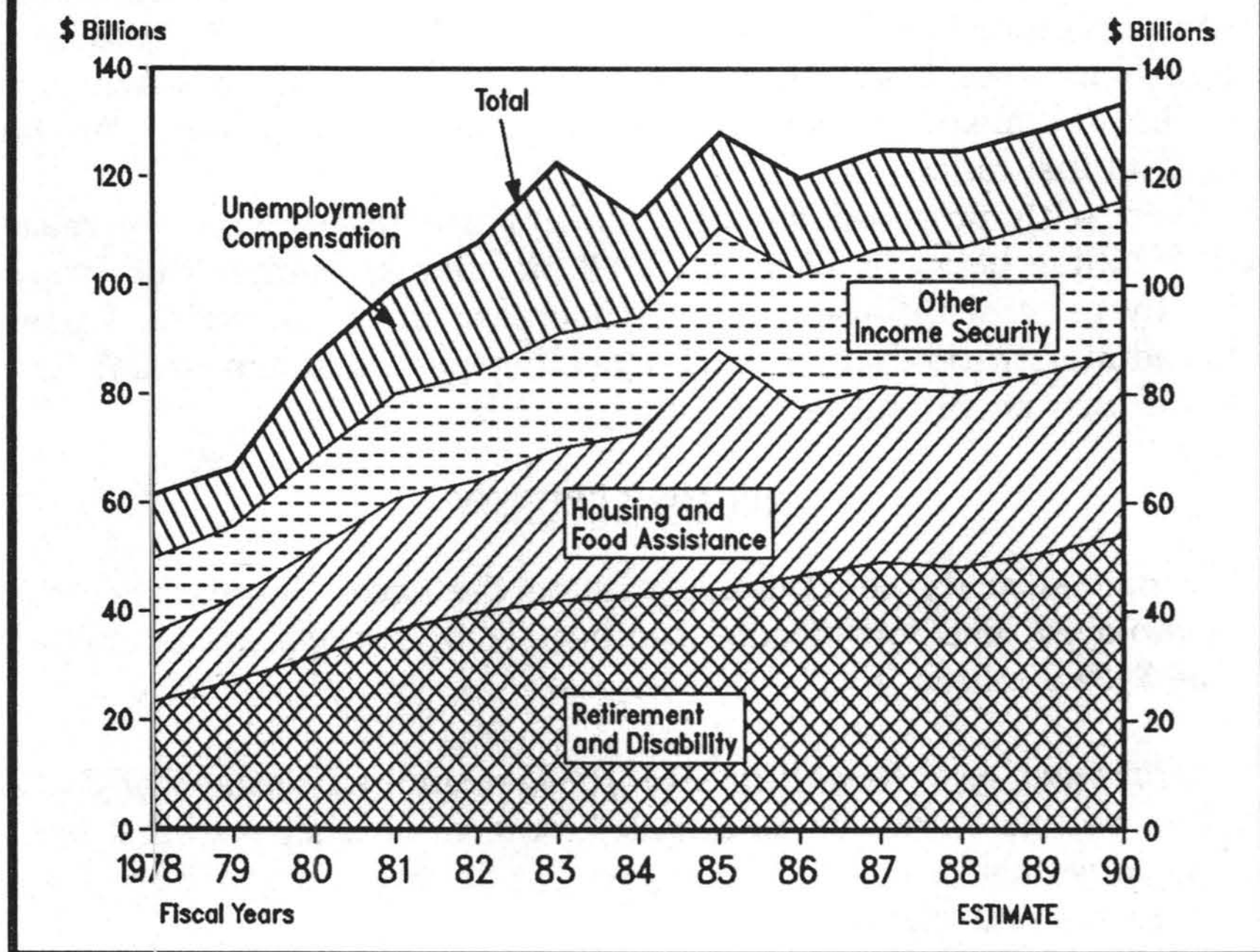
Retirement and Disability.—In 1988, estimated outlays of \$42.9 billion will go to retired or disabled Federal civilian workers, military personnel, railroad employees, and coal miners, and their dependents and survivors.

The administration is proposing to reduce the overly generous features in the old civil service retirement system (CSRS) to more closely parallel the new Federal employee retirement system (FERS) by changing the way cost-of-living adjustments (COLAs) are provided to annuitants. The administration's proposal generally would limit future COLA's to the percentage change in the Consumer Price Index (CPI) minus one percentage point. The administration is also seeking repeal of the lump sum withdrawal provisions in both CSRS and FERS, which enable employees to withdraw all their contributions toward retirement in a lump sum at retirement.

Unemployment Compensation.—Outlays for unemployment compensation are estimated to be \$18.0 billion in 1987 and \$17.7 billion in 1988. About 2.3 million workers per week are estimated to receive benefits in 1987 and 2.2 million workers in 1988. The administration is proposing legislation to extend Federal-State unemployment insurance coverage to rail workers.

Housing and Food Assistance.—The Federal Government provides assistance for housing and food to low-income households. In

Outlays for Income Security



1988, an estimated 6.5 million households will receive housing aid and the estimated monthly food stamps participation will be 19.3 million individuals.

Outlays for subsidized housing programs are estimated to increase from \$12.9 billion in 1987 to \$13.4 billion in 1988. For 1988, the administration is proposing to provide 102,000 additional households with subsidies. Virtually all of these households will receive vouchers, which are less expensive than new construction and benefit tenants by giving them more freedom of choice about where to live.

Outlays for child nutrition and other food programs, excluding food stamps and aid to Puerto Rico, are estimated to be \$6.1 billion in 1988. The administration proposes to better target Federal funds to the needy by maintaining institutional subsidies for meals served to students whose family income are below 185 percent of the poverty level, but discontinuing subsidies to students above that level.

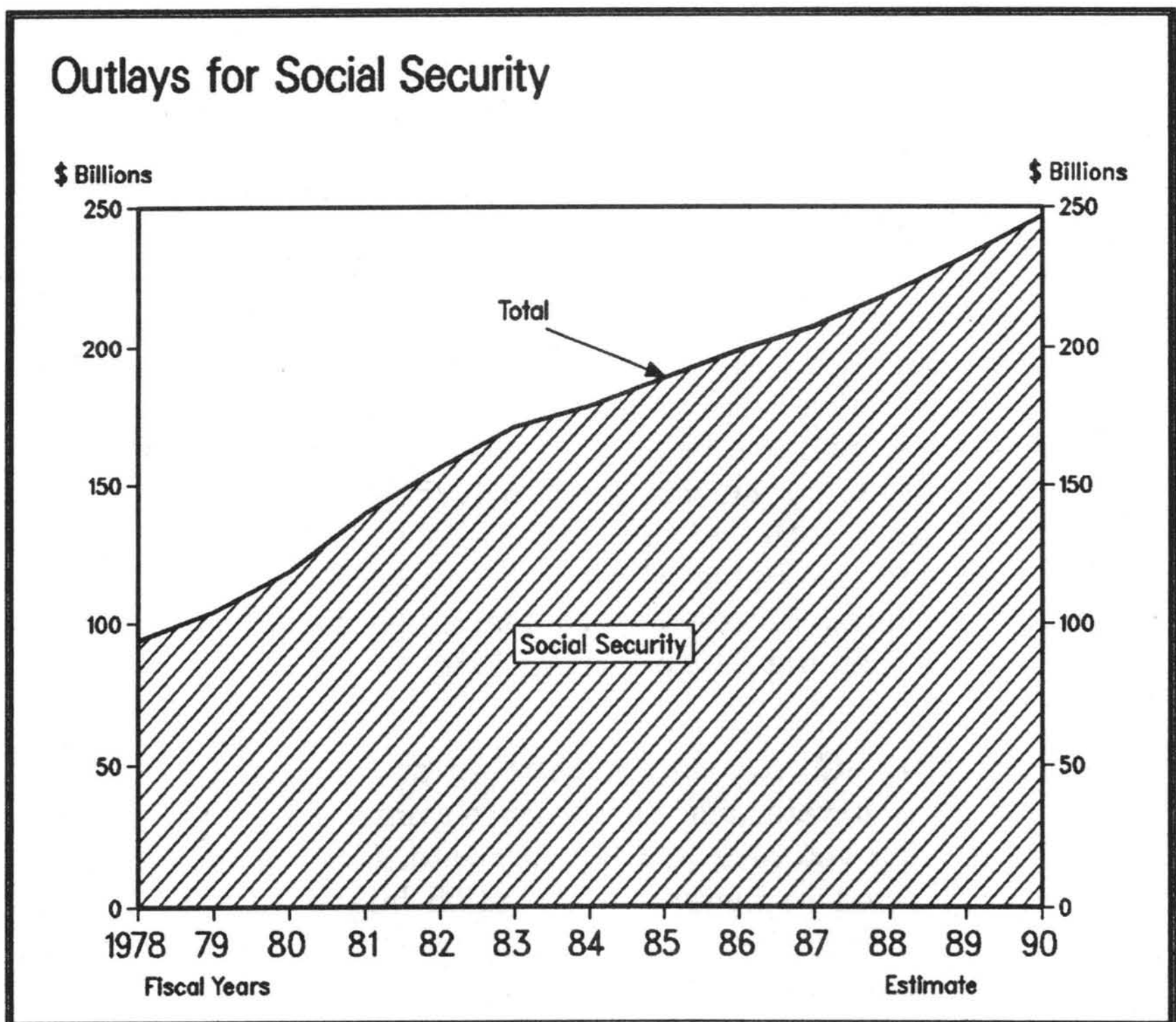
Under proposed law, estimated food stamp outlays including nutrition assistance to Puerto Rico are \$12.5 billion in 1988, compared to \$12.7 billion for 1987. The budget includes proposals to improve

State incentives to reduce overpayments 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.

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 \$12.3 billion in 1988. 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 \$9.8 billion in 1988. Approximately 3.8 million low-income families are estimated to receive AFDC benefits in 1987. The budget proposes to increase recipients' work opportunities and to control excessive State and local administration costs. 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 old-age and survivors insurance (OASI) and disability insurance (DI) programs. Social security represents about one-fifth of estimated total Federal outlays in 1988 and provides benefits to one in every six Americans.

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 \$207.9 billion in 1987 to \$219.4 billion in 1988, primarily because of cost-of-living increases and increases in the number of beneficiaries.

VETERANS BENEFITS AND SERVICES

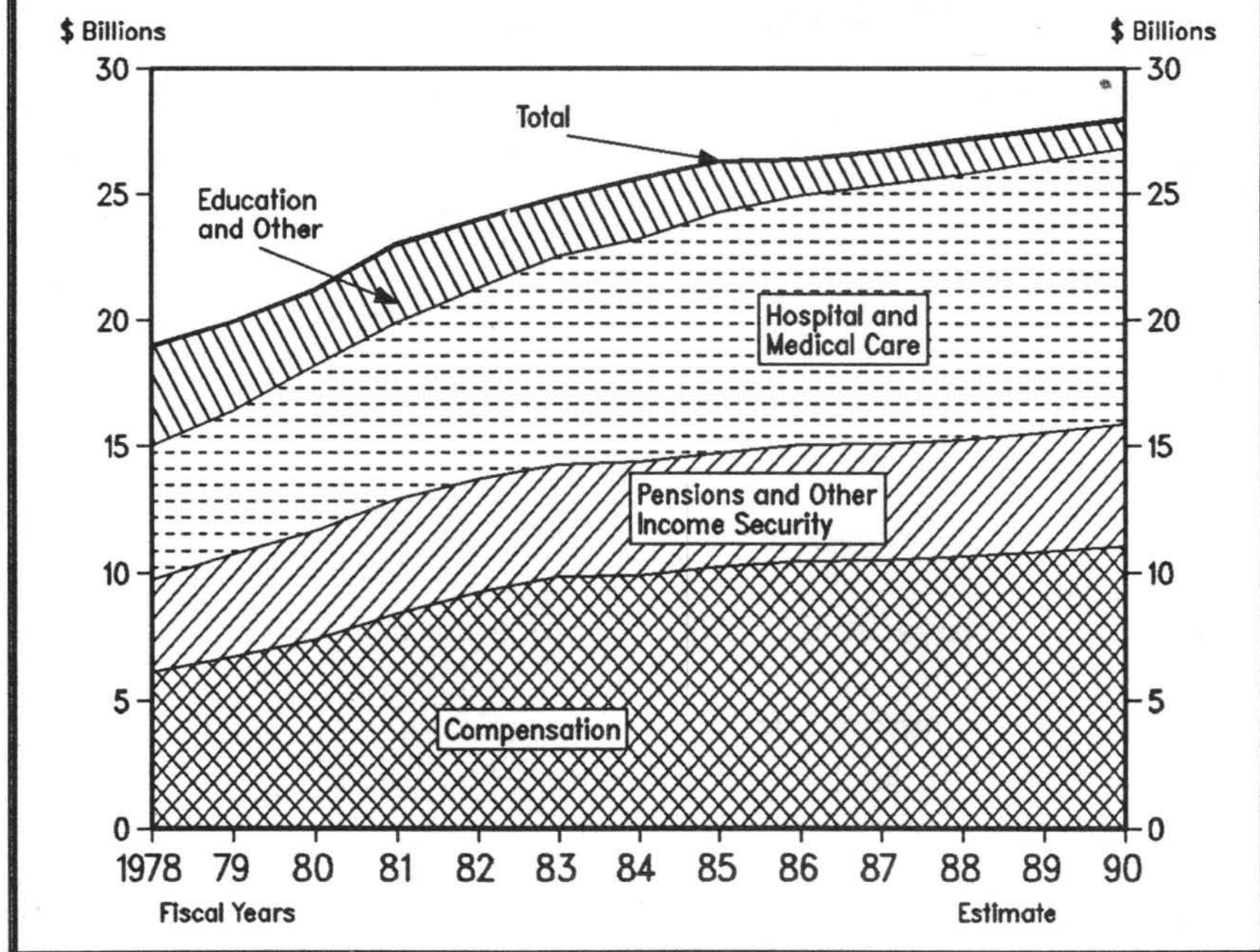
Benefits and services are provided to meet the Nation's obligation to veterans of military service. Outlays for this function are expected to be \$27.2 billion in 1988.

Hospital and Medical Care.—The Veterans Administration (VA) operates the Nation's largest medical care system. The budget proposes to carry out the comprehensive reform of VA medical care eligibility that Congress enacted last year. In accordance with this reform, VA will sustain no-cost quality care, primarily for veterans injured during military service, former prisoners of war, veterans exposed to certain toxic substances and radiation, veterans of wars prior to World War II, those receiving VA pensions and veterans least able to finance the cost of their own health care (i.e., other veterans earning less than \$25,000 per year for a veteran with one dependent; \$20,000 for a single veteran). The administration believes that as a rule when veterans' illnesses are completely unrelated to their military service and they are financially able to provide for their own health care, they should do so.

The VA may, however, continue to furnish care to non-service-disabled veterans with incomes above \$25,000 in locations where resources remain available. Outlays for hospital and medical care programs (excluding third-party reimbursements) are estimated at \$9.4 billion in 1987 and \$9.8 billion in 1988.

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 1987 to \$10.6 billion in 1988. These estimates reflect an administration proposal to link the compensation cost-of-living adjustment to the annual change in the consumer price index.

Outlays for Veterans Benefits and Services



Pensions.—Pensions are provided to needy veterans with war-time 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 1987 and 1988. Pension recipients are scheduled to receive an estimated 3.5 percent increase in benefits, effective with the January 1988 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.

Individuals who entered military service after 1976 are eligible for the post-Vietnam era education program. Enrollment in this program has been closed since July 1985, while the all-volunteer force educational assistance test program is in effect. The budget proposes to make the new GI bill permanent and transfer the funding responsibility for its basic benefit to the Department of Defense, who would use it as a recruitment and retention incentive. VA would continue to administer the program.

Outlays for readjustment benefits are estimated to decrease from \$756 million in 1987 to \$626 million in 1988.

Other.—The VA provides additional assistance to veterans through housing loan guarantees. New guaranteed loan commitments are expected to decrease from \$35.0 billion in 1987 to \$27.9 billion in 1988. As part of the administration's policy to make Federal credit programs self-supporting, the existing 1 percent funding fee charged on VA-guaranteed housing loans would be increased to 2.5 percent in 1987 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, the operation of prisons to house Federal inmates, and criminal justice assistance to State and local Governments. The proposed budget authority for these activities is \$9.0 billion in 1988, \$0.2 billion above the 1987 level.

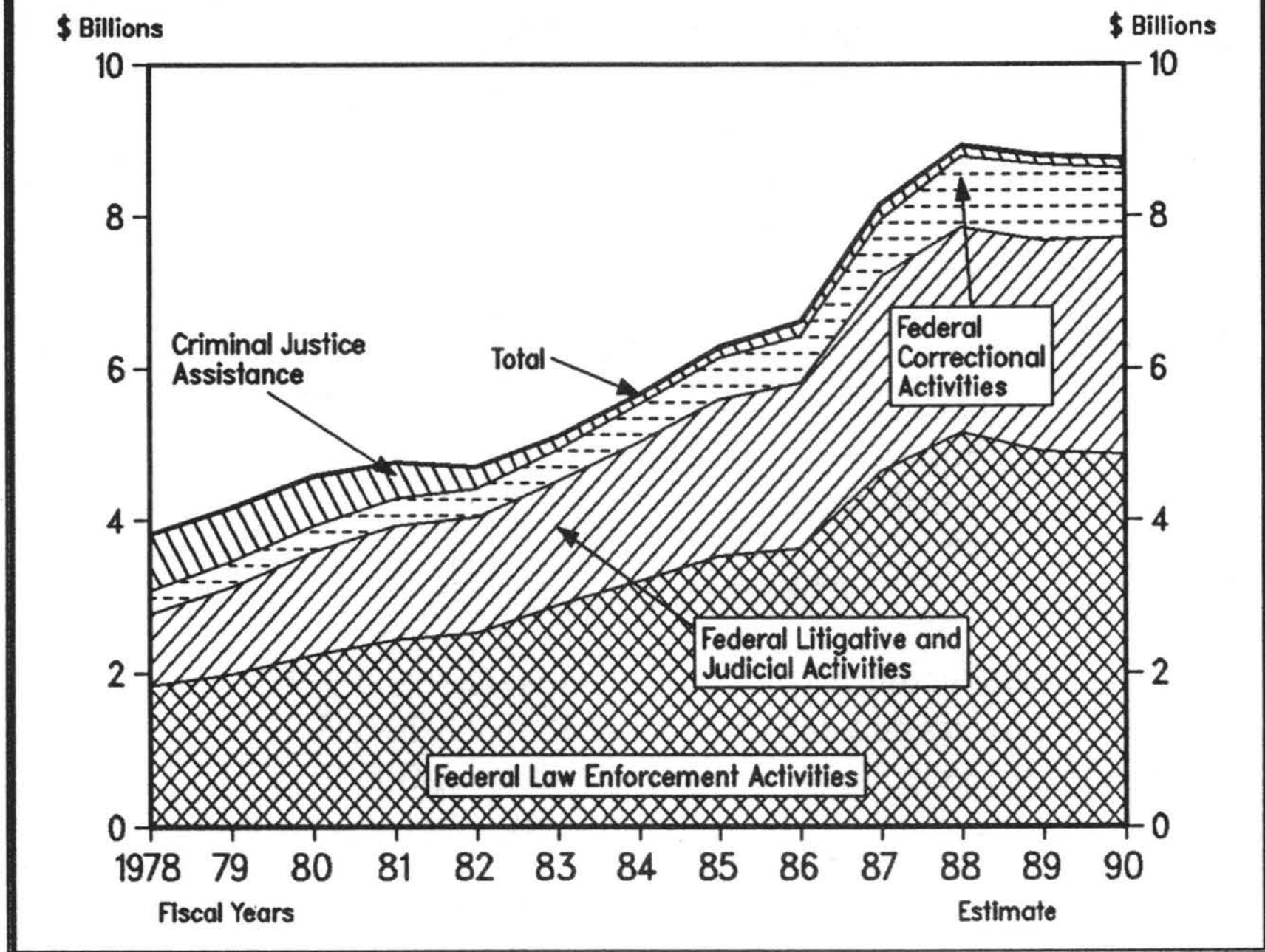
Federal Law Enforcement Activities.—More than one-half of outlays for programs in this function are for law enforcement activities. Budget authority for this purpose is proposed to be \$5.1 billion in 1988, \$0.4 billion above the 1987 level.

The Justice Department carries out criminal investigations through the Federal Bureau of Investigation (FBI) and the Drug Enforcement Administration (DEA). The FBI and DEA work together with other Federal agencies through 13 regional task forces on organized crime drug enforcement. The administration is requesting full funding for over 600 domestic and foreign positions added to the DEA by the Anti-Drug Abuse Act of 1986, as well as funding to improve DEA's computer and technical equipment capabilities. In 1988, additional resources are also being requested for the FBI's foreign counterintelligence activities and for intensified efforts against organized criminal organizations, white collar crime and terrorist activity.

In the area of border enforcement, the budget requests \$400 million of budget authority in 1988 to implement immigration reform legislation. The majority of this money will go to the Immigration and Naturalization Service.

Federal Litigative and Judicial Activities.—The administration's efforts in this area focus on enforcing organized crime and drug

Outlays for Administration of Justice



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 funding beyond 1987 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 activities through State and local governments. In addition, local bar associations have developed programs to provide free assistance to indigent clients, and these efforts are expected to grow, consistent with private attorneys' ethical obligations to provide such free services. Proposed budget authority for litigative and judicial activities is \$2.8 billion in 1988.

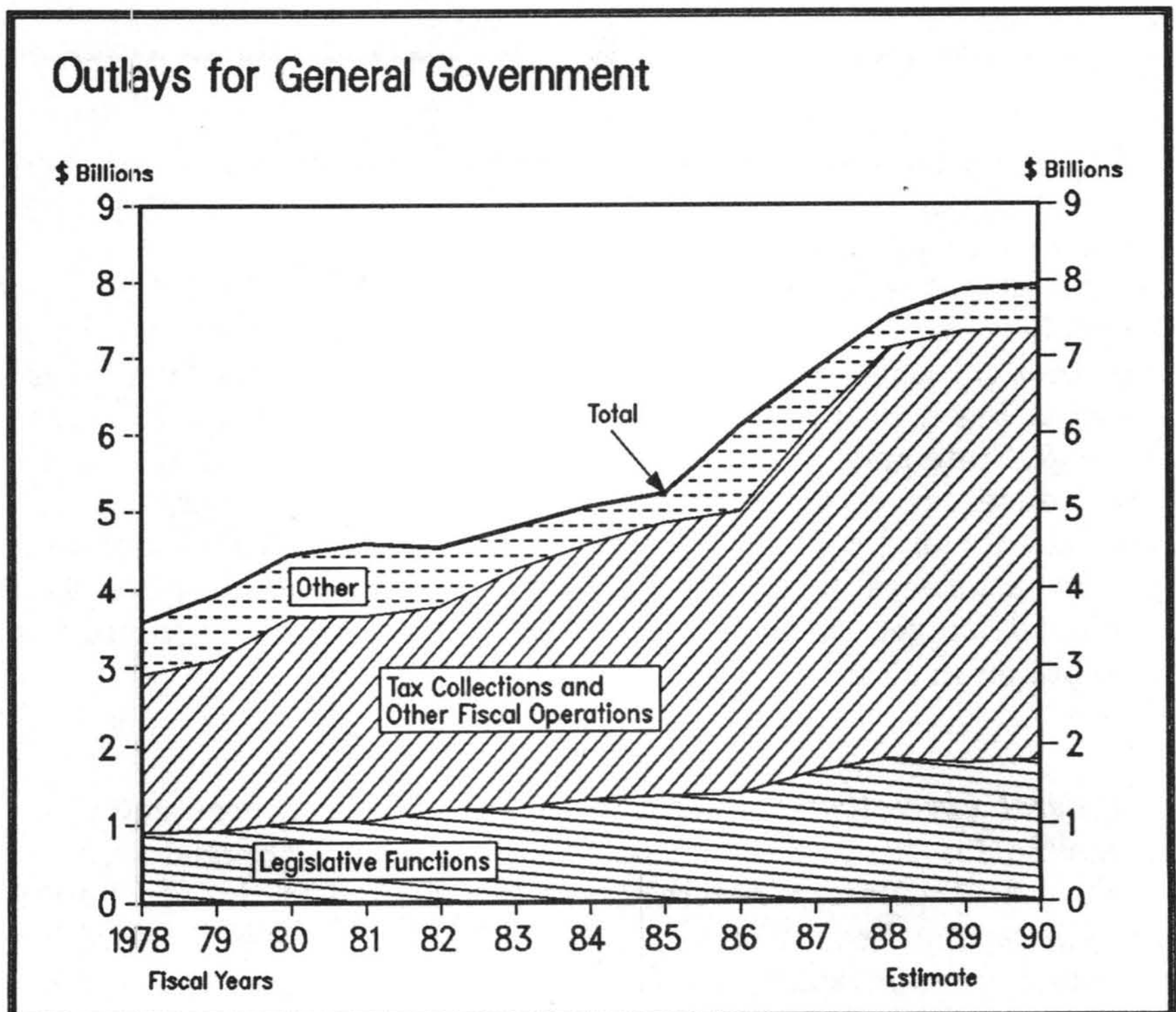
Federal Correctional Activities.—The Federal Government is responsible for the care and custody of prisoners charged with or convicted of violating Federal laws. In response to the continuing growth of the Federal prisoner population, two new prisons are proposed for construction in 1988. In addition, renovation and ex-

pansion projects proposed in this budget would further increase and improve existing facilities. Proposed budget authority for correctional activities is \$1.0 billion in 1988, an increase of \$0.2 billion over 1987.

Criminal Justice Assistance.—The administration is requesting to terminate the juvenile justice and delinquency prevention programs because the primary objective of the programs—the separation of juvenile from adult offenders—has largely been accomplished. The administration is also proposing that funding for the State and local assistance program be ended, since the States can better afford to pay for these programs than can the Federal Government and because the States and localities benefit from them. Outlays for criminal justice assistance in 1988 are estimated to be \$0.4 billion, \$43 million above the 1987 level.

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 Serv-

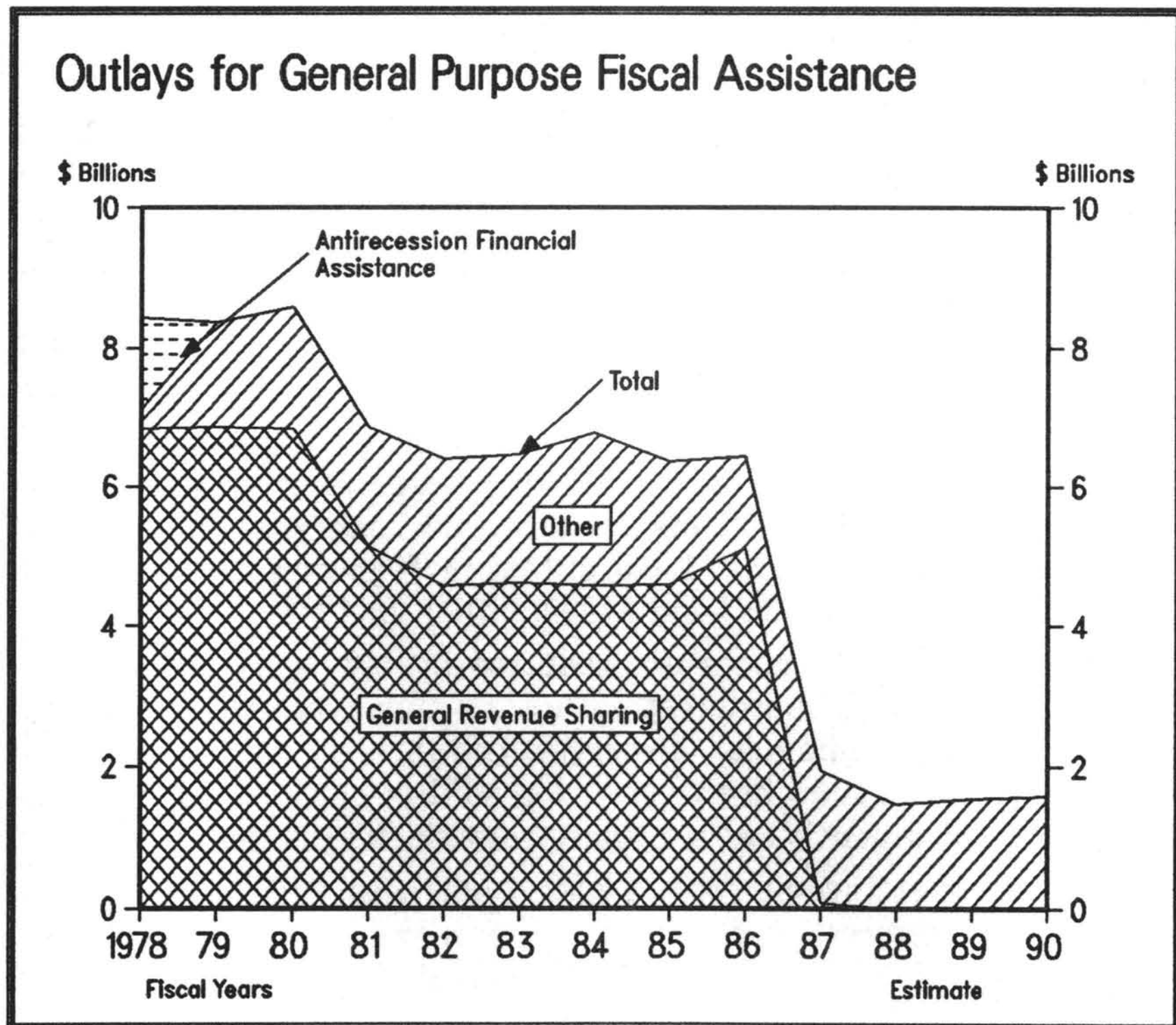


ices Administration, central personnel management activities of the Office of Personnel Management (OPM), and archive and recordkeeping activities. Outlays for general government are estimated to be \$7.5 billion in 1988.

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. Outlays for this assistance are estimated to decline from \$1.9 billion in 1987 to \$1.5 billion in 1988.



General Revenue Sharing.—In 1987, the phasing out of the general revenue sharing program essentially will be completed. 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. The estimated Federal outlays of \$82 million in 1987 for this program will be to distribute the remainder of funds appropriated in prior years.

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 \$1.9 billion in 1987 and \$1.5 billion in 1988. 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

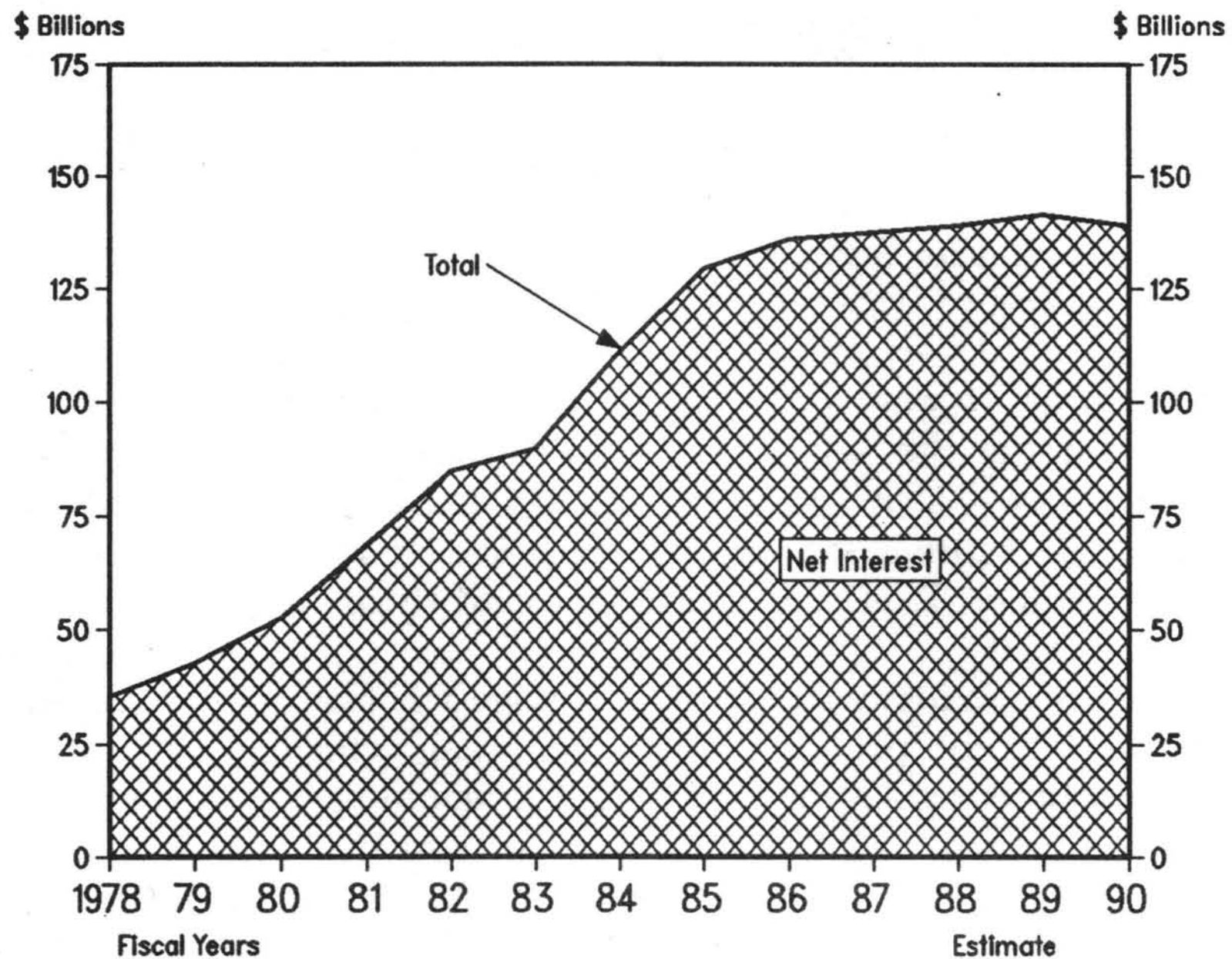
Net interest includes the Federal Government's cost of borrowing and most of its income from lending money. It consists of the interest costs of borrowing to finance the public debt and the collections of interest payments from Government trust funds and from the public.

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. The gross Federal debt is rising significantly, but the projected decline in interest rates largely offsets the cost associated with this growth. Net interest outlays were \$136.0 billion in 1986 and are estimated to be \$137.5 billion in 1987 and \$139.0 billion in 1988.

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 Outlays



NET INTEREST

(In billions of dollars)

	1986 actual	1987 estimate	1988 estimate	1989 estimate	1990 estimate
Interest on the public debt.....	190.2	191.7	198.4	205.6	208.6
Interest received by on-budget trust funds	-26.6	-28.7	-31.6	-35.2	-38.3
Interest received by off-budget trust funds.....	-4.3	-5.1	-6.6	-9.2	-12.3
Other interest.....	-23.3	-20.5	-21.2	-19.6	-19.0
Net interest outlays.....	136.0	137.5	139.0	141.5	139.0

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 or receipts for the appropriate agencies and functions.

The allowance for civilian agency pay raises reflects the assumption that Federal civilian employees will receive a 2.0 percent pay raise in January 1988 and 3.0 percent in January of each year thereafter. Also included are amounts for pay increases for top-

level officials in the executive, legislative, and judicial branches. The allowance for Coast Guard military personnel pay raises reflects the administration's proposed 4.0 percent pay increase in January 1988 and assumes that pay raises in all other years will match those granted to Department of Defense military employees.

The administration proposes to increase the thresholds of coverage under the Davis-Bacon and related acts, which cover wages paid to workers on Federal and federally-aided construction projects, and the Service Contract Act, which covers wages and benefits paid to workers under Federal service contracts. The threshold of coverage under the Davis-Bacon Act has not been revised since it was set at \$2,000 in 1935, while the threshold of coverage under the Service Contract Act has not been revised since it was set at \$2,500 in 1965. The thresholds are proposed to be raised to \$1 million for defense contracts and \$100,000 for nondefense contracts. This proposal is expected to reduce outlays by \$24 million in 1988.

The administration proposes to change the budgetary accounting of Federal credit programs. This proposal, which is estimated to reduce outlays by \$1.3 billion in 1988, would separate the subsidy value of a loan from its financing.

The formula used to determine the Government's contribution for employees' health premiums is currently based on a simple average of the high-option coverage offered by six of the largest plans. The administration proposes to change the formula to a weighted average that reflects the premiums of all Federal employees health benefit plans and the distribution of enrollees among those plans, thereby reducing outlays by \$140 million in 1988.

The administration is also proposing personnel reforms to foster more efficient delivery of Government services; these are estimated to reduce outlays by at least \$200 million in 1989.

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 subfunction 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 \$28.0 billion in 1987 and \$32.1 billion in 1988, while the collections by off-budget accounts amount to \$3.3 billion in 1987 and \$5.5 billion in 1988. Included in these totals are the effects of the administration's proposals to require the Postal Service to begin paying the full employer share of the cost of employee pensions and to require the Department of Defense to make social security contributions for wage credits earned by military personnel.

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 \$3.9 billion in 1987 and \$3.7 billion in 1988.

The Omnibus Budget Reconciliation Act of 1986 authorized the sale of Conrail. It is anticipated that the sale will be concluded in 1987 and that receipts from the sale, including cash transfers already made by Conrail to Treasury, could amount to \$1.9 billion. The administration proposes to sell the naval petroleum reserves for an estimated \$3.3 billion at the end of 1988, and the five Federal power marketing administrations, beginning in 1989. The administration also proposes to sell some or all of Amtrak's assets in 1988 for \$1.0 billion and to auction Federal Communications Commission licenses for use of the unassigned spectrum for approximately \$600 million 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	1986	1987	1988
National defense.....	2.5	2.4	2.2
International affairs.....	4.6	4.7	4.4
General science, space, and technology	3.9	3.5	3.0
Energy.....	1.4	0.7	0.5
Natural resources and environment.....	3.3	3.1	3.4
Agriculture	1.2	0.6	0.8
Commerce and housing credit.....	219.6	163.7	130.1
Transportation.....	0.2	0.1	0.2
Community and regional development.....	1.1	1.3	1.7
Education, training, employment, and social services.....	31.8	22.8	20.0
Health	37.9	34.8	35.6
Income security.....	107.9	90.4	78.9
Social security.....	18.4	17.9	16.6
Veterans benefits and services.....	2.3	2.1	1.9
General government	0.2	0.1	.....
General purpose fiscal assistance.....	36.3	31.2	27.6
Net interest.....	0.8	0.8	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.

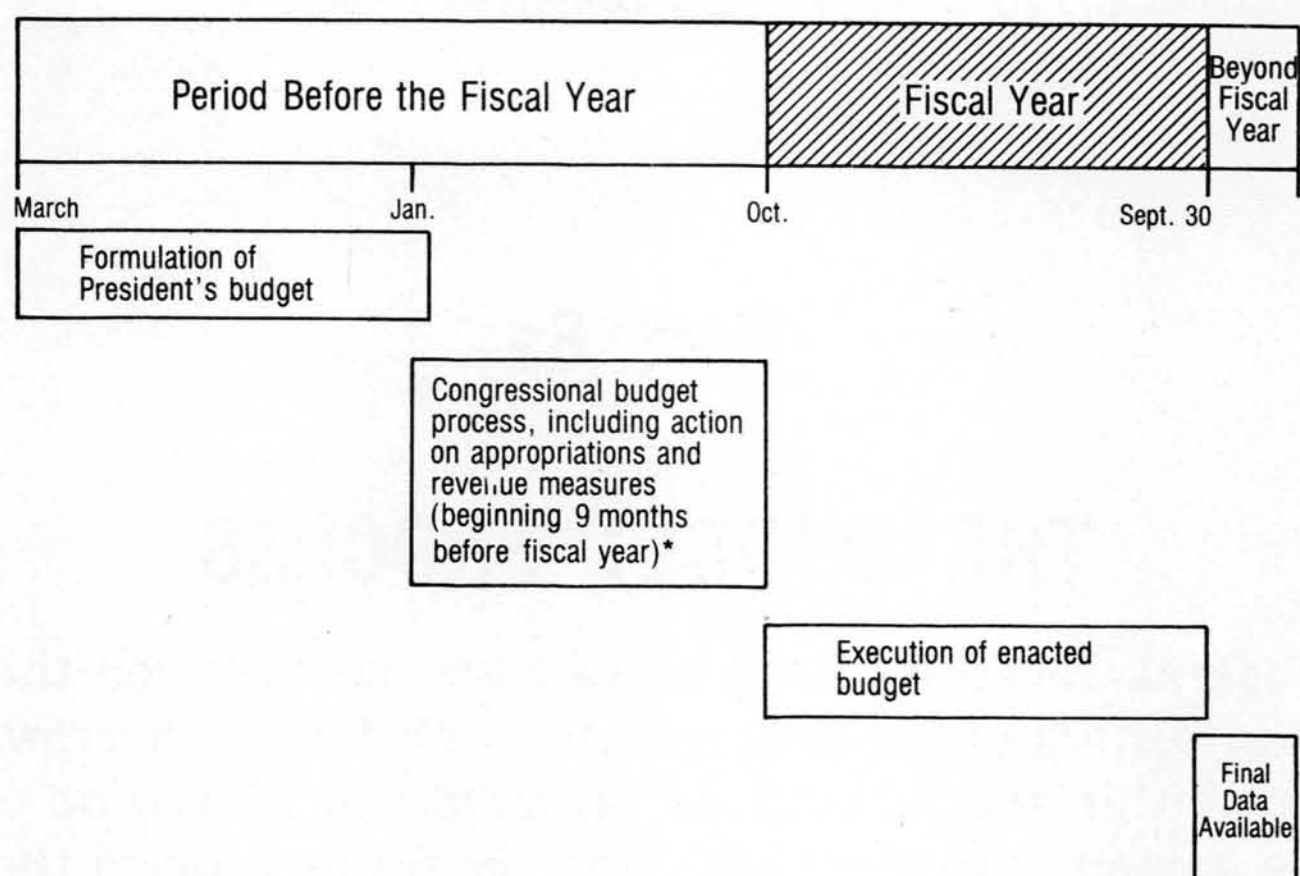
Executive formulation and transmittal.—The budget sets forth the President's financial plan of operation for the Federal Government. The President's transmittal of budget proposals to the Congress is the result of many months of planning and analysis throughout the executive branch. Formulation of the 1988 budget began in mid-1986.

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, which specifies deficit targets each year designed to achieve a balanced budget by 1991.

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

Major Steps in the Budget Process



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

subsequent fiscal years without any policy changes, thereby providing a base with which to compare proposed changes.

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, 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 are scheduled to 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 exceeds the specified target by \$10 billion, a sequestration (i.e. reduction) process is triggered. A sequestration occurred in 1986, the first year to which the act applied. In August, the directors initiated the sequestration process for 1987 by submitting their initial joint report. However, their second report indicated that a number of legislative actions were underway that, if enacted as expected, would avoid the need for a sequestration. The Congress did not order sequestration.

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

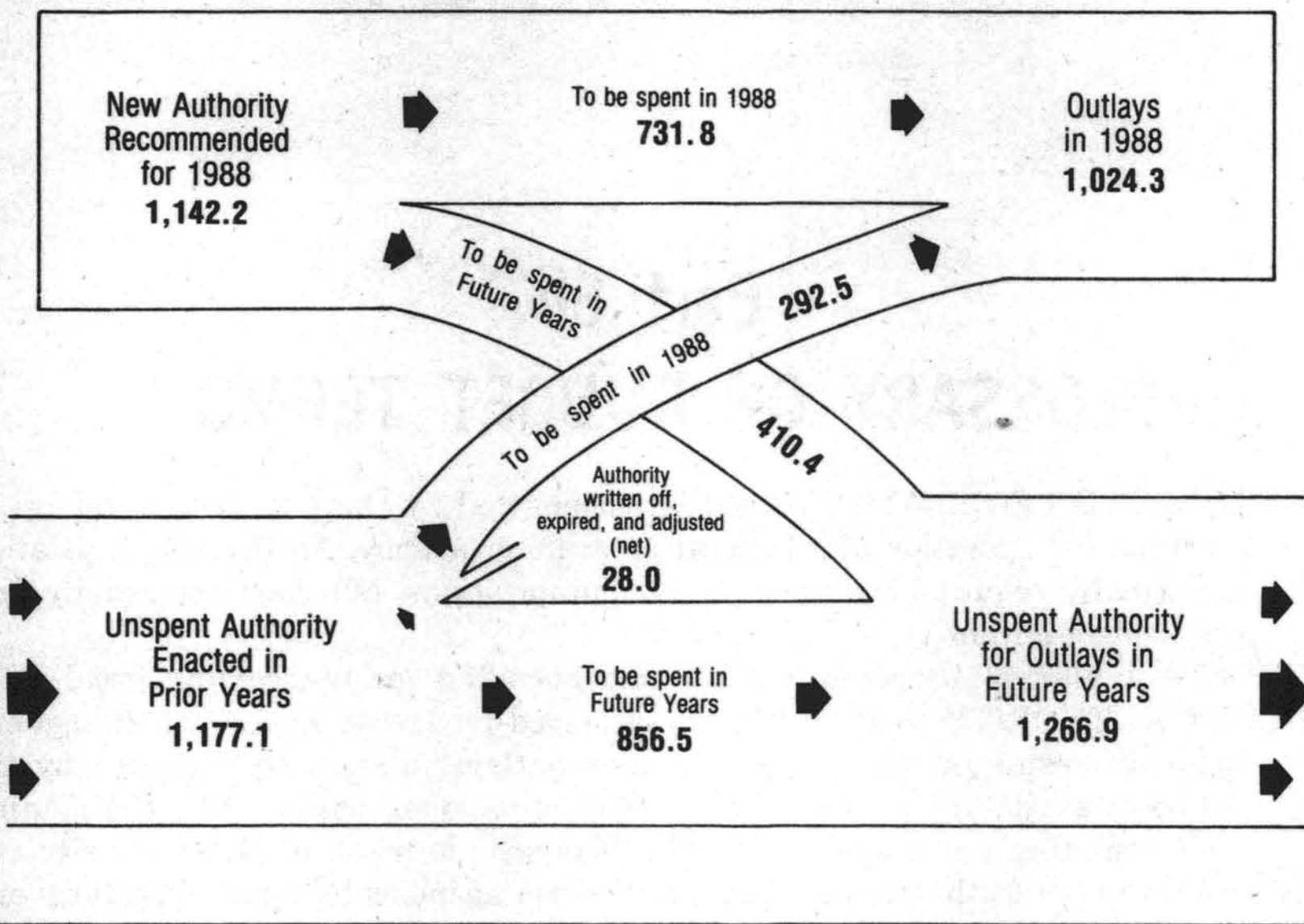
Not all of the new budget authority for 1988 will be obligated or spent in that year.

- 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.

Relation of Budget Authority to Outlays - 1988

\$ Billions



Part 6b

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

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

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.)

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 appropriation 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 6c

SELECTED TABLES

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Table 1. RECEIPTS, OUTLAYS, AND DEBT, 1978-90

(In billions of dollars)

Description	Actual									Estimate			
	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Receipts:													
On-budget:													
Federal funds.....	270.5	316.4	350.9	410.4	409.3	382.4	420.4	459.5	473.5	526.1	569.0	601.4	645.7
Trust funds.....	76.9	86.0	94.7	106.0	122.1	147.3	157.5	197.7	206.9	215.1	232.5	243.9	257.3
Interfund transactions.....	-33.2	-37.0	-41.6	-47.4	-57.1	-76.5	-77.5	-109.4	-111.6	-112.9	-127.1	-132.5	-141.3
Total on-budget.....	314.2	365.3	403.9	469.1	474.3	453.2	500.4	547.9	568.9	628.4	674.5	712.8	761.6
Off-budget (trust funds).....	85.4	98.0	113.2	130.2	143.5	147.3	166.1	186.2	200.2	214.0	242.1	263.4	286.6
Total receipts.....	399.6	463.3	517.1	599.3	617.8	600.6	666.5	734.1	769.1	842.4	916.6	976.2	1,048.3
Outlays:													
On-budget:													
Federal funds.....	342.4	374.9	433.5	496.2	543.4	613.3	638.6	726.1	756.5	769.1	780.5	813.3	840.5
Trust funds.....	59.9	65.7	84.8	94.2	107.9	124.4	124.9	152.7	161.4	164.8	168.5	176.6	186.2
Interfund transactions.....	-33.2	-37.0	-41.6	-47.4	-57.1	-76.5	-77.5	-109.4	-111.6	-112.9	-127.1	-132.5	-141.3
Total on-budget.....	369.1	403.5	476.6	543.0	594.3	661.2	686.0	769.5	806.3	821.1	821.9	857.3	885.4
Off-budget (trust funds).....	89.7	100.0	114.3	135.2	151.4	147.1	165.8	176.8	183.5	194.5	202.4	211.7	222.4
Total outlays.....	458.7	503.5	590.9	678.2	745.7	808.3	851.8	946.3	989.8	1,015.6	1,024.3	1,069.0	1,107.8
Surplus or deficit (-):													
Federal funds.....	-71.9	-58.5	-82.6	-85.8	-134.2	-230.8	-218.2	-266.6	-283.0	-243.0	-211.4	-211.8	-194.9
Trust funds.....	12.7	18.3	8.8	6.8	6.2	23.1	32.9	54.4	62.3	69.8	103.7	119.0	135.4
Total Surplus or deficit (-).....	-59.2	-40.2	-73.8	-78.9	-127.9	-207.8	-185.3	-212.3	-220.7	-173.2	-107.2	-98.2	-59.5
On-budget.....	(-59.4)	(-38.2)	(-72.7)	(-73.9)	(-120.0)	(-208.0)	(-185.6)	(-221.6)	(-237.5)	(-192.7)	(-147.4)	(-144.5)	(-123.8)
Off-budget.....	(-4.3)	(-2.0)	(-1.1)	(-5.0)	(-7.9)	(0.2)	(0.3)	(9.4)	(16.7)	(19.5)	(39.7)	(51.7)	(64.3)
Debt outstanding, end of year:													
Gross Federal debt.....	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.....	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 are presented on-budget.

Table 2. COMPOSITION OF RECEIPTS AND OUTLAYS IN CURRENT PRICES: 1971-90

(In billions of dollars)

Fiscal year	Receipts	Outlays								Surplus or deficit (-)
		Total	National defense	Nondefense					Undistrib- uted offsetting receipts	
				Total nondefense	Payments for individuals	All other grants ¹	Net Interest	Other		
1971.....	187.1	210.2	78.9	131.3	80.4	17.7	14.8	28.5	-10.1	-23.0
1972.....	207.3	230.7	79.2	151.5	92.9	20.6	15.5	32.2	-9.6	-23.4
1973.....	230.8	245.7	76.7	169.0	104.5	28.1	17.3	32.5	-13.4	-14.9
1974.....	263.2	269.4	79.3	190.0	120.1	28.7	21.4	36.5	-16.7	-6.1
1975.....	279.1	332.3	86.5	245.8	153.5	33.3	23.2	49.4	-13.6	-53.2
1976.....	298.1	371.8	89.6	282.2	180.1	39.4	26.7	50.4	-14.4	-73.7
1977.....	355.6	409.2	97.2	312.0	196.3	46.1	29.9	54.5	-14.9	-53.6
1978.....	399.6	458.7	104.5	354.2	211.0	53.7	35.4	69.9	-15.7	-59.2
1979.....	463.3	503.5	116.3	387.1	232.9	55.9	42.6	73.2	-17.5	-40.2
1980.....	517.1	590.9	134.0	456.9	277.5	59.4	52.5	87.4	-19.9	-73.8
1981.....	599.3	678.2	157.5	520.7	323.4	57.8	68.7	98.8	-28.0	-78.9
1982.....	617.8	745.7	185.3	560.4	356.7	50.3	85.0	94.5	-26.1	-127.9
1983.....	600.6	808.3	209.9	598.4	395.3	50.8	89.8	96.5	-34.0	-207.8
1984.....	666.5	851.8	227.4	624.4	399.8	53.2	111.1	92.3	-32.0	-185.3
1985.....	734.1	946.3	252.7	693.6	425.6	57.6	129.4	113.7	-32.8	-212.3
1986.....	769.1	989.8	273.4	716.4	448.0	60.8	136.0	104.7	-33.0	-220.7
1987 estimate.....	842.4	1,015.6	282.2	733.3	465.3	55.5	137.5	112.2	-37.1	-173.2
1988 estimate.....	916.6	1,024.3	297.6	726.8	481.0	53.2	139.0	98.9	-45.4	-107.8
1989 estimate.....	976.2	1,069.0	312.2	756.8	509.5	53.2	141.5	98.3	-45.8	-92.8
1990 estimate.....	1,048.3	1,107.8	330.0	777.8	538.1	51.6	139.0	97.7	-48.5	-59.5

¹ Grants to State and local governments excluding those for payments for individuals.

Note—Excludes transition quarter.

Table 2. COMPOSITION OF RECEIPTS AND OUTLAYS IN CONSTANT (FISCAL YEAR 1982) PRICES: 1971-90—Continued

(In billions of dollars)

Fiscal year	Receipts	Outlays								Surplus or deficit (-)
		Total	National defense	Nondefense					Undistrib-uted offsetting receipts	
				Total nondefense	Payments for individuals	All other grants ¹	Net interest	Other		
1971.....	453.6	509.4	202.7	306.7	181.0	43.3	34.0	75.8	-27.3	-55.8
1972.....	474.2	527.6	190.9	336.7	200.1	47.4	33.6	79.7	-24.1	-53.5
1973.....	495.5	527.5	175.1	352.4	215.7	60.5	35.9	68.4	-28.1	-32.0
1974.....	516.6	528.7	163.3	365.3	228.3	56.8	41.1	71.9	-32.8	-12.0
1975.....	592.1	586.0	159.8	426.2	265.8	58.5	40.4	84.9	-23.4	-93.9
1976.....	488.9	609.8	153.6	456.2	291.7	64.3	43.0	80.1	-22.9	-120.9
1977.....	541.0	622.6	154.3	468.3	295.5	70.1	44.6	79.9	-21.7	-81.6
1978.....	568.0	652.2	155.0	497.1	296.8	75.7	49.4	97.0	-21.7	-84.1
1979.....	607.5	660.2	159.1	501.0	301.6	71.8	54.7	95.9	-22.9	-52.7
1980.....	611.7	699.1	164.0	535.1	324.7	68.4	62.0	103.8	-23.8	-87.3
1981.....	642.0	726.5	171.4	555.2	344.3	61.3	73.7	106.0	-30.1	-84.6
1982.....	617.8	745.7	185.3	560.4	356.7	50.3	85.0	94.5	-26.1	-127.9
1983.....	576.9	776.5	201.3	575.1	378.6	48.8	86.1	95.0	-33.4	-199.6
1984.....	618.1	789.9	211.5	578.4	368.6	49.2	102.6	88.5	-30.5	-171.9
1985.....	657.8	848.0	228.7	619.3	379.3	50.7	115.6	103.3	-29.5	-190.2
1986.....	673.0	866.2	242.1	624.1	389.4	51.5	117.9	94.6	-29.4	-193.2
1987 estimate.....	715.2	862.3	242.6	619.7	392.2	45.7	115.6	98.4	-32.2	-147.0
1988 estimate.....	751.0	839.3	246.9	592.5	391.6	42.2	113.0	84.1	-38.4	-88.3
1989 estimate.....	773.1	846.6	250.2	596.4	400.8	40.8	111.1	80.8	-37.1	-73.5
1990 estimate.....	803.0	848.6	256.0	592.6	409.6	38.2	105.6	77.8	-38.5	-45.6

¹ Grants to State and local governments excluding those for payments for individuals.

Note.—Excludes transition quarter.

Table 3. RECEIPTS BY SOURCE AND OUTLAYS BY FUNCTION, 1978-88

(In billions of dollars)

Description	Actual									Estimate	
	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
RECEIPTS BY SOURCE											
Individual income taxes.....	181.0	217.8	244.1	285.9	297.7	288.9	298.4	334.5	349.0	364.0	392.8
Corporation income taxes.....	60.0	65.7	64.6	61.1	49.2	37.0	56.9	61.3	63.1	104.8	117.2
Social insurance taxes and contributions:											
Employment taxes and contributions.....	103.9	120.1	138.7	163.0	180.7	185.8	209.7	234.6	255.1	273.2	307.4
Unemployment insurance.....	13.8	15.4	15.3	15.8	16.6	18.8	25.1	25.8	24.1	23.8	22.2
Other retirement contributions.....	3.2	3.5	3.7	4.0	4.2	4.4	4.6	4.8	4.7	4.4	3.5
Total social insurance taxes and contributions.....	121.0	138.9	157.8	182.7	201.5	209.0	239.4	265.2	283.9	301.5	333.2
On-budget.....	(35.6)	(40.9)	(44.6)	(52.5)	(58.0)	(61.7)	(73.3)	(79.0)	(83.7)	(87.4)	(91.1)
Off-budget.....	(85.4)	(98.0)	(113.2)	(130.2)	(143.5)	(147.3)	(166.1)	(186.2)	(200.2)	(214.0)	(242.1)
Excise taxes:											
Alcohol.....	5.5	5.5	5.6	5.6	5.4	5.6	5.3	5.6	5.8	5.9	5.9
Tobacco.....	2.4	2.5	2.4	2.6	2.5	4.1	4.7	4.8	4.6	4.8	4.6
Highway.....	6.9	7.2	6.6	6.3	6.7	8.3	11.7	13.0	13.4	13.7	15.1
Airport and airway.....	1.3	1.5	1.9	*	0.1	2.2	2.5	2.9	2.7	3.1	3.4
Windfall profit tax.....			6.9	23.3	18.4	12.1	8.9	6.3	2.3	—*	
Other.....	2.2	2.0	0.9	3.1	3.1	3.0	4.2	3.4			
Total excise taxes.....	18.4	18.7	24.3	40.8	36.3	35.3	37.4	36.0	32.9	32.6	33.4
Estate and gift taxes.....	5.3	5.4	6.4	6.8	8.0	6.1	6.0	6.4	7.0	6.0	5.8
Customs duties.....	6.6	7.4	7.2	8.1	8.9	8.7	11.4	12.1	13.3	14.4	15.3
Miscellaneous receipts.....	7.4	9.3	12.7	13.8	16.2	15.6	17.0	18.5	19.9	19.1	18.9
Total receipts.....	399.6	463.3	517.1	599.3	617.8	600.6	666.5	734.1	769.1	842.4	916.6
On-budget.....	(314.2)	(365.3)	(403.9)	(469.1)	(474.3)	(453.2)	(500.4)	(547.9)	(568.9)	(628.4)	(674.5)
Off-budget.....	(85.4)	(98.0)	(113.2)	(130.2)	(143.5)	(147.3)	(166.1)	(186.2)	(200.2)	(214.0)	(242.1)

Table 3. RECEIPTS BY SOURCE AND OUTLAYS BY FUNCTION, 1978-88—Continued

(In billions of dollars)

Description	Actual									Estimate	
	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
OUTLAYS BY FUNCTION											
National defense.....	104.5	116.3	134.0	157.5	185.3	209.9	227.4	252.7	273.4	282.2	297.6
International affairs.....	7.5	7.5	12.7	13.1	12.3	11.8	15.9	16.2	14.2	14.6	15.2
General science, space, and technology.....	4.9	5.2	5.8	6.5	7.2	7.9	8.3	8.6	9.0	9.5	11.4
Energy.....	8.0	9.2	10.2	15.2	13.5	9.4	7.1	5.7	4.7	3.8	3.3
Natural resources and environment.....	11.0	12.1	13.9	13.6	13.0	12.7	12.6	13.4	13.6	13.9	14.2
Agriculture.....	11.4	11.2	8.8	11.3	15.9	22.9	13.6	25.6	31.4	31.1	26.3
Commerce and housing credit.....	6.3	4.7	9.4	8.2	6.3	6.7	6.9	4.2	4.4	9.3	2.5
Transportation.....	15.5	17.5	21.3	23.4	20.6	21.3	23.7	25.8	28.1	27.0	25.5
Community and regional development.....	11.8	10.5	11.3	10.6	8.3	7.6	7.7	7.7	7.2	6.2	5.5
Education, training, employment, and social services.....	26.7	30.2	31.8	33.7	27.0	26.6	27.6	29.3	30.6	29.8	28.4
Health.....	18.5	20.5	23.2	26.9	27.4	28.6	30.4	33.5	35.9	39.7	38.9
Medicare.....	22.8	26.5	32.1	39.1	46.6	52.6	57.5	65.8	70.2	71.6	73.0
Income security.....	61.5	66.4	86.5	99.7	107.7	122.6	112.7	128.2	119.8	124.9	124.8
Social Security.....	93.9	104.1	118.5	139.6	156.0	170.7	178.2	188.6	212.2	198.8	207.9
On-budget.....	(0.7)	(0.8)	(0.7)	(0.7)	(0.8)	(20.0)	(7.1)	(5.2)	(8.1)	(5.0)	(4.9)
Off-budget.....	(93.1)	(103.3)	(117.9)	(138.9)	(155.1)	(150.7)	(171.2)	(183.4)	(190.7)	(202.9)	(214.5)
Veterans benefits and services.....	19.0	19.9	21.2	23.0	24.0	24.8	25.6	26.4	26.4	26.7	27.2
Administration of justice.....	3.8	4.2	4.6	4.8	4.7	5.1	5.7	6.3	6.6	8.3	9.2
General government.....	3.6	3.9	4.4	4.6	4.5	4.8	5.1	5.2	6.1	6.8	7.5
General purpose fiscal assistance.....	8.4	8.4	8.6	6.9	6.4	6.5	6.8	6.4	6.4	1.9	1.5
Net interest.....	35.4	42.6	52.5	68.7	85.0	89.8	111.1	129.4	136.0	137.5	139.0
On-budget.....	(37.8)	(44.8)	(54.9)	(71.0)	(87.1)	(91.6)	(114.4)	(133.6)	(140.3)	(142.5)	(145.6)
Off-budget.....	(-2.4)	(-2.2)	(-2.3)	(-2.3)	(-2.1)	(-1.8)	(-3.3)	(-4.1)	(-4.3)	(-5.1)	(-5.6)
Allowances.....											-0.8

Table 3. RECEIPTS BY SOURCE AND OUTLAYS BY FUNCTION, 1978-88—Continued

(In billions of dollars)

Description	Actual									Estimate	
	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
OUTLAYS BY FUNCTION											
Undistributed offsetting receipts.....	-15.7	-17.5	-19.9	-28.0	-26.1	-34.0	-32.0	-32.8	-33.0	-37.1	-45.4
On-budget.....	(-14.7)	(-16.4)	(-18.7)	(-26.6)	(-24.5)	(-32.2)	(-29.9)	(-30.3)	(-30.2)	(-33.8)	(-39.9)
Off-budget.....	(-1.1)	(-1.1)	(-1.2)	(-1.4)	(-1.6)	(-1.8)	(-2.0)	(-2.5)	(-2.9)	(-3.3)	(-5.5)
Total outlays.....	458.7	503.5	590.9	678.2	745.7	808.3	851.8	946.3	989.8	1,015.6	1,024.3
On-budget.....	(369.1)	(403.5)	(476.6)	(543.0)	(594.3)	(661.2)	(686.0)	(769.5)	(806.3)	(821.1)	(821.9)
Off-budget.....	(89.7)	(100.0)	(114.3)	(135.2)	(151.4)	(147.1)	(165.8)	(176.8)	(183.5)	(194.5)	(202.4)

*\$50 million or less.

Table 4. OUTLAYS BY FUNCTION AND SUBFUNCTION, 1978-90

(In billions of dollars)

Function and subfunction	Actual									Estimate			
	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
National defense:													
Department of Defense—Military:													
Military personnel.....	35.6	37.3	40.9	47.9	55.2	60.9	64.2	67.8	71.5	70.8	75.7	76.1	77.7
Operation and maintenance.....	33.6	36.4	44.8	51.9	59.7	64.9	67.4	72.3	75.3	76.7	81.4	86.2	94.7
Procurement.....	20.0	25.4	29.0	35.2	43.3	53.6	61.9	70.4	76.5	82.7	82.8	83.6	88.7
Research and development.....	10.5	11.2	13.1	15.3	17.7	20.6	23.1	27.1	32.3	34.2	38.3	42.1	38.9
Military construction and other.....	2.7	3.3	3.2	3.6	4.9	4.5	4.3	7.7	10.1	9.8	11.2	15.7	21.0
Subtotal, Department of Defense—Military.....	102.3	113.7	131.0	153.8	180.7	204.4	220.8	245.4	265.6	274.2	289.3	303.7	321.0
Atomic energy defense activities.....	2.1	2.5	2.9	3.4	4.3	5.2	6.1	7.1	7.4	7.4	7.8	8.3	8.8
Defense-related activities.....	0.1	0.1	0.1	0.3	0.3	0.3	0.5	0.3	0.3	0.6	0.4	0.2	0.2
Total national defense.....	104.5	116.3	134.0	157.5	185.3	209.9	227.4	252.7	273.4	282.2	297.6	312.2	330.0
International affairs:													
International development and humanitarian assistance.....	2.6	2.9	3.6	4.1	3.8	4.0	4.5	5.4	5.0	4.4	4.9	5.0	4.8
International security assistance.....	3.9	3.7	4.8	5.1	5.4	6.6	7.9	9.4	10.5	8.6	7.7	9.8	9.5
Conduct of foreign affairs.....	1.1	1.3	1.4	1.3	1.6	1.8	1.9	2.1	2.3	2.7	3.0	3.1	3.3
Foreign information and exchange activities..	0.4	0.5	0.5	0.5	0.6	0.6	0.7	0.8	0.9	1.0	1.1	1.1	1.2
International financial programs.....	-0.6	-0.9	2.4	2.0	0.9	-1.1	0.9	-1.5	-4.5	-2.1	-1.5	-0.9	-0.9
Total international affairs.....	7.5	7.5	12.7	13.1	12.3	11.8	15.9	16.2	14.2	14.6	15.2	18.1	17.9
General science, space, and technology:													
General science and basic research.....	1.2	1.3	1.4	1.5	1.6	1.6	1.8	2.0	2.2	2.3	2.6	2.8	3.2
Space flight.....	2.3	2.2	2.6	3.1	3.5	4.1	4.0	4.0	3.8	4.3	5.6	6.9	6.6
Space science, applications, and technology..	1.0	1.2	1.3	1.4	1.5	1.5	1.7	1.9	2.1	2.2	2.3	2.4	2.6
Supporting space activities.....	0.5	0.6	0.5	0.6	0.6	0.8	0.8	0.8	0.8	0.8	1.0	1.0	1.1

Table 4. OUTLAYS BY FUNCTION AND SUBFUNCTION, 1978-90—Continued

(In billions of dollars)

Function and subfunction	Actual									Estimate			
	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Total general science, space, and technology	4.9	5.2	5.8	6.5	7.2	7.9	8.3	8.6	9.0	9.5	11.4	13.2	13.5
Energy:													
Energy supply.....	6.1	7.2	8.4	10.2	8.2	6.1	3.3	2.6	2.8	1.9	2.1	1.7	2.1
Energy conservation.....	0.2	0.3	0.6	0.7	0.5	0.5	0.5	0.5	0.5	0.4	0.2	0.1	0.1
Emergency energy preparedness.....	0.9	1.0	0.3	3.3	3.9	1.9	2.5	1.8	0.6	0.7	0.4	0.4	0.4
Energy information, policy, and regulation.....	0.8	0.7	0.9	1.0	0.9	0.9	0.8	0.7	0.8	0.7	0.7	0.7	0.7
Total energy	8.0	9.2	10.2	15.2	13.5	9.4	7.1	5.7	4.7	3.8	3.3	2.9	3.2
Natural resources and environment:													
Water resources.....	3.4	3.9	4.2	4.1	3.9	3.9	4.1	4.1	4.0	4.2	4.1	4.4	4.4
Conservation and land management.....	1.0	0.8	1.0	1.2	1.1	1.5	1.3	1.5	1.4	1.6	2.5	3.0	3.2
Recreational resources.....	1.4	1.5	1.7	1.6	1.4	1.5	1.6	1.6	1.5	1.6	1.4	1.4	1.3
Pollution control and abatement.....	4.0	4.7	5.5	5.2	5.0	4.3	4.0	4.5	4.8	4.5	4.6	4.6	4.6
Other natural resources.....	1.2	1.3	1.4	1.5	1.5	1.5	1.6	1.7	1.9	1.9	1.7	1.8	1.8
Total natural resources and environment	11.0	12.1	13.9	13.6	13.0	12.7	12.6	13.4	13.6	13.9	14.2	15.2	15.3
Agriculture:													
Farm income stabilization.....	10.2	9.9	7.4	9.8	14.3	21.3	11.9	23.8	29.6	29.2	24.5	20.0	16.5
Agricultural research and services.....	1.1	1.3	1.4	1.5	1.6	1.6	1.7	1.8	1.8	1.9	1.8	1.8	1.7
Total agriculture	11.4	11.2	8.8	11.3	15.9	22.9	13.6	25.6	31.4	31.1	26.3	21.8	18.2
Commerce and housing credit:													
Mortgage credit and thrift insurance.....	3.6	2.3	5.6	4.7	4.0	3.9	3.8	0.9	1.9	5.5	2.0	2.7	3.5
Postal Service.....	1.3	0.9	1.2	1.4	0.2	1.1	1.2	1.4	0.8	1.8	3.0	1.6	1.8
Other advancement of commerce.....	1.4	1.5	2.5	2.1	2.1	1.7	1.9	2.0	1.8	2.0	1.5	1.7	3.1
Total commerce and housing credit	6.3	4.7	9.4	8.2	6.3	6.7	6.9	4.2	4.4	9.3	2.5	0.7	1.4

Transportation:													
Ground transportation.....	10.4	12.1	15.3	17.1	14.3	14.3	16.2	17.6	18.7	17.9	16.6	17.7	17.0
Air transportation.....	3.2	3.4	3.7	3.8	3.5	4.0	4.4	4.9	5.3	5.3	5.9	6.2	6.4
Water transportation.....	1.8	2.0	2.2	2.4	2.7	3.0	3.0	3.2	4.0	3.7	2.9	2.8	2.9
Other transportation.....	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total transportation	15.5	17.5	21.3	23.4	20.6	21.3	23.7	25.8	28.1	27.0	25.5	26.7	26.4
Community and regional development:													
Community development.....	3.3	4.0	4.9	5.1	4.6	4.4	4.5	4.6	4.1	4.3	3.7	3.1	3.0
Area and regional development.....	5.7	4.9	4.3	3.8	3.8	3.2	3.0	3.1	2.7	1.9	1.8	1.2	0.8
Disaster relief and insurance	2.9	1.6	2.0	1.7	-0.1	-*	0.1	-*	0.4	-*	*	0.1	0.2
Total community and regional de- velopment	11.8	10.5	11.3	10.6	8.3	7.6	7.7	7.7	7.2	6.2	5.5	4.4	4.0
Education, training, employment, and social services:													
Elementary, secondary, and vocational edu- cation.....	5.2	6.1	6.9	7.2	6.8	6.3	6.5	7.6	7.8	7.6	7.8	7.6	7.6
Higher education.....	3.7	5.1	6.7	8.9	7.2	7.2	7.4	8.2	8.4	7.5	5.5	5.3	4.2
Research and general education aids.....	1.0	1.1	1.2	1.0	1.0	1.1	1.2	1.1	1.2	1.4	1.3	1.2	1.1
Training and employment.....	10.8	10.8	10.3	9.2	5.5	5.3	4.6	5.0	5.3	5.0	5.2	5.9	5.7
Other labor services.....	0.4	0.5	0.6	0.6	0.6	0.6	0.6	0.7	0.7	0.7	0.8	0.8	0.8
Social services.....	5.6	6.6	6.1	6.9	5.9	6.1	7.2	6.7	7.2	7.5	7.9	8.1	8.5
Total education, training, employ- ment, and social services.....	26.7	30.2	31.8	33.7	27.0	26.6	27.6	29.3	30.6	29.8	28.4	28.9	28.0
Health:													
Health care services	13.9	16.0	18.0	21.2	21.8	23.0	24.5	27.0	28.8	32.0	31.5	32.9	34.6
Health research	2.8	3.0	3.4	3.8	3.9	4.0	4.4	4.9	5.4	5.9	6.2	6.2	6.3
Education and training of health care work force	0.9	0.6	0.7	0.8	0.7	0.6	0.4	0.5	0.5	0.5	0.4	0.4	0.4

Table 4. OUTLAYS BY FUNCTION AND SUBFUNCTION, 1978-90—Continued

(In billions of dollars)

Function and subfunction	Actual									Estimate			
	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Consumer and occupational health and safety.....	0.8	0.9	1.0	1.0	1.0	1.1	1.1	1.2	1.2	1.2	0.9	0.9	0.9
Total health.....	18.5	20.5	23.2	26.9	27.4	28.6	30.4	33.5	35.9	39.7	38.9	40.4	42.2
Medicare.....	22.8	26.5	32.1	39.1	46.6	52.6	57.5	65.8	70.2	71.6	73.0	81.1	87.9
Income security:													
General retirement and disability insurance ...	3.4	4.4	5.1	5.4	5.6	5.6	5.4	5.6	5.3	5.5	5.4	5.5	5.7
Federal employee retirement and disability	19.8	22.7	26.6	31.3	34.3	36.5	38.1	38.6	41.4	43.6	42.9	45.5	48.2
Unemployment compensation.....	11.8	10.7	18.0	19.7	23.7	31.5	18.4	17.5	17.8	18.0	17.7	17.5	17.9
Housing assistance.....	3.7	4.4	5.6	7.8	8.7	10.0	11.3	25.3	12.4	12.9	13.4	13.7	14.2
Food and nutrition assistance.....	8.9	10.8	14.0	16.2	15.6	18.0	18.1	18.5	18.6	19.4	18.6	19.1	19.8
Other income security.....	13.9	13.4	17.2	19.4	19.8	21.1	21.4	22.7	24.4	25.5	26.8	27.3	27.7
Total income security.....	61.5	66.4	86.5	99.7	107.7	122.6	112.7	128.2	119.8	124.9	124.8	128.7	133.5
Social security.....	93.9	104.1	118.5	139.6	156.0	170.7	178.2	188.6	198.8	207.9	219.4	232.5	246.8
On-budget.....	(0.7)	(0.8)	(0.7)	(0.7)	(0.8)	(20.0)	(7.1)	(5.2)	(8.1)	(5.0)	(4.9)	(5.4)	(5.4)
Off-budget.....	(93.1)	(103.3)	(117.9)	(138.9)	(155.1)	(150.7)	(171.2)	(183.4)	(190.7)	(202.9)	(214.5)	(227.0)	(241.4)
Veterans benefits and services:													
Income security for veterans.....	9.7	10.8	11.7	12.9	13.7	14.3	14.4	14.7	15.0	15.1	15.2	15.6	15.9
Veterans education, training, and rehabilitation.....	3.4	2.8	2.3	2.3	1.9	1.6	1.4	1.1	0.5	0.4	0.5	0.5	0.4
Hospital and medical care for veterans.....	5.3	5.6	6.5	7.0	7.5	8.3	8.9	9.5	9.9	10.3	10.5	10.7	10.9
Veterans housing.....	*	0.2	—*	0.2	0.1	*	0.2	0.2	0.1	0.1	—*	—0.1	—*
Other veterans benefits and services.....	0.6	0.6	0.7	0.7	0.7	0.7	0.8	0.8	0.8	0.8	0.9	0.9	0.9
Total veterans benefits and services.....	19.0	19.9	21.2	23.0	24.0	24.8	25.6	26.4	26.4	26.7	27.2	27.6	28.0

Administration of justice:													
Federal law enforcement activities.....	1.8	2.0	2.2	2.4	2.5	2.9	3.2	3.5	3.6	4.6	5.2	4.9	4.9
Federal litigative and judicial activities.....	0.9	1.1	1.3	1.5	1.5	1.6	1.8	2.1	2.2	2.6	2.7	2.8	2.8
Federal correctional activities.....	0.3	0.3	0.3	0.4	0.4	0.4	0.5	0.5	0.6	0.8	0.9	1.0	0.9
Criminal justice assistance.....	0.7	0.7	0.7	0.5	0.3	0.2	0.1	0.1	0.2	0.3	0.4	0.2	0.1
Total administration of justice.....	3.8	4.2	4.6	4.8	4.7	5.1	5.7	6.3	6.6	8.3	9.2	8.9	8.8
General government:													
Legislative functions.....	0.9	0.9	1.0	1.0	1.2	1.2	1.3	1.4	1.4	1.7	1.8	1.8	1.8
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.....	2.0	2.2	2.6	2.6	2.6	3.1	3.3	3.5	3.6	4.5	5.3	5.6	5.5
General property and records management....	0.3	0.3	0.3	0.1	0.2	0.2	0.2	0.1	0.5	*	-0.2	0.1	0.2
Central personnel management.....	0.1	0.1	0.2	0.2	0.1	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.1
Other general government.....	0.4	0.5	0.6	0.7	0.5	0.8	0.6	0.5	0.5	0.9	0.7	0.6	0.6
Deductions for offsetting receipts.....	-0.3	-0.2	-0.4	-0.2	-0.2	-0.6	-0.5	-0.5	-0.1	-0.4	-0.4	-0.4	-0.5
Total general government.....	3.6	3.9	4.4	4.6	4.5	4.8	5.1	5.2	6.1	6.8	7.5	7.9	7.9
General purpose fiscal assistance:													
General revenue sharing.....	6.8	6.9	6.8	5.1	4.6	4.6	4.6	4.6	5.1	0.1	*	.....	.....
Other general purpose fiscal assistance.....	1.6	1.5	1.7	1.7	1.8	1.8	2.2	1.8	1.3	1.9	1.5	1.5	1.6
Total general purpose fiscal assistance.....	8.4	8.4	8.6	6.9	6.4	6.5	6.8	6.4	6.4	1.9	1.5	1.5	1.6
Net interest:													
Interest on the public debt.....	48.7	59.8	74.8	95.5	117.2	128.6	153.8	179.1	190.2	191.7	198.4	205.6	208.6
Interest received by on-budget trust funds....	-6.1	-7.7	-9.7	-11.5	-14.0	-15.3	-17.0	-22.1	-26.6	-28.7	-31.6	-35.2	-38.3
Interest received by off-budget trust funds....	-2.4	-2.2	-2.3	-2.3	-2.1	-1.8	-3.3	-4.1	-4.3	-5.1	-6.6	-9.2	-12.3
Other interest.....	-4.7	-7.3	-10.2	-13.0	-16.1	-21.7	-22.4	-23.4	-23.3	-20.5	-21.2	-19.6	-19.0
Total net interest.....	35.4	42.6	52.5	68.7	85.0	89.8	111.1	129.4	136.0	137.5	139.0	141.5	139.0
On-budget.....	(37.8)	(44.8)	(54.9)	(71.0)	(87.1)	(91.6)	(114.4)	(133.6)	(140.3)	(142.5)	(145.6)	(150.8)	(151.3)
Off-budget.....	(-2.4)	(-2.2)	(-2.3)	(-2.3)	(-2.1)	(-1.8)	(-3.3)	(-4.1)	(-4.3)	(-5.1)	(-6.6)	(-9.2)	(-12.3)

Table 4. OUTLAYS BY FUNCTION AND SUBFUNCTION, 1978-90—Continued

(In billions of dollars)

Function and subfunction	Actual									Estimate			
	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Allowances:													
Civilian agency pay raises.....											0.7	1.6	2.7
Contingencies for other requirements.....											-1.4	-1.1	0.1
Total allowances.....											-0.8	0.5	2.8
Undistributed offsetting receipts:													
Employer share, employee retirement (on-budget).....	-12.4	-13.1	-14.6	-16.5	-18.2	-21.7	-23.2	-24.7	-25.4	-28.0	-32.1	-33.8	-35.5
Employer share, employee retirement (off-budget).....	-1.1	-1.1	-1.2	-1.4	-1.6	-1.8	-2.0	-2.5	-2.9	-3.3	-5.5	-6.1	-6.7
Rents and royalties on the Outer Continental Shelf.....	-2.3	-3.3	-4.1	-10.1	-6.2	-10.5	-6.7	-5.5	-4.7	-3.9	-3.7	-3.5	-3.8
Sale of major assets.....										-1.9	-4.1	-2.3	-2.5
Total undistributed offsetting receipts.....	-15.7	-17.5	-19.9	-28.0	-26.1	-34.0	-32.0	-32.8	-33.0	-37.1	-45.4	-45.8	-48.5
On-budget.....	(-14.7)	(-16.4)	(-18.7)	(-26.6)	(-24.5)	(-32.2)	(-29.9)	(-30.3)	(-30.2)	(-33.8)	(-39.9)	(-39.7)	(-41.8)
Off-budget.....	(-1.1)	(-1.1)	(-1.2)	(-1.4)	(-1.6)	(-1.8)	(-2.0)	(-2.5)	(-2.9)	(-3.3)	(-5.5)	(-6.1)	(-6.7)
Total outlays.....	458.7	503.5	590.9	678.2	745.7	808.3	851.8	946.3	989.8	1,015.6	1,024.3	1,069.0	1,107.8
On-budget.....	(369.1)	(403.5)	(476.6)	(543.0)	(594.3)	(661.2)	(686.0)	(769.5)	(806.3)	(821.1)	(821.9)	(857.3)	(885.4)
Off-budget.....	(89.7)	(100.0)	(114.3)	(135.2)	(151.4)	(147.1)	(165.8)	(176.8)	(183.5)	(194.5)	(202.4)	(211.7)	(222.4)

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 5. OUTLAYS BY AGENCY, 1986-92

(In billions of dollars)

	1986 actual	Estimate					
		1987	1988	1989	1990	1991	1992
Legislative branch.....	1.7	2.1	2.2	2.2	2.2	2.2	2.3
The Judiciary	1.1	1.2	1.4	1.5	1.5	1.5	1.6
Executive Office of the President.....	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Funds appropriated to the President...	11.4	11.8	11.2	13.3	12.7	12.3	11.7
Agriculture.....	58.7	55.1	50.7	46.5	42.9	39.5	37.6
Commerce.....	2.1	2.4	2.3	2.4	3.3	2.0	1.9
Defense—Military ¹	265.6	274.2	289.3	303.7	321.0	340.0	361.0
Defense—Civil.....	20.3	20.9	22.1	23.4	24.5	25.5	26.5
Education.....	17.7	16.8	14.7	14.4	13.3	12.8	12.4
Energy	11.0	10.6	10.2	10.9	11.8	12.5	13.5
Health and Human Services, except Social Security	143.3	145.3	146.8	156.3	165.2	176.4	185.9
Health and Human Services, Social Security.....	190.7	202.9	214.5	227.0	241.4	256.2	270.6
Housing and Urban Development.....	14.1	14.6	13.9	14.3	14.0	13.6	13.7
Interior	4.8	5.2	4.4	4.7	4.6	4.4	4.3
Justice.....	3.8	4.8	5.8	5.6	5.4	5.5	5.6
Labor	24.1	24.5	25.4	25.4	25.9	26.2	26.8
State	2.9	3.3	3.6	3.7	3.9	4.0	3.9
Transportation.....	27.4	26.2	24.6	25.9	25.5	25.0	25.4
Treasury	179.2	180.2	187.3	197.0	200.7	202.9	196.0
Environmental Protection Agency.....	4.9	4.6	4.6	4.7	4.7	4.6	4.5
General Services Administration.....	0.2	-0.1	-0.4	-0.3	-0.2	-0.3	-0.7
National Aeronautics and Space Ad- ministration.....	7.4	7.9	9.5	11.1	11.1	11.0	11.0
Office of Personnel Management	24.0	27.7	26.8	28.4	29.9	31.5	33.1
Small Business Administration.....	0.6	0.1	-0.3	-0.1	0.4	0.4	0.4
Veterans Administration.....	26.5	26.8	27.0	27.6	27.9	28.5	28.9
Other independent agencies.....	11.4	17.9	11.5	9.2	10.5	11.9	11.8
Allowances ²			-0.8	0.5	2.8	4.9	7.1
Undistributed offsetting receipts.....	-65.0	-71.8	-84.2	-90.2	-99.1	-110.8	-118.0
Interest	(-32.0)	(-34.7)	(-38.8)	(-44.4)	(-50.6)	(-56.8)	(-62.4)
Other.....	(-33.0)	(-37.1)	(-45.4)	(-45.8)	(-48.5)	(-54.0)	(-55.6)
Total outlays	989.8	1,015.6	1,024.3	1,069.0	1,107.8	1,144.4	1,178.9
Off-budget.....	16.7	19.5	39.7	51.7	64.3	74.4	81.4

¹ Includes allowances for civilian and military pay raises for the 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		
	1986 actual	1987 estimate	1988 estimate	1986 actual	1987 estimate	1988 estimate
Funds Appropriated to the President	6,443	5,405	5,720	282	345	250
Agriculture	26,658	22,508	15,915	4,117	8,113	6,840
Commerce	10	160	17	41	72	.....
Defense	568	.....	.....	.....	.....	.....
Education	1,582	1,232	1,404	8,575	9,591	9,398
Energy	4	.....	.....	.....	.....	.....
Health and Human Services	22	47	32	374	343	100
Housing and Urban Development ¹	1,060	1,711	832	102,673	87,125	70,000
Interior	67	67	45	37	40	34
Labor	2	3	3	.....	.....	.....
State	1	1	1	.....	.....	.....
Transportation	1,337	658	153	48	.....	.....
Environmental Protection Agency	32	.....	.....	.....	.....	.....
Small Business Administration	1,543	916	804	2,780	3,617	3,510
Veterans Administration	972	933	829	34,297	35,000	27,930
Other independent agencies:						
Export-Import Bank	578	900	1,000	5,508	11,355	10,000
Federal Deposit Insurance Corporation	128	.....	.....	.....	.....	.....
Federal Savings and Loan Insurance Corporation (FHLBB)	21	25	25	506	103	300
National Credit Union Administration	34	61	77	6	2	1
Tennessee Valley Authority	268	301	280	.....	.....	.....
Total.....	41,329	34,927	27,136	159,243	155,705	128,362
ADDENDUM						
Secondary guaranteed loans ¹ .....	.....	.....	.....	137,962	132,500	100,000

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 guarantees) are excluded from the totals and shown as a memorandum entry.

Table 7. FEDERAL FINANCES AND THE GROSS NATIONAL PRODUCT, 1969-90

(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
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.....	990.2	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.....	1,055.9	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.....	1,153.1	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.....	1,281.4	230.8	18.0	184.7	14.4	46.1	3.6	245.7	19.2	200.1	15.6	45.6	3.6
1974.....	1,416.5	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.....	1,522.5	279.1	18.3	216.6	14.2	62.5	4.1	332.3	21.8	271.9	17.9	60.4	4.0
1976.....	1,698.2	298.1	17.6	231.7	13.6	66.4	3.9	371.8	21.9	302.2	17.8	69.6	4.1
1977.....	1,933.0	355.6	18.4	278.7	14.4	76.8	4.0	409.2	21.2	328.5	17.0	80.7	4.2
1978.....	2,171.8	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.....	2,447.8	463.3	18.9	365.3	14.9	98.0	4.0	503.5	20.6	403.5	16.5	100.0	4.1
1980.....	2,670.6	517.1	19.4	403.9	15.1	113.2	4.2	590.9	22.1	476.6	17.8	114.3	4.3
1981.....	2,986.4	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.....	3,139.1	617.8	19.7	474.3	15.1	143.5	4.6	745.7	23.8	594.3	18.9	151.4	4.8
1983.....	3,321.9	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.....	3,686.8	666.5	18.1	500.4	13.6	166.1	4.5	851.8	23.1	686.0	18.6	165.8	4.5
1985.....	3,937.2	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.....	4,163.3	769.1	18.5	568.9	13.7	200.2	4.8	989.8	23.8	806.3	19.4	183.5	4.4
1987 estimate.....	4,418.9	842.4	19.1	628.4	14.2	214.0	4.8	1,015.6	23.0	821.1	18.6	194.5	4.4
1988 estimate.....	4,731.2	916.6	19.4	674.5	14.3	242.1	5.1	1,024.3	21.7	821.9	17.4	202.4	4.3
1989 estimate.....	5,076.0	976.2	19.2	712.8	14.0	263.4	5.2	1,069.0	21.1	857.3	16.9	211.7	4.2
1990 estimate.....	5,434.2	1,048.3	19.3	761.6	14.0	286.6	5.3	1,107.8	20.4	885.4	16.3	222.4	4.1

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

Table 7. FEDERAL FINANCES AND THE GROSS NATIONAL PRODUCT, 1969-90—Continued

(Dollar amounts in billions)

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
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.....	990.2	—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.....	1,055.9	—23.0	—2.2	—26.1	—2.5	3.0	0.3	409.5	38.8	105.1	10.0	304.3	28.8
1972.....	1,153.1	—23.4	—2.0	—26.4	—2.3	3.0	0.3	437.3	37.9	113.6	9.8	323.8	28.1
1973.....	1,281.4	—14.9	—1.2	—15.4	—1.2	0.5	*	468.4	36.6	125.4	9.8	343.0	26.8
1974.....	1,416.5	—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.....	1,522.5	—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.....	1,698.2	—73.7	—4.3	—70.5	—4.2	—3.2	—0.2	631.9	37.2	151.6	8.9	480.3	28.3
1977.....	1,933.0	—53.6	—2.8	—49.7	—2.6	—3.9	—0.2	709.1	36.7	157.3	8.1	551.8	28.5
1978.....	2,171.8	—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.....	2,447.8	—40.2	—1.6	—38.2	—1.6	—2.0	—0.1	833.8	34.1	189.2	7.7	644.6	26.3
1980.....	2,670.6	—73.8	—2.8	—72.7	—2.7	—1.1	—*	914.3	34.2	199.2	7.5	715.1	26.8
1981.....	2,986.4	—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.....	3,139.1	—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.....	3,321.9	—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.....	3,686.8	—185.3	—5.0	—185.6	—5.0	0.3	*	1,576.7	42.8	264.2	7.2	1,312.6	35.6
1985.....	3,937.2	—212.3	—5.4	—221.6	—5.6	9.4	0.2	1,827.2	46.4	317.4	8.1	1,509.9	38.3
1986.....	4,163.3	—220.7	—5.3	—237.5	—5.7	16.7	0.4	2,132.9	51.2	386.8	9.3	1,746.1	41.9
1987 estimate.....	4,418.9	—173.2	—3.9	—192.7	—4.4	19.5	0.4	2,372.4	53.7	464.0	10.5	1,908.4	43.2
1988 estimate.....	4,731.2	—107.8	—2.3	—147.4	—3.1	39.7	0.8	2,585.5	54.6	570.4	12.1	2,015.1	42.6
1989 estimate.....	5,076.0	—92.8	—1.8	—144.5	—2.8	51.7	1.0	2,796.9	55.1	689.4	13.6	2,107.5	41.5
1990 estimate.....	5,434.2	—59.5	—1.1	—123.8	—2.3	64.3	1.2	2,991.3	55.0	824.8	15.2	2,166.5	39.9

*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				
	1986 actual ²	1987 estimate	1988 estimate	1989 estimate	difference 1987-88
Agriculture	102,997	106,393	99,085	98,894	-7,308
Commerce	32,321	33,849	41,049	43,577	7,200
Defense—civil functions	28,511	28,348	28,347	28,347	-1
Education	4,526	4,500	4,500	4,500	.....
Energy	16,193	16,100	15,950	15,850	-150
Health and Human Services	128,105	124,745	119,099	114,208	-5,646
Housing and Urban Development	11,720	12,535	12,438	11,428	-97
Interior	70,657	71,350	70,400	70,400	-950
Justice	63,307	69,463	76,920	77,782	7,457
Labor	17,931	18,339	18,060	17,997	-279
State	25,261	26,147	26,658	26,803	511
Transportation	60,375	60,480	59,868	57,404	-612
Treasury	130,845	136,807	146,188	148,574	9,381
Environmental Protection Agency	12,931	14,165	14,323	14,263	158
National Aeronautics and Space Administration	21,660	21,800	22,425	22,425	625
Veterans Administration	220,642	221,227	216,709	215,218	-4,518
Other:					
Agency for International Development	4,675	4,825	4,825	4,825	.....
General Services Administration	22,745	22,281	21,677	20,877	-604
Nuclear Regulatory Commission	3,445	3,369	3,250	3,180	-119
Office of Personnel Management	5,306	5,419	5,195	5,005	-224
Panama Canal Commission	8,336	8,550	8,665	8,665	115
Small Business Administration	4,054	4,115	4,227	4,050	112
Tennessee Valley Authority	27,613	29,500	29,500	29,500	.....
United States Information Agency	8,981	9,120	9,020	9,020	-100
Miscellaneous	39,652	43,529	44,049	43,981	520
Estimated nondefense lapse		-21,939	-19,292	-16,452	2,647
Civilian agency employment	1,072,789	1,075,017	1,083,135	1,080,321	8,118
Defense—military functions ³	1,041,352	1,039,000	1,037,000	1,036,000	-2,000
Subtotal	2,114,141	2,114,017	2,120,135	2,116,321	6,118
Postal Service Employment ⁴	739,574	764,590	794,000	824,000	29,410
Total, Executive Branch	2,853,715	2,878,607	2,914,135	2,940,321	35,528

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, 1789-1992 (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	1947.....	38,514	34,496	+4,018
1850-1900 ...	14,462	15,453	-991	1948.....	41,560	29,764	+11,796
1901.....	588	525	+63	1949.....	39,415	38,835	+580
1902.....	562	485	+77	1950.....	39,443	42,562	-3,119
1903.....	562	517	+45	1951.....	51,616	45,514	+6,102
1904.....	541	584	-43	1952.....	66,167	67,686	-1,519
1905.....	544	567	-23	1953.....	69,608	76,101	-6,493
1906.....	595	570	+25	1954.....	69,701	70,855	-1,154
1907.....	666	579	+87	1955.....	65,451	68,444	-2,993
1908.....	602	659	-57	1956.....	74,587	70,640	+3,947
1909.....	604	694	-89	1957.....	79,990	76,578	+3,412
1910.....	676	694	-18	1958.....	79,636	82,405	-2,769
1911.....	702	691	+11	1959.....	79,249	92,098	-12,849
1912.....	693	690	+3	1960.....	92,492	92,191	+301
1913.....	714	715	-*	1961.....	94,388	97,723	-3,335
1914.....	725	726	-*	1962.....	99,676	106,821	-7,146
1915.....	683	746	-63	1963.....	106,560	111,316	-4,756
1916.....	761	713	+48	1964.....	112,613	118,528	-5,915
1917.....	1,101	1,954	-853	1965.....	116,817	118,228	-1,411
1918.....	3,645	12,677	-9,032	1966.....	130,835	134,532	-3,698
1919.....	5,130	18,493	-13,363	1967.....	148,822	157,464	-8,643
1920.....	6,649	6,358	+291	1968.....	152,973	178,134	-25,161
1921.....	5,571	5,062	+509	1969.....	186,882	183,640	+3,242
1922.....	4,026	3,289	+736	1970.....	192,807	195,649	-2,842
1923.....	3,853	3,140	+713	1971.....	187,139	210,172	-23,033
1924.....	3,871	2,908	+963	1972.....	207,309	230,681	-23,373
1925.....	3,641	2,924	+717	1973.....	230,799	245,707	-14,908
1926.....	3,795	2,930	+865	1974.....	263,224	269,359	-6,135
1927.....	4,013	2,857	+1,155	1975.....	279,090	332,332	-53,242
1928.....	3,900	2,961	+939	1976.....	298,060	371,779	-73,719
1929.....	3,862	3,127	+734	TQ.....	81,232	95,973	-14,741
1930.....	4,058	3,320	+738	1977.....	355,559	409,203	-53,644
1931.....	3,116	3,577	-462	1978.....	399,561	458,729	-59,168
1932.....	1,924	4,659	-2,735	1979.....	463,302	503,464	-40,162
1933.....	1,997	4,598	-2,602	1980.....	517,112	590,920	-73,808
1934.....	2,955	6,541	-3,586	1981.....	599,272	678,209	-78,936
1935.....	3,609	6,412	-2,803	1982.....	617,766	745,706	-127,940
1936.....	3,923	8,228	-4,304	1983.....	600,562	808,327	-207,764
1937.....	5,387	7,580	-2,193	1984.....	666,457	851,781	-185,324
1938.....	6,751	6,840	-89	1985.....	734,057	946,316	-212,260
1939.....	6,295	9,141	-2,846	1986.....	769,091	989,815	-220,725
1940.....	6,548	9,468	-2,920	1987 est.....	842,390	1,015,572	-173,182
1941.....	8,712	13,653	-4,941	1988 est.....	916,571	1,024,328	-107,756
1942.....	14,634	35,137	-20,503	1989 est.....	976,197	1,068,963	-92,766
1943.....	24,001	78,555	-54,554	1990 est.....	1,048,295	1,107,795	-59,501
1944.....	43,747	91,304	-47,557	1991 est.....	1,123,155	1,144,445	-21,290
1945.....	45,159	92,712	-47,553	1992 est.....	1,191,208	1,178,942	12,267
1946.....	39,296	55,232	-15,936				

*\$500 thousand or less.

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, 1988 contains the Budget Message of the President and presents an overview of the President's budget proposals. It includes summary information on goals of the 1988 Budget, economic assumptions, receipts and outlays, defense and international programs, social security benefits, other programmatic changes, financing changes, reductions and terminations, a listing of the budget by agency and account, and various summary data tables. Recommendations on Executive, Legislative and Judicial Salaries are also included.

Budget of the United States Government, 1988—Supplement repeats the Budget Message of the President and the summary information. In addition it includes sections on the Federal program by function, perspectives on the budget, the budget system and concepts, reform of the Federal credit system, and summary tables (both the tables included in the *Budget* and additional tables).

United States Budget in Brief, 1988 is designed for use by the general public. It provides a more concise, less technical overview of the 1988 budget than the above volumes, including summary and historical tables on the Federal budget and debt, together with graphic displays.

Budget of the United States Government, 1988—Appendix contains detailed information on the various appropriations and funds that constitute 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, 1988 contains analyses that are designed to highlight specified program areas or provide other significant presentations of 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 research and development programs. Data on Federal civilian employment are also included in this volume.

Historical Tables, Budget of the United States Government, 1988 provides data on budget receipts, outlays, surpluses or deficits, and Federal debt covering extended time periods—in many cases from 1940–1992. These are much longer time periods than those covered by similar tables in other budget documents. The data in this volume and all other historical data in the budget documents are consistent with the concepts and presentation used in the 1988 Budget, so the data series are comparable over time.

Management of the United States Government, 1988 includes the President's Management Message and provides the goals and strategies of the President's Management Improvement Program. It reports on the nine point credit management program, the program to improve financial management in executive branch agencies, the President's Productivity Program, the activities of the President's Council on Integrity and Efficiency, and the President's Council on Management Improvement. This document also describes the status of Grace Commission recommendations, the status of debt collection and prompt payment efforts, and a report on the motor vehicle cost reductions required by the Consolidated Omnibus Budget Reconciliation Act (COBRA) of 1985.

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

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